

EMPLOYMENT OUTCOMES IN AZERBAIJAN



WORLD BANK GROUP

Azerbaijan Human Capital Forum
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Outline

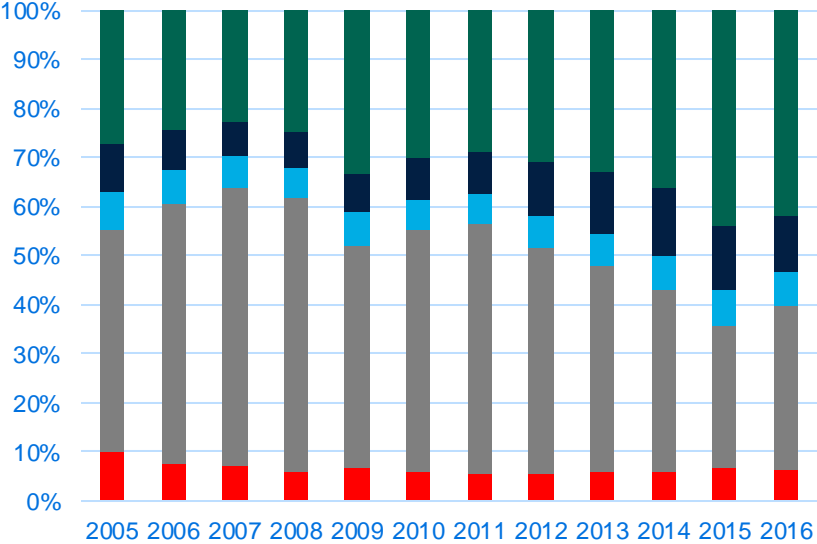
- Employment and Structural Transformation
- Labor Supply
- Labor Demand
- Recommendations

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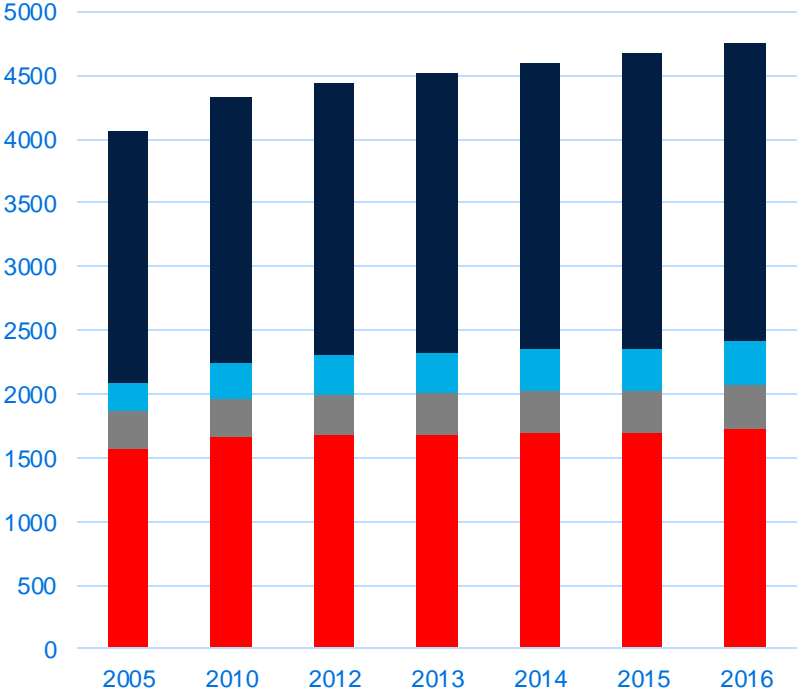
Azerbaijan's economy remains dependent on hydrocarbons but most employment is in agriculture and services

(a) Sectoral Composition of GDP, nominal



■ Agriculture ■ Mining (including Hydrocarbons) ■ Other Industry ■ Construction ■ Services

