



Peer Review of Youth Employment Policies in the Republic of Azerbaijan

Synthesis Report

Mikhail Pouchkin

Julia Surina

ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia

Copyright © International Labour Organization 2016
First published 2016

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: rights@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit www.iffro.org to find the reproduction rights organization in your country.

Peer Review of Youth Employment Policies in the Republic of Azerbaijan, Synthesis Report ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia. – Moscow: ILO, 2016

26 p.

978-92-2-133807-9 (web pdf)

978-92-2-133808-6 (epub)

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and digital products can be obtained through major booksellers and digital distribution platforms, or ordered directly from ilo@turpin-distribution.com. For more information, visit our website: www.ilo.org/publns or contact ilopubs@ilo.org.



Table of Contents

Introduction.....	4
1. Main socioeconomic and labour market developments	5
2. The youth labour market situation	12
3. Youth employment policies and programmes, and related challenges.....	14
4. Main findings from this round of peer review	20
5. Recommendations for follow-up	22
List of sources.....	24



Acknowledgements

This report was made possible by the collaborative efforts of all the members of the ILO Technical Cooperation Project “Partnerships for Youth Employment in the Commonwealth of Independent States” (YEP CIS Project), financially supported by the Russian company LUKOIL and implemented by the ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia (ILO DWT/CO Moscow).

Particular gratitude goes to Yadong Wang, Senior Specialist on Labour Market Policies, ILO Geneva, and Olga Koulaeva, Senior Employment Specialist at the ILO DWT/CO Moscow, for sharing valuable comments on the draft. Special thanks are also extended to Yashar Hamzayev, ILO National Coordinator in Azerbaijan, for providing organizational support during the peer review round.

Helpful suggestions were made by the Ministry of Labour and Social Protection of the Russian Federation, the Federal Service on Labour and Employment (including the inputs from three regions of Russia – Perm Territory, Republic of Kalmykia and Khanty-Mansy Autonomous Region), the Ministry of Health and Social Development of Kazakhstan and the Ministry of Labour and Social Protection of the Population of the Republic of Azerbaijan.



Introduction

The world is currently facing the challenge of giving more and better jobs to young people. Addressing this issue is particularly pressing at a moment of high average of youth unemployment and inactivity across the countries. In order to support global collective actions promoting youth employment, the Resolution “Crisis in youth employment: Call for action” was adopted by the ILO tripartite constituents at the International Labour Conference in 2012 followed by the Oslo Declaration “Restoring confidence in jobs and growth” at the 9th European Regional Meeting in 2013. In addition, in 2015, the challenge of youth employment was included as one of the central goals in the UN’s new development vision as outlined in the recently adopted 2030 Agenda for Sustainable Development.

In this regard, the Resolution concerning the second recurrent discussion on employment suggested “to develop proposals for a voluntary peer review of employment policy with the objective of promoting knowledge-sharing and mutual learning on good practices among members of the organization”. Peer reviews are expected to contribute to better and more effective policies and measures supporting young people. Through stimulating discussion, assessment and benchmarking between countries, a voluntary peer review serves as a general means for the participating countries to improve policy-making, through the adoption of good practices and compliance with recognised standards and criteria.

In the CIS, the peer reviews are conducted within the framework of the project “Partnerships for Youth Employment in the Commonwealth of Independent States (CIS)” which was launched as a response to the global youth employment crisis. The project is implemented by the ILO Moscow Office with financial support of the Russian oil company LUKOIL.

A voluntary peer review network focusing on youth employment policies was launched in 2014 with nine countries participating in the network. In order to offer practical guidance to countries that wish to conduct a voluntary peer review in the area of youth employment, a Toolkit on conducting voluntary peer reviews was developed by the ILO.

For the first round of peer review, the Kyrgyz Republic volunteered to be reviewed by the Republic of Armenia in July 2014. In the second round of peer review, the Republic of Tajikistan was reviewed by the Republic of Azerbaijan in March 2015.

During the third round of the peer review, youth employment policies, programmes and institutions of the Republic of Azerbaijan were assessed by the tripartite constituents of the Russian Federation and Republic of Kazakhstan. An on-site visit to Baku, Azerbaijan, was carried out in September 2015. Two assessment reports were prepared. The first was prepared by the Ministry of Labour and Social Protection of the Russian Federation, and the Federal Service for Labour and Employment. That report included inputs from three regions of Russia: Perm Territory, Republic of Kalmykia and Khanty-Mansi Autonomous Region. The second report was prepared by the Ministry of Health and Social Development of Kazakhstan. This was followed by a presentation of the assessment reports, and a discussion at the meeting of the members of the youth employment regional network in Sochi, Russian Federation, in October 2015.

This report belongs to a series of synthesis reports produced on the basis of findings of the peer review rounds between the countries of Eastern Europe and Central Asia. It summarizes the main findings and recommendations of the third round of peer reviews around employment-centered sustainable development, policy coherence, strong labour market institutions and other areas, and is based on all mentioned reports, the conclusions of the regional network meeting and external sources of data.



1. Main socioeconomic and labour market developments

Socioeconomic situation

The Republic of Azerbaijan has achieved extensive economic progress over the past decade, becoming an upper-middle-income country¹. Azerbaijan experienced rather rapid economic growth during the last 12 years, owing to high oil-based revenues and substantial fiscal expansion, which was supported by the implementation of relevant macroeconomic policies. As a result, the gross domestic product (GDP) increased 3.4 times over (with more than 2 per cent growth in 2014, including 7 per cent GDP growth in the non-oil sector), industrial output almost tripled, investments grew (\$27 billion in 2014 – both foreign and domestic), people's income was multiplied 6.5 times over, and the rate of inflation decreased (1.4 per cent in 2014) etc.

The economic crisis of 2008, together with the volatility of oil prices, caused GDP growth to slow considerably in 2008 and 2009. In 2012, growth picked up as the decline in oil production was offset by the encouraging expansion of the non-oil sector, led by construction, transport, information and communication technology (ICT) and services². More recently, overall growth continued and, in 2014, GDP growth was calculated at the rate of 2.8 per cent. As such, Azerbaijan has been able to weather the global downturn relatively well, due to foreign currency reserves from oil sales during the natural resource boom period, and Government efforts to go beyond natural resources-driven growth towards growth that is more strongly anchored in employment, the formal economy and the non-oil branches of the economy (e.g., in 2012, almost two-thirds of investment outlays were directed to the non-oil sector³).

Seizing the opportunity offered by the oil boom during the 2000s, Azerbaijan initiated infrastructure and technological improvements; public sector investment programmes (including investments in the education and health care sectors); and supportive policies to promote decent and productive employment creation, and to increase wages and targeted social assistance to the population. Azerbaijan also carried out institutional reforms aimed at the modernization of the economy and further economic development through proactive, employment-centred, inclusive growth strategies, and balanced, coherent policy frameworks. These efforts translated into the impressive reduction in poverty from 48 per cent in 2003 to 5 per cent in 2014⁴. Overall, growth has been found to be pro-poor and generally broad-based,⁵ with wide impact on household consumption in urban and rural areas alike. Inequality also declined, with the Gini index falling by nearly 8 percentage points to 34 per cent between 2001 and 2008⁶. That is important as inequality has implications for economic growth and employment. Economic developments also led to growth in people's total income. The average pension rose from \$14 in 2002 to \$164 in 2014, while the average monthly wage rose from \$49 in 2002 to \$433 in 2015, with the highest level occurring in the mining industry (although, in 2014, the average monthly wage of women was 55 per cent of that of men)⁷.

At the same time, attention should be focused on further aligning economic growth with decent and productive employment creation, as productivity is rising three times slower than the average wage and does

¹ Azerbaijan's ranking as an upper-middle-income country by the World Bank is expected to be classified as "sustainable" by 2020.

