An Analysis of the Financing Mechanism for Social Expenditure in Azerbaijan

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In the first and second parts of our study, we showed a general description of the mechanisms for social protection policy implementation and at the same time the impact of this policy on socially vulnerable groups. The first part described the amount of benefits or allowances paid to various socially vulnerable groups, the general situation in this field, and also focused on child allowance, which has recently become a topical issue in Azerbaijan. The second part mainly centered on poor and unemployed persons. These two articles showed that by the end of 2021, only 8% of children, 32% of people belonging to the poorest category, and 20% of the unemployed are covered by various social protection mechanisms. In other words, most of the people belonging to these three groups are excluded from social protection mechanisms.

The third and present part of our research will study the situation of two more socially vulnerable groups. These are persons with disabilities and old-age pensioners. It is usually assumed that all individuals belonging to both groups are covered by various social protection mechanisms. Is this so? In general, why did social protection policy for these two groups suddenly enter the Azerbaijani government's agenda in 2020-2021? What changes have taken place in the social protection policy for these two groups in recent years? What were the reasons for these changes? In addition to seeking answers to these questions, this part of the study will review the financing mechanisms of Azerbaijani social protection policy and show its problems. What savings resulted from the reforms in the social protection system announced by the government in [which year?]? In general, should the principle

of savings be used within the framework of social policy? In the third part of our study, we will try to provide answers to these questions.

Disability

The [issue](#) of determining various benefits for persons with disabilities and the distribution of those benefits to thousands of people has wide resonance in Azerbaijan. The Ministry of Labor and Social Protection of the Population (MLSPP) in 2021 announced [termination](#)of some disability benefits, claiming that more than 7.000 individuals received a degree of disability though fake certificates, while another 16.000 supported by disability benefits had been rehabilitated and no longer required benefits.

Before proceeding to the analysis of the social protection system for persons with disabilities, we need to describe what constitutes a disability in Azerbaijan. Social protection of persons with disabilities in the country is based on two indicators: age and the impact of disability on employment ability. Persons with disabilities are divided into three groups based on age:

1. Children with disabilities under the age of 18;
2. Persons over 18 years of age, but under retirement age and of working age;
3. Persons of retirement age receiving disability pension.

Also, the country's three degrees of disability [are](#) determined based on the impact of disease, trauma or birth defects on human activities (learning, communication, social adaptation, behavior control, free movement, selfcare, employment).

Most disabled persons receiving benefits and pensions on the basis of their disabilities are highly dependent on them. According to the selective statistical survey to reveal *the employment of persons with disabilities* conducted by the State Statistics Committee (SSC) in November-December 2021, only

7.015, i.e., 33,5%, were employed among 20.894 persons with disabilities. 38% of them were engaged in agriculture. The lowest nominal average monthly salary was recorded in this industry — 460.4 manats (only administrative and auxiliary services receive lower average salaries).

Returning to the above, disabled individuals are divided into three groups. Let's look at the first two groups. Looking at their number, we can see a significant decrease from 2020 to 2022. As of 1 January 2020, some 249.476 people (62.951 of whom were under the age of 18) were eligible for disability benefits. Two years later, as of the same date of 2022, the total number of people belonging to these two groups across the country amounted to only 208.936 (including 55.191 under 18 years old). Therefore, the number of disabled people who received benefits decreased by 40,540 within two years. Every year different people get disability status for the first time. In 2020, 13.567 people, and in 2021, 18.452 individuals were registered for disability status for the first time. That is, despite the fact that approximately 32.000 new people were registered as disabled, there was a decrease in the overall number of those receiving disability benefits. MLSPP explains this decrease with 3 reasons:

1. More than 1.700 *fake disability* certificates were revealed;
2. In a number of cases, persons with disabilities were rehabilitated;
3. Disease conditions at the time of re-evaluation were not considered a basis for disability group assignment.

