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SOCIAL ASSISTANCE STRATEGIES AND POVERTY ALLEVIATION POLICY

Social Protection (SP) system in the modern market economies consist of many different and at the same time difficult components. In other words, SP system differs from country to country and even from region to region in one country. For that reason, SP system can be subdivided into contributory and non-contributory transfers. Contributory benefits include pension and unemployment insurance and non-contributory benefits include social assistance programs like family allowance and transfers [1]. These programs help governments to combat with poverty trap and make living conditions better by using income support benefits.

Before analyzing social assistance income support programs, specially targeted social assistance benefits it can be suggested to give brief description of Government Spending on Social Protection and Social Security system in Azerbaijan [10].
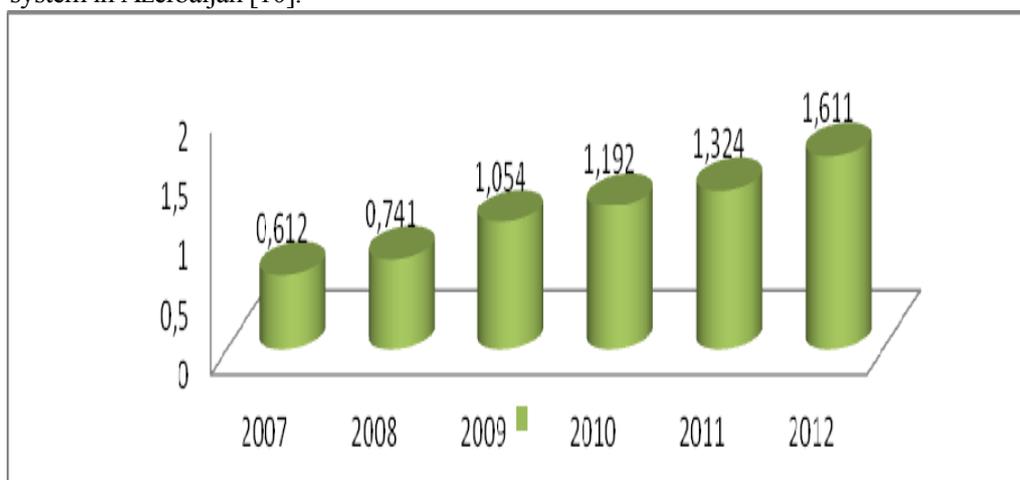

Fig. 1. Budget transfers to Social protection and Social Security expenditures

Source: Prepared by author

As illustrated by Figure 1 government spending to social security (SS) and social protection increased during past 5 years. The budget transfers for the SP and SS purposes were about 612 million AZN (about 779 million USD) in 2007. However, in 2011 it increased and reached at 1.3 billion AZN (1.6 billion USD) approximately. In percentage, during these years the allocations increased more than 100 percentages. Increasing government allocations gives opportinuity to the government to rise some living standarts like elligibility criteria, minimum living standarts, minimum wages, poverty line and some other indicators. For instance the elligibility criteria increased from 35 AZN (45 USD) in 2007 and reached at 84 AZN (107 USD) [4]. This is just one brief example and we will investigate such kind of social-economic indicators which influence social transfers during our survey.

As indicated, non-contributory benefits are subdivision of SP system. This type of transfers is applied in Azerbaijan since 2006 as a Targeted Social Assistance (TSA). According to the legislation of TSA eligibility criteria established during this time [14].

TSA is considered to support low income families to get out of poverty trap and make them feel safe. In other words, this benefit makes safety nets among these families [2]. Firstly this minimum amount was appointed 30 AZN (about 40 USD), so it was approximately 50 percent of minimum living standards (MLS was about 75 USD). When the government strengthens the poverty alleviation policy, the eligibility criteria starts increase rapidly. According to 2011 statistics the eligibility criteria is about 80 percent of minimum living standards. It can be argued that during this period successful social economic policy supported the poor family and resulted to more macroeconomic stability. In fact, when we compare the eligibility criteria (EC) ratio to MLS it can be clearly seen that Azerbaijan took the middle position in the European indicators. According to Eurostat statistics France and Luxemburg are in the same level with Azerbaijan in terms of MLS and EC ratio [7].