² Draft ILO Decent Work Country Programme for Azerbaijan

³ European Bank for Reconstruction and Development, "Transition Report 2013: Stuck in Transition?". Country Assessment: Azerbaijan

⁴ Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan

⁵ World Bank, "Azerbaijan: Living Conditions Assessment Report", Washington, D.C., 2010

⁶ International Monetary Fund, "Republic of Azerbaijan: Selected Issues". IMF Country Report No. 12/6. Baku, 2012

⁷ Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan



not sufficiently support economic growth. In addition, further reforms of the pension and insurance systems would be required to facilitate the transition of workers from the informal to the formal economy, as the incidence of informal employment remains quite high, especially in the agricultural, construction and other sectors.

Table 1. Key economic indicators

	1990	2000	2006	2007	2008	2009	2010	2011	2012	2013	2014
Population growth (annual, per cent)	1	1	1	1	2	2	1	1	1	1	1
GDP growth (annual, per cent)	..	11	34	25	11	9	5	0	2	6	2
GDP per capita (US \$)	1,237	655	2,473	3,851	5,575	4,950	5,843	7,190	7,394	7,812	7,884
Inflation, GDP deflator (annual, per cent)	..	12	11	21	28	-19	14	23	1	1	0
Exports of goods and services (per cent of GDP)	44	39	67	68	66	52	54	56	54	49	43
Imports of goods and services (per cent of GDP)	39	38	39	29	23	23	21	24	26	27	26
Gross capital formation (per cent of GDP)	27	21	30	22	19	19	18	20	22	25	26
Foreign direct investment, net inflows (BoP, current US \$ mln)	..	129,9	4,486	4,594	3,987	2,900	3,353	4,485	5,293	2,619	4,430

Source: World Data Bank <http://data.worldbank.org/country/azerbaijan>

Azerbaijan's growth has yet to fully translate into a better life for the entire population, and numerous development challenges remain. For example, amid the impressive overall decline in poverty rates, large regional disparities reveal that urban areas saw a more rapid decline in poverty than rural areas. The distribution of economic wealth is uneven between rural and urban areas, and particularly between Baku and other regions. Moreover, a considerable number of households remain below or just above the poverty line and cannot freely access chosen employment. More than 70 per cent of people earn less than the stated average wage, while in certain sectors this figure reaches 80 per cent to 90 per cent.⁸

In that regard, what lies at the centre of these challenges is the need to further diversify the economy with new and sustainable sources of growth, and to make those sources more competitive at the international level, with a view to decreasing the great reliance on the oil and gas sector. This sector still accounts for about 45 per cent of GDP, more than 70 per cent of State budget revenues, and 92 per cent of exports.⁹ The development of sectoral strategies will facilitate structural transformation processes and contribute to quality job creation, increased productivity, economic diversification and higher value production, as well as higher wages.

Furthermore, when economic growth is highly dependent on one sector, this places the country at risk of economic volatility and raises concerns about the long-term sustainability of that growth, in particular as declining oil prices squeeze export earnings and reduce the national current account surplus. The environment necessary to enable sustainable enterprises remains uncertain. Support to small and medium

⁸ Azerbaijan Country Analysis, United Nations Country Team in the Republic of Azerbaijan, May 2014

⁹ International Monetary Fund, "Republic of Azerbaijan: 2013 Article IV Consultation". IMF Country Report No. 13/164



enterprises (SMEs), which serve as one of the engines of job creation, and the promotion of entrepreneurship are lacking, in large part because of an ongoing need to strengthen overall economic governance, ensure further macroeconomic stability, and improve productive and employment-intensive public investment.

Demographic situation

The socioeconomic reforms implemented in the country in the last 10 years have made it possible to improve the demographic situation, in general, and the indicators of the average annual population growth rate, the average life expectancy and the positive migration balance, in particular.

Table 2. Key demographic indicators

	1990	2000	2010	2014	2015
Population, total (mln)	7.2	8.0	9.0	9,5	9.6
Rural population (per cent of total population)	46	49	47	46	45
Urban population (per cent of total)	54	51	53	54	55
Population, female (per cent of total)	51	51	50	50	50
Population, male (per cent of total)	49	49	50	50	50
Population growth (annual per cent)	1	1	1	1	..
Population ages 0-14 (per cent of total)	34	31	23	22	22
Population ages 15-64 (per cent of total)	62	63	71	72	72
Population ages 65 and above (per cent of total)	4	6	6	6	6
Age dependency ratio (per cent of working-age population)	62	58	40	38	38
Life expectancy at birth, total (years)	65	67	70	..	71
Net migration (inflow minus outflow, thous.)	..	..	2.0	1.8	..

Source: World Data Bank <http://data.worldbank.org/country/azerbaijan> ; CIS stat <http://www.cisstat.com/>

From 2013 to 2014, the country's population increased by 1.2 per cent (this was primarily a natural increase), reaching 9.5 million people, 49.8 per cent of which were men and 50.2 per cent of which were women, and nearly half of which (47 per cent) lived in rural areas.¹⁰ This is partly because even though people have moved from rural to urban areas in search of work, population growth has traditionally been higher in rural areas. Population growth has been rapid, making Azerbaijan one of the few European countries with a dominant youth population.¹¹ The rate of population growth, however, has now considerably slowed. Even so, Azerbaijan faces both a short- and mid-term population increase, with estimates placing the population at 10.2 million people by 2020.¹²

As of the beginning of 2015, the share of youth aged 14-29 constituted almost one third of the population, while the share of children aged 0-14 constituted 22 per cent. However, during the period 1990-2014, the number of persons in the youngest age group decreased by 8 per cent, while the number of persons aged 65 years and over increased by 67 per cent. This dynamic reveals an ageing population, a demographic process that will have profound effects not only on the labour market, but also on social security and health services (e.g., in the next 25 years the burden on the national pension system and the infrastructure that is responsible for the needs and rights of pensioners is expected to increase¹³). In 2014, the share of the working-age

¹⁰ The State Statistics Committee of the Republic of Azerbaijan (data)

¹¹ UNDP, Dynamics of Number and Age Structure of the Population in Azerbaijan, Baku (unpublished), 2014

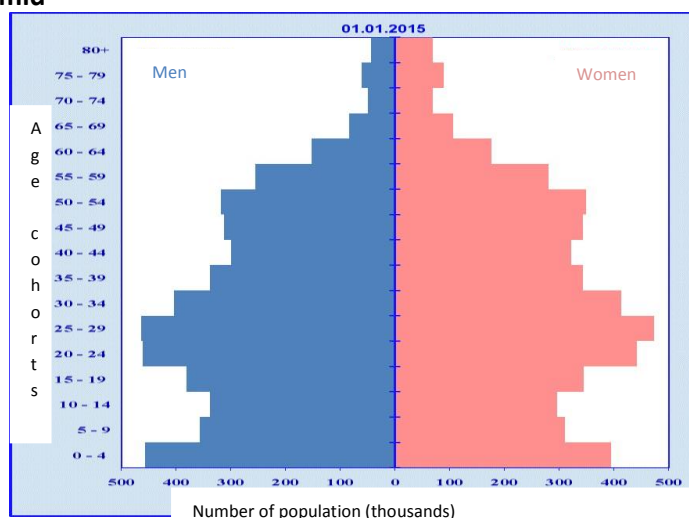
¹² Azerbaijan 2020: Vision for the Future ("Vision 2020")

¹³ United Nations Development Programme, Regional Demographic Dynamics

population reached 71 per cent of the total population;¹⁴ however, it is expected to stabilize at about that level by 2050.¹⁵ As a result, there will be a substantial need for the creation of permanent, full-time and decent jobs over coming decades. In contrast, this situation stimulates consumption, savings and investments, provided the employment-to-population ratio remains high. The overall dependency ratio went down in recent years from 0.58 in 2000 to 0.38 in 2015, meaning that the working-age population is growing at higher rates than the total population.

