



European Training Foundation

# AZERBAIJAN

EDUCATION, TRAINING AND EMPLOYMENT  
DEVELOPMENTS 2018



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# KEY POLICY DEVELOPMENTS IN EDUCATION, TRAINING AND EMPLOYMENT

Azerbaijan is in the process of redefining its government structure following the Constitutional amendment in September 2016, making it a presidential republic. On 11 April 2018 presidential elections were held, in which the current president was re-elected for a seven-year term. The new government has been formed with key ministers retaining their positions in the new cabinet.

In December 2017, the State Program on Development of Inclusive Education for Persons with Disabilities in 2018–2024 was adopted. It aims to ensure that persons with disabilities have equal access to education at all levels, by creating a barrier-free environment for their education and encouraging their integration into society through inclusive education.

In April 2018, the Azerbaijan Parliament adopted the Law on Vocational Education and Training (VET), which defines the principles of state policy in the field of vocational education and provides the legal, organisational, and economic basis for the VET system. It aims to increase the effectiveness of vocational training in ensuring a qualified workforce for Azerbaijan's economy and labour market. By means of Decree No. 311, dated 18 July 2018, the Cabinet of Ministers approved the National Qualifications Framework for Lifelong Learning of the Republic of Azerbaijan (AzQF).

The Ministry of Labour and Social Protection (MLSP) has drafted an action plan for the development and use of occupational standards for 2018–2025. This will reorganise the process and procedures for development, registration, and management of occupational standards, including better engagement of stakeholders. The draft action plan envisages providing more prominent and active role to sector skills councils (sector committees).

The development of the state's Employment Strategy of the Republic of Azerbaijan for 2017–2030 has been finalised with support from the World Bank. The draft strategy was submitted to the Cabinet of Ministers in 2018. Its purpose is to develop effective employment policies based on the existing demographic trends, development perspectives, and economic priorities of the country.

In 2017, the government launched several important reforms covering social security and the labour market, including a transition to a new pension system from mid-2017. On 1 January 2018, the Law on Compulsory Insurance against Unemployment came into force. This law aims at improving the social protection of unemployed people, introducing a new financing system by establishing an Unemployment Insurance Fund and fostering a shift from passive to active labour market programmes.

In August 2018, Azerbaijan's president signed an order on additional policy measures in the field of social protection of the population. The order provides for the establishment of the new Agency for Sustainable and Operational Social Security (DOST) under the MLSP and foresees funding of AZN 2 million for the functioning of the agency, the establishment of DOST centres, and the improvement of services in the fields of employment, labour, and social protection.

Negotiations on the new agreement with the EU were formally concluded in July 2018. The new upcoming agreement will replace the existing Partnership and Cooperation Agreement and will include four main areas of cooperation:

- strengthening institutions and good governance;
- economic development and market opportunities;
- connectivity, energy efficiency, environment, and climate action;
- mobility and people-to-people contacts.

Support to workforce planning and skills anticipation worth EUR 1.2 million will be financed under the Annual Action Programme (2016). It is expected to start early in 2019.

# 1. KEY DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS

At the beginning of 2018, the population of Azerbaijan was 9.89 million. In the period 2006–2018 the average annual population growth rate was about 1.3%, one of the highest indicators among European countries. Some 49.9% of the country's total population are male and 50.1% female. About 52.9% of the population live in urban areas and 47.1% in rural areas. Between 2000 and 2017 the urban population increased by 26.58% and the rural population by 17.46%. In that period, the urban population grew more quickly than the rural population, showing the acceleration of urbanisation processes in the country.

The country has a young population. In 2017, 21.6% of the total population were aged 0–14 years. The high proportion of youth in the population's overall structure is reflected in an increase in the share of young people in the working-age population, and this tendency will continue for a number of years. In the period 2017–2025, 125 200 people will be entering the labour market every year, which is almost 2.5 times higher than the number of jobs created in one year<sup>1</sup>.