In other words, it suddenly became clear in 2020-2021 that the situations of 72,5 thousand people receiving disability benefits (that is, 29% of disabled individuals as of early 2020) did not meet the criteria of the ministry. On the other hand, representatives of the ministry constantly point to the budget savings due to this reduction.

But the reality is more complicated. According to statistical data provided by the MLSPP, if 238,9 million manats were spent on disability payments in the 9th month of 2019, this figure was 288,4 million manats during the 9th month of 2020 (the lesser amount for 2019 was related to an [increase](#) in disability allowances from April 1 of that year), and during the 9 months of 2021, expenses were already 253,6 million manats. In other words, we can see that the savings produced during the first 9 months of 2021 over those of 2020 amount to 34,8 million manats, and 38,98 million manats annually (see table 1).

Table 1: Public [expenditure](#) on disability benefits in 2020 and 2021 (in thousand manats)

Expenditure item	2020 implementation	2021 forecast	2021 implementation	Savings (compared to 2020)	Savings (compared to 2021 forecast)
Disability benefits	268 638,70	266 239,60	239 938,68	-28 700,02	-26 300,92
Allowances for young people with disabilities under 18 years of age	107 289,92	101 000,00	97 009,02	-10 280,90	-3 990,98
TOTAL COVERAGE	375 928,62	367 239,60	336 947,70	-38 980,92	-30 291,90

According to the forecast presented by the Ministry of Finance, at least 367,2 million manats should have been allocated to disability benefits payment in 2021. But 336,9 million manats were spent in this direction as a result of measures taken by the MLSPP. Thus, there is a difference of 30 million manats between the forecast and performance indicators. In other words, at the time of budget planning, it was estimated that the number of persons with disabilities would decrease, but as you can see, MLSPP exceeded even the

budget forecasts.

Anar Bayramov, chairman of the State Medical-Social Expertise and Rehabilitation Agency under the Azerbaijani Ministry of Labor and Social Protection of Population, says the process of increasing efficiency began in 2020 thanks to the assignment of disability allowances. During the same year, out of 78.000 referrals related to disability designation, 25.000 (32%) were justified, and the rest [were] unjustified. No information was provided on the number of assignments submitted in 2021. In one of the [interviews], Javid Abdul-Gadirov, who succeeded Bayramov, said most of the individuals whose disability period will expire in 2021 are mainly those whose disability status was automatically extended for five years according to the [Resolution] from the Cabinet of Ministers adopted in 2015. According to him, this decision covered 190.000 people. The Ministry, in turn, said 62.000 people in 2021 [were] assigned social payments for disability. It is difficult to exactly determine the ratio of those who applied to those who were accepted, but here, with these numbers, the ratio was 32%. It should be noted that in many cases the ministry does not immediately reject a person's disability benefit, but rather only discontinue a person's disability status. For example, by April 2021, the disability status for 23.000 individuals had been [terminated]. These 23.000 belong to the first two groups we have mentioned at the beginning of the section.

The third disability group includes those receiving disability pension. According to the [Law] on Labor Pensions, labor pensions are divided into three types:

1. Old-age labor pension;
2. Labor pension for disability;
3. Labor pension for surviving dependents.

Disability pensioners account for approximately 30% of total pensioners. According to official statistics (see table 2), as of 1 January 2022, there were 1.196.900 pensioners across the

nation, of whom 345.600 received disability pensions.