Another important issue is connected to the country's location at the crossroads of Europe, Central Asia and the Middle East, a factor that has always had an impact on migration. The emigration of quite large numbers of Azerbaijani migrant workers to the Russian Federation, Ukraine and Western European countries was a result of economic conditions in the 1990s. However, the trend is currently changing, and many people are coming back because of Azerbaijan's improved economic situation and the greater availability of employment opportunities there. At the same time, remittances still play an important role in Azerbaijan. The Centre for Economic and Social Development reported that more than 80 per cent of total remittances originated in the Russian Federation – a total of \$2 billion in 2011 – and went to rural areas of Azerbaijan.¹⁶ However, later the size of remittances from Russia began to slow down (a phenomenon that can be partly explained by the Russian economic situation and subsequent outflow of migrants). In 2013 remittances totalled \$1.2 billion;¹⁷ the total of remittances in 2015 is estimated to be less than \$1 billion.¹⁸

Graph 1. Population pyramid



The country is also becoming a country of transit and destination for foreign migrant workers as a result of rapid socioeconomic growth and the implementation of large-scale projects in the energy and transport sectors. According to the State Migration Service, more than 90 per cent of non-nationals came from five countries in 2012 (the Russian Federation, Georgia, Turkey, Islamic Republic of Iran and Ukraine). About 37 per

¹⁴ The State Statistics Committee of the Republic of Azerbaijan

¹⁵ UNDP, Dynamics of Number and Age Structure, and UNDP, Regional Demographic Dynamics in 1990-2011: Spatial Distribution of the Population of Azerbaijan. Baku (unpublished), 2014

¹⁶ International Organization for Migration, Azerbaijan Country Strategy 2014-2020. Baku, 2014

¹⁷ Central Bank of the Russian Federation

¹⁸ <http://www.1news.az/authors/editorial/20150127120716715.html>



cent of migrant workers in Azerbaijan are reported to be engaged in construction, with another 32 per cent in the oil sector.¹⁹

The above-mentioned demographic changes will have implications for growth, poverty reduction and fiscal policies in the long term. The sustainable strategy for durable poverty reduction lies in economic growth. Therefore, finding the right balance between reaping the potential benefits of a youth bulge and enhancing the productivity of young people, and supporting the living standards of the elderly is an essential objective for Azerbaijan. The demographic change should be addressed from an integrated and longer-term perspective. Possible policy directions need to take into account the complementarities between employment and social protection policies for all age groups, spanning the entire life cycle.²⁰

Labour market and employment

Taking stock of current trends, the Government of Azerbaijan has taken several steps with a view to creating job. Those steps include the promotion of private investment and an environment that enables the creation of sustainable enterprises. During the period 2003-2015, 1.4 million jobs were created, 1 million of which were permanent²¹. The majority of newly created jobs, 76 per cent, were in the regions, and 88 per cent were in the non-State sectors of economy. At the same time, in 2014 the overall number of economically active members of the population was 1.7 per cent greater than in 2013, reaching 4.8 million people (43 per cent of which were women). Due to the creation of employment opportunities, the employment rate remains stable at around 94.5 per cent.

Economic structural transformations have been followed by a change in the structure of employment. The proportion of public sector employees declined from 56 per cent in 1995 to 26 per cent in 2014. In this context, the share of non-State employees and the self-employed increased.²² In 2014, 76 per cent of new jobs were created by entrepreneurs and the self-employed, which is evidence of a stable economic situation in the country but poses the risk of creating an informal economy, which typically occurs among the self-employed. In general, the private sector plays a key role in job creation, but it is also essential to acknowledge the importance of public sector employment.

One of the most welcome changes has been seen in the field of realizing gender equality and enabling diversity as of one of the steps towards achieving full, productive, freely chosen and decent employment. In the employment structure, an increase in women's economic activity and employment was observed. The gap in economic activity between men and women (a gender-related difference in labour force participation rates) was 9.9 percentage points in 2003,²³ which was reduced to 3.2 in 2014.²⁴ The gender-related difference in unemployment rates was much higher in 1999 than in 2014. In 1999 it was recorded at almost 5 percentage points (19 per cent for women to 14 per cent for men), and in 2014 at only 1.9 (5.9 per cent to 4 per cent

¹⁹ Ibid

²⁰ For more details, refer to the International Labour Conference Report IV, "Employment and social protection in the new demographic context", 2013.

²¹ Ministry of Labour and Social Protection of Population of Azerbaijan

²² Ministry of Labour and Social Protection of Population of Azerbaijan

²³ Maternity Protection and Childcare Systems in the Republic of Azerbaijan, ILO 2014

²⁴ Ministry of Labour and Social Protection of Population of Azerbaijan



respectively). The gender-related difference in unemployment rates is traditionally higher in urban areas (6.9 per cent to 4.9 per cent in 2014) than in rural areas (4.7 per cent to 3.1 per cent).²⁵

Azerbaijan was successful in reducing the rate of unemployment over the last 10 years. This became possible thanks to the implementation of the Employment Strategy of the Republic of Azerbaijan for 2006-2015 (which was divided into two phases) and pro-employment macroeconomic policies. The initiatives undertaken by the Government during the first phase in 2006-2010 were mainly aimed at considerably reducing unemployment rates, strengthening social protection for the unemployed and vulnerable people, and taking other measures to improve the overall situation in the national labour market. In the course of the second phase (2010-2015), the measures were focused on providing incentives intended to stimulate labour force demand, tackle skills mismatches, create a working environment in line with the international labour standards, deepen structural reforms, and ensure the high quality of human capital.²⁶

An ILO study revealed an unemployment rate of 17 per cent in 1995; the 1999 population census indicated a rate of 16 per cent; the 2003 economic activity survey of the population, which was based on the analysis of a sampling, revealed a rate of 11 per cent; and, in subsequent years the indicator continued to fall. At the end of 2014, the State Statistics Committee reported a 4.9 per cent rate of unemployment (4 per cent among men and 5.8 per cent among women).

Despite a number of positive changes, many labour market indicators show only modest improvement, and the national labour market is still characterized by structural flaws, including a mismatch of demand and supply, underemployment, long-term unemployment, and relatively high youth unemployment (almost three times higher than for adults). The level of vulnerability and informal work also point to the need to increase both the quantity and quality of employment through the combination of coherent macroeconomic, labour market and social policies. These challenges particularly affect women, who continue to face segregation in many sectors of employment and are traditionally mainly concentrated in low-wage sectors, such as education, health and social services.²⁷

Table 3. Key labour market indicators

	1990	2000	2007	2009	2010	2012	2013	2014
Total employment, total (ages 15+), mln	..	3.1	3.9	4.2	4.3	4.5	4.6	..
Employment in agriculture (per cent of total employment)	31	41	39	38	38	38	39	37
Employment in industry (per cent of total employment)	23	11	13	13	14	14	..	..
Employment in services (per cent of total employment)	31	48	49	49	48	48	..	..
Self-employed, total (per cent of total employed)	..	..	58	..	..	..	67	..
Labour force participation rate, total (per cent of total population ages 15+) (modelled ILO estimate)	62	64	64	65	65	66	66	..
Unemployment rate, total (per cent of total labour force) (modelled ILO estimate)	..	12	6.3	5.7	5.6	5.2	5.0	4.9

²⁵ Ministry of Labour and Social Protection of Population of Azerbaijan; the State Statistics Committee of the Republic of Azerbaijan

²⁶ For more details, refer to the Employment Strategy of the Republic of Azerbaijan for 2006-2015 and the State Programme on Implementation of the Employment Strategy of the Republic of Azerbaijan for 2006-2010 and 2011-2015.

²⁷ The State Statistics Committee of the Republic of Azerbaijan, "Women and Men in Azerbaijan", Baku, 2004-2013



Unemployment rate, male (per cent of male labour force) (modelled ILO estimate)	..	11	8	5	4	4	4	4
Unemployment rate, female (per cent of female labour force) (modelled ILO estimate)	..	13	5	7	7	6	7	5.8
Unemployment rate in rural areas (per cent)	..	..	5.0	4.5	4.6	4.2	4.0	3.9
Unemployment rate in urban areas (per cent)	..	..	7.5	6.9	6.6	6.2	5.9	5.9

Source: Ministry of Labour and Social Protection of Population of Azerbaijan; World Data Bank <http://data.worldbank.org/country/azerbaijan>

Registered unemployment remains low, at about 1 per cent, meaning that its share in total unemployment is only 12 per cent. The economic sectors that generate much of the GDP (and growth) are not the same as those that generate employment. For example, the oil and gas sector generates only 1.1 per cent of jobs. Agriculture, on the other hand, accounts for almost 39 per cent of total employment but generates only about 6 per cent of GDP,²⁸ and has not proven to be a highly productive and efficient sector. In addition, the agricultural sector remains, to a large extent, subject to informality. Informal employment continues to be a challenge, although some successful steps have been undertaken to tackle this issue (e.g., through the recent launching of an e-system to register labour contracts). The share of people working without formal labour contracts is still estimated to be 67 per cent. This has not changed much in recent years. In Baku, informal employment accounts for 40 per cent of the total, while in the regions this figure ranges between 70 per cent and 90 per cent.²⁹ As a result, not many people have access to higher-income jobs. The new e-system is intended to change the situation by monitoring employers' activities more closely. Nevertheless, more efforts are still needed to position Azerbaijan as a diversified and knowledge-based economy with a skilled labour force.

