

LABOR MARKET TRENDS IN AZERBAIJAN POLICY PAPER



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LABOR MARKET TRENDS IN AZERBAIJAN

Policy Paper

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1. Summary

In this paper, the main trends and problems observed in the labor market of Azerbaijan in recent years are considered, as well as the current employment structure of the population is analyzed. It should be taken into account that after Azerbaijan declared its independence, the transition from socialism to capitalism created conditions for the formation of new trends in the labor market. Unemployment emerged as a new concept. Especially as a result of the different evaluation systems between professions, wage differences have increased significantly. In the context of this changing policy, within the scope of the study, the main transition trends observed in Azerbaijan in recent years in terms of the employed population, labor force, and employment are analyzed. The recent trends and characteristics of unemployment are also one of the main directions of the paper. Furthermore, employment and sectoral distribution of employment and the relationship between education and employment are among the questions sought to be answered within the framework of the study. In accordance with this context, during the study, the occupational-specialization structure of the labor market is examined and the main changes registered in recent years are mentioned. Acceleration of the pace of globalization in the world and the impact of the resulting innovations on the labor market, especially the trend of remote work that is currently forming in Azerbaijan, are included in the framework of the study.

2. Introduction

In the modern world, the role of human capital is increasing more and more. Many countries around the world are trying to adapt to rapid changes and are resorting to regulations and incentive mechanisms in accordance with market requirements and trends. Azerbaijan is no exception in this regard. Especially after the collapse of the Soviet Union, the need to transition from a planned economy to a market economy caused serious changes in the country's labor market.

After the global financial crisis of 2008, the importance of state intervention in the labor market to protect workers and promote better employment opportunities was reaffirmed. We believe that active labor market policies in both developed and developing countries have proven to be successful in preventing layoffs, increasing employment, and creating job opportunities. And some interventions to support incomes are critical to preventing wage cuts and reducing poverty.

It should also be taken into account that depending on the level of economic development of the countries, governments prefer different mechanisms in the labor market. For example, in countries with developed economies, the main policy direction of governments regarding the labor market is mainly the provision of unemployment benefits. In lower-income countries, the protection of labor rights, the creation of the necessary legal framework, minimum wage, and mandatory social benefits are considered the main intervention mechanisms.

Education is one of the tools that have the most influence on the current state of the labor market. All levels of education - higher, secondary, and professional educational institutions have an important role in the formation of the country's labor market. In this regard, the role of educational institutions in terms of the formation and change of the situation in the labor market in the country is undeniable, and the activity related to the development of the labor market must necessarily include the education system. Due to the majority of educational institutions in Azerbaijan being owned by the state, the country's education policy is one of the main factors determining trends in the labor market.

However, it should also be taken into account that in some cases, in addition to the current political-economic conjuncture and the education system, other factors also lead to the formation of new trends in the labor market. From this point of view, especially after the start of the COVID-19 pandemic, innovations related to employment around the world attract special attention. The concept of "remote work" has already become a reality for almost all companies, regardless of their size. In this regard, flexible and effective response to trends observed in the labor market is also very important in terms of the development of labor relations in the country.

3. Current situation in the labor market

The development of the labor market, especially the low level of unemployment, has been announced as one of the main directions of the socio-economic policy implemented in Azerbaijan. The development of human capital is one of the most important areas in terms of ensuring this. In 2017-2021, the economically active population in Azerbaijan increased by 316 thousand people and reached 5 million 304 thousand people.¹ The increase in the number of young people in the country creates new challenges in the labor market.

One of the main trends observed in the country's labor market is the continuous increase in the number of employees in the private sector as a result of the privatization process that came with the collapse of the Soviet Union and the transition to a free market system. According to the indicators of 2021, the specific weight of employees in the public sector in employment across the country was equal to 22.4 percent, and the specific weight of employees in the private sector was equal to 77.6 percent. However, public sector workers (52%) still dominate among salaried workers.²

As for the unemployment rate, it is clear from the official figures that especially since the mid-2000s, the country has seen a continuous decrease in the unemployment rate after large oil revenues came into the country. Although this indicator dropped to 4.8% in 2019, when the lowest level of unemployment was recorded, it suddenly rose to 7.2% in 2020. The main reason for this was the weakening of economic activity in many areas due to pandemic restrictions.

¹ https://www.stat.gov.az/source/labour/az/001_6-7.xls

² https://www.stat.gov.az/menu/6/statistical_yearbooks/source/emek_bazari_2022.zip

Although unemployment decreased slightly to 6% in 2021, it could not return to the pre-pandemic level. However, it should also be noted that independent experts are of the opinion that the real unemployment rate in Azerbaijan is higher. According to the country's legislation, factors such as the fact that those who own land share are considered employed regardless of whether they cultivate that land are the main reasons for this. It should also be noted that Azerbaijan is distinguished by its high level of informal employment. Because of this, many people work without official registration, so they could not take advantage of the social protection measures provided by the government for those who lost their jobs during the pandemic.