(b) Total Employment by sector, thousands

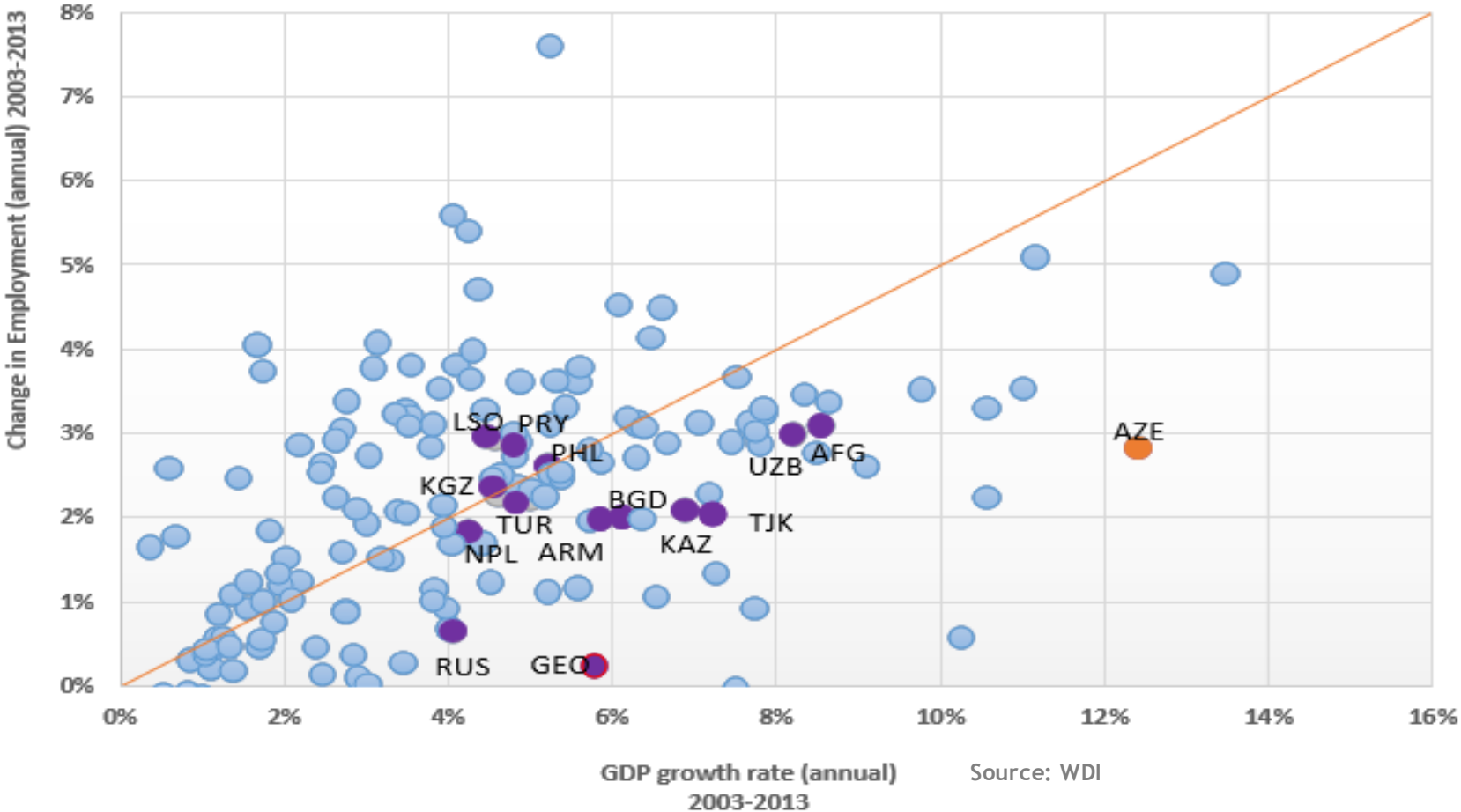


■ Agriculture ■ Industry ■ Construction ■ Services

Source: SSC

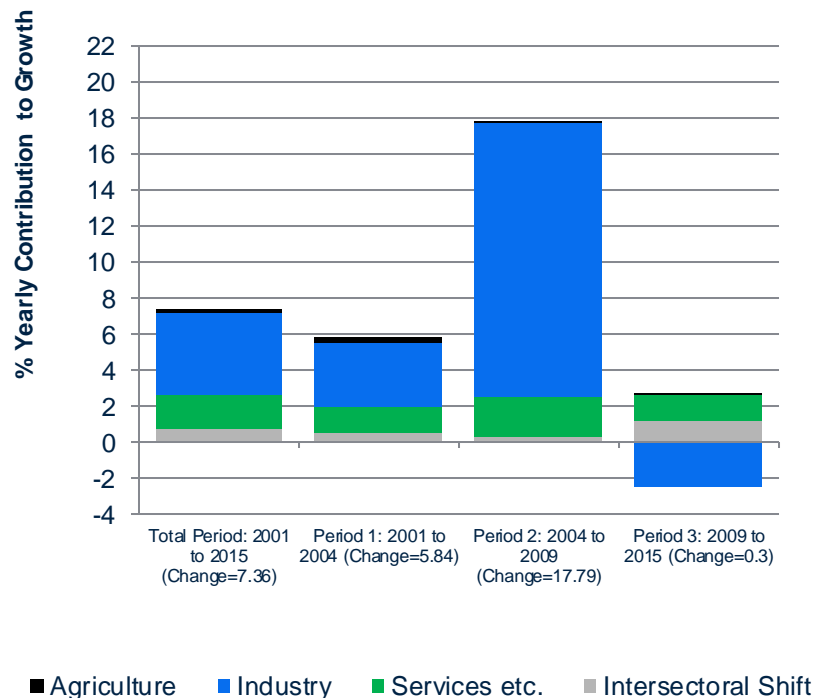
Job creation in Azerbaijan has not been