Despite the relatively high GDP per capita (\$7,884 in 2014), a challenge exists in terms of achieving decent work for all, as measured by a number of indicators and areas relating to the decent work agenda, from employment opportunities to combining work and family life, and social dialogue.³⁰

The conclusions that may be drawn from this chapter include the fact that Azerbaijan has made economic progress that has resulted in sustainable recovery and development. At the same time, a number of challenges remain. Among those challenges, particular attention should be given to tackling the issue of employment-centred economic growth. Complementary and coherent public policies and services, as well as a private sector that promotes decent employment, would play an important role in this regard.

2. The youth labour market situation

The share of young people³¹ in Azerbaijan constitutes around 30 per cent of the country's total population, including 49 per cent of young men and 51 per cent of young women, of which a slightly higher number live in urban areas (53 per cent) than in rural areas. This fact has a direct impact both on the labour market policies and programmes in general, and youth employment issues in particular. In this regard, the Government of Azerbaijan has identified the generation of decent employment opportunities for young people as one of the nation's top priorities. As a long-term development strategy, the Employment Strategy of the Republic of

²⁸ The State Statistics Committee of the Republic of Azerbaijan

²⁹ "World Bank Group – Azerbaijan Partnership Program Snapshot", April 2014

<http://www.worldbank.org/content/dam/Worldbank/document/Azerbaijan-Snapshot.pdf>

³⁰ International Labour Organization, Decent Work Country Profile Azerbaijan, Geneva 2012

³¹ According to the Law on Youth Policy of the Republic of Azerbaijan (2002), youth are aged 14-29.



Azerbaijan for 2006-2015 will be followed by a new employment strategy to be adopted by the Government in 2016.

According to the findings of the survey of economic activity of the population, the share of youth aged 15-24 among the economically active population decreased from 15 per cent in 2007 to 12 per cent in 2014 (47 per cent of which were young women, and 54 per cent of which were young men). This may be partly explained by the fact that young people prefer to stay in education longer instead of entering the labour market. Nevertheless, in 2014, 103,000 young people entered the labour market in order to find one of the 127,000 jobs created in the same period. In 2014, the share of youth aged 15-24 constituted 11 per cent of the employed population (45 per cent of employed were women, 55 per cent were men). Young people in Azerbaijan are mostly employed in education (particularly women), retail trade and civil service. At the same time, agriculture remains a large employer for young people, with a share of 48 per cent of total youth employment.

However, despite the success achieved in unemployment reduction, the youth unemployment rate still remains quite high. According to the 2014 data of the State Statistics Committee, the youth unemployment rate among those aged 15-29 was calculated at the level of 9.7 per cent, while the general unemployment rate was 4.9 per cent. In addition, the level of unemployment among young people aged 15-24 was 13.5 per cent, although a decrease from approximately 20 per cent in the beginning of the 2000s was observed. The current rate is much lower in comparison to many European (EU) member States. An issue of increasing concern is that of long-term unemployment and underemployment among youth, especially among young women. In 2010, 16 per cent of youth were classified as neither in education nor employment or training (18.7 per cent of men, 14.3 per cent of women).³²

There are some difficulties related to the employment of young women. Although women are relatively well represented among graduates of secondary and higher educational institutions, within the labour market, employers prefer young men. As a result, young women face unemployment much more often than young men. In general, the highest share of the unemployed falls to persons with secondary education (about two-thirds of unemployed youth hold upper secondary education degrees³³) and unskilled workers (as said before, mostly women – 63 per cent). The Government therefore needs to further strengthen education policies, including skills development policies, and further align the education system (including vocational education and training) with the evolving needs of the labour market and new technologies. It also needs to broaden options for employment, including by implementing systems for skills recognition and certification of qualifications, and developing tools to anticipate future skills needs. Secondary schools also could become more active in assisting school leavers who wish to find jobs, and in strengthening contacts with potential employers.

The 2005 school-to-work transition survey also confirmed the existence of a labour market supply and demand mismatch. The survey focused on the labour market transitions of young people and revealed a structural disparity between the labour supply and what employers were demanding of the young labour force. The findings pointed to the presence of “wait unemployment” among some youth, whereby young people with high levels of education have expectations of high wages and wait for better job offers (the reservation wage effect) while relying on extended family support. At the same time, because the technical skills and competencies obtained in the general education system are not sufficient, employers prefer to select workers

³² International Labour Organization, “Youth Employment in Azerbaijan”, PowerPoint presentation to the United Nations Country Team on Delivering UNDAF as One UN in Azerbaijan, Baku, 5 June 2012

³³ International Monetary Fund, “Republic of Azerbaijan: Selected Issues”. IMF Country Report No. 12/6, Baku, 2012



with job experience.³⁴ Comprehensive activation strategies to facilitate young people's school-to-work transition, for example youth guarantee schemes to access training and ongoing productive employment, could be used in this regard. In addition, improving the career guidance system and popularizing blue-collar occupations and technical sciences (as opposed to the human sciences, which are currently excessively popular among young people but not in high demanded in the labour market) could help authorities tackle existing challenges.

Table 4. Youth in the labour market

	1990	2000	2007	2009	2010	2012	2013	2014
Unemployment, youth total (per cent of total labour force ages 15-24) (modelled ILO estimate)	..	28	13.6	13.9	14.9	14.2	13.7	13.5
Unemployment, youth female (per cent of female labour force ages 15-24) (modelled ILO estimate)	..	27	11.7	15.1	16	16.3	15.6	15.9
Unemployment, youth male (per cent of male labour force ages 15-24) (modelled ILO estimate)	..	29	15.3	12.9	13.9	12.2	12.0	11.5
Unemployment with tertiary education (per cent of total unemployment)	..	..	15	32	35	17	..	..
Unemployment with tertiary education, female (per cent of female unemployment)	..	..	13.4	32.1	36.9	14.9	..	..
Unemployment with tertiary education, male (per cent of male unemployment)	..	..	15.8	31.3	31.6	19.3	..	..
Unemployment with secondary education (per cent of total unemployment)	..	..	79	58	54	65	..	..
Unemployment with secondary education, female (per cent of female unemployment)	..	..	81.8	60.9	51.3	68.8	..	..
Unemployment with secondary education, male (per cent of male unemployment)	..	..	76.9	55.2	57.3	60	..	..
School enrolment, primary (per cent gross) ³⁵	110.1	97.2	94.8	95.1	93.8	98	..	..
School enrolment, secondary (per cent gross)	88.8	..	96.9	99.4	98.8	100.3	..	..
School enrolment, tertiary (per cent gross)	23.3	..	19.4	19.1	19.3	20.4	..	..

Source: Ministry of Labour and Social Protection of Population of Azerbaijan; World Data Bank <http://data.worldbank.org/country/azerbaijan>

In terms of other challenges faced by youth, based on information from the Ministry of Youth and Sport, 70 per cent of youth cannot access social services, and more than 50 per cent of adolescents and youth could not access the information they needed because they did not know where to look for it or could not understand its content.³⁶

To summarize Chapter 2, it should be highlighted that persistent youth unemployment and underemployment carry high social and economic costs. Despite the fact that youth-related issues were one of the targets in the previous Employment Strategy and are supposed to remain in the new Employment Strategy that will be

³⁴ United Nations Development Programme, "Towards Decent Employment Through Accelerated Structural Reform in Azerbaijan", Baku, 2012

³⁵ The gross enrollment ratio can be greater than 100 per cent as a result of grade repetition and entry at ages younger or older than the typical age at that grade level.

