

## HUMAN CAPITAL DEVELOPMENT IN AZERBAIJAN

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## The Oil Boom and Human Capital Development in Azerbaijan: “Turning Black Gold into Human Gold”

Surayya Mammadova, Stockholm

### Abstract

This article addresses the link between state fiscal resources and human capital development in Azerbaijan during the peak period of oil prices. The economic growth figures offer quite an optimistic picture. However, a more thorough look at the social and economic data indicates that Azerbaijan's state investment in education and healthcare was relatively low compared to other countries in the Commonwealth of Independent States (CIS) region. Despite the possibilities presented by the expanding fiscal space and increasing capital inflows, the government of Azerbaijan did not manage to effectively increase public sector expenditures on human capital development and has not utilized the available funds to reach higher levels of overall human development.

### Introduction

Over the last decade, human capital development (HCD) has held the attention of political actors in Azerbaijan, at least on a rhetorical level, in both public media and speeches by government officials. The government has set a priority to transform “black gold into human gold”. Under this tag line, Azerbaijan has adopted numerous conceptual papers and decrees, including the “Azerbaijan 2020” vision in 2012, the “National Strategy for the Development of Education” and the action plan for its implementation in 2013. Both documents formulated the state's policy toward achieving higher levels of human capital development and aimed to escape the so-called ‘resource curse’ by advancing the quality of the educational system and strengthening the competitiveness of knowledge-based industries in Azerbaijan. In addition, the government declared the goal of increasing public spending on social sectors to facilitate human capital development.

Although the establishment of the policy framework intended to enhance human capital development in Azerbaijan is a positive step, there is an obvious lack of evaluation and monitoring of the implementation of these policies in practice. Thus, the efficiency and real impact of these policies remain unclear.

### Transforming Oil into Human Capital

In natural resource-exporting countries, human capital development (defined as the stock of knowledge, skills and capabilities of a country's workforce) should be set as a primary goal to break the vicious circle of the resource curse, diversify the economy and ensure sustainable

growth. To achieve these results, the World Bank prescribes three policies: 1) ensure efficient resource extraction to increase generated resource rent, 2) establish a tax system that allows government to recover rents and 3) design a well-defined policy framework for the investment of rents into productive assets.<sup>1</sup> The investment of these revenues in productive assets is closely related to the Hartwick rule, according to which the rents from natural resources should be invested in productive assets for future returns rather than consumed immediately. Productive assets consist of tangible (such as infrastructure and machinery) and intangible (human, social and institutional) types of capital.

Education and health expenditures are among the most crucial areas for raising the level of human capital. A study found that an increase in public spending on education of 1 percent of the GDP is associated with 3 more years of schooling on average and boosts economic growth by 1.4%.<sup>2</sup> Correspondingly, an increase in health expenditures by 1% of the GDP improves the under-5 child mortality rate by 0.6 and increases the annual per capita GDP growth by 0.5 %.

### Investing in Human Capital: Promises and Realities

In the period 2005–2014, Azerbaijan enjoyed an influx of revenue from oil exports, which improved GDP performance and opened fiscal space for increased public spending. During the period of 2001–2009, GDP growth was on average 16% per year, and Azerbaijan had the highest annual GDP growth rate worldwide at 34.5% in 2006 and 25% in 2007 (World Bank). Per

1 World Bank. *The Changing Wealth of Nations: Measuring Sustainable Development in the New Millennium*. Washington, D.C.: World Bank, 2010.

2 Emanuele Baldacci et al., “Social Spending, Human Capital, and Growth in Developing Countries,” *World Development* 36, no. 8 (2008): 1317–1341

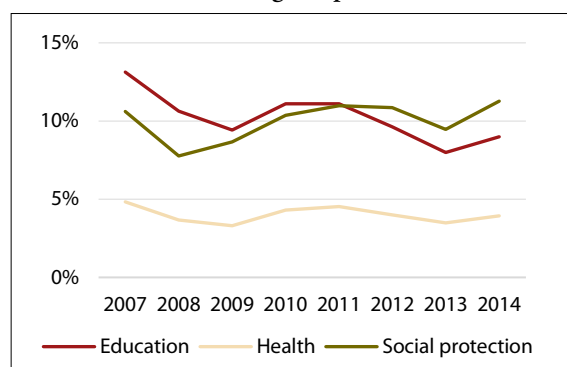
capita GNI doubled from \$8,570 in 2006 to \$16,920 in 2014. Due to this massive budget surplus, Azerbaijan had sufficient resources to invest, as it did in tangible capital such as construction and infrastructure.

Public investment was a major engine of non-oil GDP performance during the oil boom. The major sectors of the non-oil economy predominantly depended on funds from the state budget itself funded through transfers from the State Oil Fund of Azerbaijan (SOFAZ). The transfers from SOFAZ to the state budget increased rapidly, from only 10% of the overall budget in 2007 to as much as 61% of the national budget in 2012.<sup>3</sup> This expansion of state budget revenue created a favorable fiscal space for expanding government social policies set out as a priority area in the strategic planning of the government during the early years of the oil boom. These social policies were targeted at three sectors: healthcare, education and social protection. The social protection system in Azerbaijan includes social insurance, which covers contributory benefits related to unemployment and social assistance and provides social benefits for vulnerable and low-income groups. As shown in Figure 1 (opposite), public expenditures on education and healthcare actually decreased in proportion to the overall expenditure budget from 2007 to 2014. Public spending on education showed a decrease from 13% of the total budget in 2007 to 9% in 2014. Public spending on healthcare remained fairly stagnant, standing at 5% of the total budget in 2007 and falling to 4% in 2014. Expenditures on social protection remained at approximately 11% of the total budget. In contrast, a substantial portion of the state budget was invested in infrastructure and construction, on average 35% of the overall budget from 2007–2014. The lion's share of these expenditures was devoted to the hosting and organization of international events, such as the Eurovision song contest in 2012 and the European Games in 2015.

Public spending on social sectors is typically measured as a fraction of GDP to account for the level of social spending relative to the size of a country's economy. In addition, this measure is commonly applied to facilitate comparisons of public spending patterns across countries and regions with different economic output and shows the relative priority given by the government to various sectors.

Figure 2 (opposite) displays public healthcare expenditures as a percentage share of the GDP and shows that healthcare spending stood at just 1% of the GDP from 2007–2014. Public expenditure on education remained at 2.8% of the GDP during this period.

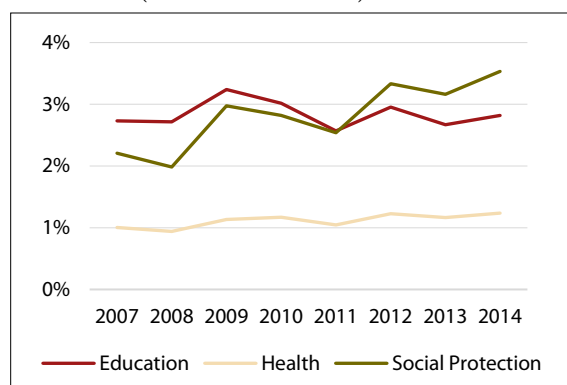
**Figure 1: Azerbaijan: Public Spending on Education, Healthcare and Social Protection (% total budget expenditure, 2007–2014)**



Calculated by author based on data taken from the laws regarding the state budget of the Republic of Azerbaijan (2007–2014). Available from: <budget.az>

To provide a more complete picture of social policy in Azerbaijan, it is imperative to compare its public spending allocation with the performance of neighboring countries, both resource-poor and resource-rich, including Armenia, Georgia, Kazakhstan and Turkmenistan. As illustrated in Table 1 overleaf, Azerbaijan has the lowest status among this group of countries on social spending indicators. The level of public spending

**Figure 2: Azerbaijan: Public Spending on Education, Healthcare and Social Protection (% GDP 2007–2014)**



Calculated by author based on data taken from the laws regarding the state budget of the Republic of Azerbaijan (2007–2014) and World Bank database (GDP US\$) (<budget.az> and <data.worldbank.org/indicator/NY.GDP.MKTP.CD>)

on healthcare did not match the increase in oil revenue and was less than that in resource-poor Armenia and Georgia and half that of resource-rich Kazakhstan. Its spending on education in 2006–2012 was less than that

3 Presidential decrees on the approval of the budget of the State Oil Fund of Azerbaijan (2007–2014). Available from: budget.az.

**Table 1: Public Expenditure on Health and Education as % of GDP**

Average	Azerbaijan	Armenia	Georgia	Kazakhstan	Turkmenistan
Health (2006–2014)	1.1%	1.9%	1.7%	2.3%	1.3%
Education (2006–2012)	2.6%	3.2%	2.8%	2.8%	N/A

Note: figures are averages for education expenditures (2006–2012) and healthcare (2006–2014); time frames for categories differ due to the lack of compatible data for all countries.