Table 2: Number of pensioners, Azerbaijan

Date (as at)	Number pensioners (by thousands)			
	By old-age	By disability	By survivors	TOTAL
01.01.2018	778,0	389,8	150,6	1318,4
01.01.2019	756,1	390,1	149,2	1295,4
01.01.2020	742,0	384,0	144,5	1270,5
01.01.2021	716,2	373,8	138,8	1228,8
01.07.2021	713,9	358,3	141,9	1214,1
01.01.2022	707,2	345,5	138,8	1196,9
01.01.2023*	699,3	343,0	143,5	1185,9

* Forecast presented by SSPF to the Chamber of Accounts

The number of individuals entitled to receive disability pensions and those with disabilities in general is too high, according to state officials. The population of Azerbaijan totalled 10.156.400 as of 1 January 2022, and individuals receiving disability pensions and benefits accounted for 3,4 and 2,05% of that population, respectively. A parliamentarian S. Novruzov expressed his views about the high number of disabled people as far back as in May 2018. MLSPP spokesman Fazil Talibov in 2021 complained of the supposed abuse of the disability benefits by able-bodied people. According to him, "although 6% of the population are disabled in Azerbaijan, the share of disabled persons in the pension system is 30%." Based on this idea, disability categories, as shown above, were redefined such that fewer people qualified for benefits. As a result, the social group (people with disabilities) that made up 6% of the population at the beginning of 2021 was equal to 5,5% on 1 October of the same year. But to what extent do the opinions expressed about the share of disabled individuals in the population reflect reality?

Around 15 percent of the world's population, or an estimated 1

billion people, [live](#) with disabilities, says the World Health Organization. (WHO). In general, some 650 million people or one-tenth of the global [population](#) have a disability. In Azerbaijan, the state officials think that 6% is an overestimate. They see 30% of the retired population receiving disability penions as a sign of abuse. But, for example, according to the UN, in countries with life expectancies over 70 years, individuals spend on average about 8 years, or 11,5 per cent of their life span, living with disabilities. 46% of of pension age adults [are disabled](#) in the UK. That is, neither 30% among people of retirement age nor 6% among the entire population are high indicators.

Table 3: Relationship between Retirement Age and Change in Number of Retirees and Disability Retirees

Years	Retirement Age for Males	Retirement Age for Females	Increase in the number of old-age pensioners (%)	Increase in the number of disability pensioners (%)
2005	61,0	56,0	0,89	6,16
2010	61,5	56,5	-3,21	4,14
2013	62,0	58,0	-1,16	3,22
2014	62,0	58,5	-0,78	4,77
2015	62,0	59,0	-0,49	2,38
2017	62,5	59,5	-0,50	1,62
2018	63,5	60,6	-2,82	0,08
2019	64,0	61,0	-1,87	-1,57
2020	64,5	61,5	-3,48	-2,65
2021	64,5	61,5	-1,29	-7,09

If we observe changes in the retirement age, we can see that in the years when the retirement age increases, the share of those retiring due to disability begins to increase, and at

the same time, the number of age pensioners decreases. As a result, while the share of those retiring due to disability was 19% in 2006 (the year of the beginning of pension reforms), it was already 30,42% by the end of 2020. As can be seen from table 3, the years 2010-2013 saw a significant increase in the number of those eligible for disability pension. Thus, while a 4% increase was registered in the number of disability pensioners, on the contrary, a decrease was observed in the number of old-age pensioners. That is, people responded to the changes in the pension legislation (age increase, etc.) by chosing disability pension.

Since 2018, however, there has been a decrease in the number of people entitled to receive disability pensions. According to the Accounts Chamber, in 2018, 9.288 people were entitled to receive this type of pension, dropping to 3.618, 1.900, and 1.200 people, in 2019, 2020 and 2021, respectively. The authors of the report also mention that "the amendment to the legislation in 2017 also covered those who applied for the determination of the labor pension for disability. The fact that the dynamics of the decrease in the number of disability pensions coincides with the introduction of those changes leads to the conclusion that the change in legal acts was the main influencing factor in the decrease."

To calculate the savings in disability benefits paid out, we need to take into account the average amount of pensions assigned for 2021. According to statistical data, the average monthly pension is 260,9 manats, and the people eligible for disability pension number 345,5 thousand. Then, according to our calculations, direct savings in one direction alone will amount to 92,36 million manats. In other words, the state budget and SSPF added 131,3 million manats in savings by depriving people of disability benefits.