commensurate with the level of economic growth

Link between employment and GDP growth

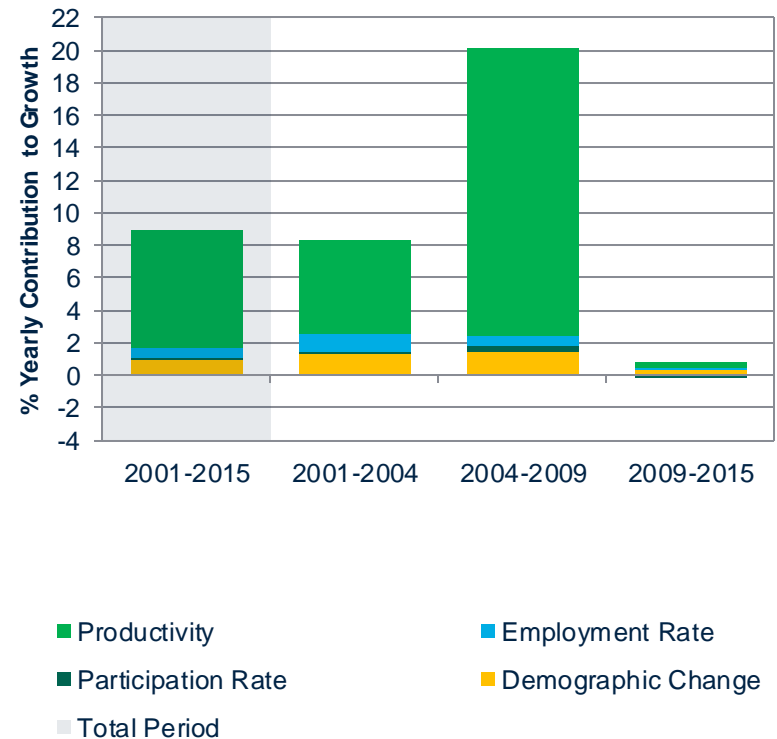


Structural transformation is happening too slowly and many workers remain stuck in low-productivity agriculture