Source: World Bank database on health and education expenditure

of resource-poor Armenia and at approximately the same level as in Georgia.

Contrary to the promising discourse around public expenditures on social sectors, Azerbaijan actually invested less in social welfare than other comparable countries in the region. In short, during the oil boom, the level of the social spending budget was not positively correlated with the rate of budget expansion.

### Did the Oil Boom Help or Hinder Human Capital Formation?

What was the impact of social sector expenditures on human capital development in Azerbaijan?

At first glance, over the last decade, Azerbaijan had quite impressive progress in human development. UNDP ranked the country with a “high” human development status and its HDI score improved from 0.61 in 2000 to 0.75 in 2015 on a scale ranging from 0 to 1. However, HDI has several measurement shortcomings. For example, due to the application of the arithmetic average, dividing the overall score achieved in all dimensions by three, a higher performance in just one of them can actually compensate for lower results achieved in other dimensions.

To evaluate the impact of social spending on two human development indices (education and health), I present an alternative method called data envelopment analysis (DEA). DEA is mathematical programming approach used to evaluate the relative efficiency of decision making units in management science and econ-

ometrics. By focusing on the input-output efficiency of public spending, the DEA approach avoids deficiencies inherent in the HDI Index and can better capture a country’s relative performance in human development.

The input and output scores in Table 2 below were taken from a study conducted by Asian Development Bank economists. In the DEA estimation, the input is determined by health and education expenditures per country. The outputs for health are subtracted from the life expectancy, DPT (diphtheria, pertussis, tetanus) and measles immunization rates from 1995–2010. The outputs for education are represented using the average over 2006–2012. Data for education are taken from the percentages of completed primary and lower secondary education.

Azerbaijan’s education expenditure efficiency score of 0.29 on the input side is far below the regional average of 0.73, and its output level is less than desirable. For health expenditures, it matches the average for the Asian region on the output score but not on the input score. Thus, in three of the four categories, Azerbaijan was one of the least efficient countries in investments in social spending. Therefore, the problem is not only with the amount of money allocated to social security and education but also with ineffectiveness.

To understand the actual impact of input-output ineffectiveness on human capital development in Azerbaijan, it is worth looking at the Human Capital Index (HCI), a ranking compiled by the World Economic Forum. The scores are presented as standard deviations

**Table 2: DEA Analysis: Education and Health Expenditure Efficiency Scores for Azerbaijan**

	Input Oriented	Output Oriented
Education expenditure efficiency score for Azerbaijan (average from 2006–2012)	0.29	0.89
Average for Asian countries—education (2006–2012)	0.73	0.94
Health expenditure efficiency scores for Azerbaijan in 2010	0.86	0.96
Average for Asian countries—health in 2010	0.93	0.96

Source: Lavado, R. F., Domingo, G.A., *Public Service Spending: Efficiency and Distributional Impact—Lessons from Asia*. 2015 Asian Development Bank (Economics Working Paper, No. 435), <<https://www.adb.org/sites/default/files/publication/161539/ewp-435.pdf>>

from the mean (0), which is the average for countries included in the ranking. Positive scores are set above the mean, and negative scores are below the mean. For instance, a standard deviation of plus or minus 1 equals 34.13% above or below the mean.

In 2013, Azerbaijan ranked 64<sup>th</sup> out of 122 countries with a score of -0.157, which indicates the number of standard deviations below the mean<sup>4</sup>. The country performed better on the ‘workforce and employment’ category but scored poorly on education and health care evaluation. Within the Europe and Central Asia region, Azerbaijan scored higher than both Georgia and Armenia overall but still performed lower in the ‘health and wellness’ and ‘education’ categories (in comparison to Armenia) and ‘health and wellness’ (compared to Georgia).

### The Reality Behind the Numbers

The low ranking achieved by Azerbaijan on the ‘health and wellness’ category is an indicator that health services and the health system in general suffer from negligence and disregard by public authorities: The majority of investments in the health sector are targeted at infrastructure and construction projects, such as building new hospitals and buying new equipment. While nobody would contest the importance of replacing outdated equipment and mending the crumbling walls of hospitals, the majority of the medical staff lacks sufficient training to use such new facilities properly. The government officially provides free health care to all citizens, but health care services in Azerbaijan are unofficially privatized, and “out-of-pocket” payments add up to 89% of total private expenditure on health.<sup>5</sup> This could be explained by the fact that medical personnel in Azerbaijan are heavily underpaid. The average wage for public health sector nurses is \$150 per month.<sup>6</sup>

According to the Human Capital Index, Azerbaijan was given the lowest score for the tertiary education category. However, the country managed to achieve near universal coverage of primary and secondary education, though the *quality* of education deteriorated substantially over the years. In the 2009 Programme for International Student Assessment (PISA) report, Azerbaijan had one of the lowest scores in reading (64), mathematics (45), and science (63) out of the 65 countries included, of which only one other post-Soviet republic, Kyrgyz-

stan, performed worse. In addition, data from the State Students Admission Commission, which oversees and administers university entrance exams, show that many university applicants fail to achieve even the minimum passing score. In 2015, 37% of all university applicants scored below 100 on the test, which has a maximum possible score of 700.<sup>7</sup>

### Concluding Remarks

In the wake of the decline in oil prices, Azerbaijani policy makers have found themselves in a difficult position. The substantial decrease in the influx of oil money has impaired their ability to collect fiscal revenue. The strategy designed to diversify the economy through building a solid human capital base did not succeed due to the insignificant amounts of funds allocated and the inefficiency in public spending on social sectors. This limits Azerbaijan’s ability to compete in international markets. Under the conditions of a weak human capital base and low oil prices, the productivity rate in the private sector decreases, whereas the unemployment rate increases leaving more people on the verge of poverty.

With regard to healthcare and education, the amount and direction of investment do not seem to change the quality of services offered in those sectors. A high inflation rate and a series of currency devaluations hit public sector employees particularly hard. When left underpaid, health sector workers will demand more informal out-of-pocket payments from patients to make ends meet. As a result, rampant corruption undermines whatever positive effects social spending is expected to have on human capital development. The lack of a strong human capital base will lead to a widening of the inequality gap between the poor and the rich because only the latter can afford higher-quality private education and health services. Amid the oil price slump, the government has tried to slash public investment projects and increase public spending on education and healthcare. However, without major institutional reform improving efficiency in the allocation and use of public funds and the quality of policy implementation, these measures are unlikely to lead to gains in human capital progress.

*Information about the author and recommended reading are overleaf.*

4 Saadia Zahidi et al., *The Human Capital Report: Insight Report*. Geneva: World Economic Forum, 2013.

5 Caucasus Research Resource Centres, “Funding for Healthcare in the South Caucasus”, October 15, 2013. <<http://crrc-caucasus.blogspot.se/2013/10/funding-for-healthcare-in-south-caucasus.html>>

6 Durna Safarova, Azerbaijan: Growing Number of Citizens Heading Abroad for Medical Care, Eurasianet.org, August 15, 2016. <<http://www.eurasianet.org/node/80151>>

7 The State Students Admission Commission of the Republic of Azerbaijan, *Abituriyent 2015/2016, 2016*. <<http://tqdk.gov.az/activities/statistics/>>



### *About the Author*

Surayya Mammadova recently graduated from Kassel University with an MA degree in Global Political Economy. She wrote her MA Thesis on the relationship between resource dependency and human capital development in Azerbaijan. Her research interests include natural resource governance and sustainable development with a regional focus on Post-Soviet rentier states.

### *Recommended Reading*

- Baldacci, Emanuele, Benedict J. Clements, Qiang Cui, and Sanjeev Gupta. "Social Spending, Human Capital, and Growth in Developing Countries: Implications for Achieving the MDGs". *IMF Working Paper* No. 04/217, 2004. <<http://elibrary.imf.org/view/IMF001/06304-9781451875140/06304-9781451875140/06304-9781451875140.xml>>.
- Hanushek, Eric A. "Economic Growth in Developing Countries: The Role of Human Capital." *Economics of Education Review* 37 (2013): 204–212.

## The Quality of Education in Azerbaijan: Problems and Prospects

Farid Guliyev, Washington, D.C.

### **Abstract**

Over the past two decades, Azerbaijan has experienced a drastic decline in the quality of education, particularly at the higher education level. Although the oil industry experienced a boom for nearly a decade, the education sector stagnated and underperformed. The level of funds allocated to education remained unusually low, especially compared to the funds allocated to infrastructure development and vanity projects. Consequently, the quality of public education deteriorated precipitously, falling behind even the Commonwealth of Independent States (CIS) regional standard. Using a demand-and-supply perspective, I argue that the diversion of public funds away from human capital development toward unproductive investments by rent-seeking elites on the supply side and low returns to high-quality education (valuing educational certificates more than knowledge and skills obtained) and an excessive reliance on patronage and personal connections on the demand side are the key impediments to the advancement of educational quality in Azerbaijan. Further structural reforms are required to address these perverse incentives embedded in the existing institutional framework.