Old-age pension

Minister Sahil Babayev has said 500 million manats were saved

due to the cancellation of cases of unjustifiable *and fake* assignment of pensions during the first 10 months of 2021, with approximately the same amount [saved](#)between 2018 and 2020. That is, the budget saved 1 billion manats on pensions in 2018-2021. In our opinion, such savings were not due to cases of unjustifiable *and fake* assignment of pensions, but rather due to changes in the pension system.

As can be seen in Table 4, the main change that has occurred in these years is the decrease in the number of pensioners. It should also be noted that the reason for most of the people whose pensions were suspended in 2018-2021 was not that they were *fake or unjustified*. Pensions of 40.000-47.000 persons on average were discontinued in the previous period. According to the report produced by the Chamber of Accounts, these discontinuations were related to the death of those persons.

In Table 4, we describe a number of indicators covering the years 2014-2021. The table contains the number of new pensioners, number of people whose pensions were terminated, the total number of pensioners and the change in number from the previous year, as well as the savings in total amount of pensions paid out declared by the Ministry of Labor and Social Protection of Population. First of all, it should be noted that the only exception refers to 2017 (that is, a decrease of 14,000 in the number of people whose pension was suspended compared to the previous year). According to the SSC, there were no changes in the death statistics in the corresponding year. It can be assumed that most of those who died that year were deprived of pension. In each case, excluding 2020, the pensions of an average of 46.655 persons were discontinued each year owing to death.

If we take into account the indicator we calculated above, we can say that compared to previous years, the increase in *those whose pension payment was terminated* was 6.364 and 8.326 people, respectively, in 2018 and 2019.

It is difficult to accurately calculate the situation for 2020. According to official statistics, the people over 60 who died in 2020 numbered 53.019. It is difficult to estimate the number of pensioners among them. In addition, it should be taken into account that the age of pensioners is not exactly over 60 years old. People working in a number of institutions and fields have the opportunity to retire earlier (between 50-60 years old). Therefore, it is possible that there are pensioners among those who died before the age of 60. From 2014 to 2016, the death rate among people over 60 years old averaged 38.352, while those for whom pension payment was terminated through the death numbered 46.655.

Table 4: Newly Designated and Discontinued Pensions

Years	Number of new pensioners	Number of persons whose pensions have been terminated for various reasons	Change in number of pensioners	Total number of pensioners (as of year-end)	Savings achieved, in millions of manats
2014	59 936	45 921	+ 14 015	1 290 882	-
2015	55 960	46 721	+ 9 239	1 299 946	-
2016	62 194	47 324	+ 14 870	1 315 229	-
2017	55 006	33 688	+ 21 318	1 318 434	-
2018	29 992	53 019	- 23 027	1 295 492	25
2019	29 264	54 981	- 25 717	1 270 559	133
2020	22 514	62 369	- 39 855	1 228 829	246
2021	45 196	77 566	- 32 370	1 200 475	500*

The table was compiled based on the Accounts Chamber's report on the draft or implementation of the SSPF budget by years.

* According to the Minister, these savings were achieved within 10 months

According to the Accounts Chamber's [report](#) on the draft 2023 budget of the State Social Protection Fund, out of 77.566 people whose pension payment was terminated in 2021, some 52.724 people died. There is no exact indicator for 2020. It is interesting that the Chamber's reports show two different figures on the 2022 and 2023 SSPF budget: in one, 62.369 (indicated in the table), and in the second, 60.356. In our calculations, we used the first indicator. The main reason for this is the later publication of the second indicator (in November 2022). We assume that the MLSPP referred to an earlier figure in its previous statements. Taking into account these figures, we can estimate that the number of deceased pensioners is growing at the same pace across the country, so, logically, the persons whose pension payment was terminated through the death in 2020 numbered 60.185. This means that 2.184 cases of pension payment in 2020 and 24.842 in 2021 were terminated because they were found to be *fake or unjustified*. In other words, at least 41.000 cases of pension payment had been terminated due to *fake and unjustified* grounds over the past 4 years.