It can be argued that with comparing European countries this indicator does not depend on the content of the family. It is calculated per family members. Similarly, TSA granted to the family, but eligibility criteria calculated as guaranteed minimum income for each household member. For instance according to Statistical Committee the number of beneficial families increased about 11 percent in 2007-2008 because of rise in eligibility criteria. During this time 8.8 % of the total population received this benefit. In 2011 the number of family members receiving TSA were 541 989 [4].

This is 5.8 percent of the total population. From the comparison it can be suggested that the number of households decrease year by year as their yearly income rise and at the same time more than 1 million new job places opened past 5 years. Moreover, the households which granted TSA received these benefits at least from 2008. For that reason, it can be suggested that from this year there is no any family members who can be under eligibility criteria.

Now it would be better to investigate how many people receiving TSA, how they heard about this program, have families applied for TSA, does any of the survey individual's family qualify for the TSA benefit and what is the monthly TSA benefit the family getting in national currency and some other questions in order to measure the program's current situation. I will use World Bank Living Standard measurement survey databases. These databases include 7000 households' information. The below STATA output gives us what is a percentage of families who applied for the TSA.

It is clearly seen that 45.22 % families applied for the TSA benefits. However, more than 54 percentages did not apply although they heard about the program. There are some reasons that the families indicated in their answers that they faced with some problems like collecting the necessary documents, treatment in social security departments, and some others' income did not allow them qualify TSA because it is calculated according the individual's eligibility criteria.

However, as table 2 illustrates more than 74 percentage families qualified with TSA. Moreover we can investigate the coverage of the whole social protection benefits by using our databases. It can be argued to use ADEPT program in order to see how the programs cover the population in the Republic and separately in the economic regions.

Table 1

Coverage of SP programs (2010)

	Area of residence					eczone					
	Total	Urban	Rural	Absheron	Aran	Baku City	Daghlyg Shirvan	Ganja-Qazakh	Lankaran	Quba-Khachmaz	Shaki-Zaqatala	Yukhari-Karabakh
Direct and indirect beneficiaries												
All social protection	42,1	40,2	44,7	34,1	38,9	38,8	44,1	53,2	46,0	45,8	43,5	35,0
All social insurance	39,6	38,1	41,6	33,5	35,5	37,3	39,8	51,1	43,6	39,7	40,9	32,7
Pensions	39,6	38,1	41,6	33,5	35,5	37,3	39,8	51,1	43,6	39,7	40,9	32,7
All labor market programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
All social assistance	4,5	3,9	5,3	0,6	6,0	3,0	6,8	5,0	2,9	9,6	4,4	2,6
N10 What is the monthly TSA benefit you are getting in Manat?	4,5	3,9	5,3	0,6	6,0	3,0	6,8	5,0	2,9	9,6	4,4	2,6
Notes:												

Source: World Bank TSA Databases, author's calculations

It should be indicated that Program coverage is the portion of population in each group that receives the transfer and specifically, coverage is number of individuals in the group who live in a household where at least one member receives the transfer. From table 3 we can easily see that the coverage of all social protection in urban and rural area were 40.2 and 44.7 respectively. Besides this in terms of economic regions the highest coverage was observed in Lankaran, Aran and Gandja-Khazak economic regions. At the same time the coverage of social assistance program was also above with comparing other regions. This can be because of the poverty rate of these regions. According to statistics these regions observed with high poverty.

Besides this we can investigate the distribution of benefits and see how the amounts vary between the urban and rural areas and economic regions. From the table 2 this can be clearly seen.