### **Performance**

Azerbaijan has a young population: nearly 40% of its 10 million-strong population is below 24 years old. It also has one of the highest birth rates in the CIS region. Having a large proportion of young people is advantageous in providing manpower to meet the needs of the market and boost the economy; however, it poses a challenge regarding training a highly skilled workforce for a job market in which youth employment represents only 23% (as of 2014). In other words, the specific problem currently facing Azerbaijan is whether the country's public school system has sufficient capacity, funds and teaching resources to accommodate the growing numbers of young people.

As in other resource-dependent countries, the "oil curse" hurts young people's employment opportunities

as domestic jobs are scarce due to the underdevelopment of non-oil sectors and weak private business. The international labor market is highly competitive with many barriers to entry. A strong modern education system and continuous professional training opportunities for the Azerbaijani workforce are crucial in order to meet domestic demand and provide the skills required to compete in international markets. However, evaluations by international organizations and education experts demonstrate that Azerbaijan is underperforming in education quality and is clearly underutilizing its potential demographic advantage. This reverses the 'youth bulge' advantage, forcing better educated young people to exit and emigrate ("brain drain") to western countries. Meanwhile, the majority of poorly educated labor was, until recently, absorbed

by the demand for low-skilled, guest-worker labor in Russia.

Azerbaijan has preserved the high adult literacy rate, high levels of secondary school enrollment and universal scope of primary education inherited from its Soviet past (there is compulsory 9-year schooling). However, over the past twenty years, there has been stagnation and a lack of progress on many other key indicators of educational attainment and quality of education according to data from the UNESCO Institute for Statistics (UIS). Azerbaijan's high secondary education participation rate differs little from other ex-Soviet countries including those that, unlike Azerbaijan, are not located on abundant reserves of natural resources (oil and gas). A closer look at key education indicators, some of which are discussed below, reveals a rather bleak picture.<sup>1</sup>

### *Low Public Spending on Education*

Azerbaijan's budget allocations for the educational system have been consistently low, indicating a low prioritization of education, and of social welfare in general, by the governing elites. Surprisingly, even during the oil boom period, education remained underfunded, representing only 9.1% of all public spending in 2009 (on par with Georgia and Belarus but half that of Ukraine and Moldova), and education performance was unimpressive. For example, based on RFE/RL's estimates, more money was spent on hosting the 2015 European Games (USD1.2 billion) than on education in 2016 (USD1.14 billion). According to the World Bank, although public spending on education increased in nominal terms from AZN 294 million in 2004 (approximately USD60 million based on 2004 exchange rates) to AZN 1.55 billion (USD1.94 billion in 2014 dollars) in 2014, it did not match the growth of GDP.<sup>2</sup> In 2009, the government spent only 2.8% of its GDP on education, well below even the CIS regional average of 4.7% (Georgia—4.2%, Armenia—3%, Ukraine—5.3%). The majority of the funds were allocated for teacher and staff salaries and pensions, and the rest was allocated for operational costs.

### *Low Pre-School Enrollment*

Only 26% of Azerbaijani children aged 1–5 attended preschool (kindergarten) in 2013, which is lower than in neighboring countries. For comparison, the pre-school

enrollment rate is 60% in Georgia (as of 2008), 52% in Armenia (2012), and 92% in Russia (2012).<sup>3</sup> According to one study, Azerbaijan has one of the highest proportions of children without preschool education among the 45 countries observed.<sup>4</sup>

### *Poor Quality of School Education*

Azerbaijani students performed poorly on the 2009 PISA international student survey, receiving one of the lowest scores on the reading and science scales. As more school graduates fail to pass the national university admission exam due to low scores, the State Student Admission Commission (TQDK) is forced to lower the minimum threshold (normally 250 or 200 points) every year. The quality of secondary school education is believed to be insufficient to prepare graduates for university admission. Because of the inefficiency of the secondary school system, whereby taxpayers' money is spent but schoolchildren still cannot acquire a good education, parents are obliged to allocate additional funds to hire private tutors for their children.

### *Low Higher Education Enrollment Rate*

Azerbaijan has the lowest post-secondary (tertiary) education enrollment rate among the countries of Central Asia and the Caucasus: only 23% of the relevant age cohort between the ages of 17–21 are actually enrolled in a university. Each year, approximately 77% of Azerbaijanis who graduate from secondary school are not admitted to a university, most likely due to the poorly conceived and highly centralized state quota allocation system “wherein every year the government arbitrarily sets student admission quotas for all programs, whether government subsidized or self-financed, and in both public and private universities.”<sup>5</sup> This is the worst university enrollment rate in the entire region. In contrast, 44.3% of youth in Armenia, 39.2% in Georgia and almost a half of Kazakhs enroll in a university after they graduate from secondary school (see Table 1 overleaf).

### *Educational Attainment*

Table 2 overleaf presents the population distribution by highest degree obtained. In Azerbaijan, the highest number of citizens (approximately 60%) hold a (complete) secondary school certificate (attestat). This is fol-

1 Caroline Macready and Mihaylo Milovanovitch, “Developing Human Capital”, Ch.3 in *Competitiveness and Private Sector Development: Eastern Europe and South Caucasus*, OECD Publishing 2011.

2 Note that after two devaluations in 2015 (in February and December), Azerbaijan's currency, the manat (AZN), lost half of its value relative to the US dollar. Current exchange rate (October 2016): 1 USD = 1.6 AZN.

3 UNESCO Institute for Statistics, Available at: <<http://data.worldbank.org/indicator/SE.PRE.ENRR>>

4 Vitaly Radsky, “Education in Azerbaijan: A Snapshot”, CRRC Blog, May 16, 2013, <<http://crrc-caucasus.blogspot.com/2013/05/education-in-azerbaijan-snapshot.html>>

5 Rashad Aliyev, “Azerbaijan: How Equitable is Access to Higher Education?”, *Khazar Journal of Humanities and Social Sciences*, 14, 2011.

**Table 1: Gross Enrollment Ratio, Tertiary (%)**

	2010	2011	2012	2013	2014
Armenia	50.6	51.0	43.9	43.3	44.3
Azerbaijan	19.3	19.6	20.4	21.4	23.2
Georgia	28.9	31.2	29.2	34.8	39.2
Kazakhstan	46.0	48.5	51.3	50.1	48.5

Source: UIS.Stat, UNESCO

lowed by 25% who have a bachelor's degree and a somewhat inflated 15.7% holding a master's degree. However, a different picture emerges if one analyzes the content of Azerbaijani master's level education. As one expert accurately observed, "Master's students in Azerbaijan commonly have to go through the exact same course—same instructor, same book, same lecture material, same tests—as they did as undergraduates."<sup>6</sup> In other words, most master's degree programs are a poor replica of their counterparts in the west and do not offer advanced specialist training.

### *Access to Higher Education*

Although the introduction of the TQDK relieved the admissions system of direct corruption, problems remain regarding the equity and equality of access to higher education. University admission is determined using scores on the admission test administered by the TQDK. The quality of teachers in public schools varies, and the best 'elite' public schools are concentrated in Baku city. Private lyceums charge high tuition fees. Extra hours of private tutoring are required for regular public school pupils to be able to pass the university admission test. Even though public school education is free, climbing up the education ladder depends on the household budget. The informal private tutoring system is affordable only for

wealthier and middle-class urban families. One family estimated the annual costs of private tutoring for their daughter at AZN 3,000 (USD 3,750 based on 2013 exchange rates), whereas the average monthly salary was approximately USD 545 in 2013.<sup>7</sup>

Once admitted to a university on a self-funded basis or to a private university, students must pay tuition fees. Tuition costs range depending on the prestige of the university and program from approximately AZN 1,300 (USD 1,238 in mid-2015 dollars) (lowest) at Pedagogical University to AZN 4,800 (USD 4,571 dollars) (highest) at ADA University. In fact, the tuition fee rate increased at least twice from 2008 to 2015. For example, tuition for Baku State University's law degree program jumped from AZN 1,500 (USD 1,875 in 2008 dollars) in 2008 to AZN 3,000 (USD 3,750 in 2013 dollars) in 2013 and AZN 3,800 (USD 3,619 in mid-2015 dollars) in 2015.<sup>8</sup> Thus, the higher education admission system privileges children from wealthier and urban families over less well-to-do and rural families.