(a) Sectoral contribution to per capita GDP growth

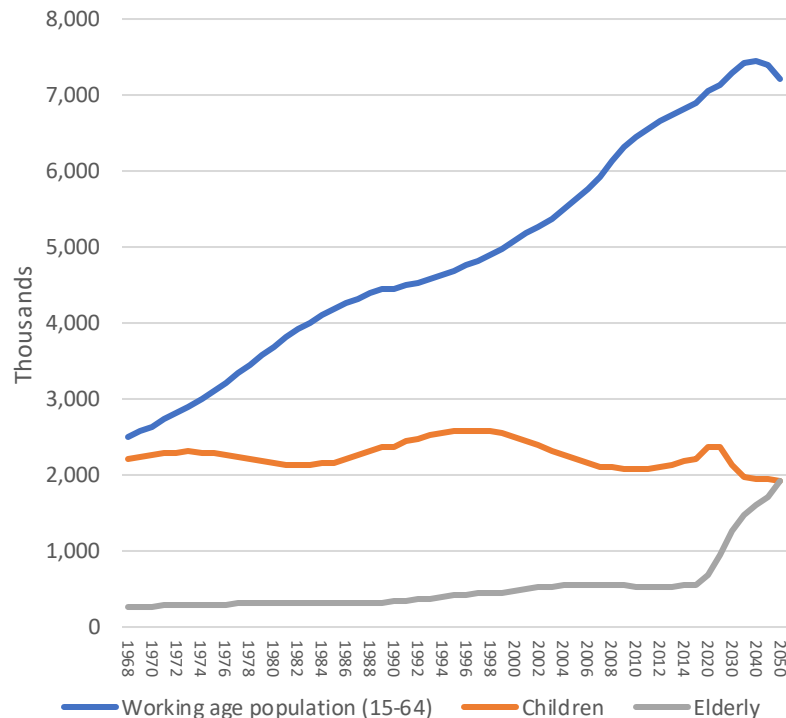


(b) Decomposition of GDP per capita growth

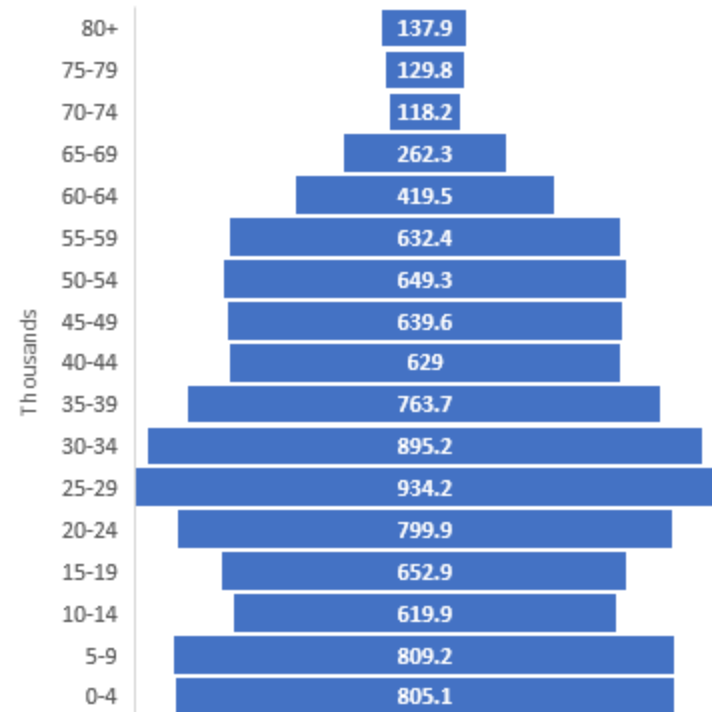


Azerbaijan is in the midst of a demographic transition from youth bulge to aging society

(a) Evolution of Azerbaijan's population



(b) Population pyramid in 2018



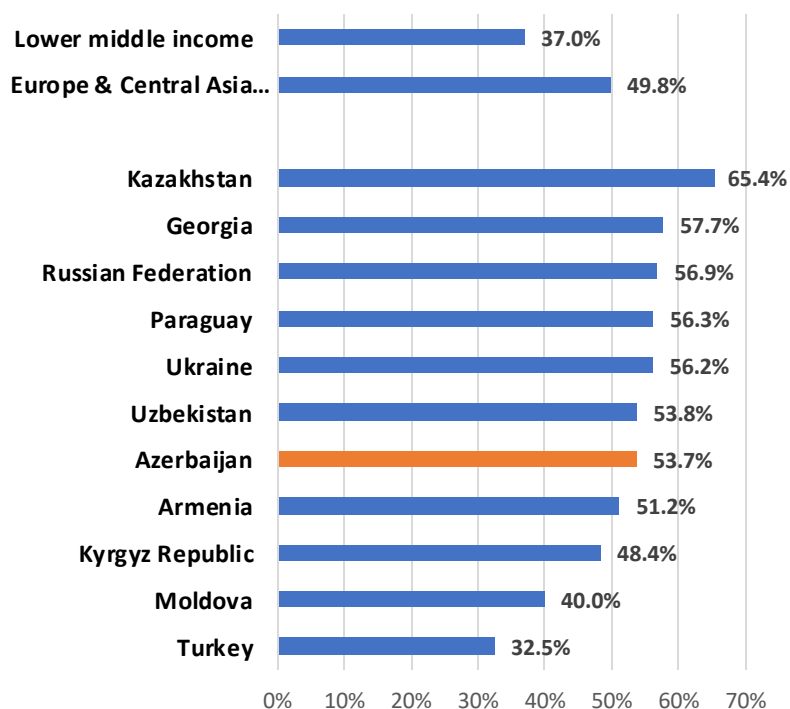
Source: United Nations Population Fund data and State Statistical Committee)