³⁶ Government of the Republic of Azerbaijan, Ministry of Youth and Sport, and United Nations Children's Fund, "Situation Assessment of Youth in Azerbaijan", Baku, 2011



adopted in 2016, school-to-work transition for young people is still difficult due to the mismatch between the supply and demand, and lack of coordination between the education system and labour market. This particularly influence young women that experience employment-related difficulties.

In this regard, the capacity of public employment services should be strengthened to better implement the Employment Strategy, provide coverage to a wider segment of the population, and enable the implementation of a wider range of active measures aimed at job placement, career development and tackling skills mismatch. Labour market information systems would also benefit from further refinements. Moreover, inclusive and broad-based social dialogue could play a key role in facilitating consensus on employment policies.

Political commitment and innovative approaches are also critical to improving the situation. A multi-pronged approach should be applied by the Government to foster pro-employment growth and decent job creation, with particular focus on youth. As it can be more difficult for youth to find decent jobs than for adults, it would be necessary to include them in the list of target groups for employment and labour market policy. The situation of young people in the labour market can be improved through targeted active labour market measures. The Government should develop a range of initiatives to better understand what works for youth employment, including the evaluation of the impact and effectiveness of policy packages, and field tests for innovative approaches.

3. Youth employment policies and programmes, and related challenges

The Government of Azerbaijan recognizes the acuteness of employment challenges in the country, especially those related to young people, and is working actively to address them through legislation, policies and programmes. The legal framework covering youth employment issues in the country includes laws on employment promotion and public youth policy. At policy level, there is a State public programme, entitled “Azerbaijani youth in 2011-2015”; an Employment Strategy 2006-2015, and its accompanying implementation programme, which was in effect until 2015; the “Azerbaijan 2020: Look into the Future” concept for development, as well as other policy documents that regulate labour and employment-related issues. Policymaking falls under the responsibility of the Ministry of Labour and Social Protection of the Population of the Republic of Azerbaijan, and is practically implemented mainly through the State Employment Agency, its employment centres and other bodies. The structure of the Ministry also includes the State Labour Inspection, State Social Security Service, State Medical and Social Assessment and Rehabilitation Service, Research and Education Centre for Labour and Social Issues, and other bodies that provide a package of services for the population, including the unemployed. Moreover, the Ministry of Youth and Sport has coordinated State policy for youth since 1997, and implements activities through its various divisions.

At present, a number of initiatives are implemented by the Public Employment Service (PES) (some of them are not institutionalized yet and are steered with the support of international organizations), through which young people as well as the population of other age cohorts can participate in relevant programmes and receive services. In 2014, young people constituted the majority of those involved in the active labour market programmes (75 per cent).

- **Active labour market programmes targeted at youth:**
 - *Assisting the unemployed and job seekers in their job search, and employers in staff recruitment*
In 2014, as part of job-search assistance services to the unemployed and job seekers, and job-matching services for employers, the PES registered 19,796 individuals under age 20 (41 per cent of all referrals), 7,492 of whom found a job (25 per cent of all placements). As part of this



programme, the Ministry of Labour and PES, in cooperation with the international organizations, have launched a series of training sessions for the unemployed on skills required for finding a job, thereby facilitating their integration into the labour market.

-Vocational training and re-training in occupations in demand by the labour market Overall, 2,163 young people underwent vocational training (57 per cent of all those referred to vocational training) in 2014. The courses normally take place at centres belonging to the Ministry of Education, regional vocational training centres under the PES, and employment centres. The courses generally cover those occupations that are in demand by the labour market (e.g., pastry maker, hairdresser, furniture maker, etc.). In total, there are 85 traditional and 58 modular programmes, and they are organized free of charge for periods of one to three months. One third of those who successfully complete the training immediately find a job based on the agreements that are signed between the centre and employers. Others use the skills obtained to look for a job themselves. At the same time, only 8 per cent (3,786 persons) of all those who were referred actually participated in vocational training in 2014. That is not enough when one takes into consideration that blue-collar workers are in high demand by the labour market. In that regard, closer cooperation is needed with the Ministry of Education, which also has specialized occupational training centres. In addition, the suggestion can be made to allocate more funding for this programme, and to supplement it with career-guidance activities for young people and children. Doing so could encourage them to choose different professions and to attend vocational training institutions that are not currently in demand among youth. Another suggestion could be to establish so-called “job houses”, which combine employment centres and vocational training centres. This can be more cost efficient in terms of organizational structure and make it possible to respond more quickly to employer demands for workers with certain skills (demand-driven approach). In that regard, studies on the skills required by the employers could be conducted in cooperation with other institutions. They can serve as a basis for the development of yearly youth employment plans/programmes that tackle youth-employment-related challenges at the local, regional and national levels (e.g., as part of the implementation of the Employment Strategy). The plan should be adjusted yearly based on the current priorities and situation.

-Career guidance in order to help young people choose an occupation

This is the most popular programme which, in 2014, benefited around 100,000 secondary school senior students, tertiary education students, graduates and unemployed youth. The main focus of the programme was the provision of extensive information on the labour market. Questionnaires and other specialized methodologies were used to provide assistance in making vocational choices. Some years ago, parents started to participate in the guidance as well. It is suggested that this programme be further improved by providing services to secondary school students and vocational secondary school students at an earlier age in order to introduce them to the available blue-collar occupations, and to promote a positive attitude towards these types of occupations (e.g., in that regard, a more in-depth analysis of the Kazakh experience could be carried out). The programme can even be broadened to include junior school students and children in kindergarten in order to show them people at work and explain the nature of some professions. The efficiency of the programme can be increased through cooperation with employers, as well as by better linking the programme to the economic development strategy.

-The programme to provide wage subsidies for disadvantaged young people (e.g., those without job experience or the long-term unemployed) was launched by the PES in cooperation with the ILO. The programme was aimed at providing additional opportunities for young people. The initial low



productivity of young workers was compensated by a 50 per cent wage subsidy to employers for a period of six months. The Government can consider the continued implementation of this programme or the elements thereof (e.g., on-the-job training, apprenticeships, etc.), ideally in combination with mentoring, as the programme proved to be successful in terms of providing new opportunities to young people detached from the labour market, and in changing employer attitudes to such workers. In that regard, the PES should play an important role, serving as an agency that provides services and programmes to the population, as well as to employers that could also become PES clients. The PES should motivate employers, for example, by providing the subsidies to compensate the initial lower productivity of some groups of workers. The size of the subsidy can then be reduced when the worker gains more professional experience and becomes more efficient. International studies conclude that wage subsidies seem to be the active labour market programme that leads to one of the best results for young job seekers (the best results occur for young women aged 16 to 20).

-*Youth entrepreneurship* is promoted in the country through the provision of training programmes on how to start a business by the PES. In addition, the National Entrepreneurship Support Fund was established. It currently provides loans and microcredits at a reasonable rate to young people. In 2014, loans totalling \$13 million were issued to 1,239 businesses started by young entrepreneurs. In addition, with the support of international organizations, a number of so-called virtual enterprises were created at universities in order to improve the entrepreneurial skills of students. The ILO is also supporting the Government of Azerbaijan by implementing a package of measures that includes capacity building for PES staff. They are shown how to manage the entrepreneurship programme and entrepreneurial training for young people in rural areas, in particular with regard to providing additional subsidies for start-ups (grants). The partnership created between the relevant ministries, the PES, workers' and employers' organizations, and other key stakeholders serves as the basis for the implementation of the measures. Currently 21 young entrepreneurs are successfully running start-ups. In order to expand their businesses, access to finance (financial institutions) should be promoted. By way of recommendation, the Government might consider continuing the implementation of the programme (including the provision of training by the PES), possibly in cooperation with the Ministry of Economy and Industry, and the National Fund for Entrepreneurship Support (funding of business ideas). Closer interministerial cooperation could be helpful in that regard. More PES staff should be trained to manage the programme as this seems to be a promising measure for rural development and the diversification of the economy.