### *(Ir)relevance of Higher Education*

One study finds that more than 60% of the graduates surveyed reported that their education did not adequately prepare them for the domestic job market.<sup>9</sup> There appears to be a significant gap between what is

**Table 2: Educational Attainment, Population Ages 25 and Older, %**

	Primary	Lower secondary	Upper secondary	Bachelor's	Master's
Armenia	2.8	6.4	43.3	n/a	24.1
Azerbaijan	2.9	6.9	58.7	25.3	15.7
Georgia	2.1	4.6	42.7	3.4	27.1

Source: UIS online database at: <<http://data.uis.unesco.org/>>

Note: Percentages may not add up to 100 as the columns include only main levels of education. Armenia figures are from 2011; Azerbaijan and Georgia figures are from 2014, except for Azerbaijan's bachelor's degree figure, which is from 2012. Population in million (25 years and older): Armenia—1.8, Azerbaijan—5.8, and Georgia—2.8.

6 Richard D. Kortum, "Emerging Higher Education in Azerbaijan", *Journal of Azerbaijani Studies*, 12, 2009.

7 Arifa Kazimova, "In Azerbaijan, Free Education Comes at a Price", *Transitions Online*, January 9, 2013.

8 "Ötən 5 ildə Azərbaycanda ali təhsil: Nə dəyişib?" [Higher education in Azerbaijan over the past 5 years: What has changed?], Azadliq.org, October 30, 2013, <<http://www.azadliq.org/a/25152044.html>>

9 Turkhan Sadigov, "Students as Initiators of Bribes: Specifics of Corruption in Azerbaijani Higher Education", *Problems of Post-Communism*, 61:5, 46–59.



taught at the university level and the skills demanded in the job market. There is an oversupply of people with general secondary education but too few specialists in agriculture or services. Most universities have outdated curricula and lack the capacity to teach applied skills. Vocational schools are of low quality.

### *Underpaid Teachers*

Secondary school level teachers in Azerbaijan earn very low salaries. In the mid-2000s, they earned less than USD 100 per month, barely enough to make a living. The current starting salary for secondary school teachers stands at AZN 350 (USD 219 in 2016 dollars) per month depending on qualifications and performance.<sup>10</sup> According to Azerbaijani official statistics, the average nominal wage for professionals employed in education in 2015 was AZN 301 per month (USD 287 in mid-2015 dollars), which is the third lowest category after healthcare (AZN 204, USD 194) and agriculture (AZN 246, USD 234) and much lower than the average salary earned by those employed in other fields such as mining (oil and gas) (AZN 2,171, USD 2,068 in mid-2015 dollars), finance and insurance (AZN 1,210, USD 1,152) and even construction (AZN 678, USD 646).

The government has clearly underinvested in education, and the salaries of teachers remain low. Consequently, teaching and academia have never been considered attractive job options for graduates, especially among men, who are traditionally the ‘breadwinners’.

### **Understanding the Decline in Education**

Performance in education depends on the circumstances on both the supply side and the demand side. On the supply side, politicians may be induced to raise the level of education quality as a strategy to gain support or as a way to encourage innovation and build a knowledge-based economy. By contrast, in clientelistic systems based on patron-client exchanges, politicians may deliberately delay higher education progress as long as they can enjoy the excess profits of the rentier state.

On the demand side, the key factor is the extent to which citizens are willing to push for change. This in turn depends on how well citizens understand the problem and their organizational resources to mobilize for collective action. In Azerbaijan, there is currently no strong constituency to advocate for such reforms. Rent-seeking elites and their allies among corruption-prone educators have postponed reforms for decades, and cit-

izens have internalized the ‘rules of the game’ in which formal qualifications acquisition and the cultivation of patronage ties are more important for success in the job market than critical thinking abilities, professional skills and creativity. Learning skills have become secondary to obtaining a diploma by whatever means possible, including by offering bribes to educators. High-skilled students, especially those educated abroad, who are not co-opted into this system tend to exit. As Swedish economist Mats Lundahl noted, in the rent-seeking model, low returns to education will eventually produce brain drain, and high-skilled professionals and the educated strata will opt out.<sup>11</sup>

### **Supply Side**

Competition among key state bureaucratic factions over the amount of public funds available was at the core of oil-boom era politics in Azerbaijan. Large-scale infrastructure projects were the biggest prize, and human capital was never a priority, leading to a lack of willingness and interest in raising the education level of society (a form of public good). Thus, education received only a small fraction of the oil proceeds and in reality was largely neglected. The organization and management of the educational system is still dominated by a highly centralized Soviet management approach and “suffers from corruption and the influence of kinship.”<sup>12</sup>

Although managed by the Ministry of Finance, public funds for education are disbursed through local executive authorities. As one study from 2008 shows, these funds rarely reach schools as “a lack of clear procedures, transparent documentation, and open reporting prevent determination of how funds designated for schooling disappear while passing through the system.”<sup>13</sup> This archaic system leaves no room for policy innovation and reform. In April 2014, the former minister was replaced by the current minister, who is much younger and attended an American graduate school on a US-sponsored exchange program. He launched a series of measures including new ‘diagnostic’ evaluations of school teachers and the development of curriculum. However, these steps did not indicate a major departure from the past.

Since the state has remained the dominant force in Azerbaijan’s version of crony capitalism, the state (and quasi-state enterprises) has been the country’s biggest employer.

10 Decree No. 270 of the Cabinet of Ministers of Azerbaijan, 11 July 2016, <<http://www.cabmin.gov.az/?/az/pressreliz/view/1949/>>

11 Mats Lundahl, “Inside the Predatory State”, *Nordic Journal of Political Economy*, 24, 1997.

12 Hamlet Isaxanli, “Higher Education in Azerbaijan”, UNESCO Conference in Paris, July 2005.

13 Eric Lepisto and Elmina Kazimzade. “Coercion or Compulsion? Rationales Behind Informal Payments for Education in Azerbaijan”, *European Education* 40: 4 (2008): 70–92.

Public sector employment has never shifted to meritocratic recruitment and instead continues to rely on the time-honored patronage system, in which informal connections, loyalty and sometimes regional affiliation determine who gets a job. Such a system breeds clientelism and bribery while stifling creative and critical thinking. By maintaining this system, the government has discouraged the transition to a new approach that emphasizes meritocratic criteria.

The oil-based labor market structure has also contributed to this decline in a predictable manner. Demand for skills in the petroleum industry was partially satisfied by Western ‘expats’ and a small cohort of Western-educated youth. For the rest of the economy, this demand was met by a number of private universities (such as Qafqaz University and Khazar University) and quasi-state universities (ADA). These institutions have a transparent exam system, a relatively better quality of teachers and courses, and English language instruction. It proved easier to satisfy this demand by increasing public spending on standalone success projects rather than by reorganizing the entire public education system. The State Program on Education of Azerbaijani Youth Abroad for the years 2007–15 displays a similar logic.

### Demand Side

Azerbaijan illustrates a post-Soviet version of what sociologist Ronald Dore termed “diploma disease”, whereby obtaining education certificates becomes an end in itself, undermining genuine learning. Success in job selection depends on connections, and promotion in public sector employment is based on loyalty rather than competence, performance indicators or merit. To qualify for a job, graduates are only required to show a certificate of completion (diploma).

Citizens raised in this institutional environment of clientelism will over time internalize the values inculcated by the clientelist logic regarding educational achievement and professional career success. If clientelism trumps critical thinking, paying bribes and using connections to obtain good final marks pays off. For many, this simply makes sense.

### Conclusion

For nearly a decade, Azerbaijan enjoyed an oil boom and earned billions of dollars in revenues, and the gov-

ernment declared its goal of turning “black gold” into human capital. However, education was not chosen as a priority area. State expenditures on large-scale infrastructure projects and the hosting of sporting events dwarfed public spending on education. Azerbaijan’s problem is not that it did not spend enough on education and human capital in general but that it invested so little given its oil wealth and the urgency to transition the economy from one that depends on natural resource extraction to one that draws on the intelligence, knowledge and capacity of its people.

It is time for Azerbaijan to shift to program-based public spending that links budget expenditures to specific goals and outcomes and ensures that expenditures are monitored and performance is evaluated. This should be guided by global best practices, be based on evidence and involve a pool of committed Western-educated partners.

It is difficult to say whether educational stagnation is the result of the structural conditions and the actors’ lack of capacity or the actors’ lack of willingness. There are several examples of similar initiatives, such as the establishment of a new public service delivery company (ASAN Service), which demonstrates that successful foreign models can be adopted and implemented. However, those were in less technically sophisticated policy areas and could be implemented over a relatively short time period with few political costs. Education may be a different ball game because it requires a more fundamental change with impacts that are longer term, higher levels of policy expertise, skilled implementers and, most importantly, the political will of incumbent leadership.