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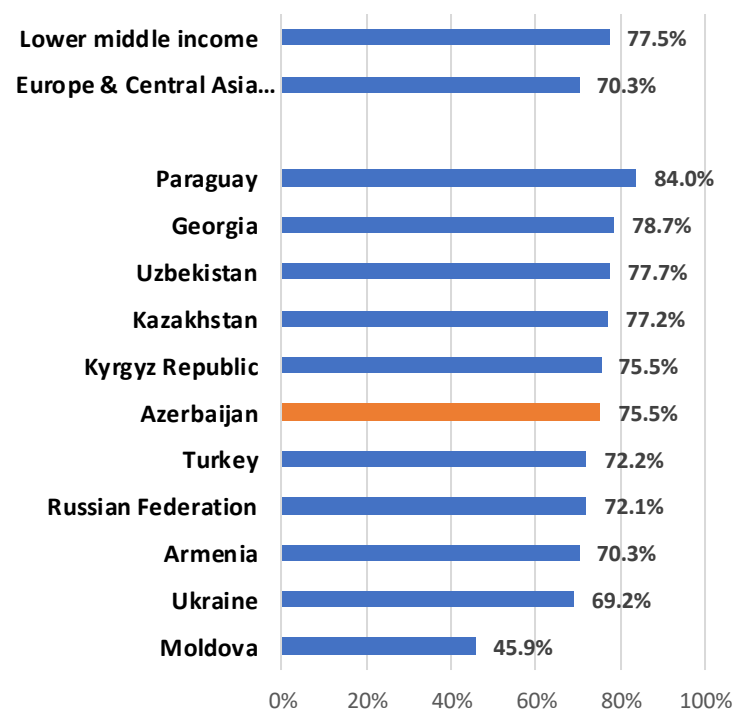
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Low female labor force participation is a concern