Figure 1. Main socio-economic indicators of the labor market

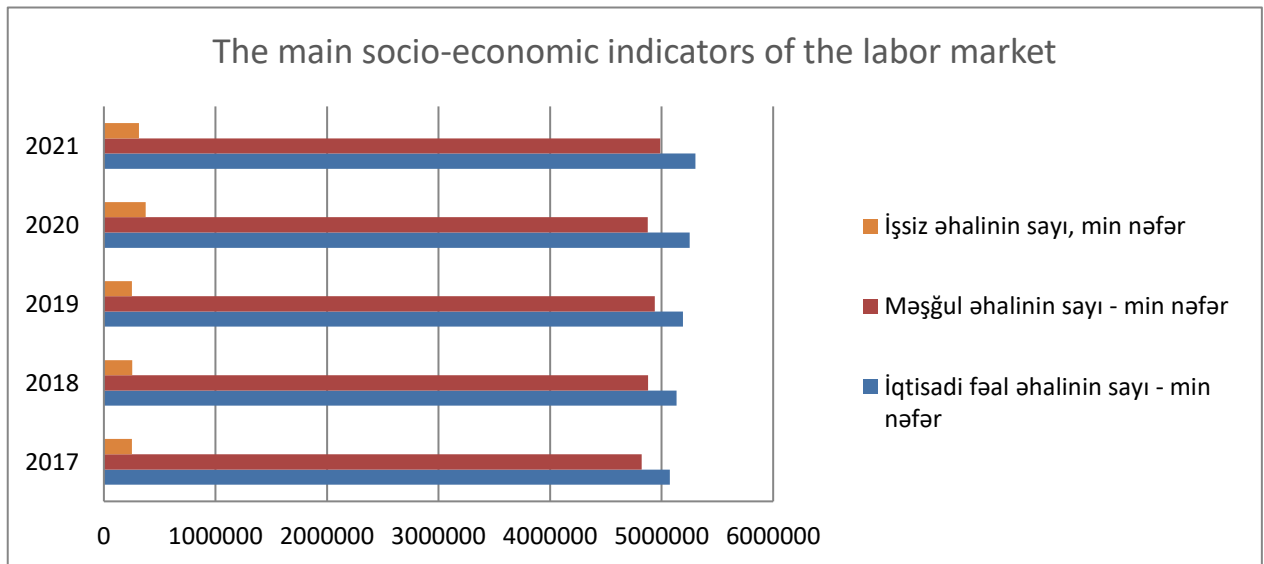
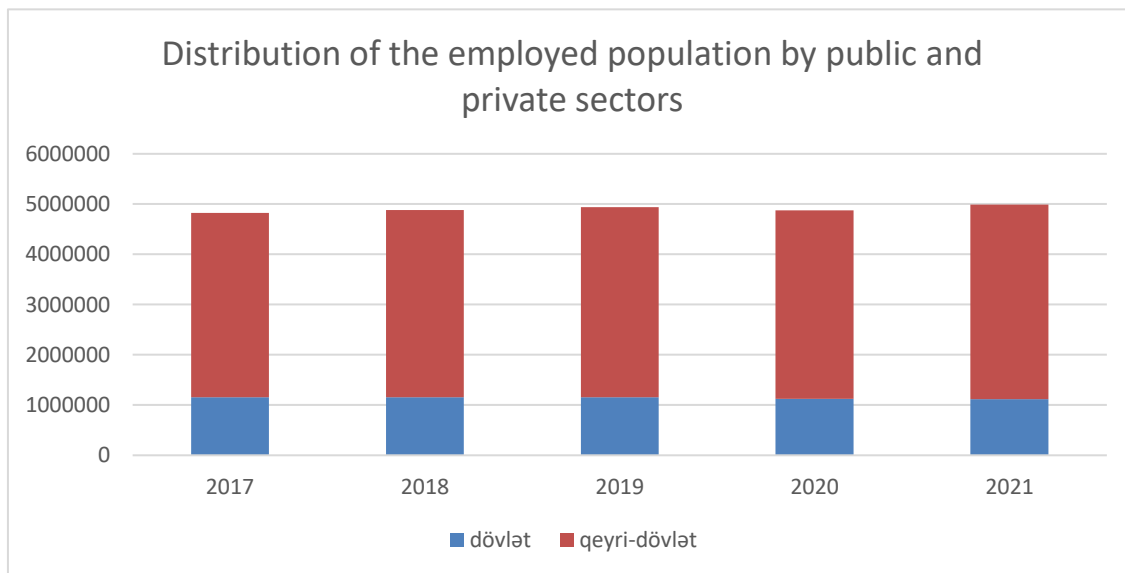