But why did we calculate it? The minister said in [one](#) of his speeches that "over 17.000 cases of fake disability payment and 90.000 cases of pension payment were terminated during the investigation period." But official statistics say that the terminated pension cases in 2020 totaled 62.369. Even if we add 2020 and 2021, this number will be 137.922. As we mentioned, one of the main reasons for termination of pension payment is the death of pensioners. Especially in 2020-2021, the death rate among people by this age group is high. In 2020, those who died among people aged 65 and over numbered 43.478, compared to 46.334 in 2021. For comparison, in 2019, this figure was only 33.005. The coronavirus disease (COVID-19) pandemic could be the key cause here. Therefore, in our opinion, only 41.000 cases of pension payment were terminated in 2018-2021 due to supposedly being *fake and unjustified*. In other words, the figure of 90.000 noted by the

minister simply means a decrease in the total number of pension payments. The share of ministry's investigations into "legitimate" disabilities in this reduction is at best one-third.

Table 5: Population distribution of some age groups in the Republic of Azerbaijan

Years	Number of the population aged 60 and above	Number of pensioners	Population ages 60 and above (% of total population)
2013	857 700	1 277 053	9,05%
2014	898 000	1 290 882	9,36%
2015	948 600	1 299 946	9,77%
2016	1 005 200	1 315 229	10,25%
2017	1 067 700	1 318 434	10,79%
2018	1 144 400	1 295 492	11,47%
2019	1 228 400	1 270 559	12,20%
2020	1 305 700	1 228 829	12,90%
2021	1 373 900	1 200 475	13,52%

The savings to the budget mainly stems from a different reason. As can be seen from table 5, the number of people aged 60 and over in Azerbaijan and their share in the population increases every year. If in 2013, 857,7 thousand people were over 60 years old, in 2020, their number was 1.305,7 thousand. That is, the number of people aged 60 and over increased by 52%. Considering the demographic history of Azerbaijan, it can be estimated that the number of people in this age group will grow even faster in the coming years. On the other hand, if in 2013 the number of people in the relevant age groups was less than the number of pensioners, in 2020 this situation completely changed. The number of those in this group was 1,3 million, and the number of pensioners was 1,23 million. Still,

as we mentioned above, there are quite a few population groups who were eligible to retire earlier than 60 years of age. And how is the social security of the rest of the population? How do they make a living? What steps have been taken in this direction? As can be seen from practice, the government tried to reduce the number of pensioners as much as possible by taking several steps.

The first step was to reduce the retirement group to some extent. For this purpose, the retirement age was gradually raised to 65 for both male and female. Men will retire at this age already from 2021, and women from 2027. The common demand to reduce the retirement age has [received](#) the following response from the MLSPP as "those who demand the reduction of the retirement age for the sake of populism want to endanger the stability of the pension system in the country, in addition to having no understanding of the insurance-pension field." The ministry directly links the government's policy to the issue of savings.

When discussing the issue of retirement age, it should be noted that the life expectancy for 2020 is 73.2 years. This indicator is [equal](#) to 70.1 years for men and 76.5 years for women. When calculating the pension, the obtained pension capital is divided by 12 years or 144 months. In other words, it is estimated that the pensioner will get his/her pension capital within 12 years. If he/she retires at the age of 65, this means 77 years. In Azerbaijan, neither men nor women have a life expectancy of 77 years. If we take into account the life expectancy recorded in 2020, the average life expectancy in retirement should be 8,2 years. But this applies to those born in 2020. People who are 65 years old in 2020 were born in 1955. According to official data, the average life expectancy for those born in 1955-1959 is 70,9 years. In other words, most of those who retire now have the opportunity to live in retirement for 5 years (by the way, the life expectancy of most of those born in 1970-1980 is 68-69 years).

