

Employment Strategy Papers

Towards a national action plan for youth employment in the Azerbaijan Republic

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Preface

This working paper is a contribution to the Employment Policy Unit's research programme on youth employment in developing countries being undertaken in the 2004-05 biennium. The research programme is intended to (i) gather strong empirical evidence on the characteristics and determinants of youth employment in developing countries; (ii) based on this sound empirical base, derive policy recommendations appropriate to the developing country context; and thus (iii) enhance the capacity of the member States and the social partners to design and implement policies and programmes for promoting youth employment. The research programme includes 7 country case studies from all over the developing world. These studies will be used as the basis for the major output of the programme, a synthesis report on youth employment policy in developing countries.

Youth employment is a pressing issue in Azerbaijan where two-thirds of the population are younger than 35 years, accounting for 61 per cent of the country's total number of unemployed. Underlying the emergence of youth employment problems in Azerbaijan are several processes, affecting the supply of and demand for young labour. The most obvious of these processes is demographic. Changes in the education system, also, have affected the average quality of young labour market entrants. The still fast expansion in the numbers of young people and of labour force entrants can be compared with unfavourable trends in the demand for labour. Employment stagnated between 1999 and 2003, while the number of 15-24 year olds increased by 14 per cent. Even more disturbing is the collapse of wage employment – 16 per cent lower in 2003 than four years earlier. Collapse in demand for labour is a symptom of the 'Dutch disease'.

To address this youth employment challenge, the Government of Azerbaijan volunteered to be a lead country of the UN Secretary General's Youth Employment Network (YEN) in 2003. Also in 2003 the President of Azerbaijan, Mr. Ilham Aliyev, promised a massive job creation scheme, which aims to create 600,000 new jobs in 5 years. In late 2003, Azerbaijan approached the ILO Moscow for support in developing a National Employment Strategy, with specific focus on youth employment. The Strategy Paper has now been adopted, and its operationalization is being undertaken through the development of a National Action Plan. A grouping of Youth NGOs and other civil society organisations, led by the National Assembly of Youth Organizations of the Republic of Azerbaijan (NAYORA) has formed a Youth Employment Coalition of Azerbaijan (YECA), which will work closely with the Government, including the Ministries of Labour, Education and Youth, the country's social partners and other stakeholders to develop the national action plan. This country study was also a contribution to the development of the action plan.

The study has been undertaken at the invitation of the ILO Sub Regional Office for Eastern Europe and Central Asia in Moscow. Grateful thanks are due to Martina Lubyova, the employment specialist at the SRO Moscow for her support throughout the exercise as well as to Yashar Amzayev, the ILO correspondent in Baku for his help in supervising Mr. Afgan Fayziyev, a national consultant, who retrieved the data from the Labour Force Survey database. He also provided support to Martin Godfrey, an international consultant and the author of the country study, who spent two weeks in Azerbaijan in May 2004 to gather information and conduct interviews. Makiko Matsumoto of the ILO Employment Policy Unit in Geneva was instrumental in checking the data and organising it in its current form as well as in liaising with the SRO Moscow during the drafting of the paper. Claire Harasty of the Employment Policy Unit is in charge of the overall research programme and supervised the preparation of the country case study.

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Towards a national action plan for youth employment in the Azerbaijan Republic¹

This report aims to make an input into the preparation of a national action plan for youth employment in Azerbaijan. It begins, in section 1, by reviewing the latest evidence on the labour market situation of young people, including not only the unemployed and non-employed, but also the 'working poor' (those working in low-productivity and low-income jobs), those who have to work abroad and the disabled. In section 2 the processes that generate this situation are examined, including demographic trends, changes in the education system, and unfavourable trends in the demand for labour, caused by 'Dutch disease'. Section 3 reviews policies, beginning (in section 3(a)) with preventative policies to counteract such processes, including (i) increasing the demand for labour, (ii) information and counselling, (iii) reform of education and (iv) establishment of a national training system. Curative policies, to deal with the consequences of such processes, discussed in section 3(b), include (i) public works programmes, (ii) subsidised credit and business start-up support, (iii) skills training and (iv) wage subsidies. Finally, section 3(c) sets out policy priorities (ranking measures by urgency and speed of impact) and the role of various agencies in implementation, and spells out the need for an increase in capacity for processing of information, and project appraisal, monitoring and evaluation, in support of youth employment policy development.

1. The labour market situation of young people in Azerbaijan

The scope for analysis of the problems faced by young people in the labour market in Azerbaijan is limited by the form in which the data are available. A labour force survey in 2003 yielded a rich database which has not yet been fully analysed. The annex A presents three summary tables that were extracted from that database¹. Meanwhile, analysis in this section is based on tables already published in the official survey report.

As can be seen from Table 1, young people below the age of 25 experience considerably higher unemployment rates than those in other age groups, particularly in the case of females and particularly in urban areas. In the 25-29 age group, such problems persist (to a lesser extent), but unemployment rates for 30-34 year olds are below the national average.

¹ These tables were prepared after the drafting of the country study and the data they present has therefore not been used in the study.

Table 1: Unemployment rate by age, sex and location, 2003

	Urban and rural areas			Urban areas only		
	Both sexes	Male	Female	Both sexes	Male	Female
Total 15+	10.7%	9.6%	12.2%	14.0%	12.0%	16.9%
of whom:						
15 - 19	17.3%	12.0%	24.6%	20.9%	13.5%	34.7%
20 - 24	23.8%	22.1%	26.2%	33.4%	31.5%	35.8%
25 - 29	14.9%	14.6%	15.2%	21.7%	20.6%	23.2%
30 - 34	8.5%	8.2%	9.0%	12.0%	9.9%	14.8%
35 - 39	6.7%	5.7%	7.9%	9.3%	7.6%	11.3%
40 - 44	5.5%	4.9%	6.3%	7.0%	5.3%	9.1%
45 - 49	6.2%	5.2%	7.6%	8.1%	6.1%	10.9%
50 - 54	8.3%	7.1%	10.3%	10.3%	7.9%	14.2%
55 - 59	5.2%	5.5%	4.5%	6.4%	6.3%	6.7%
60 - 64	2.8%	3.6%	0.7%	4.5%	5.5%	1.3%
65 years and over	0.7%	1.1%	0.0%	0.5%	0.8%	0.0%

Source: State Statistical Committee of the Republic of Azerbaijan, 2004, Tables 3, 6 and 52.

Table 2 shows that the highest unemployment rates for 20-24 year olds are among secondary school graduates, with those from vocational schools doing only slightly better than those from general schools. The incidence of unemployment appears to increase with level of schooling, then to fall for those with higher education. Educational categories for which youth unemployment rates are disproportionately high in relation to comparable adults are secondary and primary vocational and complete higher education.

Table 2: Unemployment rate by age and highest level of education, urban and rural areas, 2003^a

	Total	of whom, highest level of education							
		complete higher education	incomplete higher education	secondary vocational	primary vocational	complete secondary general	incomplete secondary general	primary general	incomplete primary/ no schooling ^b
Total	10.7%	4.9%	9.4%	7.2%	6.5%	14.0%	11.3%	7.5%	7.0%
of whom:									
15 - 19	17.3%	0.0%	33.3%	35.0%	17.4%	19.7%	10.4%	3.6%	11.1%
20 - 24	23.8%	17.5%	12.2%	23.5%	17.6%	25.8%	23.1%	13.3%	0.0%
25 - 29	14.9%	10.1%	7.7%	13.9%	10.7%	17.2%	13.1%	15.4%	0.0%
30 - 34	8.5%	3.5%	2.9%	5.9%	6.9%	10.9%	6.6%	18.2%	50.0%
35 - 39	6.7%	1.8%	4.3%	5.2%	6.4%	8.8%	6.0%	16.7%	0.0%
40 - 44	5.5%	1.9%	3.8%	3.2%	3.5%	8.0%	7.5%	10.7%	0.0%
45 - 49	6.2%	3.3%	0.0%	3.9%	4.6%	8.7%	9.5%	11.1%	25.0%
50 - 54	8.3%	6.0%	0.0%	7.1%	3.1%	12.2%	9.4%	4.3%	0.0%
55 - 59	5.2%	2.4%	22.2%	5.0%	2.6%	5.8%	13.3%	9.5%	0.0%
60 - 64	2.8%	2.2%	0.0%	0.0%	5.7%	3.1%	7.1%	4.3%	0.0%
65 years and over	0.7%	0.0%	0.0%	0.0%	0.0%	1.9%	2.2%	0.0%	0.0%

^aThe published tables do not include a breakdown by gender. ^bThe sample included very few in this category.

Source: State Statistical Committee of the Republic of Azerbaijan, 2004, Tables 9 and 54.

A high proportion of young people who are no longer studying also drop out of the labour force, to judge from Table 3. The rate of non-employment (including both those who are unemployed and those who are outside the labour force) for out-of-school youngsters is 38 per cent for 15-19 year olds and 36 per cent for 20-24 year olds, with consistently higher rates for females than males. The incidence of economic inactivity also varies with education: it is particularly high among those with incomplete higher education or less than a complete secondary education. Many of these will be voluntarily not working but some will be discouraged workers – not looking for work because none is available to them. Tables 1 and 3 suggest that, in addition to the 166,000 unemployed 15-24 year olds, a further 175,000 are not studying, not working and not seeking work.

Table 3: Non-employment rate (as % of out-of-school population) by age and sex, urban and rural areas, 2003

		1. Total ('000)	2. Out of school ('000)	3. Non-employed out of school ('000)	4. (= 3 ÷ 2) Non-employment rate (%)
Both sexes	15+	6013	5528	2150	38.9%
	Male	2890	2654	679	25.6%
	Female	3123	2873	1471	51.2%
Both sexes	15 - 19	702	314	119	37.8%
	Male	350	166	45	26.9%
	Female	351	149	74	50.1%
Both sexes	20 - 24	712	621	222	35.8%
	Male	361	314	79	25.3%
	Female	352	307	143	46.5%
Both sexes	25 - 29	600	593	182	30.6%
	Male	297	293	53	18.2%
	Female	302	300	128	42.8%
Both sexes	30 - 34	620	619	169	27.2%
	Male	293	293	35	11.8%
	Female	327	327	134	41.0%
Both sexes	35 - 39	653	653	167	25.5%
	Male	297	297	31	10.3%
	Female	356	356	136	38.3%
Both sexes	40 - 44	724	724	161	22.3%
	Male	351	351	34	9.8%
	Female	373	373	127	34.0%
Both sexes	45 - 49	543	543	136	25.0%
	Male	265	265	32	12.1%
	Female	278	278	104	37.3%
Both sexes	50 - 54	371	371	131	35.3%
	Male	179	179	29	16.0%
	Female	192	192	102	53.3%
Both sexes	55 - 59	212	212	103	48.6%
	Male	95	95	23	24.3%
	Female	116	116	80	68.6%
Both sexes	60 - 64	256	256	189	73.8%
	Male	122	122	72	59.0%
	Female	135	135	117	87.1%
Both sexes	65+	622	622	572	92.1%
	Male	280	280	246	88.1%
	Female	342	342	326	95.3%

State Statistical Committee of the Republic of Azerbaijan, 2004, Table 50.