Figure 2. Distribution of the employed population by public and private sectors



4. Structure of the employed population by types of activity

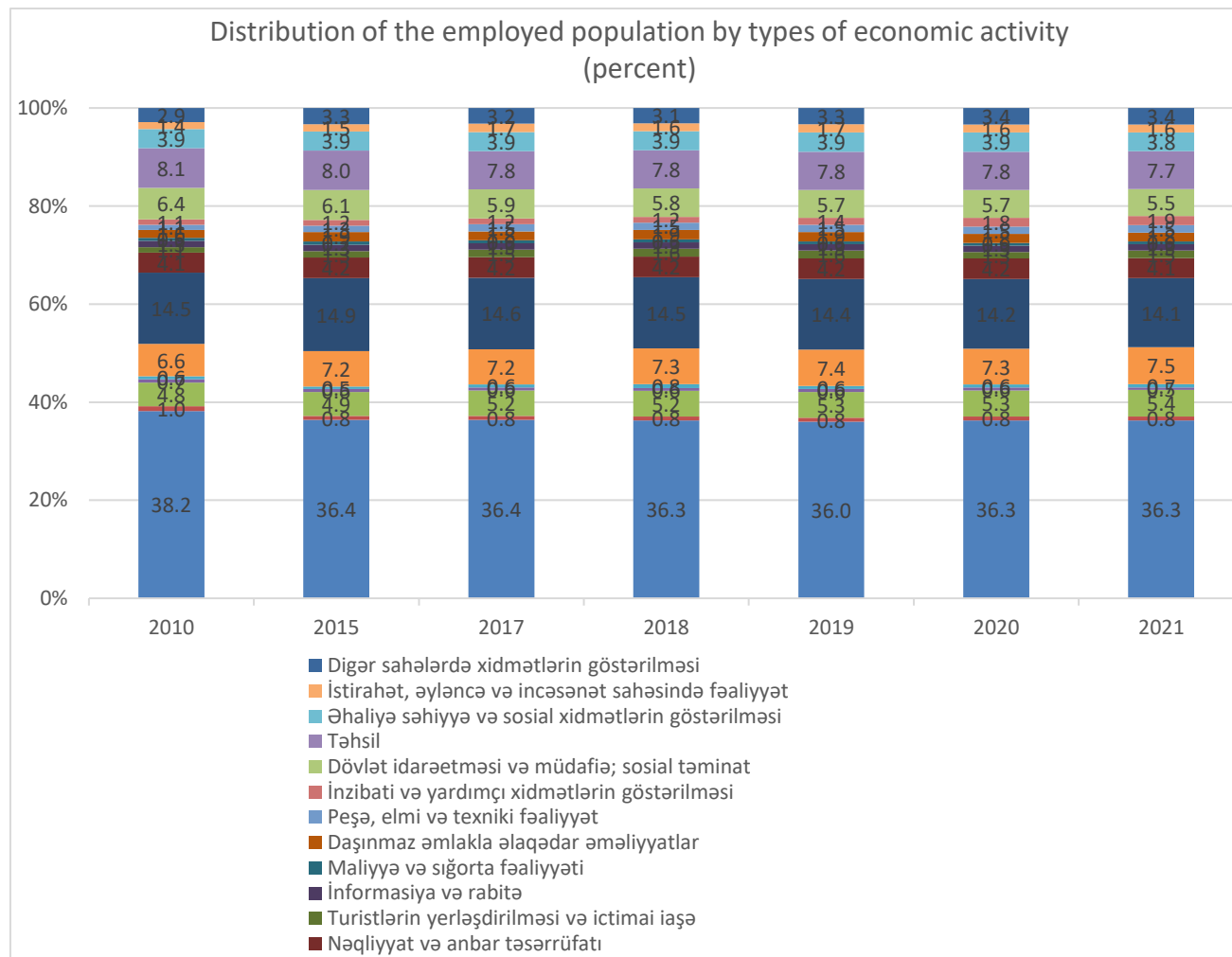
One of the most important components in terms of analyzing the state of the labor market is the distribution of the employed population by types of economic activity. If we look at the relevant statistics, we will see that no significant changes have been observed in the structure of the employed population over the last 5 years. During that period, a relative increase in the number of workers working in the fields of processing, trade, and vehicle repair was recorded.

In Azerbaijan, a large part of the population still works in the agricultural sector, and a very large part of them is the population living in the regions. However, let's take into account that the share³ of the agricultural sector, which has a labor force of 36.3% of the total employed population, is only 5.88% in the composition of GDP for 2021. This situation tells us that there are serious problems in the economy and the labor market in general.

The low share of the processing industry in employment raises challenges in terms of the formation of sustainable sources of income for the country's economy, as well as job opportunities. The fact that this situation has been going on for a long time and no decisive steps have been taken in this direction is a matter of concern, and necessary steps should be taken to solve it quickly in terms of increasing employment opportunities in the country.

³ https://www.stat.gov.az/menu/6/statistical_yearbooks/source/stat-yearbook_2022.zip

Figure 3. Distribution of the employed population by types of economic activity



The International Standard Classification of Occupations (ISCO) is one of the important issues to consider when analyzing the structure of employment by country. This classification is a means of organizing tasks and corresponding jobs into a set of clearly defined groups.⁴ Its main purpose is to create a basis for international reporting, statistical and administrative data comparison and exchange on professions, as well as to form a model for preparing national and regional classifications of professions and a system that can be used directly in underdeveloped countries.

ISCO is intended for use in statistical programs and various human-oriented programs. These include matching job seekers with job vacancies in client-facing programs, managing short-term and long-term migration of workers between countries, and developing vocational training programs and guidelines.

4

https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_172572.pdf

Based on ISCO, two concepts have been developed, one is job classification and the other is skill classification. Skill is defined as the ability to carry out the tasks and duties of a given job and is divided into two groups: skill level and skill specialization. Skill level is defined as a function of the complexity and range of tasks and duties to be performed in an occupation. The skill level is the nature of the work performed in the occupation in relation to the characteristic tasks and duties defined for each ISCO-08 skill level, the level of formal education defined in terms of the International Standard Classification of Education (ISCED-97) (UNESCO, 1997) required for competent performance of the tasks and duties involved, and the amount of informal on-the-job training and/or previous experience in a relevant occupation required for competent performance of these tasks and duties. These standards define 4 skill levels.

Occupations at Skill Level 1 typically involve the performance of simple and routine physical or manual tasks. They may require the use of hand-held tools, such as shovels, or of simple electrical equipment, such as vacuum cleaners. They also involve tasks performed by hand. Occupations at Skill Level 2 typically involve the performance of tasks such as operating machinery and electronic equipment; driving vehicles; maintenance and repair of electrical and mechanical equipment; and manipulation, ordering and storage of information. Occupations at Skill Level 3 typically involve the performance of complex technical and practical tasks that require an extensive body of factual, technical and procedural knowledge in a specialized field. Occupations at Skill Level 4 typically involve the performance of tasks that require complex problem-solving, decision-making and creativity based on an extensive body of theoretical and factual knowledge in a specialized field. The tasks performed typically include analysis and research to extend the body of human knowledge in a particular field, diagnosis and treatment of disease, imparting knowledge to others, and design of structures or machinery and of processes for construction and production. Making such a classification is important for more efficient use of resources and increasing usefulness for both job seekers and employers.

Skill specialization is considered in terms of four concepts:

- the field of knowledge required;
- the tools and machinery used;
- the materials worked on or with;
- the kinds of goods and services produced.