At the same time, there were 549,3 thousand people in the age group of 60-64 in the country in 2020. People in this age group were born in 1956-1960. During those years, 743.400 people were born, and 26% of them died before reaching retirement age. When reaching the retirement age, this figure decreases even more. Thus, in 2020, the people in the 65-69 age group (ie, those born in 1951-1955) numbered 318,7 thousand. According to statistical data, 552.1 thousand people were born in these years, and 42,3% of them died in the first years of retirement (or did not reach it). In other words, reaching the retirement age or gaining much out of a pension once in retirement in Azerbaijan is becoming a difficult issue.

The second step towards reducing the number of pensions paid was implemented as part of the next pension reform. In 2017, the legislation *on labor pensions* was amended. Previously, at least 12 years of insurance service, i.e., working at a job in which one pays part of their income into the pension insurance system, was required to retire, but now 25 years of insurance service is required. True, a retirement amnesty was announced after that. Nevertheless, a considerable number of people who had reached the relevant age no longer qualified for the amnesty or pension law. As a result, these people were deprived of a pension. Eligible persons were entitled to receive old-age allowance in return.

Table 6: Relations between old-age allowance and minimum pension level

Yrs	Number of persons eligible for old-age pension	Change		Minimum pension	Number of persons eligible for old-age allowance	Change		Volume of old-age allowance
		%	Number			%	Number	
2015	1 299 946	0,70%	9 064	100	13 833	5,86%	747	60
2016	1 315 229	1,18%	15 283	110	17 085	23,51%	3 252	66
2017	1 318 434	0,24%	3 205	110	29 174	70,76%	12 089	66
2018	1 295 492	-1,74%	-22 942	110	53 394	83,02%	24 220	73
2019	1 270 559	-1,92%	-24 933	200	82 363	54,26%	28 969	130
2020	1 228 829	-3,28%	-41 730	200	100 247	21,71%	17 884	130
2021	1 196 974	-2,59%	-31 855	200	113 649	13,37%	13 402	130

We can see the attitude we mentioned from the official statistics. After 2017, as a result of the adoption of changes in the legislation, the number of pensioners began to decrease, while the number of those receiving old-age benefits began to increase. In 2020, the number of people receiving old-age benefits exceeded 100.000, while in 2021, it stood nearly 114.000. It is interesting that during the same period, the number of pensioners across the country decreased by 118.000.

In our opinion, this reduction is closely related to the government's austerity policy. First of all, the payment of old-age and other types of pensions is carried out at through the SSPF. But benefits are paid from the state budget. On the other hand, the size of the old-age allowance is lower than the pension. For example, in 2021, the minimum pension was 200 manats, while the old-age allowance was 130 manats. Despite the increase in 2022, the difference has decreased by only 10 manats—the minimum pension is 240 manats, while the age allowance is 180 manats. As a result, savings were achieved,

at least for the SSPF. So, if the relevant legislation remained unchanged, then people with 12-25 years of insurance experience would have the opportunity to retire. If the relevant persons received even a minimum pension, then the SSPF had to pay them 432 million manats during these 4 years. But in reality, these people received 272,9 million manats from the state budget, as they were eligible for old- age benefits. This means 159,1 million manats in actual savings.

Financing of social expenditures

Government officials and parliamentarians in their statements often say social expenditure is the main part of the state budget. For example, in 2019, it was noted that for the next year, social expenditure of the state budget surged 33,5% to 10.374 million manats. This means that social expenditure accounts for 38,5% of the total budget expenditures. But how realistic are these indicators?

It is necessary to take into account that these are *not social, but pro-socialcosts*. Thus, in the 2022 budget draft, the total amount of pro-social expenses is indicated as 13.850,7 million manats, which is 1.649,3 million manats or 13,5% more than the approved indicator of 2021. But if we pay attention to the composition of relevant expenses (see table 7), we can see that only a part of them can be called expenses related to social protection or social security. Thus, according the Ministry of Finance, the share of pro-social expenses in the 2022 state budget will increase to 46.4%. While the same indicator was 31,7% in 2018, but exceeded 42,7% in 2021.