A full picture of the employment problems of young people would require information about those who are working and thus not covered by Tables 1 to 3. Unfortunately, the labour force survey did

not include any questions about earnings or wages, and tables on employment status (wage employment, self-employment, unpaid family labour, etc.) and type (seasonal, temporary, casual, etc.) by age group have not yet been constructed. Household budget survey data (Table 4) suggest that the incidence of absolute poverty is slightly higher among younger than among older people. Those who are likely to be particularly at risk are those with lower levels of education, among whom those from low-income families (many of which may be refugee or internally displaced) are likely to be over-represented.

Table 4: Poverty incidence by age group, 2001

	Poverty incidence Absolute poverty line (120,000 AZM per month)	Poverty incidence Relative poverty line (72,000 AZM per month)
Total population	49%	17%
0-15 years	52%	18%
16-29 years	50%	17%
30-39 years	50%	18%
40-49 years	48%	15%
50-59 years	45%	14%
60+ years	44%	15%

Source: Republic of Azerbaijan (2003:Table 1.1).

Most of the 'young working poor' are likely to be found in agriculture, where productivity is less than a quarter of that in the rest of the economy. As Table 5 shows, 293,000 15-24 year olds and 378,000 25-34 year olds work in agriculture, and young people are heavily over-represented in the sector. Those with lower levels of education are also over-represented and young workers with less than complete secondary schooling are likely to be particularly vulnerable. Most of the country's 627,000 unpaid family workers can be assumed to be in agriculture (where 88 per cent are non-wage-employed) and a high proportion of them will be young.

Table 5: Workers in agriculture by age group and level of education ('000 and per cent of total)

	15-19	20-24	25-29	30-34	35+	Total	
Number ('000)							
% of those in this age group	97	196	184	194	620	1,290	
	50%	49%	45%	43%	39%	32%	
	Higher education	Incomplete higher	Secondary vocational	Primary vocational	Secondary general	Incomplete secondary	Primary or below
Number ('000)							
% of those with this level of education	37	5	65	42	943	169	29
	6%	16%	15%	18%	55%	64%	75%

Source: State Statistical Committee of the Republic of Azerbaijan, 2004, Tables 15 and 16.

A symptom of youth employment problems in many countries is the number of young people who have to go abroad to find work. The number of emigrants from Azerbaijan has fallen, according to official statistics, from 137,900 in 1990 to 4,320 in 2002: remittances were estimated at US\$163 million²

² More than the earnings of any single non-oil export.

in 2002. However, trade union sources suggest that both the number of people and the amount of remittances are much larger than this. Russia is still overwhelmingly the most popular destination (accounting for more than 85 per cent of the total). No details are available on the ages of emigrants, but relatively young people are likely to predominate.

Another group of young people with particularly difficult employment problems is the disabled. The total number of disabled in the country was estimated at 300,400 in January 2003, of whom 263,500 were receiving social or disability pensions: of the total 12 per cent were below the age of 16. Of those newly recognised as disabled in 2002 (6.7 per thousand of the able-bodied population) 19 per cent were below the age of 27. Thus the number of disabled young people in the 16-26 age group is likely to exceed 20,000. Statistical data are available on their specific disabilities but not as yet on their 'activity limitations' and 'participation restrictions' as recommended by the WHO (2001).

To summarise the situation of young people in Azerbaijan's labour market:

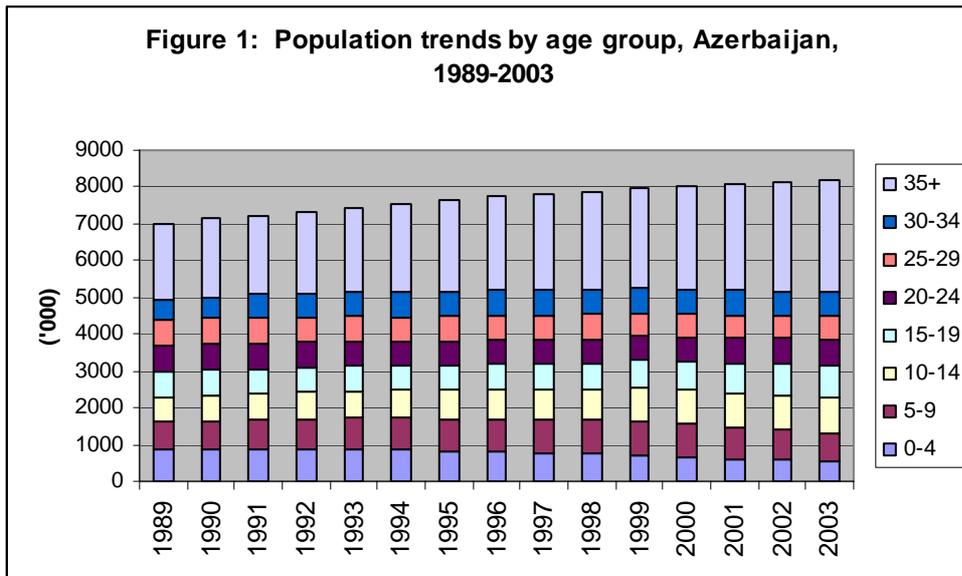
- They experience disproportionately high unemployment rates, particularly in the case of females and particularly in urban areas.
- Young people with secondary schooling have the highest unemployment rates, and the highest multiple of rates experienced by comparable adults is found among young vocational school and higher education graduates.
- Also likely to be at a disadvantage in the labour market are those who are not studying, not working and not seeking work, among whom the less educated and females are over-represented.
- Young women are more disadvantaged than men as shown by their higher unemployment rate (double that of men for the 15-19 year olds) and consistently higher non-employment rate.
- Youth employment problems are not confined to those who are not working: young people and the less educated are heavily over-represented in agriculture, where productivity is low and unpaid family work is common.
- The extent to which young people try to escape from their employment problems by looking for work abroad is not clear: official statistics suggest the number is small.
- A sizeable group of disabled young people face particularly difficult problems in the labour market.

2. Processes that generate this situation

Underlying the emergence of youth employment problems in Azerbaijan are several processes, affecting the supply of and demand for young labour.

a. Demographic trends

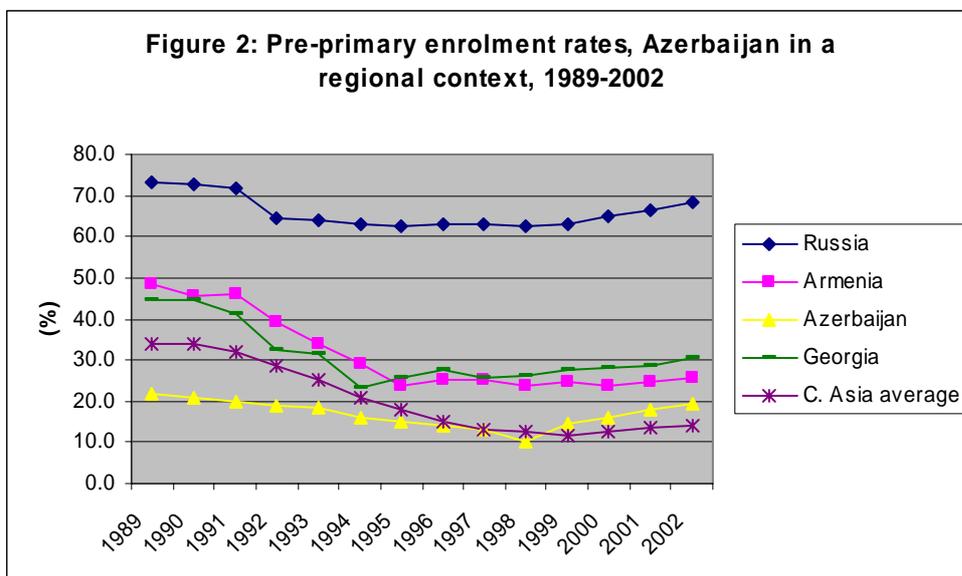
The most obvious of these processes is demographic. As Figure 1 shows, although the number of children below the age of ten has been falling for many years, this has yet to work its way through to those entering the labour force: since 1999, although the number of 25-34 year olds has fallen slightly, the number of 15-24 year olds has risen by 14 per cent.



Source: Figures provided to the UNICEF MONEE database by the State Statistical Committee.

b. Education

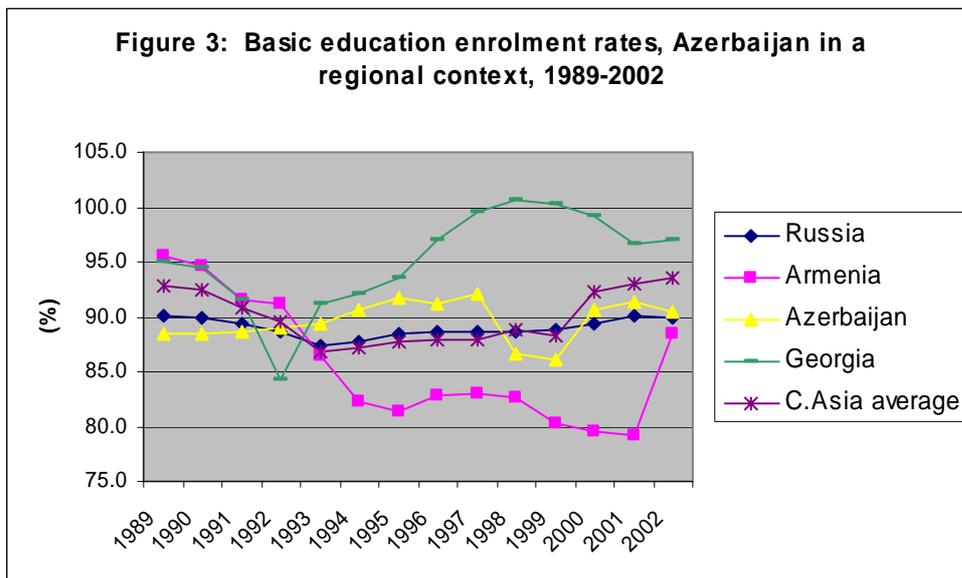
Changes in the education system, also, have affected the average quality of young labour market entrants. As Figure 2 shows, Azerbaijan has always had a lower pre-primary enrolment rate than its neighbours and it fell even lower during the 1990s; since 1998 it has risen again but the proportion of children enjoying an early learning experience is still low, to the detriment of later learning and labour-market outcomes particularly among those from disadvantaged households.