On the supply side stand the rent-seeking interests of elites, which divert public resources away from human capital investment. On the demand side, the absence of meritocracy and widespread patronage in the job selection and hiring process reduce the incentives for students and graduates to seek, let alone demand, genuinely high-quality education. A successful policy intervention should take into account the perverse incentives embedded in the system.

#### *About the Author*

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## Natural Resources and the Gender Gap in Azerbaijan

Lucy Wallwork, Baku

### Abstract

'Resource curse' scholars have suggested not only that oil wealth may be disastrous for the political and economic fabric of a country but that its impact is gendered. They have observed that oil harms, rather than helps, women in becoming integrated into the workforce and wider society. This is because instead of unleashing the economic forces that dilute patriarchal norms, oil booms leave these norms in place and constrain women's opportunities for economic and political empowerment. These scholars, however, have singled out post-Soviet countries as exceptions to the rule, due to the legacy of the nominal commitment to gender equality handed down from their Soviet past. Here, I will explore how this may not be the case in Azerbaijan and how women have missed out on the dividends of Azerbaijan's latest oil boom.

### Is Oil or Islam at Fault?

Michael Ross has been the most prominent scholar to find evidence that women fail to enjoy the dividends of oil and gas booms. He set out to prove that the commonly cited correlation between Islam and gender inequality is a spurious one. Instead, he suggests that the Middle East merely happens to be home both to a cluster of Islamic regimes and almost 50% of the world's proven oil reserves. Contrary to common wisdom, he says, explanations that cite Islam-influenced notions of 'gendered citizenship' are not the key to the disempowerment of women in the region. It is oil, not Islam, that is at fault.

His theory largely rests on the impact of oil on labour force participation. Research shows that working outside the home can expand women's social networks, provide them opportunities for collective action, and increase their influence within the household. Perhaps more importantly, pursuing a career can help women establish an identity of their own outside the home. However, Ross finds empirical evidence that the process set in motion by an oil boom can exclude women from the labour force, even when controlling for the effects of income, Islam and political institutions. A number of mechanisms have been observed that might explain why this exclusion occurs.

### How Dutch Disease and Occupational Segregation Have Failed Women

'Dutch disease' is the phenomenon whereby an oil boom leads to the appreciation of the exchange rate in a country, suffocating the value-added manufacturing sector. As a result, an economy transforms away from the 'traded sector' (production activities in which industries are exposed to international competition, such as textiles or cars) and into the 'non-traded' sector (all other locally rendered services, including construction, public administration and health services). This phenomenon stands in sharp contrast to the 'success stories' of East Asian economies, which have enjoyed rapid growth

rates since the 1960s. Their growth has been based on low-wage, 'traded' and export-oriented industries, where female workers are the bedrock of the economic boom, leading to an accompanying steady erosion of traditional gender norms.

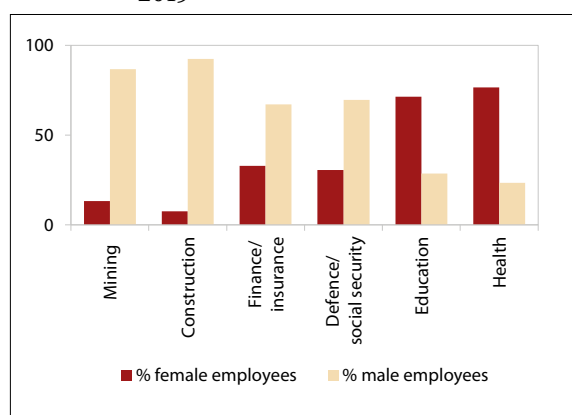
Despite the best efforts of local content obligations, the capital-intensive oil industry is notorious for employing only small numbers of locals. The distribution of employment by gender in different sectors of Azerbaijan's economy reveals that the few jobs that have been created have tended to go to men.

Azerbaijani women tend to be clustered in low-paying feminised sectors. Official statistics show that in 2014, the largest employers of women were overwhelmingly the education sector (38.4%) and the health sector (16.4%). The average (official) wages in these sectors in 2015 were AZN 298 (approximately USD 370 at the time) and AZN 198 (approximately USD 250 in mid-2014 dollars), respectively per month. The third largest employer was trade (11.5%).

In contrast, women in Azerbaijan are largely excluded from sectors such as construction, finance and security, which have expanded rapidly in tandem with oil revenues and the boom in large-scale construction projects. In 2014, at least a decade into the full-blown oil boom, only 1.6% of women were employed in the mining sector (which employs 3.5% of men) and only 1.2% of women in construction (compared to 10% of men).

The key problem presented by this occupational segregation is the wage differential. Wages in the mining and construction sectors have skyrocketed. By 2015, the average wages were several times higher in construction and mining than in education and healthcare: AZN 677 (approximately USD 645 in mid-2015 dollars) per month for construction workers and AZN 2171 (approximately USD 2068) in mining. Figures also demonstrate the dramatic stratification of wages between men and women within sectors; male construction workers earn 54% more than their female colleagues, and 'mining'

**Figure 1: Occupational Segregation in Azerbaijan, 2015**

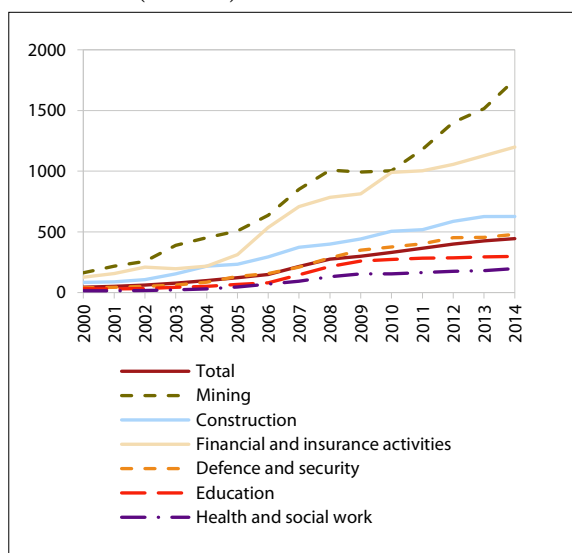


Source: Azerbaijan Statistics Committee

workers earn 70% more. Those men who do work in education earn 15% more than female teachers, reflecting the traditional male dominance of school directorships.

Figure 2 shows how wages in the male-dominated mining, construction, finance, and security/defence sectors have steadily risen since oil revenues started flowing in 2000, while wages in the female-dominated health and education sectors have stagnated.

**Figure 2: Wages by Sector in Azerbaijan, 2000–15 (in AZN)**



Source: Azerbaijan Statistics Committee

Of course, these official statistics paint only a partial picture, as they do not capture the wages earned in Azerbaijan's informal sector, which as of 2009 accounted

for more than one-quarter of Azerbaijan's non-agricultural workforce. This informal 'shadow' sector—typically low-paid jobs such as market vendors, shopkeepers, and shuttle traders—is dominated by women (41.7% of the non-agricultural workforce, compared to 16.6% accounted for by men).<sup>1</sup> An analysis of wage trajectories that took into account the informal sector would likely paint a similarly divergent picture.

### The 'Opt-Out' Revolution

Another mechanism by which oil may harm the participation of women in the workforce raises the possibility of a 'reservation wage' for women in oil-producing countries. This is the minimum wage at which a woman is willing to enter the workforce, and it is thought to rise during oil-fuelled growth. As observed above, the wages in sectors traditionally populated by women have risen minimally, but the increase in wages in other sectors, particularly in natural resources (and note these data capture only formally earned income), have led to a significant rise in overall household income. As households become wealthier, the number of women 'opting out' of the work force—as their male relatives benefit from high-paying oil jobs—also rises. This effect is particularly strong in a society such as Azerbaijan, where the cumulative 'household wage' retains cultural weight over the disaggregated collection of individual wages that has begun to take precedence in analyses of Western households.

Scholars have noted that in the pre-oil 1990s, women in Soviet successor states often became the sole providers for families, as they were more willing than their husbands to 'downgrade' their work to provide for their families during troubled economic times. The oil boom appears to have reversed this pattern. This tweak to the household economic model has combined with and reinforced traditional social and community pressures that encourage women to leave the workforce and prioritise unpaid domestic labour.