As can be seen from table 7, the labor compensation fund constitutes 58-64% of relevant costs in 2019-2022. The labor compensation fund is a wage fund for people working in state institutions financed directly from the state budget (for example, 123 million manats of this fund will go to the salaries of employees of the "Administration of the President

of the Republic of Azerbaijan, other bodies that directly ensure the activities of the head of the state of Azerbaijan, and the body that exercises executive powers," 34,6 million manats will be paid to the wage fund of the Milli Majlis.). That is, this expenditure can be called social only conditionally. They are not directly related to social costs.

Table 7: Public Social Expenditure, 2019-2022 (in million manats)

Expenditure items	2019	2020	2021	2022 (draft)
Labor compensation fund	4997,1	6196,7	6495,1	8097,3
Pensions and social benefits	2153,8	3060,4	3241,1	3674,1
Compulsory health insurance costs				1125,7
Procurement of food products	384,5	313,2	477,0	466,0
Costs related to the coronavirus disease (COVID-19) pandemic response				350,0
Procurement of medicines, supplies and dressings	226,1	83,9	290,4	102,5
Utilities, communication services and other measure Utilities, communications, and other services				35,0
TOTAL	7761,3	9654,2	10503,6	13850,6

At the same time, the issue of including other items to social expenditure is questionable. According to the Ministry of Finance, the inclusion of these items is carried out according to *the economic classification*. But the fact is that *the amount of costs related to the coronavirus disease (COVID-19) pandemic response* was provided for both the years 2020-2021. In 2020 alone, 1.985,9 million manats was spent in this direction. These expenses included, among others, urgent extra salary for health workers, renewal of medical infrastructure, support to business entities during the quarantine period, and

payment of 190 manats to the population. The volume of these expenses was already predicted at 600 million manats for 2021. It mostly involved support of the existing healthcare infrastructure and the social welfare of the medical staff. Also, the Ministry of Finance did not include the corresponding expenses to socially oriented expenses for two years in a row, but it did for 2027. At the same time, health insurance costs, which are functionally attributed to the health care category, were included in social expenditure in 2022. As can be seen, the division by categories implemented by the Ministry of Finance is problematic and questionable. Practically every year the approach changes and as a result the figures are sometimes inflated and incomparable year to year.

That is, the social orientation of the state budget is more directly an indicator of the share of the wage fund in the state budget. In reality, social expenditure is only part of it. As can be seen from the table above, the funds allocated to *pensions and social benefits* from the budget should total 3,67 billion manats in 2022. Also, in my opinion, social expenditures are exactly those reflected in this article and allocated for social benefits and pensions as well as to support other socially vulnerable groups. They are reflected in different sections of the consolidated budget. Taking this into account, we will try to calculate what we can realistically call social expenditures.

Table 8 Social expenditure volume

Expenditure items	2019	2020	2021
State budget expenditure on social protection and social security	2 281 031,22	3 112 616,00	3 164 225,38
SSPF expenditure associated with direct payments to the population (excluding transfers from the state budget)	2 637 085,04	3 403 406,24	3 592 787,30
UIF expenditure on social policies	52 241,80	84 080,00	115 800,00
One-time Covid-related payment of 190 manats to members of working-age population		447 827,47	
TOTAL social expenditure	**4 970 358,06**	**7 047 929,71**	**6 872 812,68**
% of GDP	**6.07%**	**9.71%**	**7.40%**

We have calculated the expenditures focused on social support measures only (see table 8). Various measures related to unemployment, pensions and allowances, as well as other similar costs are taken into account here. For example, the State Social Protection Fund (SSPF) simultaneously finances the activities of the DOST Agency, while the Unemployment Insurance Fund (UIF) finances the activities of the National Observatory of the Labor Market and Social Protection Affairs. We did not consider these costs. As can be seen from table 8 above, the total amount of social expenditure in 2021 should be equal to approximately 7,4% of GDP (the transfer from the state budget to the SSPF was calculated as part of the social expenditure of the state budget in the calculations of the table). Is it too much or not enough based on the experiences of other countries?