Source: UNICEF MONEE database.

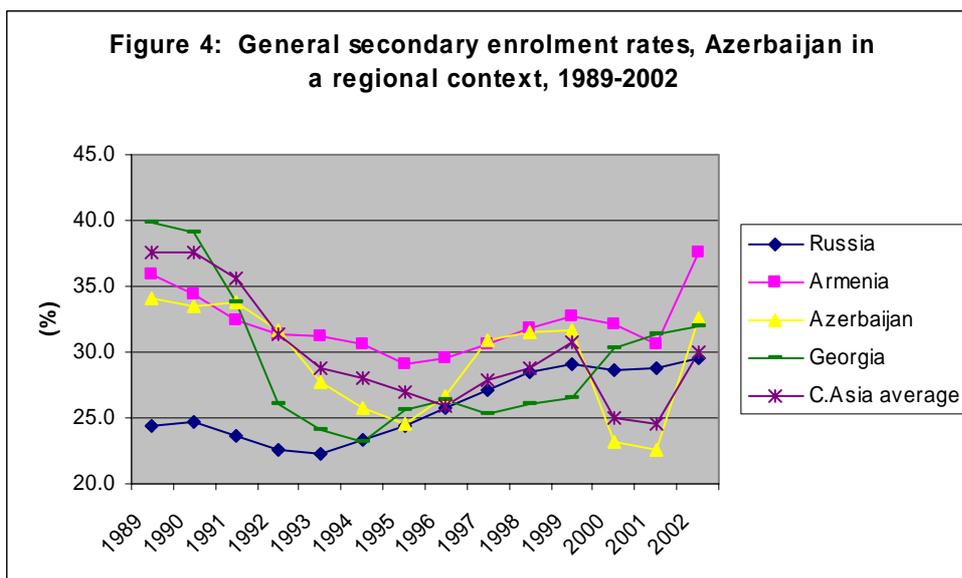
The basic education enrolment rate has fluctuated since the onset of the transition but, at 90 per cent in 2002, it was only slightly higher than ten years earlier and below the average for Central Asian

countries. It suggests that the problem of dropout, which cut the graduation rate from basic schooling³ to 84 per cent in 1997 (UNICEF 2000:Table 3.1), has persisted.



Source: UNICEF MONEE database.

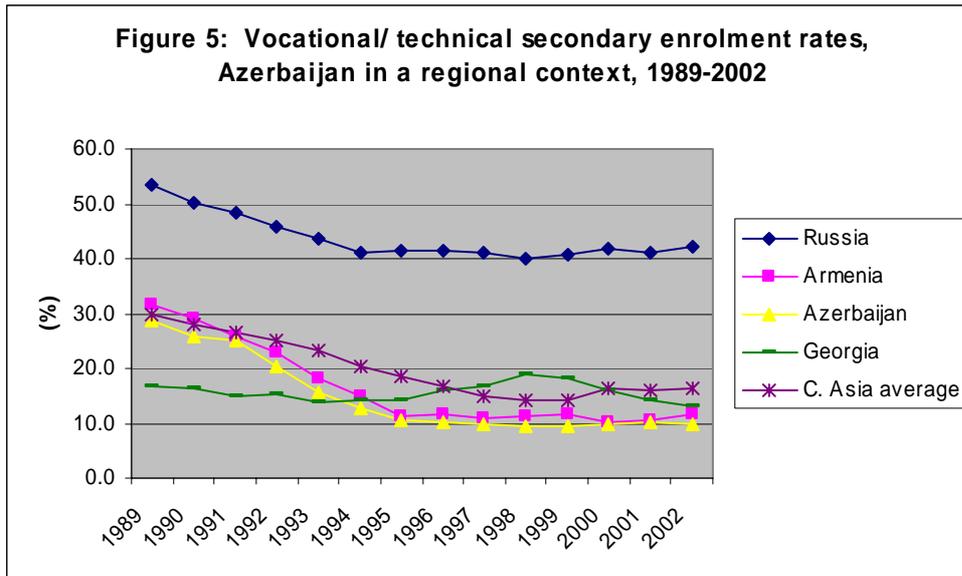
Trends in upper secondary enrolment rates have been even more worrying. General secondary enrolment rates have fluctuated but (in contrast to Russia in particular) were below pre-transition levels in 2002, as Figure 4 shows.



Source: UNICEF MONEE database.

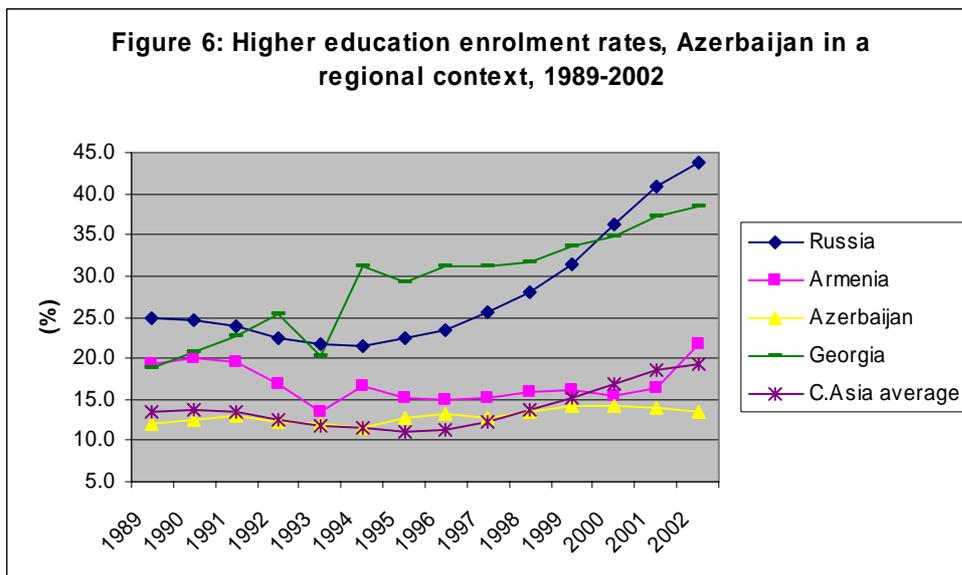
At the same time, Azerbaijan has shared the general regional downward trend in vocational/technical secondary enrolment rates, which fell to 10 per cent in 2002. Most worrying, the total secondary enrolment rate fell from 63 per cent in 2002 to less than 43 per cent in 2002 – the lowest such rate among all the countries in Figures 4 and 5 except Tajikistan and Turkmenistan. The number of graduates from secondary and vocational education institutions in 2001 was only 112,500, 6 per cent fewer than in 1990, in spite of an 11 per cent increase in the number of 18-year-olds over that period.

³ Number of graduates from grade nine as a percentage of the 15-year-old population.



Source: UNICEF MONEE database.

The huge increase in higher education enrolment rates (particularly in private institutions) experienced in most transition countries has not happened in Azerbaijan. As Figure 6 shows, its enrolment rate of 14 per cent in 2002, the lowest in the CIS apart from Tajikistan, Turkmenistan and Uzbekistan, was only slightly higher than in 1989. The number of graduates from state higher education institutions in 2001 was 19,900, only 9 per cent more than in 1990.



Source: UNICEF MONEE database.

While the average level of education of new labour market entrants has thus been falling, quality at every level has also been deteriorating, according to the State Programme on Poverty Reduction and Economic Development (SPPRED – Republic of Azerbaijan 2003:Chapter 1). In 2002, for example, out of almost 80,000 candidates for the Student University Entrance Examination, at the end of grade 11, only about 800 scored the top 700 points, more than half scored below 300 (the failing mark) and about a third scored less than 100 points (World Bank 2003:2). The reasons for the deterioration in quality, according to the SPPRED, include the poor condition of infrastructure, lack of textbooks, basic materials and supplies, poor teacher training, shortage of teachers in remote regions, outdated curricula and teaching

methods, and lack of connection with the new skills demanded in a market economy. The most dangerous weakness is in the content of education and in approaches to teaching and learning.

The current educational system is not producing graduates with knowledge and skills that will meet the demands of the emerging economic and political environment. Curricula for general education are outdated, and teaching methods are based on rote-learning rather than problem-solving skills (World Bank 2003:3).

Underlying these problems are low teacher salaries, reflected in resignations of many of the best teachers, lack of motivation among those who remain, and reduced demand for teacher training. Vocational schools are in an especially bad way – with outdated equipment, facilities and teachers, specialisations and curricula that are unsuited to the new labour market, and little contact with employers (ILO 2003:chapter 2).

There are also signs that access to education is becoming increasingly inequitable⁴. The problem of dropout from basic education has already been mentioned: household surveys also suggest that an increasing number of children do not attend school or attend irregularly, especially in poor areas with large refugee populations. Beyond the age of 17 there are large disparities in enrolment rates between income groups. As real private spending on education has increased, poor families are less likely to have access to high-quality secondary schooling, to receive private tutoring and to enter post-secondary education: in general, they are likely to have been differentially affected by the deterioration in quality of education.

c. Demand for labour

The still fast expansion in the numbers of young people, already described, and of labour force entrants can be compared with unfavourable trends in the demand for labour. Table 6 shows what has happened to total and non-oil employment and wage employment since 1999, and Figure 7 converts these figures into indices for ease of comparison.