Table 2

Distribution of Benefits

	Total	Urban	Rural	Absheron	Aran	Baku City	Daghlyg Shirvan	Ganja-Qazakh	Lankaran
All social protection	100,0	60,4	39,6	5,1	18,3	31,4	3,1	18,2	9,0
All social insurance	100,0	60,8	39,2	5,3	18,0	31,8	2,9	18,3	9,2
Pensions	100,0	60,8	39,2	5,3	18,0	31,8	2,9	18,3	9,2
All labor market programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
All social assistance	100,0	50,5	49,5	1,1	25,0	21,7	8,0	16,4	5,3
N10 What is the monthly TSA benefit you are getting in Manat?	100,0	50,5	49,5	1,1	25,0	21,7	8,0	16,4	5,3

Source: World Bank TSA Databases, author's calculations

From the table 3 we can bear a witness that the distribution in social assistance programs in urban and rural areas were about 50 percentages and 49 percentages respectively. It can be suggested that the population centralize in cities and for that reason the benefits can be distributed in that order. Similarly the same situation was observed in table 3 as in table 2. As indicated in table 3 the distribution of benefits were high in Aran, Gandja-Khazak and Baku city.

Moreover we can look for the density of the benefits by using histogram . As we indicated in the beginning of the survey according to the statistical committee the monthly TSA for the family for 2011 is 106 AZN (about 135 USD).
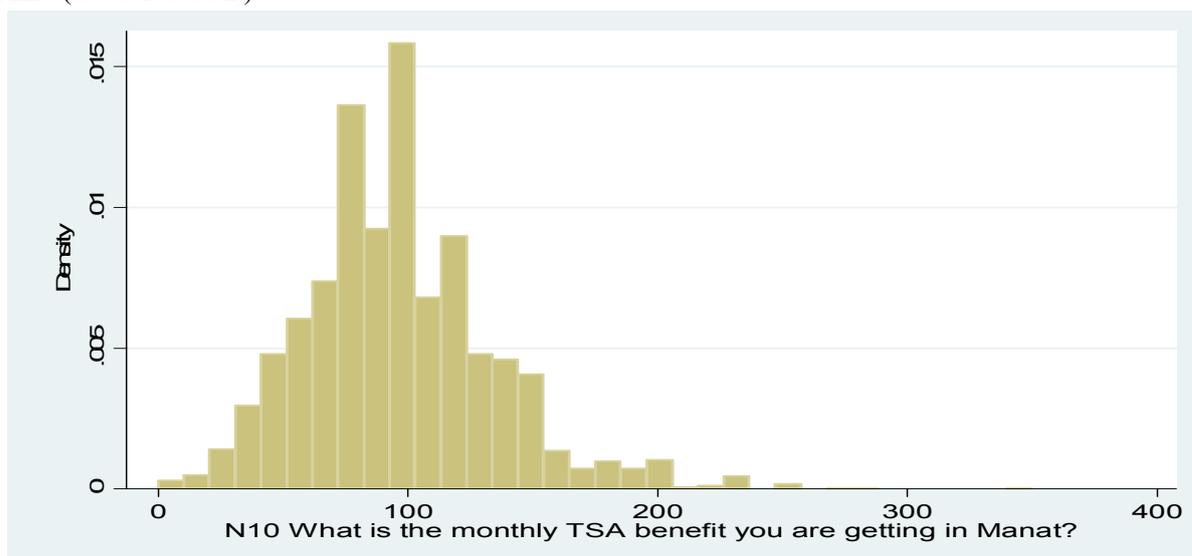

Fig. 2. Histogram (Density of TSA amount) [6]

Source: World Bank TSA Databases, prepared by author [3]

From the above histogram we can easily see that the benefits vary between zero and three hundred. The density is high between 80 AZN and 120 AZN. However, the highest point can be seen around 90-100 AZN. It can be argued that the survey's result is almost the same with statistical committee; because figure 2 shows that the density of the amount is high around 100 AZN (about 127 USD).