(a) Female labor Force Participation



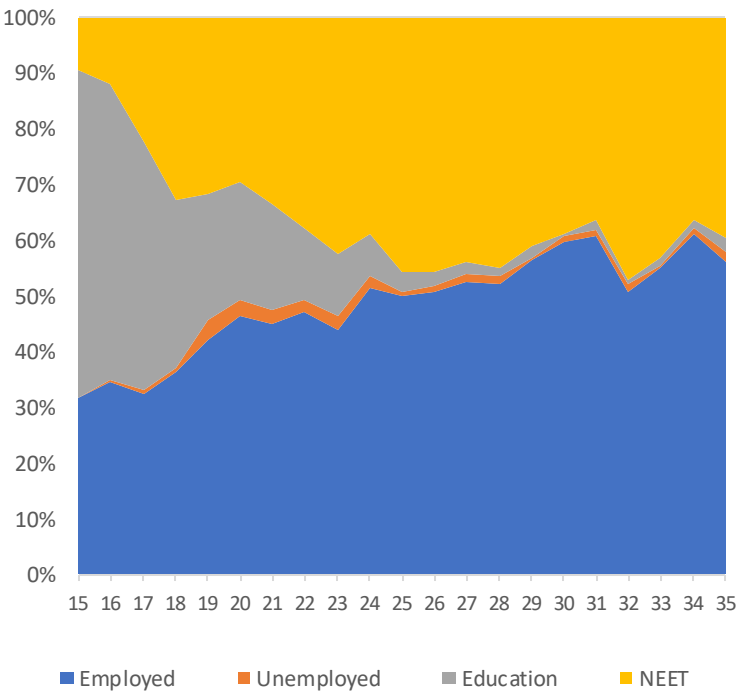
(b) Male labor Force Participation



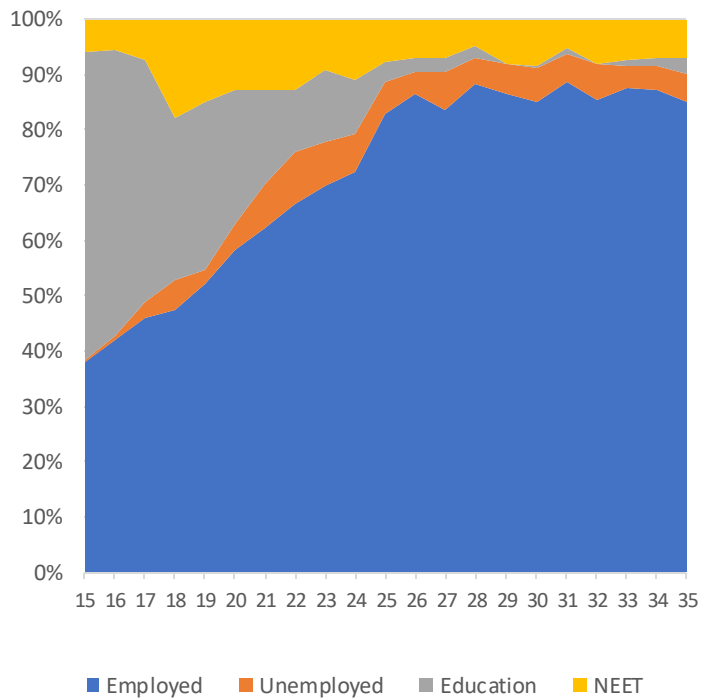
Source: World Development Indicators and authors calculations based on AMSSW 2015

Youth face significant challenges entering the labor market, and many young women are not in employment, education, or training (NEET)

(a) From School to Work Transition, Women, aged 15-35, 2015



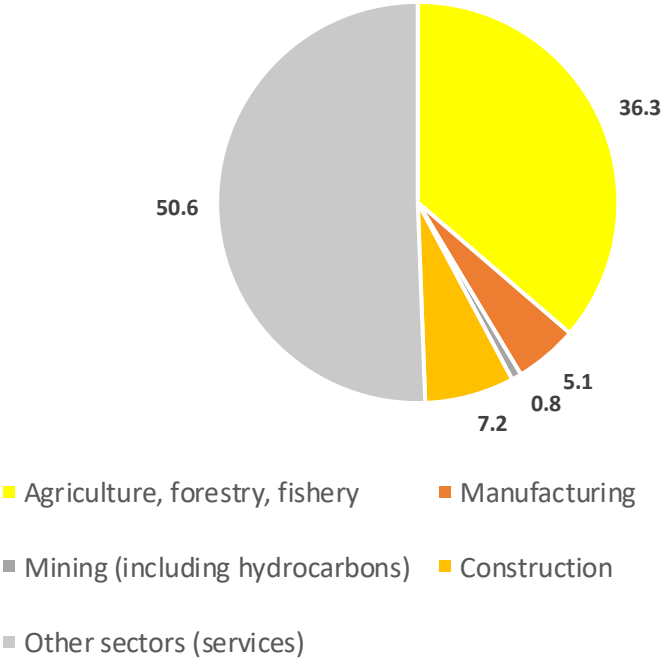
(b) From School to Work Transition, Men, aged 15-35, 2015



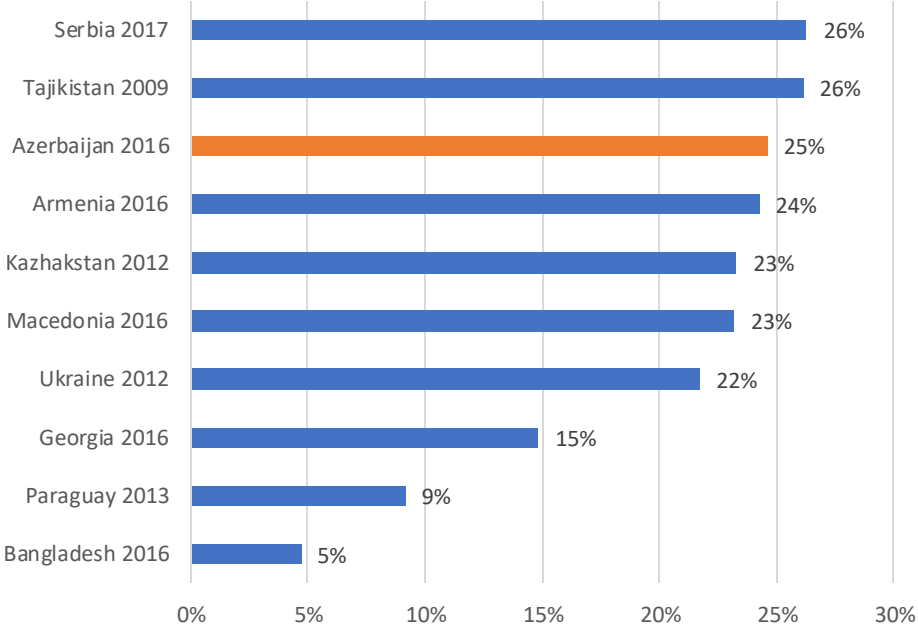
Source: World Bank Staff calculations based on AMSSW 2015