ISCO-08 divides workers into 10 major groups:

1. Managers
2. Professionals
3. Technicians and Associate Professionals
4. Clerical Support Workers
5. Services and Sales Workers

6. Skilled Agricultural, Forestry and Fishery Workers
7. Craft and Related Trades Workers
8. Plant and Machine Operators, and Assemblers
9. Elementary Occupations
10. Armed Forces Occupations

The use of ISCO is important both in terms of globalization and the application of international practice. In this regard, the collection and preparation of statistics according to this classification in our country will be suitable for more efficient processing and transparency of the collected data.

5. Movement of the labor force in the economy

By analyzing the movement of the labor force in the economy, we determine in which areas in the labor market employees quit and find jobs during the year. If the trend of leaving the job is repeated for several years, it means that the job is already weak in terms of job security or the guarantee of not being fired, and the probability of staying in the job for a long time in that sector is low. Under normal circumstances, these jobs should not be highly preferred by people, but in a country with a weak economic and social environment, people accept these jobs as a short-term source of income just to survive. Because people have no perspective in the long run and this affects both their well-being and social life.

Analysis of statistical indicators shows that the most reliable job in Azerbaijan is in the mining industry. At the same time, the construction site, where the number of workers is constantly changing, is considered the most unreliable work area. This means that according to the 2021 indicators, 7.5% of the employed population is constantly working at risk of losing their job or working in temporary and non-permanent jobs. At the same time, it is noticeable that the number of permanent hires and layoffs is high in the administrative and support services, trade and vehicle repair, and manufacturing industries. Considering that the demand for this type of work is mainly related to unqualified personnel, another question arises here - Is the education level of the population in the country at the desired level?

Figure 4. Movement of the labor force in the economy (employees who left their jobs during the year)

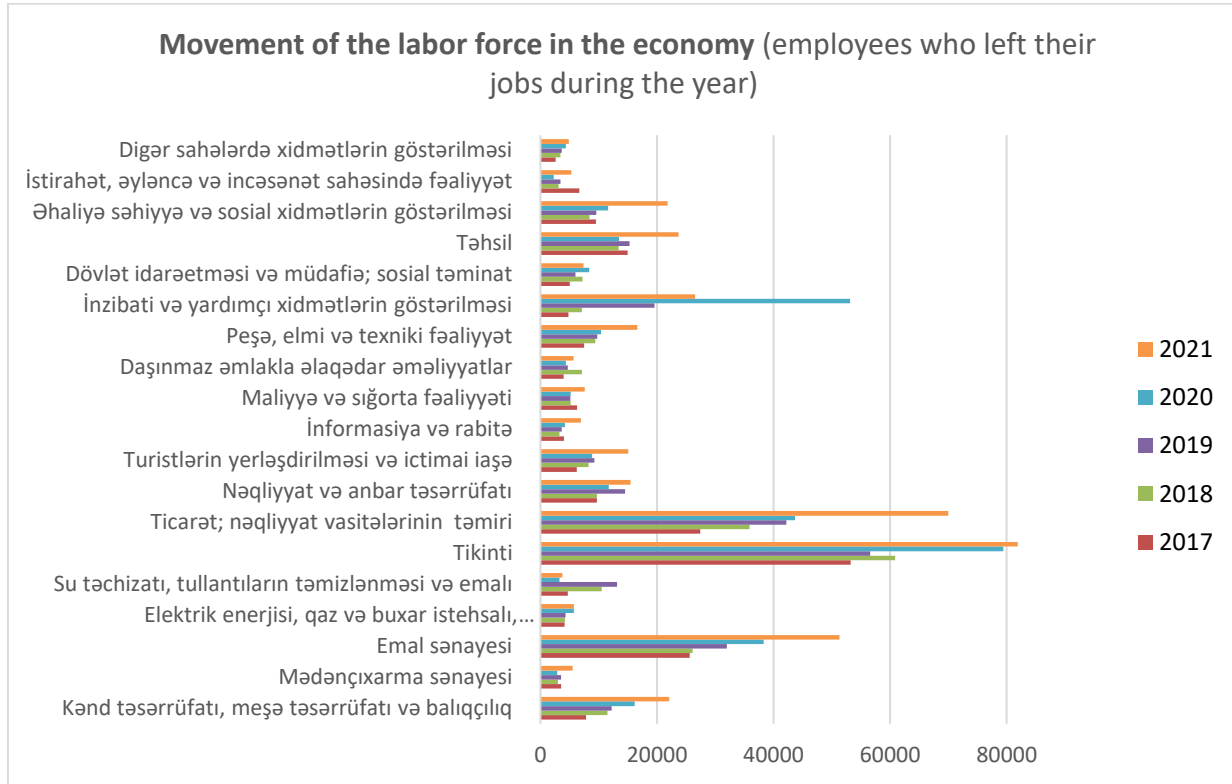
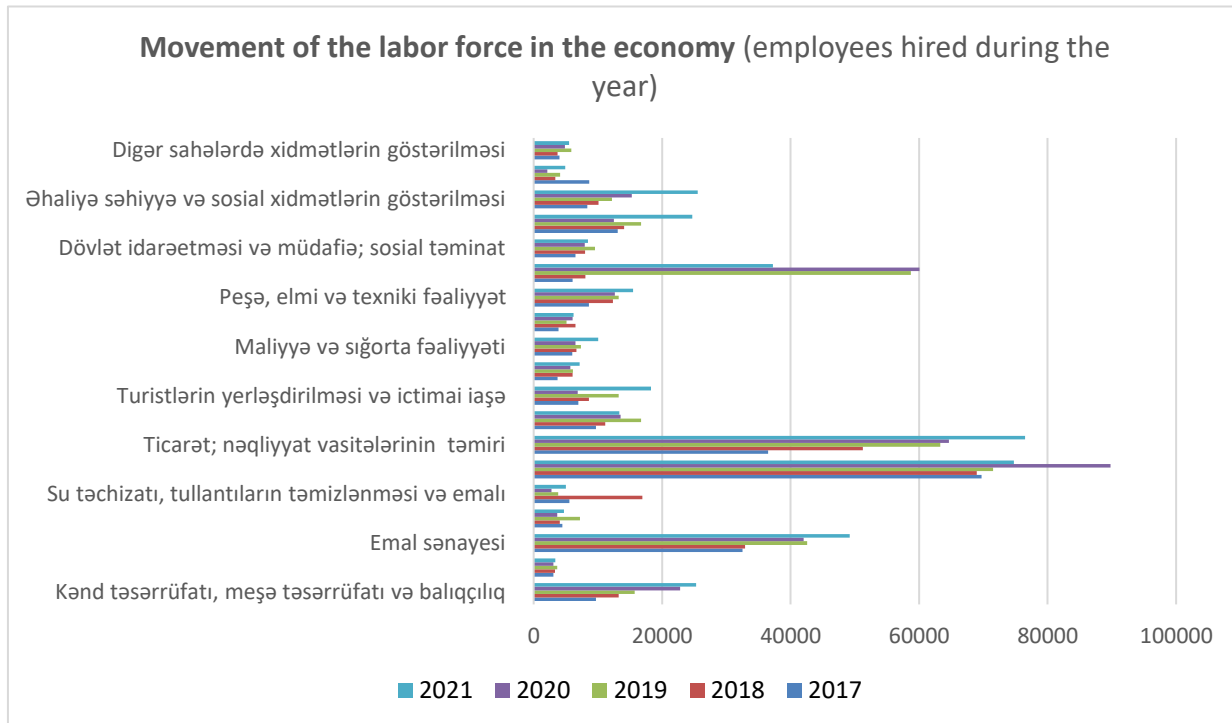