According to the Internal Displacement Monitoring Centre, there were 393 000 internally displaced people in Azerbaijan at the end of 2017<sup>2</sup>. Predominantly they are former residents of the Nagorno-Karabakh area and the seven surrounding territories, who have been displaced since the armed conflict – now 30 years old – in and around the Nagorno-Karabakh region.

The oil boom period of 2002–2010 and the economic revival due to energy earnings made the country an attractive destination for many foreign immigrants. To protect the labour market from an unskilled foreign labour force and to use the potential of the national labour force to the maximum, a quota for the employment of foreigners was introduced in 2010.

Azerbaijan has made rapid economic progress over the last decade and has become a higher middle-income country according to the World Bank classification. Large energy reserves have been a main determinant of the country's economic structure. Prior to the decline in global oil prices in 2014, Azerbaijan's high economic growth was attributable mainly to rising energy exports. Consequently, declining oil prices caused a 3.1% contraction in GDP in 2016, highlighted by a sharp reduction in the construction sector. The economic decline has been accompanied by higher inflation and a weakened banking sector in the aftermath of the two sharp currency devaluations since 2015.

The economy stabilised in 2017 and had a very modest 0.1% GDP growth rate, thanks to active macroeconomic policies and stronger oil prices. The non-oil economy started to expand mainly through reviving the service and agriculture sectors. In 2016, industry contributed 51.7% to the total GDP; services and agriculture contributed 42.3% and 6% respectively. Annual inflation declined from 15.6% in 2016 to 7.9% in 2017. In April 2018, the International Monetary Fund (IMF) revised its 2018 growth projection for Azerbaijan upward from 1.3% to 2%. Growth is expected to accelerate further to 3.9% in 2019, when a new gas exploration and export project comes on line. Non-oil GDP growth is

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<sup>1</sup> <https://www.azernews.az/nation/124292.html>

<sup>2</sup> <http://www.internal-displacement.org/sites/default/files/2018-05/GRID%202018%20-%20Figure%20Analysis%20-%20AZERBAIJAN.pdf>, accessed 22 August 2018.

expected to accelerate in 2018, fuelled by an 83% increase in budgeted public investment, but it is expected to remain moderate<sup>3</sup>.

The primary goal of the government is to speed up economic diversification, maintain rapid growth in the non-oil sector regardless of the level of oil revenues, increase competitiveness, and expand export opportunities. The development concept 'Azerbaijan 2020: a look into the future' (2012) underlines the country's aspiration to become a knowledge-based economy, increase the country's competitiveness, and diversify the economic structure. In 2016, the president signed a presidential decree endorsing the Strategic Road Maps for the National Economy and Main Economic Sectors. This is an ensemble of 12 road maps, which set out objectives for the years 2016–2025 for different sectors and an action plan with timelines for achieving them. There are road maps on the general prospects for the national economy, the oil and gas industry, the manufacturing and processing of agricultural products, stimulation of the small and medium-sized business sector, and heavy industry and mechanical engineering. Further road maps cover the development of a specialised tourism industry, logistics and trade, construction of affordable housing, development of vocational education and training (VET), financial services, telecommunications and information technologies, and public services (supply of electrical and thermal energy, water, and gas)<sup>4</sup>.

As a result of strong growth and targeted social assistance programmes, the poverty rate dropped from around 50% in 2000 to 5.9% in 2016. Azerbaijan's achievements in poverty reduction in recent years have been driven mostly by rising social transfers, pensions, and real wages, rather than by an increase in access to more and better economic opportunities. There are significant disparities across the regions, as well as between rural and urban areas, since the majority of poor people (61%) live in rural areas.

Azerbaijan has been proactive in reforming its business environment, introducing, for example, one-stop-shop company registration and a best-practice e-government portal. Following a recent decree of 14 March 2018, mandating the Azerbaijani Service and Assessment Network (ASAN) to ensure the implementation and regulation of state policy on e-government, ASAN's centres are expected to expand their range of activities by providing more tax and customs services in 2018. The country ranks 57th out of 190 countries in the World Bank's 2018 *Doing Business* report<sup>5</sup>. Globally, Azerbaijan stands at 18th place in the ranking of 190 economies as regards the ease of starting a business, and 35th as regards the ease of paying taxes. *The Global Competitiveness Report 2016–2017* ranks Azerbaijan's economy as 37th in the world out of 138 economies in the world<sup>6</sup>.