In Europe with the exception of some countries, expenditure on social protection, as a rule, is not less than 9% of the budget. Among neighboring countries this figure is 6,8% in Armenia, 7,1% in Georgia, 10,1% in Iran, 13,4% in Russia, and 9,9% in Turkey. In 2019, social expenditure among developed countries averaged 20%. Social protection benefits expenditure as a percentage of GDP has increased in most countries

comparing 2020 with 2019 as a result of the COVID-19 pandemic. As can be seen from the table, a significant increase was also observed in Azerbaijan. But the main reason for this is not the further expansion of social policy, but rather the nominal decrease of GDP (according to the State Statistics Committee, GDP totaled 82 billion manats in 2019, while it made up 72,6 billion in 2020). In other words, the indicator registered in Azerbaijan is more than 2 times lower than in developed countries. In the case of regional countries, Azerbaijan does not differ significantly and even lags behind Turkey, Iran and Russia.

Table 9: Savings Arising from Social Policies

Areas of savings	Volume of savings, 2018-2021
Savings from Targeted State Social Assistance (TSSA)	409 988 794,56
Savings from disability benefits	269 075 817,60
Savings from age-related allowances	159 109 218,00
Savings from unemployment benefits	24 000 000,00
TOTAL	**862 173 830,16**

The main reason for this is also savings. In 2021, social expenditure amounted to 5%. In 2018, the state budget was exempt from the obligation to pay unemployment benefits. That is, this obligation was placed upon employees and employers, as they had to pay SSPF 1% of the salary (0,5% from the employee and 0,5% from the employer). Thus, in 2018-2021, the state budget and SSPF actually added 862 million manats in savings (see Table 9). In addition, due to various steps, the amount of transfers from the state budget to the SSPF allocated to pay the state obligations had decreased (for example, by 10% in 2018-2020, and even later, a part of the funds allocated for this purpose in 2021—268.3 million manats—remained unused). The state is gradually trying to free itself from other obligations, executing pension cutbacks

under the guise of limiting the dependence of the SSPF budget on the state budget, and in fact, transferring the entire insurance system, i.e. all obligations, directly to the people (despite the low level of wages in the country).

Conclusions

Thus, currently, the main goal of state social policy is to save the budget and SSPF. Thus, while the persons with disabilities numbered 633,400 at the beginning of 2020, their number receiving disability payments plunged to 554,500 as at January 1, 2022. This is almost 5.5% of the population. In 2017-2021, the number of pensioners downsized to 118,000, despite older persons' increasing number. The state consolidated budget saved 862 million manats (see Table 9) through the activities described in these three articles.

It can be seen directly in social policies that regardless of the identity of the person in charge, the goal of the policy is the same. So, when the aforementioned changes were made in 2017 (it was not a coincidence this happened in the respective year: the Azerbaijani manat collapsed in 2015, it would not be right to take any radical steps in 2016, so reforms were started in 2017), Salim Muslimov served as the country's Labour and Social Protection Minister. A first step came in during his time in office, but on April 21, 2018, he was released from his post (also arrested in February 2021) and was succeeded by Sahil Babayev.

The two ministers are different, yet they are taking steps in the same direction. During the tenure of both ministers, the main goal of the state was not to improve the social condition of the population, but to achieve savings in implementing social policy. On the one hand, this policy reduces the dependence of the SSPF on the state budget (ensuring the stability of the SSPF budget), and on the other hand, it allows state budget funds to be diverted to other directions. According to our observations, the state consolidated budgets

added at least 862 million manats in savings between 2018 and 2021 as a result of these reforms. This policy direction also provides the state a basis for even greater savings over the coming years.