Too many people work in agriculture and in the public sector

(a) Sectoral Share of Employment



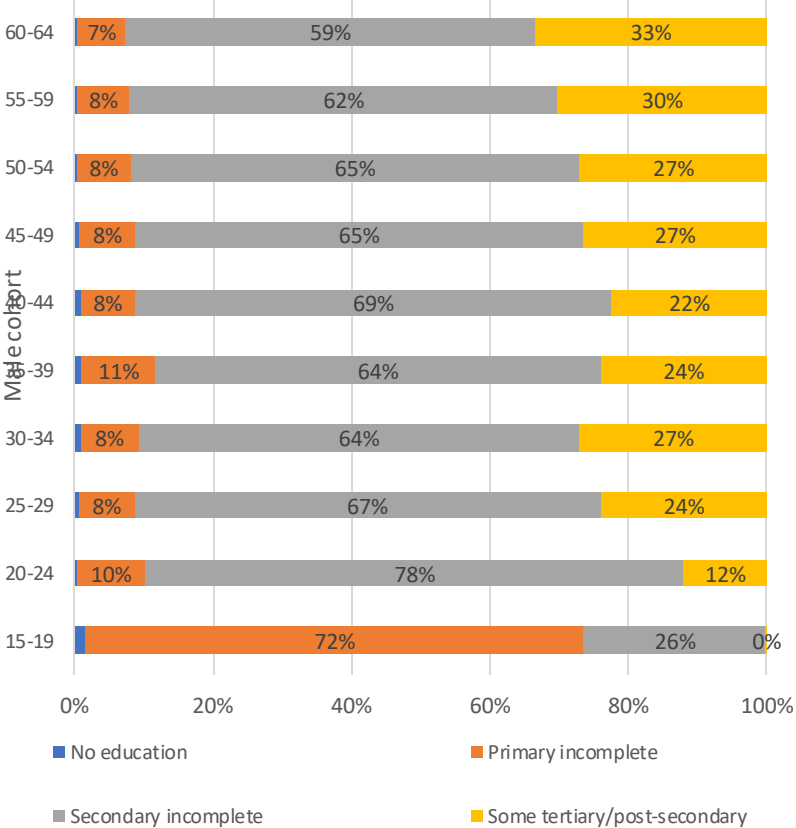
(b) Public Employment, percentage of total



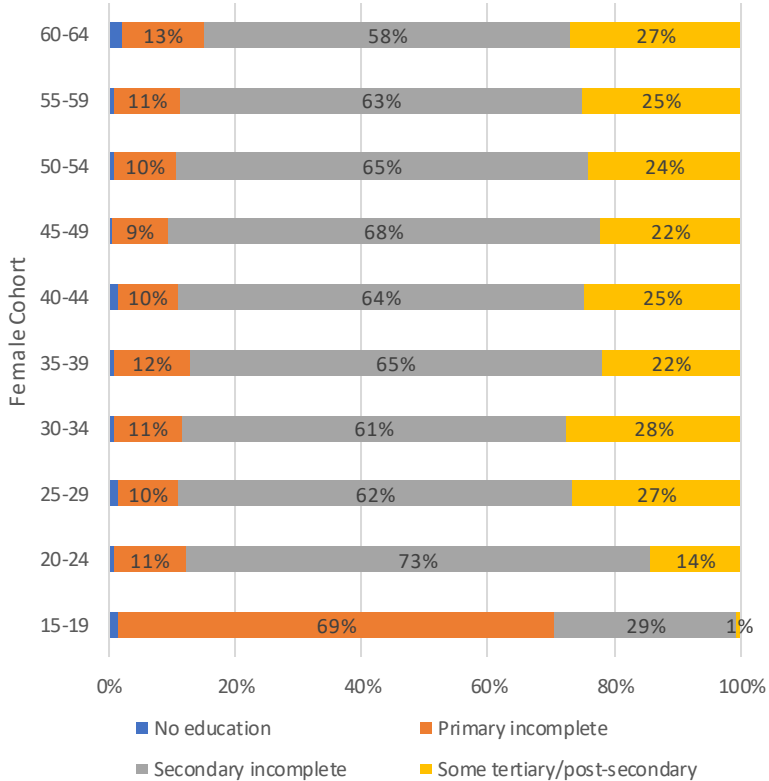
Source: World Bank Staff calculations based on AMSSW 2015