Besides this three factors can affect to these two changeable indicators: change in eligibility criteria, change in the income of the people who are in the right hand and left hand of the eligibility criteria and national increase of population. The state budget transfers for the TSA in 2011 was about 190 000 000 AZN (about 241 000 000 USD). However, this was 180 000 000 in 2008. This increase can be due to change in the income of the people who are in the right hand and left hand of the eligibility criteria. At the same time the number of individuals receiving TSA was 541 000 [11].

Furthermore we can extend our survey on inequality measure in terms of Gini coefficient and see how all of these programs affect the inequality in Azerbaijan.

Gini index and its calculation methodology. This coefficient is used to measure inequality in any country. This index is varying between 0 and 1 or between 1 and hundred (in terms of percentages) where zero indicates perfect equality and 1 indicates worth equality [13]. This can be mathematically as follow:

$$G = \frac{2}{\mu m^2} \sum_{i=1}^{n} (r_i - \frac{n+1}{2}) c_i$$

(1)

Here the variable define as n is a number of individuals, c_i equivalent consumption of individuals μ-average equivalent consumption and r_i the range of households in equivalent consumption line (in other words this indicator is zero for the lowest equivalent consumption and n for the highest equivalent consumption). This formula gives an opportunity to calculate the Gini index without direct Lorens curve [12]. The Gini coefficient illustrates the changes in the middle of the distribution however; decile index shows only the lowest 10 percentage and the highest 10 percentage ratio in order to see income differentiation. For that reason we can use Theil index to see how the inequality distributed separately in each part of the line. The common formula for the Theil index can be seen as follow:

$$GE(\alpha) = \frac{1}{\alpha^2 - \alpha} \left[\frac{1}{n} \sum_{i=1}^{n} \left(\frac{y_i^2}{\bar{y}^2} \right) - 1 \right]$$

(2)

$\bar{y}$ – is an average income;

y_i – is an income of the i-th individual.

If α=0 it illustrates the inequality at the bottom of the distribution, if α=1 it shows inequality at the whole distribution and if α=2 it gives inequality distribution only in the richest part of the population.

Now we can see these indexes in our case according to our databases. For that purposes it can be argued to use ADEPT program to calculate G (0), G (1) and G (2) and after this to give some opinion how the inequality distributed at the given interval of the population.

Table 3

Impact of programs on inequality measures simulating the absence of the program

	Gini	GE(0)	GE(1)	GE(2)
Indicator	0,295	0,150	0,190	0,495
Indicator without listed transfer				
All social protection	0,347	0,428	0,255	0,650
All social insurance	0,344	0,423	0,251	0,641
Pensions	0,344	0,423	0,251	0,641
All labor market programs	n.a.	n.a.	n.a.	n.a.
All social assistance	0,299	0,153	0,193	0,502

Source: World Bank TSA Databases, author's calculations

From the fig. 4 it is clear that the Gini coefficient is 0.295. As indicated in the survey it vary between zero and one and if it is close to zero it can be argued that there is perfect equality according to our household survey. We should point out that the income of the population distributed fairly and this shows that impact of the social protection on inequality measures is in sufficient level even high with comparing European countries because if we can see the indicators without social transfers it is 0.347 without all social protection, 0.344 without all social insurance and pensions and 0.299 without all social assistance. G (0), G (1) and G (2) are 0.15, 0.19 and 0.49 respectively. The only high Theil index was observed in the third case in G (2). In that level the distribution is almost in the middle which also can be sufficient level. Moreover, TSA is a passive program which does not give any employment opportunity to the families. The amount of TSA which received is used for the daily requirements. For that reason, the Ministry of Labor and Social Security of the People decided to pilot active "Self-support" program in 13 regions of Azerbaijan. The main objective of Self support program is increase the employability of low income family specially living in rural areas. In contrast to monthly cash payments, Self-support programs beneficiary will receive the amount around 1200-1500 AZN (about 1530-1900 USD) in order to assist the development of private farms and individual labor activity. It can be argued that this program will rehabilitate low-income families and will help them to