### Exclusion from Patronage Networks

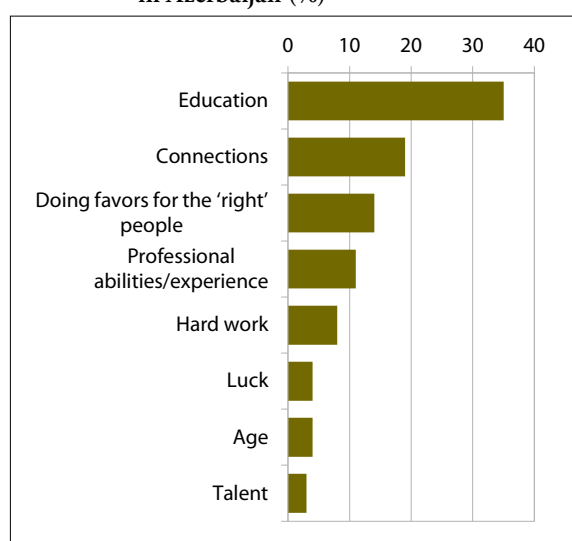
Another dimension that may help explain how women miss out on the highest paying jobs lies in the much discussed link between oil wealth and corruption. When this corruption manifests itself as patronage networks women can suffer, as they typically have only marginal access to such networks.

Caucasus Barometer data from 2013 show that to get a job in Azerbaijan, people consider 'connections' the second most important factor (following education)

1 Farid Guliyev, 'The Informal Economy in Azerbaijan', *Caucasus Analytical Digest*, no. 75, 17 July 2015.

and doing favours for the ‘right’ people as the third most important.<sup>2</sup> In a country where—according to another CRRC survey—58% of people believe that “when jobs are scarce, men should have more right to a job than a woman” (only 17% disagree), families are likely to mobilise their social networks to secure employment for male family members before turning their attention to female members.

**Figure 3: Most Important Factors for Getting a Job in Azerbaijan (%)**



Source: *Caucasus Barometer, 2013 (CRRC)*

We might also speculate that the bulk of informal additional earnings—the brown envelope on the desk that is not captured by statistics—also goes to men rather than women. This is because men are better positioned in Azerbaijani society to leverage their networks—Azerbaijan’s equivalent of the ‘old boys network’. While difficult to quantify, this can also play a part in the phenomenon whereby women get ‘stuck’ in entry-level positions because of their constrained ability to leverage such networks for professional progression.

### Political Influence

In turn, Ross suggests that when fewer women go out to work, it has a negative impact on their political influence, in three ways. When women are exposed to the workplace, their perceptions and sense of identity transform; they are also better able to build formal and informal networks; and their role in the economic life of the country forces the government to take account of them. So how can we assess the political influence of women in Azerbaijan?

The 1918 introduction of universal suffrage in Azerbaijan under the short-lived ADR rule is often cited as evidence of women’s political influence and voice in society. However, we must begin to look beyond this narrative of formal emancipation to seek more meaningful measures of political influence, particularly in non-democratic regimes.

The percentage of women currently in parliament, almost 17%, is roughly average for the CIS region. This figure has risen from only 10.5% in 2001, in line with steady global trends toward greater representation. However, mere representation in parliament is a crude measure of political influence, and the reality is that formal roles in Azerbaijan frequently do not overlap with centres of real influence in policy making. Tellingly, there are no female cabinet ministers, and the only female Chair of a State Committee heads the politically weak and problematically named State Committee for Family, Women and Children’s Affairs. The one arena where women take an active part in the policy debate is as civil society leaders; however, the severe weakening of civil society in recent years has drowned out their voice to a large extent.

### The Post-Soviet Exception?

Ross proposes that post-Soviet Central Asia may be an anomaly in this trend, suggesting that the administrative fiat used under Soviet rule may have ‘inoculated them against oil-induced patriarchy’. However, upon closer examination, the metrics he uses to find this post-Soviet exception may not tell the whole story.

At first glance, the official data on the higher education and labour force participation rates of Azerbaijani women paint a glowing picture. Azerbaijan’s official female workforce participation rate (the metric chosen by Ross for his study) stands at 63%. In contrast, neighbouring countries with whom Azerbaijan shares cultural links, but that were untouched by the Soviet Union, lag behind: only 29% of Turkish women and only 17% of Iranian women work outside the home (World Bank/ILO).

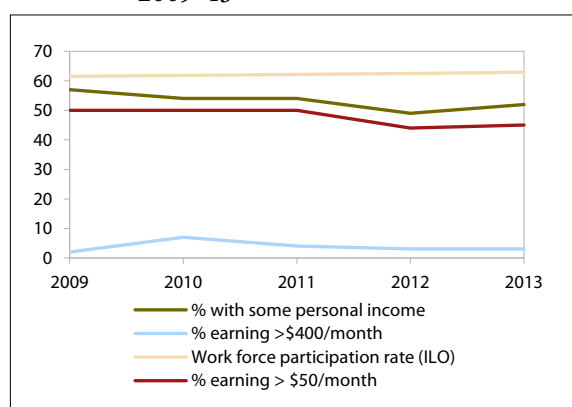
Similarly, not only in Azerbaijan but across the whole CIS region, literacy and higher education enrolment rates are high across the board. According to the World Economic Forum’s annually compiled Gender Gap Index, Azerbaijan has achieved complete gender parity in both literacy rates and university enrolment levels, as have its post-Soviet neighbours. Again, the non-post-Soviet neighbours lag behind: the female literacy rate is only 90% in Iran and 93% in Turkey, and far fewer women attend university in both countries.

2 <<http://caucasusbarometer.org/en/cb2013az/GETJOB/>>



However, if we look not merely at participation but at *meaningful* economic empowerment, the data tell a different story. Firstly, while women may successfully graduate from university, they are significantly more likely to study humanities-oriented subjects, which excludes them from the highest paying jobs. The divergence quickly becomes clear once those women graduate. Caucasus Barometer survey data show that approximately 7% of the 52% of women with some personal income were earning less than USD 50/month, and the number of women earning over USD 400/month hovered between 2% and 7% (see figure 4). In response to a separate questionnaire item, only 2% of respondents believed that under USD 400/month is sufficient to live a ‘normal life’.

**Figure 4: Personal Income of Azerbaijani Women, 2009–13**



Source: ILO/Caucasus Barometer (CRRC)

This more granular picture of women’s participation in the Azerbaijani workforce demonstrates a crucial blockage in human capital resources for the economy. The State Admissions Commission, which processes university-entry exam results for students across the country, shows that in 2014, the average exam score was higher for women than for men in every region other than the southern district of Lenkaran. In addition to investing heavily in giving female citizens access to higher edu-

cation, in the early days of the oil boom the Azerbaijani government and the state oil company began funding an extensive scholarship program that sent young Azerbaijanis to leading universities in Europe and the US, a large proportion of whom were female. However, following graduation, it is clear that many of these educated women are either ‘opting out’ of the workforce or falling into low-paying sectors, which provide them with little financial independence. More broadly, this pattern represents a significant leakage of human capital investments by the state, as the young women it educates choose to stay at home or fail to reach key decision-making positions.

## Conclusion

Until recently, the conventional wisdom was that economic growth over time will naturally lead to gender equality. However, not all types of growth were created equal, and there are gendered implications depending on the drivers of that growth.

When Michael Ross investigates the links between oil and women’s empowerment globally, he may be giving post-Soviet countries an easy ride. Just as we are warned that “scratch a Russian, and you will find a Tartar”, the formal emancipation of women in post-Soviet countries such as Azerbaijan may only be skin deep. When we look under the surface, serious dependencies and vulnerabilities remain, and it is likely that the inflow of oil revenues has played a part in the stagnant progress toward gender equality.

As the ongoing economic crisis forces Azerbaijan to look more seriously at a more economically diversified, post-oil future, it is worth looking at how women can participate in that future. How will they fare in the trough of the commodities cycles, compared to the peak? It is likely that the ‘reservation wage’ will drop in a post-oil era, but wages across the economy will also drop, leaving the implications for women’s workforce participation unclear. Can the country ‘gender-proof’ its economy as it shifts to a new economic model? Doing so will be key not only for the sake of social justice goals but also to reap the benefits of expensive human capital investments in the skills of the next generation of Azerbaijani women.

### About the Author

Lucy Wallwork is an MA student and researcher in Public Policy at ADA University in Baku. Her current research interests include both the ‘resource curse’ phenomenon and shifting gender norms in Soviet successor states.

### Recommended Reading:

- Ross, M. L. (2008). “Oil, Islam, and Women”. *American Political Science Review*, 102(01), 107–123.
- CRRC (Caucasus Barometer 2013) “Caucasus Barometer”. Retrieved from <<http://www.crrccenters.org/caucasusbarometer/>> on 26 May 2016.
- CRRC (Social Capital, Media and Gender Survey). Retrieved from <<http://www.crrccenters.org/caucasusbarometer/>> on 26 May 2016.