-*Organization of paid public works*

A positive aspect of public works that could be used by the PES in other countries is the possibility of financing such works at the expense of provider companies or the State Social Protection Fund, as envisaged by the law on employment. All employers, including private ones, can take part in the programme. However, the scope of the programme could be broadened since only 1,605 (or 0.9 per cent), including 392 young persons, of all those registered were involved in public works for municipal improvements and cleaning work, repairs and rehabilitation, and public works in agriculture in 2014.

-Regular (monthly) *job fairs* for the immediate employment of the unemployed are arranged in cooperation with some employers and educational institutions. This is one of the PES activities most attended by youth. As part of such job fairs, a "Career Beginnings" programme was launched in order to integrate the students and graduates of tertiary education institutions into the labour market. Information on employer requirements with regard to specific occupations and related

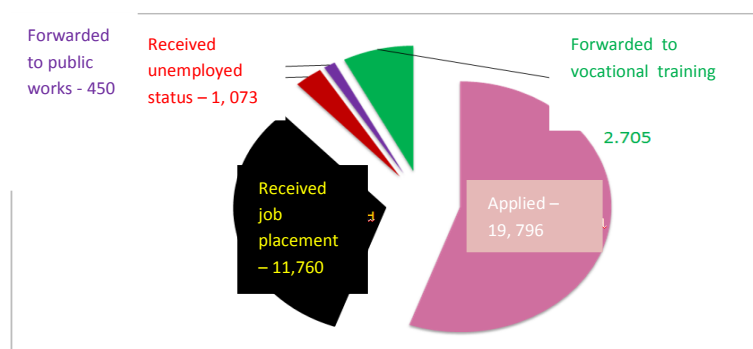


skills was provided to young people, and assistance was provided to help employers find the right candidates. In 2014, within the framework of this activity, 543 enterprises were represented, 4,722 vacancies were advertised, and 759 young persons received referrals. As it can sometimes be a challenge to motivate employers to take part in job fairs, the PES may consider conducting preliminary discussions with employers in order to identify their demands and connect them with the participants' skills. Job fairs can also be used by trade unions as a platform to raise awareness about labour rights.

- The organization of *temporary works through labour exchange* is one of the country's more remarkable experiences. This PES activity targets, in particular, such vulnerable and disadvantaged groups as people with disabilities, refugees, young people with no job experience, etc. In 2014, a total of 4,280 persons, including 1,959 young people, several persons with disabilities and other groups, participated in this programme, working in repairing, construction, planting of greenery, etc. In addition, the PES has mobile labour exchanges in remote areas. This practice should be further developed, in particular given the nature of the country's landscape.
- *Employment quotas* for disadvantaged groups of jobseekers. By supporting sheltered employment, including by creating jobs for people with disabilities, arranging special training programmes and taking other measures, the Government provides additional guarantees to persons that require greater social support and that experience difficulty finding a job (young people under the age of 20, women with disabled children, disabled persons, etc.). This is done through the introduction of job quotas for the above-mentioned groups. The quotas depend on the situation in the regional labour market, but should not exceed 5 per cent of the average number of workers on payroll. In 2014, 1,036 persons received a job placement through this programme, although it mainly targeted persons with disabilities. A suggestion to help improve the programme and bring greater focus to young people is the following: extending the age of young people eligible for quotas could be considered (e.g., the experience of the Russian Federation, in particular Krasnodar Territory, can be further explored in this regard). That action can be supplemented by requiring employers with a certain number of staff to hire a certain share of young people. In addition, an enforcement mechanism should be put in place. In order to motivate companies to make known existing vacancies and pay decent wages, subsidies can be also considered. The PES should entice employers to become clients via different means of motivation, including wage subsidies as well as reasonable accommodation of workplaces for disabled job seekers (including the provision of adaptation tools, additional leave and breaks, etc.). These costs should be compensated by the PES (very often special devices do not cost a lot; however they can substantially increase worker productivity).
- **Passive labour market programmes** targeted at youth:
Since a vast majority of young people do not have substantial, or sometimes any, job experience upon completion of studies, they could be paid the minimum unemployment benefit rate (if any). In that regard, under the existing budgeting system for passive and active labour market programmes in Azerbaijan, the level of social assistance available to the young unemployed cannot be regarded as effective protection for those seeking employment, especially young people with no employment record. However, the current amount of and qualifying conditions for benefits encourage young people to look more actively for a job, or to continue studying, while inviting them to participate in active programmes implemented by the employment services. In any event, the issues of funding passive (and active) labour market programmes, finding sources of funding, better targeting of social assistance, and its coordination with the subsistence minimum, should be further discussed by the

Government (the Ministry of Labour has already proposed to introduce unemployment insurance law, establish a relevant insurance contribution system, and to revise the system for funding labour market and unemployment protection programmes). In general, the Government could consider paying more attention to active measures rather than passive ones (while, of course, keeping passive measures within the PES) in efforts to promote youth employment. Eligibility for passive measures could be linked with participation in active measures.

Graph 2. Results of youth applications to PES



While most of the above-mentioned initiatives are generally seen as effective in improving the employment situation of those young people who participate, the Government could consider updating the list of services and programmes that could be provided on a mandatory basis, and making them more targeted. The list of active labour market programmes could be extended and their scope increased. More attention and resources can be put into the

most efficient programmes, which will become clear in the process of monitoring and evaluation. The comprehensive monitoring and evaluation of programmes normally involves comparative control groups and scientific cost-effect evaluations to assess the impact of the programmes. PES staff should be trained on how to conduct such techniques. The PES can also further improve information/awareness-raising campaigns so that young people know about their services and programmes. This can make it easier to attract more young people to the PES, as youth currently prefer to search for a job themselves or with the help of relatives/friends instead of applying for PES assistance. The Government could also consider further improving the standards and uniformity of services and labour market programmes provided by the PES. This will require the development and introduction of uniform standards of quality and accessibility, including reference to the scale and manner of implementation (the experience of the Russian Federation can be considered in this regard).

Identified challenges

Although the overall youth unemployment rate in Azerbaijan is not high in comparison to the global average, the peer review showed that there are several underlying challenges that need to be tackled in order to achieve decent employment, both in terms of quality and quantity, for young people in Azerbaijan.

Promoting an environment for decent employment growth

Considering the current socioeconomic situation and the country's potential, the Government set an objective for Azerbaijan to become internationally competitive and economically diversified, with extensive opportunities and decent jobs for all, as well as reduced regional disparities, etc. In order to achieve those goals, high and sustainable economic growth is needed. It should be driven by sectors of the economy that are characterized by decent wages, with high productivity and no informality. In that regard, the development and implementation of pro-employment economic policies that promote both the quantity and quality of employment through a combination of coherent macroeconomic, sectoral, labour market and social policies is essential. The policies and measures should have an appropriate balance of demand- and supply-side aspects.



The diversification of the economy is a strategy for the country's development. In a global environment of slower growth, which also has an impact on the Azerbaijani economy, it is important to identify areas where sustainable job creation is possible, and to provide more job opportunities for young men and women in those sectors (e.g., the Vision 2020 prioritizes the development of information and communication technologies, agriculture and tourism). If there should be a budget surplus, it could be used for economic diversification and sustained productive investments in the non-oil sectors. Decreasing the tax burden for the SMEs could also be considered during some periods of the economic cycle.

In addition, regional development and the development of infrastructure would contribute to greater employment opportunities and the strengthened economic potential of rural communities.