Table 6: Employment, wage employment (total and non-oil), 15-24 and 15-34 population trends, 1999-2003

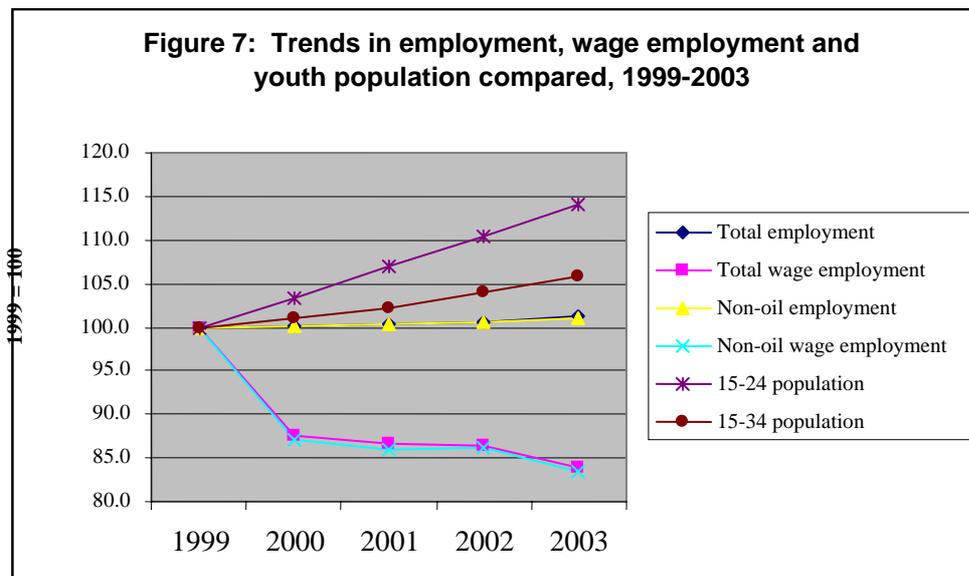
	1999	2000	2001	2002	2003
Total employment	3703	3705	3715	3727	3747
Total wage employment	1390.7	1217.8	1205	1201.5	1167.2
Non-oil employment	3663.4	3665.4	3672.9	3684.8	3704.7
Non-oil wage employment	1352.7	1178.2	1163.7	1166.3	1129.3
15-24 population	1404	1450.6	1500.3	1551.2	1602.6
15-34 population	2715	2743.8	2776.8	2820.7	2872.3

Sources: Azerbaijan in Figures 2004 (www.azstat.org); UNICEF MONEE database.

As can be seen, employment stagnated between 1999 and 2003, while the number of 15-34 year olds increased by 6 per cent and 15-24 year olds by 14 per cent. Even more disturbing is the collapse of wage employment – 16 per cent lower in 2003 than four years earlier. In common with other transition countries, Azerbaijan has seen a big decline in state sector wage employment but the growth in private-sector wage employment that might have been expected to offset this has not occurred: while over a million public-sector jobs were lost between 1993 and 2002, only 290,000 new private-sector waged jobs were created over the same period (State Statistical Committee 2003:Table on p.39). Trends in wage employment are often a much better guide to trends in the overall demand for labour than are trends in total employment. The countries which have been most successful recently in increasing demand for

⁴ This section draws on World Bank (2003), pages 9-11.

labour and reducing the incidence of poverty are also those where the share of productive-sector wage earners in total employment has been rising (ILO 2001:Table 1.8). And those in which wage employment has collapsed are those with the highest incidence of poverty (ILO 2001:Table 1.19).



Source: State Statistical Committee (2003) and UNICEF MONEE database.

Figure 7 is consistent with the pattern of youth unemployment and trends in education already discussed above. The number of secondary school graduates has been falling and that of higher education graduates has been rising only slowly, but the waged jobs that they would normally expect to obtain have been dwindling even faster. Thus secondary school graduates in particular spend a long time looking for non-existent wage employment before settling for non-wage employment. Waged job prospects are better for new higher-education graduates but they too spend longer looking for work and probably have to accept lower status jobs than did their older counterparts: university graduates are reported to be taking jobs that previously would have been filled by vocational school graduates. In general, the message of this analysis is that, while there may be a mismatch between the skills possessed by young people and the skills demanded by employers, it is not the main cause of youth employment problems. *Young people are in trouble in the labour market primarily because of a collapse in the demand for labour.*

d. Dutch disease

Collapse in demand for labour is a symptom of 'Dutch disease'. This was the name given, following the experience of the Netherlands in the 1970s with expansion of its natural gas production, to the negative impact of a windfall increase in foreign exchange earnings from a particular source (usually mineral exports) on the rest of an economy (see Fardmanesh 1991; Davis 1995; Usui 1996). The disease has two aspects: the 'resource movement effect' and the 'spending effect'. The expansion of the booming sector pulls factors of production towards it and bids up their prices, and as a result other tradable sectors become less profitable and contract: this is the resource movement effect. In so far as extra income arising from the booming sector is spent on non-tradable goods, this bids up the prices of such goods relative to those of tradable goods, resulting in an appreciation of the real exchange rate. This exchange rate appreciation makes these tradable sectors less competitive in international and domestic markets and they contract further: this is the spending effect.

The dangers of Dutch disease for Azerbaijan are widely recognised. A background paper for the national employment strategy (Mammadov 2003) warns of the need for careful management of oil wealth

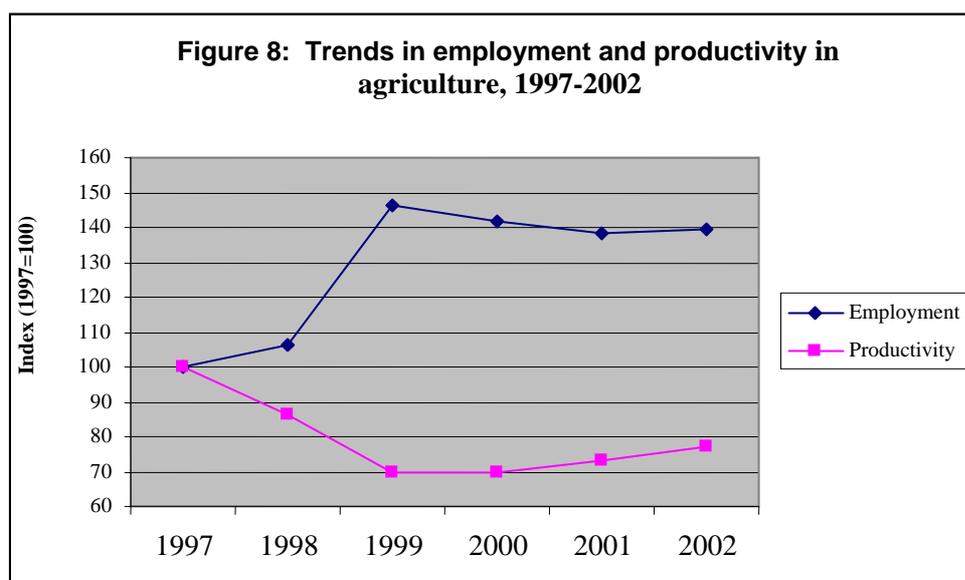
in order to avoid the disease. The IMF devoted most of its May 2003 Country Report⁵ to the topic. As oil and gas export earnings rise from US\$2,210 million in 2003 to a projected US\$8,028 million in 2008, the situation will undoubtedly get worse in this respect. But, as far as impact on demand for labour is concerned, Dutch disease has already arrived. The distorted nature of the labour market can be judged from Table 7, which shows the contrast in employment and productivity between the oil and non-oil sectors. Only 42,000 gain access to high-productivity, high-wage jobs in the oil sector: the rest of the labour force is squeezed into unemployment or low-productivity (mostly non-wage – see Table 6 above) work in the non-oil sector.

Table 7: Employment and productivity, oil and non-oil sectors, 2003

	Employment (‘000)	Productivity (AZM ‘000)
Oil	42	303,075
Non-oil	3705	5,653

Source: Azerbaijan in Figures 2004 (www.azstat.org).

The main 'sponge' sector, which absorbs the victims of Dutch disease but at the cost of falling productivity, is agriculture. As Figure 8 shows, between 1997 and 2002, the number of workers in agriculture rose by 40 per cent but productivity per worker (at constant prices) fell by 23 per cent. Only when employment in the sector fell slightly (between 1999 and 2002) did productivity show a small increase.

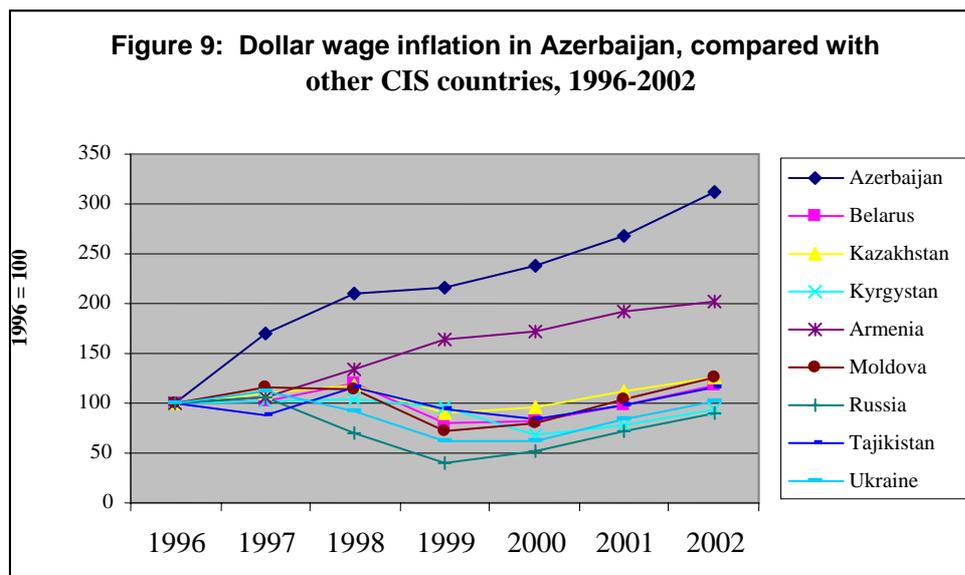


Source: State Statistical Committee (2003) and IMF.

Lack of expansion in demand for labour outside the oil sector can already be partly attributed to the impact of a relatively strong currency⁶ on dollar wages (Figure 9) and hence on unit labour costs. Local producers find it difficult to compete in foreign markets and with imports in the domestic market.

⁵ More recently developed into a book on managing oil wealth in Azerbaijan (Wakeman-Linn 2004).

⁶ Between December 2000 and December 2003 the Azeri manat depreciated against the US dollar by only 8 per cent, and appreciated in relation to the currencies of several neighbouring countries.



Source: State Statistical Committee (2003).

Responses by industrial enterprise managers to a survey on labour flexibility in October 2001 (Table 8) are consistent with this picture. Overwhelmingly, their most important economic problem was 'finding a market for output', and 'difficulty in selling output' was the main reason cited for low labour efficiency.