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<sup>3</sup> World Bank, The World Bank in Azerbaijan: Country Snapshot, April 2018, <http://pubdocs.worldbank.org/en/313721524209608491/Azerbaijan-Snapshot-Spring2018.pdf>, accessed 16 July 2018.

<sup>4</sup> See <https://www2.deloitte.com/content/dam/Deloitte/az/Documents/legal/aze/7%20December%202016-%20Legal%20News%20-%20Deloitte%20Azerbaijan.pdf>

<sup>5</sup> World Bank, *Doing Business 2018: Reforming to create jobs*, Washington DC: World Bank Group, 2018; summary data available at <http://www.doingbusiness.org/data/exploreeconomies/azerbaijan>

<sup>6</sup> World Economic Forum, *The Global Competitiveness Report 2016–2017*; <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>.

## 2. EDUCATION AND TRAINING

### 2.1 Trends and challenges

In 2017, Azerbaijan's public expenditure on education represented 2.5% of GDP, less than the 2.9% reported in 2016. Overall, this figure is much lower than the average of 4.5% in other Eastern European countries and the averages of most higher middle-income countries. The share of VET expenditure in total education expenditure is very low and has decreased during the last five years from 2.1% to 1.4%. In 2018, AZN 28 million will be allocated to initial VET; this is AZN 5.8 million less than in 2017<sup>7</sup>.

Azerbaijan has maintained high literacy rates: in 2016, these were 99.79% for adults and 99.94% for youth. The country has almost universal coverage of primary education (in 2016, the net enrolment rate was 94.93%) and high levels of secondary school enrolment, with primary to secondary transition rate of 99.42%. However, enrolments in pre-school education remain low (2016 net enrolment rate, 18.02%). The enrolment rate in tertiary education is also low (2016 gross enrolment rate, 27.24%), especially when compared with the average of 33.4% for higher middle-income countries. In 2017, the majority of adults (aged 25–64) had medium-level education (76.4%), 16.8% had completed higher education, and 6.8% had primary education or lower.

According to the Law on Education (2009), the education system in Azerbaijan consists of several levels: pre-school education (ages 3–5); general education, covering primary education (grades 1 to 4, ages 6–9), basic education (grades 5 to 9, ages 10–14), and secondary education (grades 10–11, ages 15–16); VET, including initial vocational education (1–3 years of study) and secondary, specialised vocational education (2–4 years of study). Higher education includes cycle I: Bachelor's degree programme (4 years of study); cycle II: Master's programme (2 years of study); cycle III: Doctor of Philosophy and Doctor of Science (3 years of study).

The total number of students in the country has been increasing and reached 1.87 million in the 2016/17 academic year. Most of them (1.46 million) were in the general education system. There were 24 000 initial VET students and 51 700 specialised secondary vocational education students. In the same academic year, the number of students in higher education was around 171 000, an increase of almost 24 500 since 2010. In 2017, out of a total number of students enrolled in upper secondary programmes (ISCED 3), 14.2 % were enrolled in VET (ISCED 3) programmes.

According to the Ministry of Education (MoE), there are currently 54 higher education institutions (HEIs), including both private and state universities, academies, colleges, institutes, and conservatoires. At the beginning of the 2016/17 academic calendar, there were 144 505 students at public HEIs and 19 274 students at private HEIs. The institutions can decide on the content of curricula and create academic plans for each area of study.