Labour market mismatch between supply and demand

As previously mentioned, further economic progress will likely depend on a set of policy measures that also include education policies. Education, training and lifelong learning foster a virtuous cycle of improved employability, higher productivity, income growth and development. At the same time, some deficits exist in the quality of education, training and skills, as well as their relevance to labour market requirements. Skills and qualifications that do not meet labour market demands, and an insufficient number of vacancies remain one of the constraints for the employability of young people. In Azerbaijan, young people entering the labour market often do not possess the relevant skills and practical knowledge required by employers. The correlation between educational attainment and unemployment, in the sense that the higher the level of educational attainment, the lower the rate of youth unemployment, is generally valid. Nevertheless, the issue of the young "educated" unemployed is sometimes observed. On the one hand, there are not enough decent jobs for young university graduates. On the other, there is high and unsatisfied demand for technicians at all skill levels. Moreover, despite quite a stable economic situation in the country and the existence of large infrastructure projects, in-depth mid-term and long-term skills forecasting is lacking.

In that regard, the alignment between the educational system and the labour market should be promoted. In order to address this, the Ministry of Labour is working to re-focus youth priorities in favour of technical skills. In particular, career guidance and skills improvement issues play an important role in this process. The PES is using a national campaign to promote career guidance. Also within the framework of cooperation with the Ministry of Education, a list of new and modernized occupational standards is being developed (270 occupational and related educational standards as well as 63 skills standards in the area of tourism, manufacturing, construction, agriculture, IT, transport, services, etc.).

Education and training measures responsive to the world of work would result from strong partnerships between the Government and social partners, including through social dialogue and collective bargaining.

Strengthening institutional capacities, with a focus on young people (Public Employment Services)

The peer review exercise revealed that the targeted programmes for youth implemented by the Public Employment Service generally have a positive effect in terms of creating employment opportunities, and facilitating matching and job placement in Azerbaijan. Nonetheless, it appears that outreach remains quite low (16 per cent of all job seekers). This is also confirmed by the dearth of vacancies available to the PES, which may be the result of weak connections with employers. Moreover, the PES in Azerbaijan is considerably understaffed (3.2 persons per 100,000 members of the population). This undermines the potential of the PES to effectively cooperate with both employers and job seekers, and negatively affects the scope of active labour market programmes to be implemented (in employment centres, less than 1 per cent are attached to a service or programme). In the regions the indicator seems to be even lower (e.g., in the Sumgait employment centre, there are only 8 staff members per 329,000 members of the population, or 2.4 per 100,000). The analysis of



the labour market programmes implemented shows that there is considerable potential to extend the list, increase their scope and target them better. The merging and expansion of the employment centres can be considered; however this should be accompanied by a decent number of staff and funding.

In addition to the lack of staff, another issue is staff capacity to handle existing and new programmes. PES specialists should be trained on a regular basis. This would help to deliver quality services and to save resources that are now being spent to outsource to specialists necessary for the administration of some of the programmes (such as career guidance). The funding for the implementation of the active labour market programmes is lacking. This makes it impossible to provide, upscale or expand high quality programmes and services. Comparing outcomes with funding and its justification could lead to a priority list of programmes to promote youth employment. This can be done based on the monitoring and impact evaluation of the provided services and programmes.

A stronger PES would be able to better implement employment policy (Employment Strategy), thus contributing more to policy development and pro-employment economic growth. This may be possible when the PES becomes attractive to employers, and all those searching for a job (including high-skill jobs) or in need of any other type of job-related assistance.

4. Main findings from this round of peer review

The review conducted by the delegations of the Russian Federation and Republic of Kazakhstan focuses on the measures undertaken in Azerbaijan to promote youth employment and national institutional capacities. The findings of the reviewing countries were discussed at the peer review meeting, at which eight countries of the subregion were present.

The findings of the reviewing countries and members of the youth employment network can be summarized as follows:

Institutional capacities to design and implement employment promotion policies

The Azerbaijani delegation was complimented for doing a solid job of collecting and analysing information and data on the current youth employment situation, and of sharing information open-mindedly. In Azerbaijan, there is an extensive, coherent and consistent legal framework for the field of implementation of employment-centred economic policies, including laws, Government programmes and regulations that cover measures on employment and social protection and define the main orientation of national socioeconomic development. At the same time, firstly, effective monitoring and evaluation systems to assess the impact of policy development on employment should be developed in coordination with the relevant authorities (interministerial and inter-agency cooperation should be strengthened in that regard). It is important to conduct evidence-based analysis of individual policies and the interactions across policy elements with respect to their results in terms of quality and quantity of employment and overall sustainable growth and development. Secondly, to implement the measures envisaged by the law, it is important to improve the labour market information system, making available more targeted statistics and policy databases to provide information and analysis on employment policies. That could also help to conduct prompt assessments of the implemented policies and programmes aimed at tackling the shortage of decent employment, and to take necessary corrective actions. The measures to improve the labour market information system would include developing a labour market monitoring system, standardizing the national labour market statistics with international indicators, and conducting regular analyses of the labour market using standard indicators. Improved labour statistics will also make it possible to gauge the informal economy, as currently this data is



not fully available (for example, a relatively small share of the population is registered as wage employees, others are listed as “self-employed” or have other types of employment, including informal).

The Ministry of Labour of Azerbaijan has declared youth employment as one of the core policy areas of the upcoming Employment Strategy. Particular focus will be also placed on the development of an unemployment insurance system, one of the purposes of which will be the improvement of passive (and active) labour market policies, the promotion of inter-agency cooperation, and the development of relevant policies. The members of the network supported the idea of developing an unemployment insurance mechanism, establishing an adequate insurance contribution scheme and changing the funding balance for labour market policies. However, the introduction of the insurance principle and new funding requirements for active and passive labour market policies, and unemployment protection can only be achieved in the long term and will entail a thorough review of the entire system of public social security.

The PES has an infrastructure that covers all the regions of the country. In each region a special committee cooperates with the employment centres on the development of annual programmes for economic activities that serve as a basis for the development of the Republican Employment Programme.

The centres for vocational training contribute a lot to professional education and training for young people and people of other age cohorts. The specialized Centre for Vocational Training of People with Disabilities was particularly appreciated by network members. It meets modern technical requirements; training is conducted on the basis of modern modular programmes and professions, helping disabled persons to obtain or develop necessary skills that are in demand by the labour market. The Centre provides physical rehabilitation services for people with disabilities, as well as medical care. The expansion of the number of training programmes provided by the Centre could be considered.

Efficiency of current programmes and measures

The main policies and programmes that are currently implemented in Azerbaijan (listed in section 3) were generally considered to be relevant and effective. As in most countries, they could be further expanded by increasing funding, bearing in mind natural limits to this, as well as by increasing the number of staff and strengthening their capacities, and by introducing innovative active labour market measures.

In terms of the good practices presented by Azerbaijan, discussions served to verify which of these initiatives are most relevant, efficient and transferable to other countries. The discussions revealed that all the practices were of interest to the other countries in the network. Some of the measures are used in many countries already, whereas others were seen as new and inspirational, confirming that there is a need for more knowledge sharing, and highlighting the fact that successful policies and programmes are being implemented in countries within and outside of the subregion. All the participants were of fairly similar opinion, agreeing that the electronic system of registering labour contracts is the most interesting and transferable good practice out of the many suggestions. The reason for this is that it serves as a tool to facilitate the transition from the informal to the formal economy. The system was initiated by the Ministry of Labour in cooperation with other Government authorities and obligates all employers to register the labour contracts of hired employees. A comprehensive database contains the information on labour conditions and other details, and can also serve as a one-stop shop for the population. In general, the policies encouraging the transition to formality should be further promoted at the national level.

For active measures to work as effectively as possible, monitoring and evaluation systems need to be strengthened. At the same time, the visibility of PES activities must be increased in order to attract more job seekers and employers. A good example of this could be the two full-cycle active labour market programmes



conducted in cooperation with the ILO, which include programme design, implementation, monitoring and final assessment.

5. Recommendations for follow-up

Based on the reviewers' reports and discussions during the peer review event, the following key policy recommendations to the Republic of Azerbaijan can be extracted.