## The Contribution of Foreign Oil Companies to Human Capital Development in Azerbaijan: The Case of BP's CSR Program

Nazaket Azimli, Baku

### Abstract

This article provides an assessment of the contribution of BP to Human Capital Development (HCD) in Azerbaijan, focusing on the oil boom years (2007–2014). Its corporate social responsibility (CSR) agenda has included activities targeting HCD through both the employment of nationals stipulated in local content requirements and 'social responsibility investment projects.' Additionally, BP has invested in a number of projects that train students and professionals involved in the oil sector. I argue here that the contribution by BP to HCD has not gone beyond the traditional CSR investment pattern of major oil companies. Company activities have focused mainly on project-affected regions or in and around the Baku area, and most of the education investments of this firm have targeted professionals in extractive industries. This raises the concern that the post-oil legacy of the company in terms of HCD will be very limited. This is partially the result of the weakness of a state-led policy framework on HCD, which could be effectively complemented by the activities of BP.

### CSR and HCD in Azerbaijan

During the years of the oil boom, human capital development (HCD) fell far behind the levels of economic growth in Azerbaijan. The current realities of low oil prices clearly demonstrate the inability of the country to convert its resource revenues into a source of sustainable wealth. The failure of Azerbaijan to nurture skilled and diversified human capital resources to support other industries for economic diversification has reinforced the dependency of the country on non-renewable resource income.

The dominant discourse in natural resource governance theory claims that investments in health and education (which are the main components of HCD) are the best way to grow human capital. By number of projects, BP has been the biggest international oil company operating in the country, and Azerbaijan has long been one of five major growth points for BP. An overview of the CSR policies of BP mirrors the formal sense of responsibility of the company towards the community, expressed in the form of investments in educational and social projects. BP has always been at the forefront of CSR policies in Azerbaijan and has publicly expressed its commitment to contributing to the development of communities in Azerbaijan. Thus, we can analyze the contribution of the CSR policies of BP to economic diversification in Azerbaijan via human capital development during the oil boom years as a test case for the role of oil corporations in sustainable development processes.

Before coming specifically to the social investment policies of BP, it is worth mentioning that CSR has become a somewhat infamous practice among companies in Azerbaijan. Meaningful CSR strategies have been scarce, and in most companies, CSR activities have taken the form of sporadic social investments or blunt philan-

thropy. Moreover, no governmental initiatives exist to promote the conduct of such meaningful CSR policies. The only body monitoring and awarding companies for best CSR practices is the American Chamber of Trade in Azerbaijan, which is also a recently established practice.

When 'done right,' the social investments of oil companies can play a pivotal role in facilitating the economic diversification of resource-rich communities. Given the finite nature of natural resources, the main objective of social investments in resource-rich developing countries should be to facilitate development beyond the extractive industries. Investments in human capital are typically the cornerstone of promoting such economic diversification with a long-term perspective. The terminology used of achieving a "Social License to Operate" (SLO) suggests that the primary intention of social investments should be for the benefit of host communities. Nevertheless, in practice, SLO serves companies in ensuring smooth operations by building corporate-community relations. Moreover, if social investments in education and skills training target the employment of beneficiaries for further project activities, this facilitates only single-fold economic development.

Despite the embrace of CSR activities by major companies, a number of researchers remain critical and call CSR a mere "window dressing" rather than an effort to make a meaningful contribution to sustainable development.

### The Oil Boom and the CSR Policies of BP in Azerbaijan

From the point of view of a company, the main business motivation behind CSR is the improvement of its reputation and the consequent benefits for competitiveness. Moreover, most companies comply with CSR require-

ments merely to avoid criticism from government or political action groups. In the case of BP, the company does not have to ‘share the crown’ of being the foremost international oil company in Azerbaijan with anyone.

According to scholars analyzing the latest developments in CSR (see Frynas 2009; Frederiksen and Nielsen 2013), societal expectations from international companies in terms of their social engagement has grown over the last decade. Thus, companies are expected not only to sporadically invest in philanthropic projects but also to spur sustainable development in the societies in which they operate. The strong support of the host government for BP projects, however, already ensures the credibility of the company among the population. In addition, the weakness of local civil society allows BP additional room to decide on its social investments independently. Nevertheless, one of the major motivations for the company to act in a socially responsible way is the fact that ethically irresponsible behavior could cast a shadow of distrust on the international reputation of BP. Moreover, CSR policies became of special importance for BP after the Deepwater Horizon oil spill in 2010: since that disaster, the company has been trying to rebuild its image as a socially and environmentally responsible company.

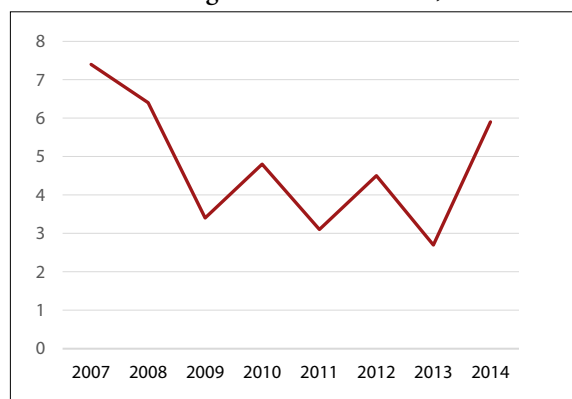
Policy papers on this topic suggest that HCD investments by corporations can be undertaken in two ways: 1) education, to contribute into knowledge acceleration; or 2) skills development programs, for raising employment rates. In the case of BP, one of the most significant obligations in terms of HCD was the ‘nationalization’ of the work force. The employment and training of a national work force was part of the local content obligations, stipulated in Production Sharing Agreements between BP and the government of Azerbaijan. For example, according to the Shah Deniz agree-

ment, an amount in excess of \$200,000 should be spent annually to train Azerbaijani citizens. According to the latest Sustainability Report (2014), 86% of its permanent employees are Azerbaijani nationals. We should bear in mind, however, that the oil sector is capital-intensive and employs a limited number of people. Nevertheless, a major part of the investment by BP was directed towards implementation of this goal, pursued through a number of projects. For example, since 2002, BP has been granting bursaries for undergraduate and graduate students in engineering and geosciences studying at a number of universities in Turkey and Azerbaijan. By 2014, \$692,000 had been spent on this program, with \$153,000 allocated for future recipients. BP also invested \$2.5 million in Qafqaz University, which was allocated towards establishing new departments and laboratories in chemical, mechanical and civil engineering programs. The company allocated \$59,000 for 60 bursaries for students in oil and gas related fields to allow them to take an English language course. A further program was offered to students of sedimentology and structural geology for a summer course in geology. In collaboration with the state oil company SOCAR, BP provided vocational training for individuals from the Garadagh district, with a view to employing them later as technicians.

One of the most important CSR projects of BP—the Enterprise Development and Training Program (EDTP)—can also be classified as an investment designed to meet the obligation to ‘nationalize’ the supply chain. EDTP was launched in 2007 to support local companies in meeting international standards of production and becoming competitive, at least on a regional level. The project aimed to promote the supply of products and services to industries in the region by participating companies, thereby contributing to economic growth. As a result, in 2014, the companies involved secured contracts worth a total of \$542.7 million. A large share of this (\$348.4 million) was services provided to BP in Azerbaijan.

Therefore, once we review the projects that in one way or another served the business interests of BP, most of the education projects were conducted in project-affected communities. For instance, one of its more famous CSR activities, ‘PCs4KIDS,’ was designed to provide 110 rural kindergartens in regions traversed by a BP pipeline with computers. BP also installed heating systems in schools in the Yevlakh region, which increased attendance in winter. The company invested in repairs to kindergartens in Yevlakh and Ujar with the goal of improving pre-school education. Nevertheless, all these projects were conducted in project affected communities as “an effort to compensate” for the negative effects of pipelines on the livelihood of communities, rather than a proactive project serving only the social good.

**Figure 1: BP’s Social Investments in Azerbaijan During the Oil Boom Years, mln. USD**



*Total social spending of BP in Azerbaijan from 2007 to 2014 was USD 38.2 million.*

Other educational projects include joint projects with USAID and AMCHAM—for example, the Youth Leadership Project for 120 students from Baku and Ganja to help develop business management skills through internships and a project for preschool education among young children in the Deller Jirdakhan and Duyerli regions. One of the biggest non-industry related education projects, with a budget of \$2 million, was the School of Project Management, through which students could earn an Associate's or Master's Certificate in project management from George Washington University.