Table 8: Responses to survey on labour flexibility in industrial enterprises, October 2001

Main economic problems		Reasons for low labour efficiency	
Number with problems	550	Number with low labour efficiency	133
Finding a market for output	47%	Low skills	1%
Raw material supply	7%	Poor working conditions	2%
Electricity/ energy supply	5%	Poor equipment	8%
Equipment supply	1%	Irregular supplies	2%
Acquisition of land	1%	Low wages	4%
Attraction of investment	7%	Inadequate supervision	2%
Acquisition of technologies	3%	Poor health of workers	1%
Financial settlements with suppliers	2%	Dependence on higher authority	4%
Financial settlements with customers	14%	Difficulty in selling output	60%
Taxes	3%	Other	12%
Other	10%		

Source: State Statistical Committee of Azerbaijan Republic (2002)

New entrants into the labour market find it difficult to find a job in the high productivity, high wages oil sector that creates very few jobs and are squeezed into either unemployment or low productivity work in non-oil sectors.

3. Policy

There are two kinds of policy intervention – preventative and curative. A preventative intervention tries to counteract the processes that generate a problem; a curative intervention tries to deal with their consequences. In the case of youth employment problems, thus, preventative interventions will be aimed at counteracting the processes identified in the previous section, particularly the collapse in the demand for labour; curative interventions will consist of active labour market programmes to ease the situation of young people already experiencing problems. This section reviews these two types of

intervention and recommends some for inclusion in a national youth employment action plan. It also makes some recommendations for priorities in policy and the role of various agencies.

a. Preventative policies

As already indicated, by far the most urgent medium-term priority for preventative policy is to increase the demand for labour by alleviating the effects of Dutch disease. This can be reinforced by increasing and improving the information available to young potential job-seekers and to employers. In the longer run, as demand increases, an increase in the quantity and quality of education and the establishment of a national training system will help to prevent the perpetuation of increasingly serious youth employment problems.

(i) Increasing the demand for labour

The main task under this heading is to find and implement a cure for Dutch disease in Azerbaijan. As the IMF (2003) comments, very few natural-resource-rich countries have been successful in doing this. One of the few that was reasonably successful was Indonesia, which in the 1980s, in an effort to diversify its economy away from dependence on oil, devalued its currency by around 50 per cent and supported this with a tight fiscal policy (IMF 2003:Appendix II-1). In addition, and not mentioned by the IMF, it organised labour-intensive infrastructure programmes which helped to create employment in rural areas:

- *directly* through the construction process;
- *indirectly* through linkages to supplying industries;
- *through the multiplier* when workers spent their earnings;
- and *dynamically* when the assets that were built (schools, roads, health centres, etc.) helped to raise productivity and incomes in the area and when the increase in demand raised the incentive to invest (Godfrey 1993:100).

In Azerbaijan, the IMF is proposing, as part of a strategy for managing oil wealth, an increase in investments in infrastructure and human capital (IMF 2004:8). It favours investments, particularly outside Baku, in energy and water infrastructure, the transport and communications network, housing for refugees and internally displaced persons and improvements in education and health services. It also recommends the creation of a national investment maintenance account to ensure that funds will be available for maintenance of the assets created. Such expenditures, it notes, 'will have a direct positive impact on the competitiveness of the non-oil sector, stimulate regional development and help offset the negative effects of an appreciated real exchange rate' (IMF 2003:22). Moreover, for this purpose, it is prepared to envisage an **increase in the non-oil deficit in the government budget**. In 2004, its recommended increases in spending (along the above lines), together with some tax cuts, implied a modest increase in the non-oil deficit⁷. Projections to 2008 show a maintenance of the non-oil deficit at 10 per cent of GDP or more, and annual government investments equivalent to around 5 per cent of GDP (Table 9).

Table 9: Projections of government investments and the non-oil budget deficit, 2004-2006 (% of GDP)

	2004	2005	2006	2007	2008
Investments	5.2%	5.2%	5.4%	4.6%	4.5%
Non-oil deficit	-11.8%	-11.7%	-11.2%	-10.4%	-9.6%

Source: IMF (2004:Table9).

⁷ Calculated by deducting Oil Fund, AIOC and SOCAR revenue, as well as government financed BTC investment from the consolidated government budget balance.

If this recommendation is followed, it means that *substantial amounts will be available for infrastructure and human capital investments over the next few years*. To maximise their impact on demand for labour it would be useful to add an extra dimension to the IMF strategy. This would be to **use employment-intensive approaches in all public investment and maintenance programmes** where such methods are technically feasible and economically justified. The ILO's Employment Intensive Investment Programme (EIIP)⁸ would be a source of advice, based on extensive experience around the world in the use of this approach in such fields as:

- irrigation development with a focus on smallholders;
- soil and water conservation;
- drainage, solid waste management and sanitation;
- water supply;
- rural roads;
- construction and rehabilitation of schools, health centres and other buildings;
- development and production of local building materials.

The EIIP has found, for instance, that a labour-based approach to feeder road construction (compared with an equipment-based approach) injects four times as much from a given investment into a rural economy directly and creates four times as many jobs. It also has a much higher impact on household incomes and consumption through the multiplier, since so much of an equipment-based budget is spent on imported goods. A similar contrast between the impact of the two methods can be demonstrated in the case of school or health centre construction. In addition, the use and training of small contractors builds capacity in the private sector and, where appropriate, community involvement can ensure maximisation of employment benefits from the investment.

An **inter-ministerial commission**, chaired by the Prime Minister, has been formed to prepare a long-run oil revenue management strategy (IMF 2004:9). It would be of great benefit to future young job-seekers if its *terms of reference could be extended to include urgent exploration of the feasibility of using employment-intensive approaches* in government programmes.

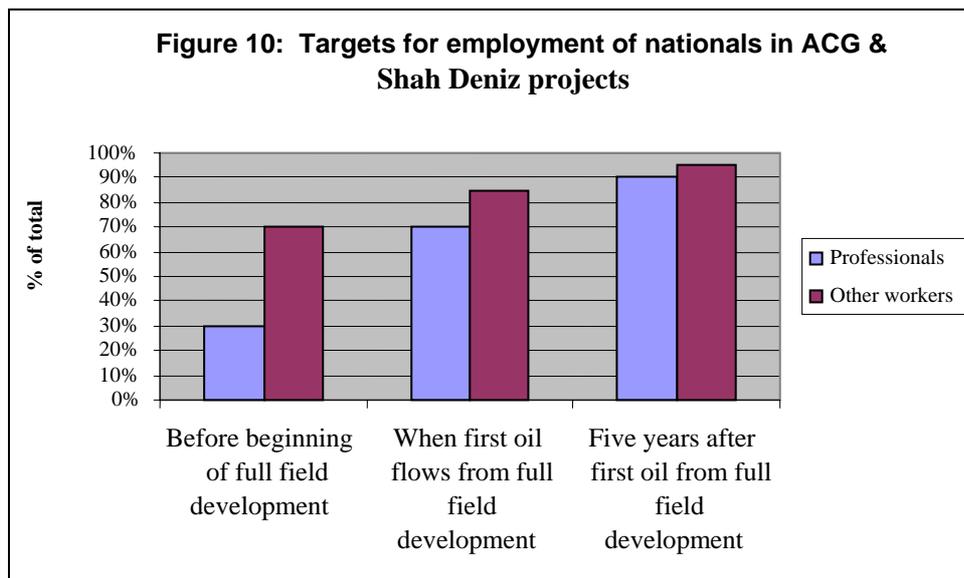
Another labour-demand-boosting measure, which would not involve any subsidies from government and which would also help to counteract Dutch disease, would be to push ahead with the passage of a law (already in draft but not yet discussed in parliament) to provide a **legal framework for mortgage lending**. On instructions from the President, the National Bank has already prepared a project on housing finance, development and improvement of mortgage credits, and the Cabinet and the Ministry of Justice is preparing a single public register of real estate for use in mortgage contracts (ILO 2003:75). If families with adequate incomes could receive a relatively long-term loan to buy or finance the construction of a house or apartment, this would be greatly to the benefit of demand for labour and hence of youth employment – again directly in the construction sector, but also indirectly through demand for cement, steel, ironmongery, lumber, wood and plywood, sand, stone/ bricks, pipes, paint, electrical fittings, sanitary fittings, glass and plastic materials (many of which are or could be produced locally) and through the multiplier.

There may be other medium term obstacles to expansion in the demand for labour besides Dutch disease. Among the usual suspects are **labour regulations**, which are supposed to reduce the willingness of employers to take on new workers. However, these do not seem to be an important constraint. There is little evidence from any country that abolition of minimum wages or setting them at a lower level for young workers has a big impact on the demand for young labour (Godfrey 2003). In Azerbaijan, the minimum wage is so low as to be irrelevant: the actual wage is much higher in most cases. Lay-off regulations exist but are not observed, and the court system is not working efficiently. **Regulations affecting small enterprises** may be another matter, however. Licensing procedures have recently been simplified, with the number of activities requiring licences reduced from 240 to 30 and the period of licences extended from 2 to 5 years. The incidence of taxes on small businesses and their rates of social contributions have been reduced. However, further simplification of registration and licensing procedures and tax and contribution regimes for small and medium enterprises is needed. In the absence of 'specific,

⁸ For further information see <http://www.ilo.org/public/english/employment/recon/eiip> . See also ILO (2003:Box 2.2).

transparent conditions, which are to be met for each type of business', there is still scope for 'subjective decisions and perhaps abuse in the system' (ILO 2003:chapter 4).

In principle, a small contribution to increasing the demand for young entrants to the labour market can be made by a stricter approach to the issue of **work permits** for foreign workers. Foreign firms that are unable to import skilled and professional workers hire local recruits and provide them with additional training. On the other hand, a localisation policy that is too restrictive and arbitrary may be a disincentive to investors. In the oil industry a gradual increase in the proportion of nationals employed in the Azeri-Chirag-Gunashli field and the Shah Deniz natural gas project was agreed, as shown in Figure 10. It may be useful to review the work permit situation in other sectors, with this model in mind.



