

# Social development in Azerbaijan: illusion and reality

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In Azerbaijan, over the past 15 years, a total of more than 80 billion USD has been spent on social projects aimed at socio-economic development. These include regional development programs and the funds spent under three state programs to reduce poverty, as well as state infrastructure projects financed directly from the State Oil Fund and the state budget, etc. This amount spent in such a short period of time is quite large considering Azerbaijan's economic potential. This amount, which on average fluctuates between approximately 7-10% of GDP or 20-30% of total state expenditures each year, should be considered a serious opportunity to ensure sustainable development. When considering these projects which are the *material* reflection of the government's social policy, two questions arise. How effective are the social projects that have already been implemented and are ongoing, and how will the government maintain the pace of social investment at a time when public finances are currently severely restricted compared to past years?

It should be noted that the government tends to increase funding for social development from year to year. Four manats out of every 10 allocated from the state budget this year are social expenditures, and this trend has continuously grown in recent years. For comparison, in 2019, only 3.2 AZN out of every 10 AZN were allocated in the budget for social expenditures. This proportion might be considered normal, but keep in mind that the government is taking on this priority in a state of war where it must constantly increase defense spending and in a situation where there is a serious need to upgrade the fixed capital (infrastructure) inherited from the

post-Soviet era.

The priority of social policy is reflected not only in the distribution of public funds, but also in vision and institutional changes. Thus, in 2019, a [Center for Social Research](#) was established under the President, as was the Agency for Sustainable and Responsive Social Security ([DOST](#)) under the Ministry of Labor and Social Protection.

It would seem that the government truly understands the seriousness of social processes and its responsibilities and wants to make a change in this area. At present, it seems that the goals of the government's social policy are as follows:

*1. Alleviate the unemployment problem by creating additional jobs, even temporary jobs;*

*2. Make an effort to meet the minimum needs of the most socially vulnerable group of the population and increase the minimum wage and social benefits on a regular basis;*

*3. Continue to support the poor through direct and indirect subsidies (including by providing of a number of services below cost – for example, the Baku Metro is the cheapest passenger transport system in the world, as well as sectoral business concessions – for example, for farmers)*

Large remittances, mainly from Russia, which play an important role in poverty reduction, should be considered an exogenous factor in addition to government social spending. In 2019 alone, the volume of remittances from Russia to Azerbaijan through official bank accounts reached [1.1 billion USD](#). Undoubtedly, the real amount is much larger, as part of that income circumvents banking transactions.

The directing of these large sums of money specifically to the social sphere should have raised Azerbaijan's position significantly at least compared to neighboring South Caucasus countries. But in the 2019 UN [Human Development Index](#) (HDI),

for example, Azerbaijan ranked 87<sup>th</sup> out of 189 countries. For comparison, Georgia ranks 70<sup>th</sup> and Armenia is 81<sup>st</sup>. It should be noted that the HDI includes income statistics as well as education and health parameters.

During the pandemic, the government's broad-based social support package also indirectly demonstrated that real poverty and its underlying factor, unemployment, were significantly higher than official statistics. Let's take into account that the social situation is measured not only by individual income, but also by education, public health, demography, ecology, and other quality indicators such as the Sustainable Development Goals, which give us nothing to brag about, not only globally, but also regionally. Why is the social situation not at the desired level, despite so much money being spent and all the government's efforts? There are many reasons, and I would like to touch on only one in this article.

For our purposes, social spending can be divided into two types: consumption and investment expenditures. Economists say that investment is the amount sacrificed for consumption. Consumption expenditures are usually less subject to corruption than investment projects because they have specific beneficiaries, and since they are individual in nature, the funds allocated usually achieve their intended purpose. On the other hand, social investment projects are often prone to corruption. In particular, large-scale projects stand out in this regard. It is primarily for this reason that the social spending in Azerbaijan from all sources so far has not given the expected results.

The problem is also that information on public investment projects financed from the state budget is becoming increasingly closed, and recently it has become inaccessible to the public even in budget documents and specialist sources. But this is one of the largest spending categories in the

budget. In such a situation, it is impossible to monitor projects or conduct any evaluation. Of course, under these conditions, it is impossible to claim that public investment and social projects are effective. The only thing left for the public to do is to enjoy the concrete benefits for the people after the project is over.

The government's increasingly socially oriented economic policy gives the average onlooker the impression that a radical solution to social problems will soon be possible. The improvement of the drinking water supply in newly built or renovated school buildings, clinics, or other locations, etc., seems to provide support for that idea at first glance. But solving social problems with the current approach is in a sense an illusion. Not only because the state will not have the strength to bear this extra burden for a long time. More importantly, social demand is constantly growing in Azerbaijan, as it is throughout the world. Given our economic growth forecasts for the near future, it seems that it would be very difficult for the state to bear the predicted burden. Therefore, the paradigm must change in order to solve social problems. At the same time, attitudes towards spending, especially the mechanisms for evaluating and implementing social projects, need to change radically.

As a rule, cost-benefit principles are not taken into account when social projects are implemented in Azerbaijan. However, the measurability of social projects, as well as the measurement of social impact, have long been very important areas of research and policy around the world. Randomized controlled trials (RCTs) are one of the most useful methods and are used to maximize the limited financial capacity of poor countries. The World Bank calls RCT a quick method for systematically studying the positive and negative effects of a project on its stakeholders. In other words, since it is a non-business project, spending large sums of money without first studying the usefulness or the possible negative effects of such projects may not only fail to yield the predicted

positive result, but may even lead to a negative result. To measure these effects, other experimental methods more commonly used in the natural sciences are also effective in the social sphere. In this regard, one of the key elements of RCT is to investigate the cause-and-effect relationship to properly measure the effects of a project.

In practice, this method is implemented as in medicine, for example, by creating treatment and control groups and observing them. In our case, this method can measure the effectiveness of subsidies to the agricultural sector, for example, with great accuracy. For this purpose, following the relevant methodological principles, a pilot project is created with two groups of farmers under the same conditions, one of which is subsidized, while the other is used for comparison. In the same way, this type of experiment can be used in educational projects, health programs and other areas to achieve greater results with less money and to use funds more rationally. At the same time, it is possible to create a unique data collection system that the state can use for other purposes in the future.<sup>[1]</sup>

The following example clearly demonstrates how useful an experimental economy can be for the effectiveness of social projects. It is no secret that investment in education in developing countries is ineffective. But traditional theoretical approaches are not enough to discover the cause. Experiments in [Kenya and India](#) have shown that the use of additional textbooks, free meals and even the use of new information technologies to improve the quality of education in secondary schools have not changed anything for the better. Instead, hiring school teachers on a contractual basis and motivating them to do their job effectively increases the quality of education in those schools, increases attendance, and encourages students to acquire more knowledge.

Azerbaijan has already passed the *golden age* of its recent history. Showing indifference to social projects as the whole

world did in the first decade of the 2000s, which is considered a supercycle, is now a dead end. In the new era, the behavior of the government is aimed at achieving maximum results with limited financial resources. For this reason, the use of the proposed RCT and experimental economics methods seems very timely and appropriate. For this, it would be possible to cooperate with international institutions and implement several pilot projects.

**Note:**

<sup>[1]</sup> Recently, the experimental economy has even become a kind of trend. It is no coincidence that the 2019 [Nobel laureates](#) in economics, Abhijit Banerjee, Esther Duflo, and Michael Kremer, were awarded this prize “for their experimental approach to alleviating global poverty.”