Figure 5. Movement of the labor force in the economy (employees hired during the year)



6. The relationship between higher education and the labor market

When talking about the labor market, we should not forget the institutions that train personnel for the labor market. The great role of the state in Azerbaijan is noticeable in this field as well. As is known, admission to higher education institutions in Azerbaijan is conducted by the State Examination Center (SEC), and every year after the exams, a competition for the selection of a higher school is announced. From this point of view, it is necessary to look at the statistics of bachelor's candidates' choice of specialty over the last 5 years. Education, technical and technological, economics and management specialization groups attract attention regarding statistics. It seems that the group of agricultural specialties, in which the majority of the population works, is one of the least selected specialty groups. These trends are observed in the number of students currently studying, along with the choice of specialty.

The main reason for this type of inconsistency is the policy that is not properly conducted and analyzed, and its elimination is in the hands of the state. Failure to provide more detailed information and data in such statistics creates difficulties for researchers and makes the analysis process less effective. In this regard, it is very important for government bodies to disclose more comprehensive statistical indicators. This can lead to an increase in the state's accountability and more active participation of citizens in the decision-making process.

Figure 6. Distribution of undergraduate students admitted to higher education institutions by specialization groups and directions⁵

⁵ https://www.stat.gov.az/source/education/az/001_8_4-6.xls

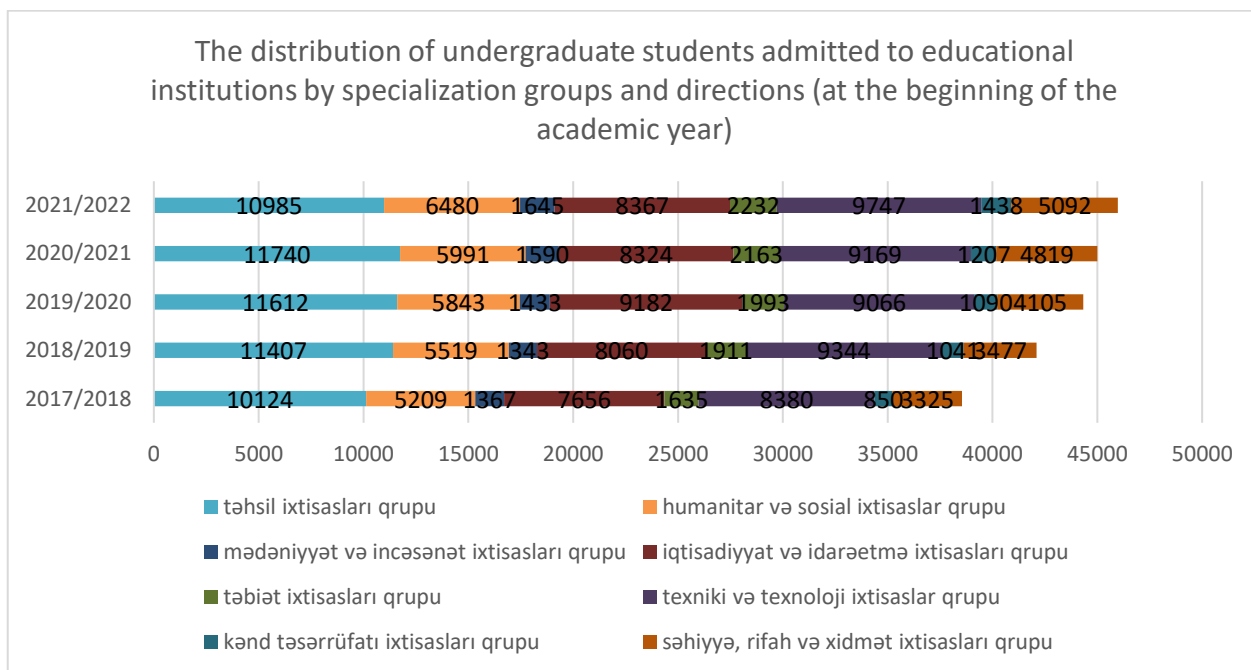
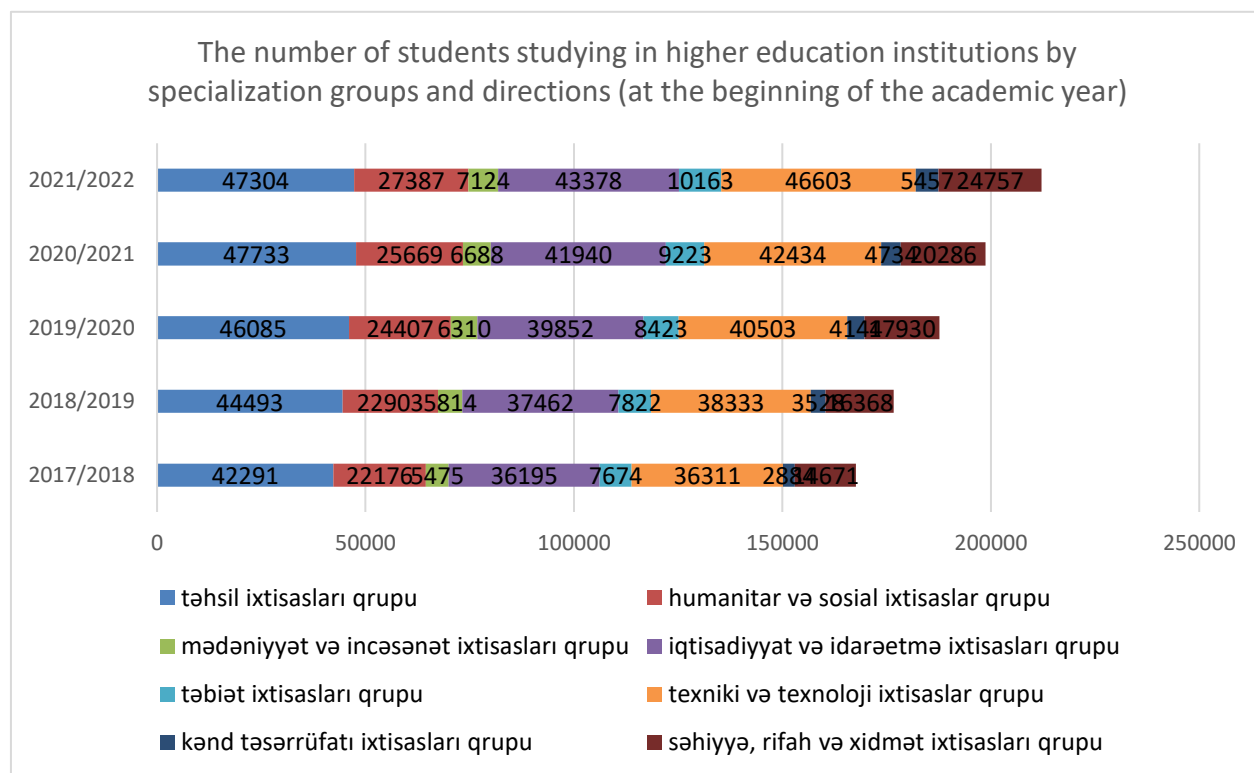


Figure 7. The number of students studying in higher education institutions by specialization groups and directions



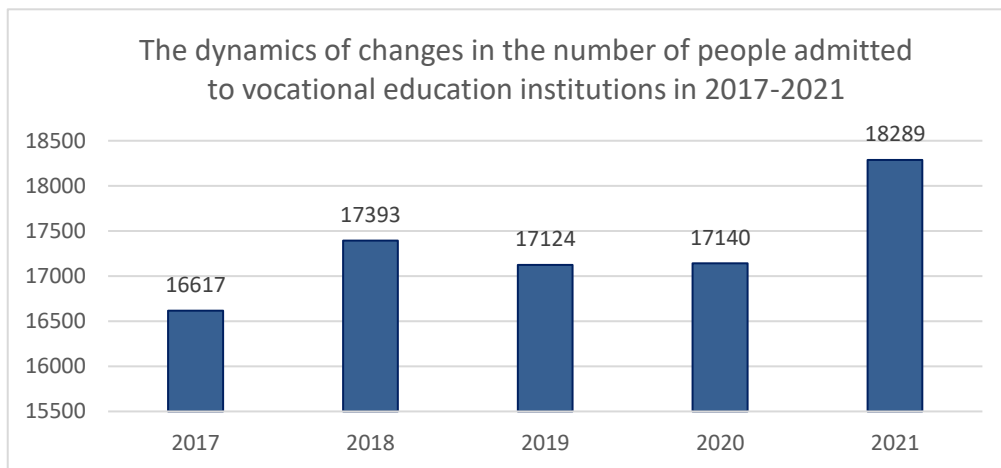
7. The state of staff training through vocational and secondary education

It is clear from the official figures that the demand for vocational and secondary educational institutions in Azerbaijan is lower compared to higher educational institutions.⁶ There are two main reasons: people give less preference to these educational institutions in terms of prestige, and the state allocates less money to these educational institutions than to higher education institutions. If the state pays as much attention to vocational schools and secondary specialized educational institutions as it does to higher schools, we can see development in this field as well. Furthermore, we can increase interest in these institutions by educating applicants and those who influence them - parents, teachers, etc. Although the majority of the population works in agriculture, there is a problem that they have specific qualifications. From this point of view, until the transition from extensive agriculture to intensive agriculture is realized, the population working in agriculture should specialize in this direction, or at least receive vocational or secondary education. At the same time, the number of specialties in the field of agriculture should be increased in higher schools, as well as focusing on the specialties that have a high probability of finding a job in the market, and the admission quota for these specialties should be increased.