Source: UNDP (2003:Figure 3.5)

(ii) Information and counselling

The provision of information and counselling makes the labour market work more efficiently, particularly where structural adjustments are necessary. State employment offices in all regions hold annual job fairs in every region, but otherwise there seems to be little activity under this heading. As young people seeking their first job do not qualify for unemployment benefit, they make relatively little use of employment offices. It makes more sense to locate information and counselling programmes primarily in educational institutions. For example, once the demand for labour picks up, a more active programme along the lines of the **'First Job' scheme** in Curitiba, Brazil (Hopenhayn 2002:9) would have a good chance of succeeding. Financed entirely by local government funds, it has the aim of linking adolescents with some 115 firms in the municipality that participate in the scheme. The young participants are required to stay in school, and take an introductory course which enables them to fill vacancies in the firms that support the programme. Their performance in school, on the job and in their family situation is monitored by the municipal youth secretariat staff. Preference could be given to youngsters from disadvantaged backgrounds.

At a **higher educational level**, as already emphasised, transitional unemployment among new graduates is usually, at least in part, a symptom of lags in information about changes in the state of the labour market. Adjustment of expectations can be considerably speeded if **up-to-date information** about the types of jobs and earnings that are available to this generation of graduates, as opposed to their older relatives and friends, can be **collected and quickly disseminated**. An internet web-site devoted to this purpose would be the most efficient way of disseminating this kind of information.

(iii) Education reform

In the longer term the most urgently needed preventative policy is to **stop the erosion of educational levels and standards** in Azerbaijan and to **re-orient education towards the new skills** that

are needed in global labour markets today. These aims are already embodied in the government's Education Reform Programme, initiated in 1999, and in the 2003 SPPRED (pp. 57-63) which contains concrete proposals to:

- improve equity in the quality of primary and secondary education;
- improve the quality of teaching;
- improve the quality of the curriculum and of teacher training and re-training;
- improve the material and technical base of educational institutions;
- establish special assistance funds for poor families at *raion* level;
- introduce new educational technologies;
- improve the life skills of adolescents;
- provide means-tested grants for entry to higher education;
- re-establish and reform provision of early child care and development;
- improve equality of access to learning materials through better library services;
- decentralise management of budgets to autonomous schools;
- develop a national system of student assessment and monitoring of attendance rates.

While there is a need for prioritisation, this is an excellent and fully costed programme, based on an accurate diagnosis of the nature of the problems: if implemented, it would substantially ease the transition from educational institution to labour market, particularly for those from disadvantaged families. In the longer run it would contribute to the development of a skill-based comparative advantage for Azerbaijan, particularly if accompanied by the measures to create the infrastructure for an information society included in the 2003 National Strategy for ICT Development and outlined in the Human Development Report (UNDP 2003) – 'from black gold to human gold'. However, in the medium term, it must be emphasised, unless the Dutch disease problem is tackled, such improvements in education and infrastructure would be overwhelmed by macro-economic distortion: a new ICT or other skill-based sector could only become competitive if its unit labour costs in dollars undercut those of India and others in international markets, which implies a need for realistic exchange rates as well as favourable trends in productivity relative to wages. In other words, *there is a danger of human gold being swamped by the effects of black gold.*

The **schooling of disabled children**, who have special problems in the labour market, needs special attention. In Azerbaijan as in other transition countries the tradition is to put such children in separate special schools. As Table 10 shows, the number of children in special schools for the physically and mentally disabled fell in the early years of the transition but has since crept up again. In general, the educational, developmental and future-employability needs of children with disabilities are more likely to be fulfilled by their inclusion in mainstream schooling systems than by isolating them in separate institutions. This seems to be more widely implemented in higher education than lower down the system – it would be worth exploring the scope for integrating more such children into ordinary schools.

Table 10: Number of children in special schools, 1990 – 2001

	1990	1995	1996	1997	1998	1999	2000	2001
Number of children in special schools:								
for physically disabled	2,811	1,607	1,938	2,132	2,359	2,498	2,679	2,731
for mentally disabled	515	271	228	262	302	300	300	348

Source: SPPRED, Table 1.16.

(iv) National training system

All over the world training systems fail because young workers and job-seekers do not know which skills to acquire and because employers are unable to ensure that they enjoy the benefits of any training they provide. The provision of more, and more accurate, **information** (in this case about the market for qualified workers and about the content of and returns to different types of training) can help

the market in training work better, although, in these times of rapid changes in technology and trade, risk and uncertainty have never been higher.

In Azerbaijan the priority under this heading should be to increase the **incentive to employers to provide training for their existing and future young workers**. The ILO has already recommended the establishment of a National Training Fund, financed partly through employer levies (ILO 2003:41). Such a fund would operate most efficiently as part of a **levy-grant system**, whereby employers not only pay such levies but also receive grants when they provide training. The most successful example of such a system is in Singapore, where employers are required to contribute 1 per cent of the gross salary of all employees earning less than S\$1,500 per month to a Skills Development Fund. They can recoup 80 per cent of their contribution by claiming training grants. Enterprises that provide training in skills that can be shown to be in demand, or have training plans that cover more than half of their workforce are provided higher sums, while companies that continue to use low-skilled workers in low-cost operations are penalised. In Azerbaijan training grants could be made available to employers not only for training their existing employees but also for sponsoring the training of potential employees – students who are still in educational and training institutions. As an additional incentive, the national training system would allow employers to pay lower wages to employees undergoing training.

A pro-disadvantaged bias could be built into the system, also, by using the National Training Fund to finance **training vouchers for young women and men designated as disadvantaged** (for instance, those who have not finished secondary school, do not have formal jobs and lack the skills and work experience necessary to get them). Anyone who is judged to be eligible for training can be given a voucher which can be cashed in by his/her training provider: this is intended to empower recipients with the capacity to buy training in the open market and thereby promote competition between private and public suppliers of training.

b. Curative policies

In addition to the policies just discussed, designed to prevent the emergence of youth employment problems, a set of policies is also needed to deal with those problems that, nevertheless, do emerge. These consist of **active labour market programmes** aimed at young people in general and disadvantaged young people in particular. This is an underdeveloped field in Azerbaijan: employment offices spend three quarters of their budget for programmes on unemployment benefit (ILO 2003:55).

Though there is, thus, a presumption that expenditure on active programmes is too small, **regular and rigorous evaluation** of such programmes is very important – using a double criterion. (i) Every programme that involves the spending of public money should pass a *social* benefit/ cost test. (ii) Every programme that is supposed to help disadvantaged young people should offer them a high *private* rate of return. Programmes that do not meet the first criterion are cheating taxpayers; those that do not meet the second criterion are cheating clients – in effect, perpetrating a confidence trick on some of the most vulnerable people in the country. Such evaluations, also, should measure, on the benefit side, *impact* rather than *outcome*. A programme that achieves, say, a 70 per cent employment rate for its participants, is not necessarily successful: that employment rate has to be compared with what would have happened to those participants in the absence of the programme.

In principle, also, stakeholders in **communities, including youth groups, should participate** in the design, monitoring and evaluation of active programmes. Programmes that are designed at the centre and imposed, top-down, on communities are unlikely to succeed.

(i) Public works programmes

Expenditure on public works for unemployed job seekers amounted to only AZM496million (about \$101,000) in 2002. During March 2004 only 246 people of all ages were involved in such programmes. A typical activity for young public-works participants is the rehabilitation of gardens, parks, historical monuments and schools, repairs to side roads and tree planting (ILO 2003:33).

The use of labour intensive techniques in all public investment and maintenance programmes, recommended in section 3(a)(i) above, would reduce the need for such conventional public works programmes, but there would probably still be a need for **programmes**, imaginatively designed with community participation, **aimed primarily at disadvantaged young people**.

Public works programmes are best seen as counter-cyclical safety-net systems than as active labour market programmes that assist in redeployment. If properly designed, with low wages in relation to local market rates, they can not only perform this role of a guaranteed employment scheme for the disadvantaged (and build and maintain assets for communities), they can also be used to identify a self-selecting sample of young workers who are most in need of other labour market programmes.

(ii) Subsidised credit and business start-up support

Large amounts of public money are spent on support to small business in Azerbaijan. The National Fund for Promotion of Private Enterprise alone extended credit of more than AZM13,000 million in the first half of 2003 (ILO 2003:Table 4.6). A National Fund for Entrepreneur Development was set up in August 2002, with assets set to rise to AZM100,000 million by 2005 and credits exceeding AZM26,000 million in the first half of 2003. In addition, credit unions have been established in many districts in support of small agricultural enterprises, and several international NGOs provide small business credit (ILO 2003:86).

At present there is no credit line specifically aimed at labour force entrants, but proposals for **business incubators and special funds to finance start-ups by young entrepreneurs** are being developed. International experience suggests a need for caution in considering such proposals. It is no accident that the most successful unsubsidised micro-credit schemes, which use group responsibility to increase repayment rates, such as the Grameen Bank in Bangladesh, are aimed mainly at mature workers and businesspersons rather than at the young. Lending to beginners in business is extremely risky, as the Micro Finance Bank of Azerbaijan recognises by confining its loans to those with a business history (ILO 2003:86). Programmes which claim (unevaluated) success in this field, such as Youth Business International (Godfrey 2003:Box 3), achieve it by devoting considerable resources to technical and financial support.⁹ Moreover, evaluations of self-employment assistance programmes in Central Europe have found 'significant dead weight' in their operations – those who have the considerable qualities to succeed in such programmes would probably have achieved labour-market success without them (O'Leary 1999:16).

In general, international experience suggests that the provision of credit and other support to the disadvantaged young to set up businesses is not an efficient way of alleviating their employment problems, compared with many of the others available. In Azerbaijan, for example, assuming that the measures recommended, in section 3(a)(i) above, to revive the demand for labour are implemented and a building boom ensues, it would be of more help to young job-seekers to offer finance and training to pipeline construction workers, who are due to reach the end of their contracts at the end of 2005, to set themselves up as small building contractors. They in turn would offer jobs to young job-seekers who would then acquire the experience necessary to start a business at a later date.

An unusual programme under this heading is the use of money from the Social Protection Fund to create **state-owned small enterprises**. Over the period 1997-2002, 140 such enterprises were created, mainly in areas populated by refugees and IDPs and in border and mountainous areas, employing 2,000 people of whom 600 are women. On the face of it, such a programme¹⁰ is inconsistent with the aim of

⁹ These resources come from the private sector though [ed, note].

¹⁰ This programme seems to go beyond the 'social business' principle underlying the Young Azeri Parcel Service, discussed above. A social business is a commercial enterprise set up by government, in cooperation with and with funding from the private sector, aid agencies, foundations etc., to employ severely disadvantaged people (in the case of YAPS, disabled and orphaned young people). It is not intended as a general model for the development of small enterprises.

encouraging the growth of private business and looks unlikely to be an efficient way of using public money. An evaluation of the programme, in comparison with other possible employment promotion programmes, is urgently needed. Meanwhile, a pause in the flow of funds to such projects would be in order.