1. Expanding opportunities for economic diversification and the promotion of decent employment growth

Economic diversification has begun, but the situation of the sectors outside of oil and gas still remains challenging in the sense that they require further development and should be more oriented to the promotion of decent employment opportunities for all. The competitiveness of the non-oil sectors will depend on furthering the macroeconomic situation, which should improve access to finance; structural reforms, including the development of industrial and sectoral policies which integrate with employment policies; as well as introducing fiscal incentives for employers and the self-employed; modernizing the industrial base; strategic investments, and other measures. It is important to ensure sustainable job creation is the priority of non-oil sectors, bearing in mind that the jobs created should be formal and of a productive nature. Strengthening human capital can also play an important role in this process, especially through increasing the participation of young men and women in the economy, both in oil and non-oil sectors. In that regard, it could be recommended that an oil fund to accumulate natural-resources-related profit and to support inclusive growth, employment and the prioritization of youth-related issues be further promoted.

2. Employment-centred sustainable development

The stable pace of economic development seen in the economy over the last 10 years, as well as the favourable demographic situation in the country (high share of youth in the population) created the conditions for labour market development in Azerbaijan. At the same time, policies should place greater focus on job-rich economic growth. Moreover, pro-employment macroeconomic policies that support aggregate demand, productive investment and structural transformation, and that promote sustainable enterprises, support business confidence, and address regional inequalities should always be taken into consideration. The promotion of a comprehensive employment policy framework based on tripartite consultations and the successful implementation of employment policies are a precondition for sustainable economic growth. In that regard, the Government might consider developing unemployment insurance legislation, as well as an employment fund.

3. Policy coherence and effective inter-institutional coordination mechanisms

In view of the development of a new employment strategy, further improvement of the complementarity and coherence between public policies in the promotion of decent employment are recommended. In that regard, improved coordination between the relevant bodies and institutions at the national and regional levels (e.g. through strengthened inter-ministerial committee) can help, together with learning from the international experience in particular areas. Azerbaijan has also accumulated important experience, implemented good practices and learned lessons that can be shared with other countries (for example, the Russian Federation has expressed its wish to obtain more in-depth information on the e-system of registering labour contracts).

Establishing local partnerships or private-public partnerships are also suggestions that could improve coordination. This mechanism can be composed of regional authorities as well as social partners (thus strengthening social dialogue and tripartism in the formulation, implementation and monitoring of employment policies), the private sector and civil society organizations that operate at the level of the



selected region. The partnerships can serve as a forum for consultations and discussions for a wide spectrum of actors who will combine their strengths and comparative advantages to address, in practical terms, the issue of quantity and quality of youth employment (e.g., helping to overcome the lack of work experience that prevents young people from making a smooth school-to-work transition).

4. Active labour market programmes targeting young women and men

The services and programmes provided by the PES, including ongoing active labour market programmes, are considered relevant and effective. However, all types of measures could be intensified, and their quality improved, in order to reach more people (for example, through information campaigns and outreach activities). It would be reasonable to expand initiatives to better understand what works for youth employment, including through the monitoring and evaluation of the impact and effectiveness of existing policy packages (further strengthening the labour market information system would be required in this regard). Field testing innovative approaches could be also helpful. For example, a youth guarantee scheme to ensure that all unemployed youth are offered high quality employment or education opportunities within several months of unemployment could be launched (in this regard, the experience of EU countries can be further explored, as the measure was recommended for implementation to all EU members during the crisis period). Another innovative measure would be to offer young registered job seekers an individual employment follow-up plan, to be set up after registering with the PES. This will motivate the unemployed to apply for PES assistance. Active labour market programmes should be adapted to the current needs of the labour market. In this regard, the financial resources allocated to measures that do not prove to be highly effective could be reallocated to other initiatives with demonstrated effectiveness. This can include:

- the introduction of an apprenticeship programme or elements thereof (on-the-job training with mentorship) for young people, in order to increase their competitiveness on the labour market;
- the conclusion of more tripartite agreements (between student, employer and the PES) and administration of vocational training programmes in order to guarantee employment after completion of the course;
- the provision of subsidies (grants) instead of credits to potential entrepreneurs that are not to be repaid in the event of the business' success (in cooperation with the Ministry of Economy and the National Fund for Entrepreneurship Support);
- the provision of subsidies to employers that hire young people from disadvantaged groups, as well as persons with disabilities, in order to compensate for the initial low productivity of such workers;
- the further expansion of the system of career guidance through extended coverage and outreach to different cohorts of the population (e.g., younger ones).

Continuing to improve the standards and uniformity of services and labour market programmes provided by the PES is also worth consideration. This will require developing and introducing uniform standards of quality and accessibility, including reference to the scale and manner of implementation (the experience of the Russian Federation can be helpful in this regard).

5. Strong labour market institutions that facilitate job placement, career development and address skills mismatch

Strong labour market institutions can help better regulating the situation at the labour market through elaborating and implementing pro-employment policies and programmes. Employment service is one of such institutions that require further capacity development of its staff in order to improve the quality of the services provided as well as the reputation of such services among the population (especially young people), and to attract more users. Serving more applicants through the PES (not necessarily giving all of them unemployed status) will help the Government to better regulate the labour market, especially during the ups and downs of the economic cycle. Improved staff capacities will also allow them to handle the existing and potential programmes and services themselves instead of outsourcing to specialists, thus economizing financial resources. Such capacity development should include trainings on the design, implementation,



monitoring and evaluation of policies and programmes; and development of efficiency criteria for PES activities (e.g., results-based management), implemented programmes and funding.

These recommendations will be taken into consideration when planning future ILO interventions in Azerbaijan.



List of sources

1. Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan: Youth Employment Promotion Policies Analysis. National report in the framework of the peer review exercise, 2015, Baku
2. Ministry of Labour and Social Protection of the Russian Federation: Information Report from Russia. Review report in the framework of the peer review exercise, 2015, Moscow
3. Ministry of Health and Social Development of the Republic of Kazakhstan: Information Report from Kazakhstan. Review report in the framework of the peer review exercise, 2015, Astana
4. Draft ILO Decent Work Country Programme for Azerbaijan for 2016—2020
5. International Labour Conference Report IV, “Employment and social protection in the new demographic context”, 2013
6. International Labour Organization, “Decent Work Country Profile: Azerbaijan”, 2012
7. International Labour Organization, “Maternity Protection and Childcare Systems in the Republic of Azerbaijan”, 2014
8. International Labour Organization, “Youth Employment in Azerbaijan”, PowerPoint presentation to the United Nations
9. Azerbaijan 2020: Vision for the Future (“Vision 2020”)
10. Government of the Republic of Azerbaijan, Ministry of Youth and Sport, and United Nations Children’s Fund, “Situation Assessment of Youth in Azerbaijan”, Baku, 2011
11. The State Statistics Committee of the Republic of Azerbaijan (data), www.stat.gov.az
12. The State Statistics Committee of the Republic of Azerbaijan, “Women and Men in Azerbaijan”, Baku, 2004-2013
13. Azerbaijan Country Analysis, United Nations Country Team in the Republic of Azerbaijan, May 2014, Baku
14. United Nations Development Assistance Framework 2011-2015
15. Country Team on Delivering UNDAF as One UN in Azerbaijan, Baku, 5 June 2012
16. International Organization for Migration, Azerbaijan Country Strategy 2014-2020, Baku, 2014
17. United Nations Development Programme (UNDP), Dynamics of Number and Age Structure, and UNDP, Regional Demographic Dynamics in 1990-2011: Spatial Distribution of the Population of Azerbaijan, Baku (unpublished), 2014
18. United Nations Development Programme, “Towards Decent Employment through Accelerated Structural Reform in Azerbaijan”, Baku, 2012
19. World Data Bank <http://data.worldbank.org/country/azerbaijan>
20. World Bank, “Azerbaijan Living Conditions Assessment Report”, Washington, D.C., 2010
21. “World Bank Group – Azerbaijan Partnership Program Snapshot”, April 2014 <http://www.worldbank.org/content/dam/Worldbank/document/Azerbaijan-Snapshot.pdf>
22. European Bank for Reconstruction and Development, “Transition Report 2013: Stuck in Transition?”, Country Assessment: Azerbaijan
23. International Monetary Fund, “Republic of Azerbaijan: Selected Issues”. IMF Country Report No. 12/6, Baku, 2012



24. International Monetary Fund, "Republic of Azerbaijan: 2013 Article IV Consultation". IMF Country Report No. 13/164