Over the past twenty years, progress in improving the quality of education has been weak. Evaluations by international organisations and education experts show that Azerbaijan is underperforming in education quality. Azerbaijani students performed poorly in the 2009 PISA international student survey, receiving one of the lowest scores on the reading and science scales. Important institutional developments aiming to address this issue have started and a number of new institutions have been

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<sup>7</sup> EC Political Economy Analysis Report, Draft Synthesis Report, May 2018, unpublished.

established. Azerbaijan will participate in the PISA 2018 cycle, although only schools in Baku will take part.

## 2.2 Education and training policy and institutional setting

Over the last decade, human capital development has been high on the policy agenda in Azerbaijan and numerous conceptual papers and decrees have been adopted, including ‘Azerbaijan 2020: a look into the future’, mentioned above, and the National Strategy for the Development of Education (2013). Both documents formulate the state’s policy toward achieving higher levels of human capital development and increasing the quality of the educational system and strengthening the competitiveness of knowledge-based industries in Azerbaijan. The education strategy further establishes objectives and mechanisms for education system reforms at all levels of education and sets up a long-term vision for the development of education. It focuses on the development of competence-based education, new management mechanisms based on partnerships, lifelong learning, modern infrastructure, and the development of economically sustainable financing mechanisms.

The Action Plan on the Implementation of the National Strategy for the Development of Education (2015) included the adoption of the National Qualifications Framework for Lifelong Learning of the Republic of Azerbaijan (AzQF) as a milestone in 2016. To coordinate the national qualifications framework (NQF) process an NQF Secretariat was established within the MoE as an ad-hoc body. Finally, on 18 July 2018, the Cabinet of Ministers approved the AzQF by means of Decree No. 311. The AzQF is a tool for systematising national qualifications and facilitating the comparability between national and international qualifications. The AzQF is conceptually developed in compliance with the criteria of the Qualifications Framework of the European Higher Education Area (QF-EHEA) and the European Qualifications Framework for Lifelong Learning (EQF). The NQF Secretariat will review and submit the Action Plan for NQF implementation (2018–2025).

Azerbaijan began to reform its higher education system by joining the Bologna Process in 2005, subsequently adopting the new Law on Education in 2009. The law formally introduced the European Credit Transfer System. To enhance the quality of education by creating innovative learning environments, the MoE launched an initiative involving SABAH (highly educated, skilled and well-prepared) groups. SABAH groups were established in 34 specialisms in seven state higher education institutions in the 2014/15 academic year. SABAH groups now enrol more than 2 300 students in more than 40 specialisms in 12 higher education institutions. A total of 842 SABAH students graduated in the 2017/18 academic year. In 2017, the SABAH Career Academy was established to provide career guidance and assist higher education graduates in getting initial professional experience.

The expected diversification of the economy requires a modernised VET system, and the MoE has declared VET a mid-term priority for the period 2016–2020. The Strategic Road Map for the Development of Vocational Education and Training, one of the 12 Strategic Road Maps for the National Economy and Main Economic Sectors (2016), sets out the short-, medium-, and long-term visions for VET development. It includes five strategic goals and nine priorities, and aims to create a positive new image of VET, increasing the attractiveness of the VET system, establishing a management structure for VET providers based on an improved public–private partnership, creating a rationalised and optimised network of public VET providers, and developing a strong results-based financing system. In April 2018, for the first time in the country’s history, a Law on Vocational Education was adopted. This law defines the principles of state policy in the field of vocational education and provides an organisational, legal, and economic basis for VET system.



The Cabinet of Ministers plays an important role in the governance of the education system in Azerbaijan. The MoE oversees the functioning and development of the education system. It supervises educational institutions, develops educational standards and organises the provision of education in line with them, organises the accreditation of providers, and ensures monitoring and assessment. Several other ministries are involved in coordinating HEIs and VET providers.