In general, there must be questions about the scale of credit programmes for small business, if, as is argued in sections 2(c) and 2(d) above, the main constraint on the expansion of the non-oil sector is markets rather than credit. In the absence of policies to release the demand constraint (such as those recommended in section 3(a)(i)), the success rate of subsidised credit programmes is likely to be low.

(iii) Skills training

Pre-employment skills training programmes for young people do not have a good record around the world. Youth training is the least successful type of training in North America and Scandinavia. In transition countries a small positive impact is likely to be outweighed by the considerable costs of such programmes (Godfrey 2003).

In Azerbaijan, the scale of such programmes is small. During March 2004, for instance, only 251 people of all ages were provided with training by the Employment Service. Expenditure on such courses in 2002 was only AZM652 million (US\$133,250). Subjects covered include: computer operation (35 per cent of participants), shop assistance (20 per cent), carpet weaving, sewing, hairdressing, secretarial work, restaurant work, and English language. In most cases, employment is agreed in advance between job-seekers and employers, and over 50 per cent of graduates of these short courses are reported to get jobs but (as already emphasised) this does not measure the impact of the courses: many of them may have found employment even in the absence of such training. The Employment Service has some classrooms and facilities, but no training staff: courses are sub-contracted to vocational schools and private training schools, or teachers are hired and computers rented. The Service is planning to create its own permanent cadre of training staff: *this would not be a good idea – it would make the training programme much less flexible than under the present sub-contracting arrangements.*

The current policy of tying pre-employment skills training tightly to employer demand should continue. As demand for labour picks up, employers will become increasingly interested in the graduates of such courses. In this case the Employment Service will have to resist the temptation to give preference in admission to those with higher levels of education: *the most disadvantaged young people have most to gain from this type of training.*

(iv) Wage subsidies

Wage subsidy programmes around the world have shown that they can work for young people. An evaluation of such programmes in Central Europe (Fretwell et al. 1999) found mixed results. The programmes had more impact on employment than on wages, and the impact varied considerably with programme design. The most successful programme was in Poland, with a positive and lasting impact on employment. Programmes tended to benefit all age groups, with the greatest benefit going to females and those with lower educational qualifications.

In Azerbaijan, rather than a general wage subsidy for all young workers, it may be useful to *target subsidies more narrowly*. They could be seen as an alternative to the ineffective quotas for vulnerable groups discussed in section 3(b)(i) above and could be confined to young disabled workers and those from particularly disadvantaged backgrounds. Another possibility is that of focusing on young public works participants as a self-selecting sample, i.e. using such programmes not only for safety-net purposes but also as a way of identifying young workers who are most in need of programmes such as wage subsidies. Wage subsidy programmes also need to be *carefully monitored*, for instance by checking for prior related layoffs in enterprises involved in the programme, following up to see that employers retain participants, and requiring payback of benefits if a participant is not retained.

(v) Equity and anti-discrimination issues

Such programmes are usefully backed up by **anti-discrimination and affirmative action** legislation. In many industrialised countries women, people with disabilities and ethnic minorities have long benefited from such legislation, and the ILO Discrimination (Employment and Occupation) Convention No. 111 has been in place since 1958 (Hodges Aeberhard 2001). In Azerbaijan, under the 2001 Employment Law, 5 per cent of jobs in enterprises and organisations should be reserved for vulnerable population groups, including young people, women with children, refugees, the elderly and the disabled. In practice, employers fail to reach these targets (ILO 2003:24).

(vi) Social business programmes

Innovative 'social business' programmes, involving public/ private partnerships, can also be designed for specific groups of **young people with special labour-market problems**, particularly the disabled. Azerbaijan, in fact, leads the world in this field – with the Youth Azeri Parcel Service¹¹. The Foundation for Disadvantaged Azeri Children and Youth was established in 1995 to help disabled and orphaned young people to become independent and socially active community members. In 1997 it launched the Youth Azeri Parcel Service, in which disabled young people run the office and young orphans make the deliveries. By 2000 it had more than 50 employees and was making an estimated 170,000 deliveries a year, with annual revenue around \$100,000. Business leaders were persuaded by feasibility studies to fund and use the Service, and the government provided it with premises and tax-exempt status. The Service is still going strong in 2004: as well as being economically successful, the Service has contributed to breaking down prejudices concerning orphans and youth with disabilities. Youth employment policy planners should celebrate its success by devising new social business programmes for young workers with special needs that build on its experience.

c. Policy priorities and the role of various agencies

Some immediate preventative policies provide the framework within which longer-term preventative policies and current curative policies can work better.

- Of these, the most urgently needed is to boost the non-oil demand for labour by (i) using employment-intensive approaches in all public investment and maintenance programmes (which according to IMF projections should account for around 5 per cent of GDP in the next few years) and (ii) pushing ahead with the development and implementation of mortgage lending for construction or purchase of houses or apartments. As part of the strategy for oil revenue management, this should be explored by the inter-ministerial committee set up to prepare such a strategy.
- Labour regulations do not seem to be an obstacle to expansion in the demand for labour, but regulations affecting small enterprises need to be reviewed again, with a view to further simplification.
- The work permit situation could usefully be reviewed, with the aim of increasing the demand for young entrants to the labour market, but not at the expense of incentives for foreign investors.
- Equity and anti-discrimination measures would ensure that all groups of young women and men are treated equally.

As the demand for young labour picks up, further preventative policies will have an increasingly important role.

¹¹ This model has in fact been exported to Albania, where the Youth Albania Parcel Service began operating in June 2001 (UNICEF Albania web-site).

- A creative, school-based approach to information and counselling, along the lines of the Brazilian 'First Job' scheme, will have a better chance of involving enterprises and linking them to youngsters still in school.
- An internet-based information system for higher education graduates would help them to adjust to a rapidly changing labour market.

For the longer run, yet more preventative policies are urgently needed.

- Implementation of the SPPRED proposals to stop the erosion of educational levels and standards and to re-orient education towards the new skills relevant to today's global labour markets would contribute to the development of a skill-based comparative advantage for Azerbaijan, to the benefit of young people – but only if the problem of macro-economic distortion is tackled by the demand-boosting measures outlined above.
- The scope for integrating more disabled children in mainstream schools should be explored.
- A National Training Fund could become the basis for a national training system, based on the levy/grant principle, which would increase the incentive to employers to provide training for their existing and future young workers. Such a system could include the provision of training vouchers for young people designated as disadvantaged.

Meanwhile, curative policies will certainly be needed, and all will have a better chance of success against the background of an expansion in the demand for labour.

- In general expenditure on such policies (active labour market programmes) should be increased, but they should also be regularly and rigorously monitored and evaluated, using the double criterion of social and private impact compared with cost. Community participation in their design, monitoring and evaluation is also crucial.
- Even if labour-intensive techniques are used in all public investment programmes, some conventional public works programmes aimed primarily at disadvantaged young people will probably still be needed. Innovative 'social business' programmes, along the lines of the Youth Azeri Parcel Service, also need to be designed for young workers with special needs.
- The provision of credit and other support to the disadvantaged young to set up businesses is unlikely to be an efficient way of alleviating their employment problems. Also, the state-owned small enterprise programme, financed from the Social Protection Fund, looks to be something of an anomaly: pending a thorough evaluation, a pause in the flow of funds to the programme would be useful.
- Pre-employment skills training programmes for young people, tied closely to identified employer demand, will become increasingly effective as the demand for labour picks up. Preference in admission to such courses should be given to the disadvantaged. In the interests of flexibility, the Employment Service should continue with its present sub-contracting procedures, rather than trying to create its own permanent cadre of training staff.
- Wage subsidies targeted at all disadvantaged youths could increase employment opportunities for them, but would have to be carefully monitored.

These policy measures can be ranked by their urgency and by the likely speed of their impact on youth employment problems, as in Table 11. As can be seen, the most urgently needed measures are not

Table 11: Youth employment policy package, ranked by urgency and speed of impact

	Urgency	Speed of impact
a) Use employment-intensive approaches in public investment programmes	1	1
b) Introduce mortgage lending for house purchase	2	4
c) Implement SPPRED proposals on education reform	3	10
d) Design and implement national training system with 'pro-disadvantaged' bias	4	9
e) School-based 'first job' information & counselling	5	3
f) Integrate disabled children in mainstream schools	6	11
g) Review regulations for small enterprises & work permit system	7	5
h) Wage subsidies for special categories of young workers	8	2
i) Public works & 'social business' programmes for young disabled & disadvantaged	9	7
j) Pre-employment skills training for young people, especially the disadvantaged	10	8
k) Internet-based information system for higher education graduates	11	6
l) Monitor & evaluate all active labour market programmes, starting with the state-owned small enterprise programme	12	12

necessarily those that will have the quickest impact. But, as already emphasised, the two most urgent (preventative) measures (a and b), aimed at boosting the demand for labour, provide the pre-conditions for a quick and positive impact from curative measures. And reforms with a delayed impact, such as those affecting the education system, have to be implemented as soon as possible.

Primary responsibility for implementation of such a package belongs, of course, to government, particularly the Ministry of Economic Development (measure a), the National Bank and the Ministry of Justice (b), the Ministry of Education (c, e and f), the Ministry of Labour and Social Protection of the Population (a, d, e, g, h, i, j and k), and the Ministry of Youth, Sports and Tourism (overview of all measures). Action by inter-ministerial bodies is also proposed. The inter-ministerial commission on oil revenue management strategy, chaired by the prime minister, could usefully consider measures (a) and (b). The National Action Plan on Employment proposes the establishment of a high-level inter-agency Employment Council, to advise on implementation of the plan, with a special Youth Committee, and an Employment Strategy Management Unit, to include the key line Ministries.

The Youth Committee of the Employment Council should also include several non-government members. The Trade Unions Confederation and the National Confederation of Entrepreneurs' (Employers') Organisations should obviously be represented. The representation of youths themselves is essential to ensure that interventions respond to their aspirations and needs. Some of the larger companies, which channel funds to projects through their social responsibility programmes, such as BP, also have a potential role in the Committee, as do some of the major multilateral and bilateral aid agencies. Most important, particularly as a link to NGOs and community-based organisations, would be participation of the National Assembly of Youth Organisations of the Azerbaijan Republic (NAYORA), which has 55 member organisations and aims to coordinate the work and promote the development of youth organisations and to advance the interests of young people. NAYORA has recently established a Youth Coalition on Social Development and Sustainable Employment in Azerbaijan, which includes the key Ministries, private companies, embassies, aid agencies, parliamentary commissions, the ombudsman and the mass media, as well as its own members. The Coalition will play an important role in publicising and helping to implement policies which emerge from the Youth Committee of the Employment Council.