Azerbaijan's workforce has broad access to secondary education but tertiary education enrolment is low

(a) Education Attainment, men



(b) Education attainment, women



Source: World Bank Staff calculations based on AMSSW 2015

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- Recommendations

Firms report difficulties filling their demand for qualified university graduates

- Firms report difficulties in finding suitable candidates for positions requiring STEM degrees
 - One university in the country that is training agricultural specialists. Its teaching is often perceived as outdated
 - Some specialized ICT positions often outsourced or filled by foreign workers as the domestic universities are not producing adequately trained software engineers
- While shortages of qualified staff are less severe for non-STEM fields, firms nevertheless perceive a lack of skilled workers in other sectors as well
 - e.g., it is difficult to find employees with tertiary or vocational education in rural areas and non-Baku urban areas

Job-relevant skills shortages are exacerbated by brain drain

- Firms across industries report brain drain of qualified young Azerbaijanis
 - This phenomenon is particularly pronounced in the ICT sector where many graduates gain few years of work experience in the local labor market and then leave seeking better job opportunities abroad
 - Consultations with firms in the ICT sector suggest that the recent increase in the number of ICT graduates has only translated into limited gains for the local labor market as some of these new graduates leave the country.

Access to finance and export markets among constraints affecting firm growth and job creation

- With high interest rate for bank loans and limited availability of subsidized credit, many firms report difficulties in accessing finance.
 - This holds especially true for SMEs for whom bank loans are often the only source of finance in an environment of underdeveloped capital markets
- Azerbaijan's trade regulations and taxes could improve so as to growth export and support local firms to tap into the potential of global markets

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Proposals for reform/policy actions

- Investment and Business Climate
- Education and Skills
- Active Labor Market Policies and Programs
- Gender quality and female labor force participation
- Migration Policies
- Data and Measurement

1. Investment and Business Climate

- Azerbaijan has made significant progress in improving its business environment. It has moved from 99th out of 175 countries in ease of doing business in 2006, to 25th among 190 countries in 2019.
-However, the country still faces barriers in
 - Trading across borders (84th)
 - Getting electricity (74th)
 - Dealing with construction permits (61st)
- Improving access to finance for SMEs is another major issue

2. Education and Skills

- Quality of education in general, as well as access to tertiary education in particular, is a concern
 - ✓ Increase the supply and quality of tertiary education in STEM subjects
 - ✓ Reform vocational education to enhance collaboration with employers and to better respond to labor market needs
 - ✓ Reform university admission procedures to lift the cap on the number of graduates and enhance private sector participation

3. Active Labor Market Policies and Programs

- Currently, only a relatively small portion of vacancies are registered at NES - vacancies registered at NES tend to be largely for unskilled or semiskilled workers with low wages
 - Increase collaboration with employers to incentivize them to post their vacancies on NES
 - Improve profiling methods for the unemployed and provide an adequate mix of services
 - Increase the availability of training and link it with other activation measures

4. Gender Equality and Female Labor Force Participation

- In Azerbaijan, there is a 20-percentage point gap in economic activity rates between women and men, suggesting that the country does not use the full potential of its workforce.
 - Introduce policies to reduce the labor market disadvantages for women stemming from maternity (e.g. expanding preschool education)
 - Promote flexible working arrangements to allow female caregivers to participate in the labor force

5. Migration Policies

- Outmigration of highly educated graduates and professionals exacerbates skill shortages
 - Undertake efforts to promote the knowledge transfer and investment by members of the diaspora
 - Introduce programs that subsidize scholarships to Azerbaijani students in return for their commitment to return and work in the country after graduation and engage in training of the next generation of Azerbaijan.

6. Data and Measurement

- **“What is not measured is not managed”** is one of the truisms of management science
- Availability and access to accurate and timely data critical for evidence-based policy making, measuring performance, directing scarce resources to their effective use, and monitoring and evaluation.
- In Azerbaijan, the indicators we use to gauge labor market developments are weak. Data on labor supply and labor demand, such as household surveys, labor force surveys, and enterprise surveys, are in critical need.
- Azerbaijan makes substantial investments in and undertake periodic data collection, however by end-users to the data are substantially limited

Thank you!