improve their employability and by this way they will get out from the poverty trap [16]. From the diagram we can bear a witness how the income of the families changes during the rehabilitation period with comparing the previous TSA program.
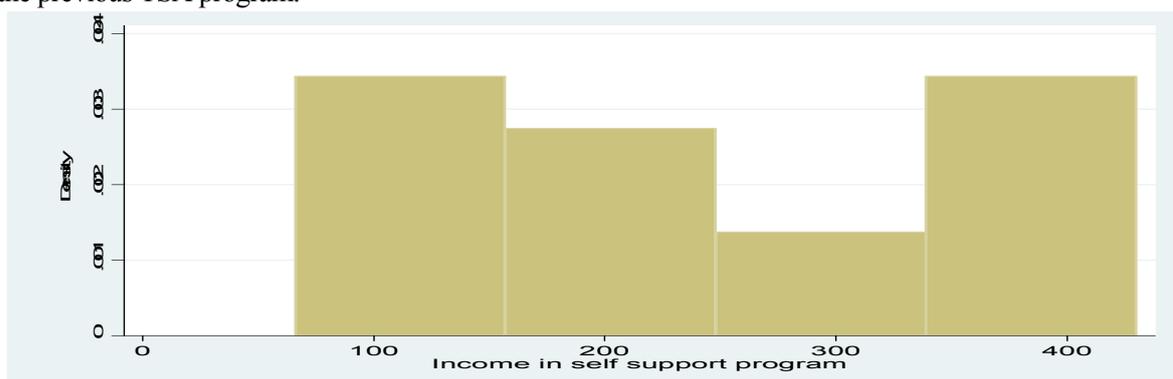

Fig. 3. Income in Self-Support Program

Source: MLSPP databases. Authors Calculation [11]

From the Histogram we can see that density of income in Self-support program for the specified region varies 100-400 AZN. If we compare this result with previous period when families received TSA benefit we can see the actual difference between active policy and passive policy in cash transfers.
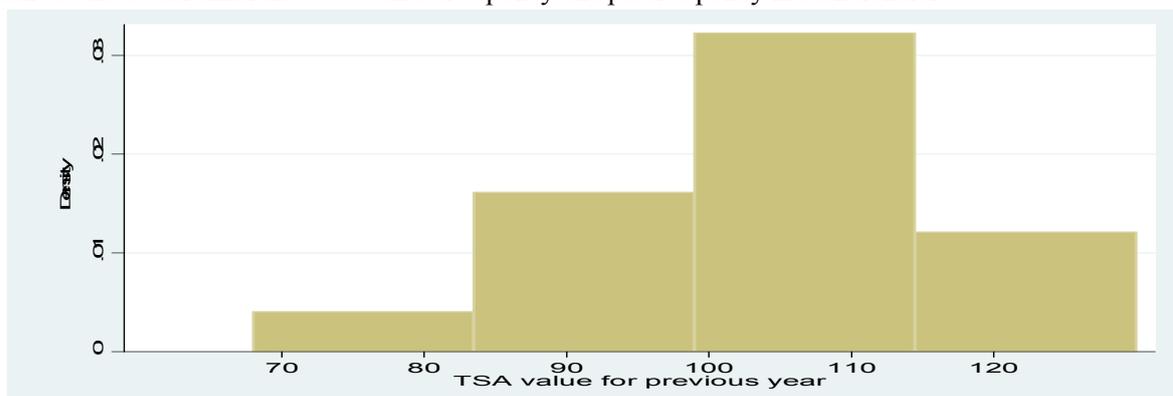

Fig. 4. TSA values in previous year

Source: MLSPP databases. Authors Calculation

Histogram clearly shows that during the TSA period the density of the income of the beneficiary families were high between 100-110 AZN. However it increased during the active rehabilitation period as in table 4 it was pointed out.