A final requirement for the successful implementation of a Youth Employment Policy is an increase in capacity for processing of information, project appraisal, monitoring and evaluation. The IMF, in its discussion of managing oil wealth, refers to the need for the government 'to increase its ability in fiscal policy analysis and project appraisal', and 'to devote additional human resources to strengthening macroeconomic policy formulation and building a viable public investment unit for expenditure planning and project evaluation (IMF 2003:23). When a youth employment dimension is added to the agenda, the information and analysis task becomes even more complex. The package outlined above involves:

- appraisal of proposals for the use of employment-intensive approaches in public investment programmes and the development of mortgage financing, including both their employment and macro-economic impact;
- collection and processing of detailed, up-to-date information on the labour market (*including current wages and salaries*) for use in school-based information and counselling, an internet-based information system for higher education graduates, and for guidance of young women and men making decisions about training courses (including use of vouchers);
- regular and rigorous appraisal, monitoring and evaluation of active labour market programmes of all kinds, including private and social cost/ benefit analysis;
- appraisal of proposals for innovative 'social business' proposals for young workers with special needs;
- evaluation of the state-owned small enterprise programme; and
- monitoring of employers' proper implementation of programmes for wage subsidies to some categories of young workers.

The proposed Employment Strategy Management Unit would be the proper location for this work, but close liaison would be needed with the proposed public investment unit for expenditure planning and project evaluation. Wherever it is located, substantial capacity building will be needed to ensure its success.

Annex - Table A1: Labour market status by age group, sex and highest level of education (2003)

Level of education	Male					Female				
	Elementary or lower	Secondary general	Vocational training	Higher	Total	Elementary or lower	Secondary general	Vocational training	Higher	Total
Population										
15-24	3.3	77.2	5.3	14.2	100.0	3.1	75.6	7.9	13.3	100.0
25+	4.1	53.3	22.3	20.3	100.0	9.1	61.8	15.9	13.2	100.0
Total	3.9	59.2	18.1	18.8	100.0	7.7	64.9	14.1	13.3	100.0
Unemployment rate										
15-24	0.1	16.5	1.1	1.3	19.0	0.0	21.3	3.0	1.7	26.0
25+	0.1	5.2	1.1	0.9	7.3	0.1	6.4	1.4	0.8	8.7
Total	0.1	7.5	1.1	1.0	9.6	0.1	9.4	1.7	1.0	12.2
Non-employment rate										
15-24	0.9	21.0	1.4	2.5	25.8	1.1	37.1	4.2	3.7	46.0
25+	3.5	14.7	4.6	2.7	25.5	8.4	34.6	5.8	3.0	51.9
Total	3.0	15.8	4.0	2.7	25.6	7.3	35.2	5.5	3.2	51.2
Wage employment rate										
15-24	0.5	28.3	4.3	6.3	39.4	0.2	18.0	6.8	7.3	32.2
25+	0.2	18.5	16.0	18.9	53.7	0.2	14.3	16.5	18.6	49.6
Total	0.3	20.5	13.7	16.4	50.8	0.2	15.1	14.6	16.4	46.2
Seasonal employment rate										
15-24	0.0	2.8	0.1	0.1	3.0	0.0	1.9	0.1	0.0	2.0
25+	0.0	2.6	0.6	0.1	3.3	0.0	2.5	0.1	0.0	2.7
Total	0.0	2.7	0.5	0.1	3.3	0.0	2.4	0.1	0.0	2.5
Temporary employment rate										
15-24	0.0	3.9	0.7	0.6	5.3	0.1	0.3	0.1	0.1	0.6
25+	0.0	4.2	1.1	0.5	5.8	0.0	2.0	0.4	0.1	2.5
Total	0.0	4.1	1.0	0.5	5.7	0.0	1.6	0.3	0.1	2.0
Casual employment rate										
15-24	0.3	5.5	0.2	0.2	6.2	0.1	4.6	0.1	0.1	4.8
25+	0.0	1.3	0.4	0.1	1.8	0.0	0.6	0.0	0.0	0.6
Total	0.1	2.2	0.4	0.1	2.8	0.0	1.6	0.0	0.0	1.7

Notes: Unemployment, wage-employment, seasonal employment, temporary employment and casual employment rates are expressed in percentage of labour force; non-employment rate is expressed as percentage of out-of-school population.

Source: constructed from the 2003 Labour Force Survey database

Annex - Table A2: Labour market status by age group, sex and highest level of education (2003) – Urban areas

Level of education	Male					Female				
	Elementary or lower	Secondary general	Vocational training	Higher	Total	Elementary or lower	Secondary general	Vocational training	Higher	Total
Population										
15-24	2.9	67.7	7.5	21.9	100.0	2.4	65.2	11.4	21.0	100.0
25+	2.9	41.1	27.8	28.2	100.0	6.4	51.7	22.2	19.7	100.0
Total	2.9	47.6	22.9	26.7	100.0	5.5	54.7	19.8	20.0	100.0
Unemployment rate										
15-24	0.2	21.1	2.0	2.1	25.4	0.0	26.8	5.7	3.0	35.5
25+	0.1	6.3	1.4	1.2	8.9	0.2	9.2	2.2	1.4	12.9
Total	0.1	9.0	1.5	1.4	12.0	0.1	12.3	2.8	1.7	16.9
Non-employment rate										
15-24	1.3	25.6	2.4	4.1	33.5	1.0	42.8	7.4	6.9	58.1
25+	2.6	15.5	6.3	4.0	28.3	6.2	37.5	8.6	4.9	57.2
Total	2.4	17.2	5.6	4.0	29.2	5.5	38.2	8.4	5.2	57.3
Wage employment rate										
15-24	0.5	42.3	7.1	10.5	60.5	0.2	27.4	11.9	13.8	53.4
25+	0.2	21.9	22.8	27.7	72.7	0.2	18.9	25.5	29.4	74.0
Total	0.3	25.7	19.9	24.5	70.4	0.2	20.4	23.1	26.7	70.4
Seasonal employment rate										
15-24	0.0	1.5	0.1	0.1	1.7	0.0	0.4	0.1	0.0	0.5
25+	0.0	1.2	0.5	0.3	1.9	0.0	0.7	0.1	0.1	0.9
Total	0.0	1.2	0.4	0.2	1.9	0.0	0.6	0.1	0.1	0.8
Temporary employment rate										
15-24	0.5	21.3	2.7	4.0	28.4	0.0	8.0	3.4	5.5	16.8
25+	0.1	7.1	5.4	3.3	15.8	0.0	4.6	4.4	2.9	12.0
Total	0.1	9.7	4.9	3.4	18.1	0.0	5.2	4.2	3.4	12.9
Casual employment rate										
15-24	0.1	14.3	1.1	1.6	17.1	0.2	13.9	0.3	0.3	14.8
25+	0.0	2.7	1.8	1.0	5.6	0.1	2.9	2.6	1.9	7.4
Total	0.0	4.8	1.7	1.2	7.7	0.1	4.8	2.2	1.6	8.7

Notes: Unemployment, wage-employment, seasonal employment, temporary employment and casual employment rates are expressed in percentage of labour force; non-employment rate is expressed as percentage of out-of-school population.

Source: constructed from the 2003 Labour Force Survey database

Annex - Table A3: Labour market status by age group, sex and highest level of education (2003) – Rural areas

Level of education	Male					Female					
	Elementary or lower	Secondary general	Vocational training	Higher	Total	Elementary or lower	Secondary general	Vocational training	Higher	Total	
Population											
15-24	3.8	88.8	2.6	4.8	100.0	4.2	89.6	3.2	2.9	100.0	
25+	5.6	68.6	15.4	10.4	100.0	12.7	75.4	7.5	4.5	100.0	
Total	5.1	73.6	12.2	9.0	100.0	10.8	78.6	6.5	4.1	100.0	
Unemployment rate											
15-24	0.1	12.0	0.2	0.5	12.8	0.1	14.3	0.5	0.4	15.4	
25+	0.1	4.0	0.8	0.5	5.4	0.0	3.4	0.5	0.2	4.1	
Total	0.1	5.8	0.6	0.5	7.0	0.0	6.2	0.5	0.3	7.0	
Non-employment rate											
15-24	0.6	16.4	0.4	0.8	18.1	1.2	34.1	1.2	0.6	37.2	
25+	4.6	13.7	2.6	1.1	22.0	11.4	30.8	2.0	0.5	44.7	
Total	3.8	14.2	2.1	1.0	21.3	9.6	31.4	1.8	0.5	43.3	
Wage employment rate											
15-24	0.4	15.0	1.5	2.3	19.3	0.1	8.4	2.0	1.3	11.7	
25+	0.2	14.5	8.0	8.4	31.1	0.2	9.6	6.4	6.5	22.7	
Total	0.3	14.6	6.6	7.1	28.5	0.2	9.3	5.3	5.2	19.9	
Seasonal employment rate											
15-24	0.0	2.8	0.1	0.1	3.0	0.0	1.9	0.1	0.0	2.0	
25+	0.0	2.6	0.6	0.1	3.3	0.0	2.5	0.1	0.0	2.7	
Total	0.0	2.7	0.5	0.1	3.3	0.0	2.4	0.1	0.0	2.5	
Temporary employment rate											
15-24	0.0	3.9	0.7	0.6	5.3	0.1	0.3	0.1	0.1	0.6	
25+	0.0	4.2	1.1	0.5	5.8	0.0	2.0	0.4	0.1	2.5	
Total	0.0	4.1	1.0	0.5	5.7	0.0	1.6	0.3	0.1	2.0	
Casual employment rate											
15-24	0.3	5.5	0.2	0.2	6.2	0.1	4.6	0.1	0.1	4.8	
25+	0.0	1.3	0.4	0.1	1.8	0.0	0.6	0.0	0.0	0.6	
Total	0.1	2.2	0.4	0.1	2.8	0.0	1.6	0.0	0.0	1.7	

Notes: Unemployment, wage-employment, seasonal employment, temporary employment and casual employment rates are expressed in percentage of labour force; non-employment rate is expressed as percentage of out-of-school population.

Source: constructed from the 2003 Labour Force Survey database

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