Official statistics show that the interest in vocational education in the country is weakening. For example, in 1991, 82,188 people studied at this level of education in the country; however, in the following years, these indicators began to decrease sharply, and now their number has decreased to 20,000 people. Against the background of such a decrease, it is noteworthy that the number of students admitted to vocational education institutions has increased in the last 5 years. In order to clarify the reasons for this increase, interviews were conducted with experts. In those interviews, it was noted that in recent years, students with low success rates in secondary educational institutions have been referred to vocational schools by teachers and school management. It should be noted that such steps, which support the growth in terms of quantity in vocational schools, are the result of directing students to vocational education without volunteering and showing no interest. It also leads to an artificial increase in the acceptance rate of higher education institutions and to the deprivation of students' right to personal choice. From this point of view, in order to increase interest in vocational schools in a real way, conducting some educational propaganda work with parents and students and increasing the quality of education in vocational schools can be a more effective way. Otherwise, only the statistics will improve, and the quality will remain the same.

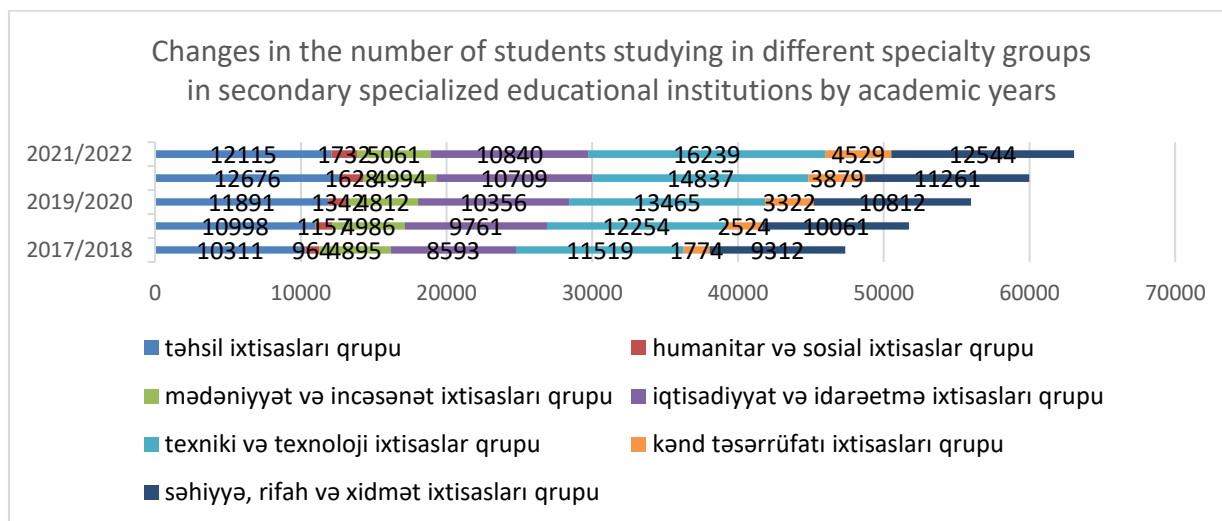
⁶ https://www.stat.gov.az/menu/6/statistical_yearbooks/source/education_2022.zip

Figure 8. The dynamics of changes in the number of people admitted to vocational education institutions in 2017-2021



Similar trends are visible in secondary vocational education institutions. From the official figures, it is clear that at this level of education, the interest in health, education, technical and economic directions is higher. At the same time, young people who could not be admitted to higher education institutions mainly go to secondary specialized educational institutions. Unfortunately, higher education institutions are considered the only educational institution by students and parents. This is due to the fact that the quality of education is not attractive at other levels of education and the reputation of these institutions is low. Another factor that encourages boys to enter higher education institutions is that they are given a deferment from military service when they get higher education, and they serve less in the military after getting higher education than others. Such incentives lead to the irrationality of young people and the lack of goals and objectives for the future.

Figure 9. Changes in the number of students studying in different specialty groups in secondary specialized educational institutions by academic years



8. Global trends in the labor market and remote work

The prolonged duration of the COVID-19 pandemic has created significant risks for businesses and economies around the world. It is possible to see the serious effects of the pandemic on the labor market as well as on many areas of the economy. This effect manifested itself mainly in two forms: After the start of the pandemic, some employees switched to remote work. A significant part of the workers had to lose their jobs in general. For comparison, the number of people who lost their jobs during the pandemic - in 2021 - was four times higher than the number of people who lost their jobs during the global financial crisis (2009).

Studies show that some specific patterns that existed before the COVID-19 pandemic have become more widespread during the pandemic. The most important of these is the increase in employment involving hybrid work, which includes remote work. However, telecommuting - working from home as a "back office" - was not a widespread practice until COVID-19, which was observed with the mass quarantine regime. Currently, some workplaces are offering remote work to employees even after restrictions of the pandemic, which intensified remote work, have been lifted. Some of these companies offer full remote work, while others offer remote work on certain days of the week. Innovation, once forced and short-term due to the pandemic, is now becoming a long-term policy for many businesses, and companies have many options to ensure it.

The ability of people and companies to apply this trend to themselves is possible under certain conditions. These conditions are stipulated by international organizations. There is a practical study conducted by the Organization for Economic Cooperation and Development in this direction. According to the study, remote work is possible only in certain professions and fields. These professions mainly cover information and communication, financial and insurance activities, and other business areas, the share of which in the country's labor market is low. At the same time, remote work requires the presence of necessary infrastructure such as Internet access

and high-speed Internet. However, in the example of Azerbaijan, the appropriate infrastructure has been created mainly in Baku, while the appropriate infrastructure for those living in other regions of the country is poorly established.