First of all, it can be argued to give common concepts and approaches for understanding and addressing poverty. However we can face with questions why conceptual approaches? It can be because of different ways of understanding poverty leads to different ways of dealing with it. Moreover sustainability in poverty is an important approaches as it calls an effective strategies based on clear and consistent concepts. In some cases we can tackle with different terminology which overall mean poverty reduction but with some misunderstandings. We primarily focused on poverty alleviation and then shift to poverty reduction and finally poverty eradication process. Simply poverty alleviation represents the time when our development efforts were welfare focused. In other words when we choose to give people fish. Poverty reduction approaches is a next step which we teach people how to get fish by themselves. Poverty Eradication – "represents the shift toward focusing both on teaching people how to fish, ensuring that people have access to the river as a resource, and ensuring that companies up river are not polluting the water source [15].

It can be suggested to analysis poverty by the income of the household levels. The families under some income level can be poor. In other words the people under the poverty line can be low income households or poor. This line can be identified through two different methods: absolute poverty and according to the income of the families –relative poverty. " Absolute poverty or destitution refers to the one who lacks basic human

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needs, which commonly includes <u>clean and fresh water</u>, <u>nutrition</u>, <u>health care</u>, <u>education</u>, clothing and shelter [9]. About 1.7 billion people are estimated to live in absolute poverty today in the world". In other words absolute poverty is calculated according to the consumption bundles which include the daily requirement (foods, services and etc.). The World Bank defines extreme poverty as living on less than 1.25 USD with PPP in a day [5]. The USA and CIS (Commonwealth Independent States) used this method in poverty measurements. The minimum living standards was about 107 AZN (about 136 USD).According to ADECRI survey in 2010 approximately 9.1 % of the total population were under MLS. However, now it is only 7.6 percentages in 2011. The figure 3 illustrates the poverty dynamics from 2003 to 2011 in Azerbaijan [10].
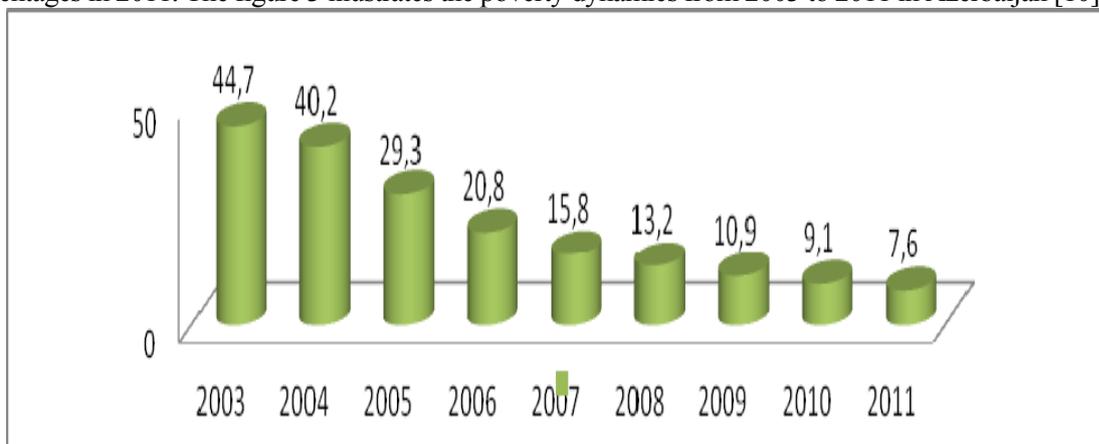