### What Are the Major Obstacles and Major Shortfalls for BP?

Gulbrandsen and Moe (2007) argue that the commitment of BP to promoting social and economic development with CSR programs is undermined by the macroeconomic policies of Azerbaijan and the absence of democratic and accountable political institutions. Representatives of BP in Azerbaijan have frequently repeated their commitment to complementing the development policies of the state. Here, shortfalls of the government in assuring the efficiency of social investment by BP can be extended further, given the absence of any rigorous sustainable development strategy of the government with which the company could carry out its investment projects. HCD is an essential part of a sustainable development strategy, and developing a mechanism to assess the human capital situation in a country is an important tool for meaningful HCD planning. The Development Concept adopted in 2012, "Azerbaijan-2020: Look into the Future," defines the acceleration of the competitiveness of knowledge-based industries as a priority. This document, however, provides neither an assessment mechanism for the current stage of human capital development, nor any clear strategy by which the government is planning to meet that goal. Overall, except the report prepared by UNDP in 2007, "Black Gold into Human Gold," there is no holistic assessment or advisory document setting an integrated HCD strategy for Azerbaijan.

### Conclusion

There is a growing consensus that coordination and communication between extractive companies, governments and local communities is the key for assuring a meaningful CSR strategy. Testing the practices of BP within the relevant statements of the report will help us to summarize assessment of its success and shortfalls in contribution into HCD in Azerbaijan:

1. Inclusion of local community members into the process of identifying social investment projects. Participation of people in the project design and implementation is crucial for preventing depend-

ency culture and will make the impact of social projects sustainable. Skills and abilities gained will be valuable assets for a community to "help itself" once the company is out of the country. BP involved community members by interviewing them at the needs assessment stage of several projects. The project design part, however, was mostly implemented either by Baku-based international or national NGOs, or by in-house experts at BP.

2. Alignment of social investment projects with government policies. This can also prompt a collaborative approach, as governments have valuable assets such as local knowledge. Moreover, joint projects and shared-use mining infrastructure would take the impact of social investments a step further. Nevertheless, the only cooperation we see between the government of Azerbaijan and BP in terms of social investments is from its legal obligations. Even interactions of BP with the national oil company SOCAR do not seem to bring any perspectives on HCD beyond policies targeting employment in the energy sector. Since 1992, SOCAR has been performing the role of executor of government policy with the aim of maximizing the benefits of oil revenues for the country. SOCAR annually confirms the annual budget of BP Azerbaijan, which includes spending on social activities. Nevertheless, if we consider the state oil company as a responsible body for setting out an example of a successful CSR policy, then examining its activities to date will demonstrate that the company did not have any concrete CSR framework, and none of the investments were specifically targeting HCD, except the project to build schools across the country. Taking a different perspective, one can also say that BP as a company with an extensive experience of CSR failed to transfer knowledge and skills in the field of social investments to the state oil company of the newly independent country.
3. Members of civil society can play a crucial role in identifying issues and capacity building of local governments with oil companies. Members of civil society were involved in several BP projects addressing the needs and expectations of the community. This practice was especially proactive when the company was working on projects for project-affected communities. Otherwise, especially given the drastic weakening of civil society in Azerbaijan, there is currently no testing body that would push the limits of the CSR activities of BP.

*Information about the author and recommended reading are overleaf*

*About the Author*

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*Further Reading:*

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## CHRONICLE

## 17 October – 7 December 2016

17 October 2016	The French frigate Premier-Maître L'Her makes a port visit to Batumi, a coastal town on Georgia's Black Sea Coast
19 October 2016	The Georgian Prime Minister's special representative for relations with Russia, Zurab Abashidze, meets with Russian Deputy Foreign Minister Grigory Karasin in Prague as part of an informal bilateral dialogue between the two countries, which has been conducted since 2012
22 October 2016	Repeat elections are held in four precincts in Georgia, in which the results of the 8 October parliamentary elections were annulled
25 October 2016	A court in Baku (Azerbaijan) finds pro-democracy activist Qiyas Ibrahimov guilty of drug trafficking and sentences him to 10 years in prison
26 October 2016	In a letter to the Slovak EU Presidency, members of the European Parliament's Committee on Civil Liberties, Justice and Home Affairs call on the EU Council to start negotiations on visa exemption for Georgian citizens "without any further delay"
27 October 2016	Armenia marks the anniversary of the 1999 attack on the Armenian Parliament during which eight officials died
28 October 2016	The Azerbaijani government says that two "terrorists" have been killed in an operation conducted in several regions of the country against a "radical criminal group" identified as the Caucasian Jamaat
28 October 2016	The High Council of Justice in Georgia appoints twelve judges for a lifetime tenure to serve in the Tbilisi and Kutaisi city and appeals courts, as well as regional courts
31 October 2016	The ruling Georgian Dream—Democratic Georgia party wins 115 seats in the Georgian Parliament, giving it enough votes to change the constitution
31 October 2016	The United States welcomes the "successful completion" of parliamentary elections in Georgia, noting that they affirm Georgia's position as a "leader of democratic reform in the region"
2 November 2016	The Armenian Ministry of Energy, Infrastructure, and Natural Resources reports that a deal has been signed between Armenia's Energaimpex company and the National Iranian Gas Export Company to increase gas imports from Iran
3 November 2016	The Georgian Foreign Ministry condemns as a "threat to the stability of the entire region" Russia's parliamentary ratification of a treaty with the breakaway region of Abkhazia which will place Russian and Abkhaz military units under a unified command in order to establish a Combined Group of Forces
4 November 2016	On the sidelines of the ceremony marking the opening of the new Bagratasheni border-crossing point, Armenian President Serzh Sargsyan meets with Georgian Prime Minister Giorgi Kvirikashvili and discusses the expansion of energy and transport cooperation between the two countries
6 November 2016	Italian Foreign Minister Paolo Gentiloni meets with Georgian officials during his visit to Georgia and emphasizes the need to strengthen economic cooperation between the two countries
7 November 2016	Former Georgian President Mikheil Saakashvili resigns as governor of Ukraine's Odessa region and accuses Ukrainian President Petro Poroshenko of supporting "corrupt and criminal clans"
9 November 2016	Georgian President Giorgi Margvelashvili congratulates Donald Trump on his victory at the U.S. presidential elections and expresses his confidence that strong ties and long-lasting Georgian–American friendship will be enhanced further
11 November 2016	In a telephone call to Georgian Prime Minister Giorgi Kvirikashvili, German Foreign Minister Frank-Walter Steinmeier expresses his gratitude for the courage shown by Georgian troops in repelling an attack on the German Consulate General in the city of Mazar-i-Sharif in Afghanistan
14 November 2016	During a meeting in Brussels, EU foreign ministers adopt a mandate for the European Commission and EU foreign policy chief Federica Mogherini to negotiate a new "comprehensive agreement" on closer ties between the EU and Azerbaijan
15 November 2016	The Russian Foreign Ministry criticizes the joint NATO–Georgia military exercises near Tbilisi, saying that they constitute a "threat to peace and stability in the region"
17 November 2016	The Armenian Parliament votes in favor of extending a bilateral agreement with the United States on preventing the proliferation of weapons of mass destruction

21 November 2016	The Head of the Georgian Orthodox Church, Patriarch Ilia II, visits Moscow to celebrate the 70 <sup>th</sup> birthday of Russian Patriarch Kirill
22 November 2016	The United States says that it “strongly opposes” the decision by Russian President Vladimir Putin to sign the ratification law for the treaty on a Combined Group of Forces with the breakaway region of Abkhazia
26 November 2016	The Georgian Parliament confirms the new Georgian government led by Prime Minister Giorgi Kvirikashvili and its program
28 November 2016	Belarusian President Alyaksandr Lukashenka arrives in Baku and meets with Azerbaijani officials to discuss bilateral economic and trade cooperation
30 November 2016	The UNESCO takes the decision to include the three writing systems of the Georgian alphabet in its Representative List of the Intangible Cultural Heritage of Humanity
1 December 2016	Russian President Vladimir Putin meets with Abkhaz leader Raul Khajimba in Moscow and stresses the need for internal political stability in Abkhazia
2 December 2016	Following a meeting with Georgian Prime Minister Giorgi Kvirikashvili in Brussels, President of the European Council Donald Tusk welcomes the “strong relations” between the EU and Georgia and says that Georgia deserves a “positive finalization” of its visa liberalization process
3 December 2016	Azerbaijan’s security forces say that they have killed a reported suicide bomber near a shopping mall in Azerbaijan’s capital Baku
6 December 2016	Georgian Defense Minister Levan Izoria and U.S. Deputy Assistant Secretary of Defense Michael Carpenter sign a framework agreement on security cooperation for 2016–2019 to promote the further development of Georgia’s defense capabilities
7 December 2016	Georgian President Giorgi Margvelashvili visits France to take part in the 4 <sup>th</sup> Open Government Partnership Global Summit

*Compiled by Lili Di Puppò*

*For the full chronicle since 2009 see <[www.laender-analysen.de/cad](http://www.laender-analysen.de/cad)>*

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