Of course, the trend of remote work that has emerged in the world in recent years has also been applied in Azerbaijan. During the COVID-19 pandemic, many companies were forced to switch to remote working mode, citing quarantine measures. There are pros and cons of the remote work system, which directly affects the choice of employees. On the one hand, these are related to the social and psychological conditions of employees; on the other hand, they are related to changes in the volume and direction of the company's expenses.

As a positive point, factors such as employee productivity and job satisfaction, employee interest in the performance of their duties, increased mobility of highly qualified employees, and the widest access to various skills and talents previously unavailable for business can be mentioned. The disadvantage of this working mode is that the professional communication of employees decreases, the effectiveness of human resources management decreases, the risk of possible violations of data confidentiality and labor safety increases, social isolation increases stress and unproductiveness among employees, especially among employees with poor organizational and interpersonal skills, and indirectly affects employees' career prospects and priorities.⁷

On the other hand, the trend of remote work has brought with it certain innovations in people's behavior.⁸ As remote work has advantages as well as disadvantages, people are hesitant to choose it. As part of the study, we conducted conversations with people who work remotely, and it became clear that as a solution to socializing, getting used to the comfort zone, and laziness problems that come with remote work, people use methods such as renting tables in coffee shops on a monthly basis. Those tables are exclusively theirs for the month and are rented only for that customer. The application of this type of innovation in people's lives is clear proof that the innovations happening in the world will come to Azerbaijan quickly.

As a result of the wider spread of this trend in recent years, although this topic has been the subject of several studies, we see that neither international nor local organizations conduct studies on our country and include Azerbaijan in their study. In this regard, taking into account the lack of data and information on the subject, the author conducted a small survey on remote work. The author hopes that this survey will provide some understanding of this trend until extensive studies are conducted and lead to conducting extensive studies and collection of statistics.

The survey also looked at the prevalence of remote work, what sector remote workers are most likely to work in, how many hours they work, whether people choose to do so, and if not, why. It

⁷ https://www.ilo.org/ankara/news/WCMS_774339/lang--en/index.htm

⁸ <https://www.ieeca.org/journal/index.php/JEECAR/article/view/669/332>

is clear from the results of the survey that 41.7% of the respondents work remotely. 19.4% of respondents prefer to work traditionally, despite the possibility of working remotely, while 38.9% do not have the opportunity to work remotely at all. While 71% of private sector workers have the opportunity to work remotely, only 14% of public sector workers do. The service sector is the least used remote work mode in the private sector. Many people who work in banking, finance, and economics work remotely or have the opportunity to do so. The public sector lags far behind in this regard, which ultimately leads people, especially the youth, to prefer the private sector when choosing a job.

As part of the survey, the respondents were also asked about the negative aspects of this trend that they felt in themselves and observed from the outside. It can be seen from the results that the difficulty of socialization was mentioned as the main problem. 66.7% of the respondents see this as their main problem. Addiction to the comfort zone was indicated as the next problem by 60% of the respondents. The next prominent problems are laziness and health problems. Both of these options were chosen by 33.3% of respondents.

The result of the study showed that in some cases, companies increase the workload of employees by making them stay at home. Such situations have a negative effect on the employee's motivation and reduce his/her productivity.

It should be noted that although the survey provides certain information about the current situation, there is a need to conduct more in-depth and detailed surveys in this direction by relevant institutions.

9. Conclusion and recommendations

The result of our study suggests that there is still a long way to go in the labor market, among other areas. It does not seem realistic at the moment to talk about a radical and positive change over the past 30 years. Based on the results of the study, it can be said that currently, the majority of the labor force in the labor market is unskilled personnel.

The main part of the population is considered to be engaged in agriculture; however, the role of this sector in the formation of the country's GDP is very small. Although the agricultural sector is labor intensive, it generates very little value-added. This means ineffective use of labor resources. Many students do not volunteer to choose agricultural fields in their choice of higher education.

Steps to prevent unemployment only temporarily solve this problem and cannot ensure its sustainability. The fact that people work mainly in temporary jobs means that they do not have a steady source of income, and this is considered to be an important factor that directly affects their well-being.

Another problem is that there are certain gaps and deficiencies in the methodology of collecting

statistics and data related to the labor market. The current structure of the labor market hinders the spread of new trends, especially the remote work mode in our country. Changing the structure of the labor market requires changing the priority sectors in the economy. At the same time, the admission quota for specialties offered in higher, vocational, and secondary education institutions should be changed. Another important step that must be taken in this direction is related to the efficient distribution and spending of funds allocated for education from the budget.

Recommendations:

- Improvement of statistical data collection methodology, more accurate and rational collection of statistical data. The latest innovations in the labor market are taken into account in the methodology, the flexibility of adaptation to changes is increased, and work divisions are shared more precisely;
- Preparation of specialization divisions in vocational, secondary, and higher education institutions more correctly and taking into account the results of studies conducted in this direction;
- Strengthening the promotion of education in vocational and secondary educational institutions. In places that do not require higher education, vocational and secondary education institutions are prioritized.
- Revising the number of specialties and their admission quota in higher secondary educational institutions, giving importance to the specialties that are more in demand in the labor market, reducing the number of unnecessary specialties;
- Conducting studies according to emerging trends. It would be appropriate to conduct studies on new types of work such as "remote work", "freelance", and "temporary work" and form a statistical base.
- Promotion of remote working mode. It would be useful to create more suitable conditions for this working mode and promote it in appropriate sectors. At the same time, this trend can help reduce traffic jams and congestion in public transport in the city of Baku to a certain extent.

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Reference to IDI is compulsory when using information.

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