Fig. 5. Poverty in Azerbaijan

Source: SSK. Prepared by the author

From the figure it is clear that through successful socioeconomic policy the poverty decreases from dramatic level 44.7 in 2003 to the 7.6 percentage in 2011. Azerbaijan government did many successful projects and government programs during past 20 years in order to gain low rate of poverty and macroeconomic stability. Besides this the Republic of Azerbaijan joined the Millennium Development Goals (MDGs) initiative with signing up to the Millennium Deceleration in 2000. MDGs cover relevant commitments on poverty reduction by 2015. To implement the tasks described in the Declaration, 8 global goals comprising 18 targets and 48 indicators were identified [8]. Government decided to achieve MDG's achieve MDGs in the framework of the poverty reduction strategy. In view of this, th main objectives of SPPRED (State Program on Povert Reduction and Economic Development) and SPPRSD (State program on Povert Reduction and Sustainable Development) is to reduce poverty. Policy priorities set in both SPPRED and SPPRSD is fully complient with global MDGs. Azerbaijan has demonstrated the political will to work towards achieving the MDGs. This was clearly stated in its annual SPPRED/ MDGs progress reports and reflected in the SPPRSD for the period of 2008 – 2015.

Relative poverty-is calculated according to the income of the families. As stated in social-economic research this is equal to some amount of median income. Median income divides households into two equal segments with the first half of households earning less than the median household income and the other half earning more [9].

European Union countries use 60 percentage median income levels in poverty analysis. This level can change according to the country specification and influence the poverty level definitely. For instance, poverty in the children level in Luxemburg and Hungary are the same but, the poverty level in Luxemburg is 6 times higher than Hungary.

Besides from the whole of the above opinions it is vital to state that social protection system also make a great impact on poverty. As figure 3 indicated the poverty level reduce from 44.7 to 7.6 percentages in 2011, great reforms have been implemented during the specified time period.

Moreover, average monthly income increase and as a result the income of the people rise and absolute poverty decrease without any reforms in SP system. In order to know how this methodology works we need to see how the poverty can be without any social transfers. According to the ADECRI survey the poverty level was 30.9 percentages before social transfers in 2009 [7]. After payment for age it decreases to 18.3 percentages and after disabilities payments it dropped again to 14.6 percentages. Overall, all other social transfers influence the poverty and it reached to 10.9 percentages in 2009. The following table gives clear idea about this issue:

Table 4

Impact of SP on Poverty

Types of transfers	Absolute poverty
Before transfers	30,9 %
After payments for age	18,3 %
After disability payments	14,6 %
Other payments	11,4 %
After all transfers	10,9 %

Source: ADECRI survey on Poverty (2009)

It can be suggested that besides the reforms and programs SP system has a great impact on poverty reduction in Azerbaijan. There is no formal definition of social protection in Azerbaijan, but the country has an extensive social welfare system.

Overall the Social Protection system in Azerbaijan allows reducing poverty to a minimum level. TSA is applied in Azerbaijan since 2006. According to the legislation of TSA eligibility criteria established during this time. TSA is considered to support low income families to get out of poverty trap and make them feel safe. The eligibility criteria increased more than 6 times and reached at 84 AZN (about 107 USD) in 2011. As a result the TSA amount 44 AZN in 2006 also raised and reached at 106 AZN in 2007. In other words, this benefit makes safety nets among these families. Moreover, as investigated in the survey about 90 percentages of the 7000 families heard about TSA but only 45.22 percentages applied for the program. As a result more than 74 percentages of the families granted with TSA.

Moreover, survey shows that the income of the population distributed fairly and this shows that impact of the social protection on inequality measures is in sufficient level even high with comparing European countries because if we can see the indicators without social transfers it is 0.347 without all social protection, 0.344 without all social insurance and pensions and 0.299 without all social assistance. G (0), G (1) and G (2) are 0.15, 0.19 and 0.49 respectively.

Furthermore, the paper suggests that social protection system has a great impact on poverty alleviation. After payment for age it decreases to 18.3 percentages and after disabilities payments it dropped again to 14.6 percentages. Overall, all other social transfers influence the poverty and it reached to 10.9 percentages in 2009. In parallel to this Azerbaijan government tries to implement active social programs and gives some employment opportunity to the low income families by "Self Support" program.

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