The Ministry of Labour and Social Protection (MLSP) coordinates the development of occupational standards. In 2017, a Division for Occupational Standards Development in the Department of Employment and Demography was established. In 2018, the MLSP took substantial steps towards reorganising the process and procedures for the development, registration, and management of occupational standards, and has drafted an Action Plan for 2018–2025. With EU support (via a project entitled Strengthening Legislative and Regulatory Framework for the Development and Implementation of Occupational Standards in Azerbaijan), a package of draft technical and regulatory proposals has been developed, including draft guidelines for the development of occupational standards, draft rules for the development, revision, endorsement, registration and annulment of occupational standards, a detailed template for occupational standards, and a draft Cabinet of Ministers decree approving the Statute for Sector Committees for Skills Development. These draft documents were at the stage of final approval by the MLSP at the time of writing.

In 2016, the State Agency on Vocational Education was established under the MoE to increase the efficiency and relevance of the initial VET system in Azerbaijan. This agency prepares and implements programmes within the framework of the joint public–private partnership established with employers. Its tasks include the development and implementation of competence-based, results-oriented education standards and curricula (programmes), promoting the application of innovation in the learning process using modern education technologies, and reviewing and driving the implementation of good practice in initial VET.

Because of its very weak ties with the world of work, VET in Azerbaijan is mostly school-based. With the support of EU technical assistance, the concept and legal basis of work-based learning (WBL) have been developed. Currently, WBL is piloted by several projects. The British Council, in partnership with the VET Agency and the tourism industry, continues implementation of the Access to Hospitality and Apprenticeship Scheme. During the 2018/19 academic year, the programme will be implemented in Baku, as well as in the other regions of Azerbaijan (Gabala, Ganja, Qusar, and Ismayilli), in three specialties (chef, hotel concierge, housekeeping attendant). GIZ is implementing the project Establishing Dual-like VET Pilots in Tourism and Agriculture in Gabala, Ismayilli, and Gakh districts.

The State Examination Centre – established in 2016 as an external assessment body by merging the State Student Admission Commission and the Civil Service Commission – conducts the final assessment of students at secondary schools and oversees entrance examinations and students' admission to specialised secondary education, Bachelor's and Master's degree programmes at HEIs, and Master's Degree programmes at the Academy of Science. While the Centre carries out external assessment, it will play an important role in quality assurance of the AzQF.

Work on accreditation of education institutions and programmes is under the auspices of the Accreditation and Nostrification Office (ANO) established in 2015 under the MoE. As an external quality assurance body, the ANO is currently working on developing the accreditation system, including evaluation criteria and standards, aligning the evaluation standards with European guidelines to ensure educational quality, studying the best practices in educational quality assurance, training evaluators, supporting internal quality assurance (QA) for educational institutions, and developing a database for accreditation of institutions and programmes.



The EU provides substantial support to the development of Azerbaijan's education system. The Annual Action Programme (2014) contributes a total budget of EUR 19 million to the sector. Within this programme, substantial focus is placed on the development of VET. The interventions include technical assistance to support VET reform implementation (EUR 3.2 million), technical assistance to the development and implementation of the NQF (EUR 2.8 million), and a grant scheme for multifunctional training centres to support the five strategic directions of the National Education Development Strategy (EUR 6.2 million). In the period up to 2020, grants will be provided for:

- the establishment of VET pilots in the agriculture and tourism sectors in the Gabala, Ismayilli, and Gakh districts;
- the Regional Industrial VET Competence Centre in Ganja;
- the Regional VET Centre of Excellence in the Jalilabad/Lankaran Economic Region;
- modernisation of the Barda Vocational Lyceum<sup>8</sup>.

The EU's Erasmus+ programme supports HEIs and their staff and students in partner countries such as Azerbaijan. Erasmus+ funds academic mobility, allowing Azerbaijani students to study for 3–12 months in a host institution in Europe, and also offers academic staff grants for short-term mobility. In the period 2015–2017, the EU funded mobility from Azerbaijan to Europe for nearly 880 students and staff members and mobility to Azerbaijan for 450 European students and staff<sup>9</sup>.

## 3. LABOUR MARKET AND EMPLOYMENT

### 3.1 Trends and challenges

Azerbaijan's labour market has a few positive characteristics, but it also faces several challenges. The positive characteristics are a relatively high economic activity rate, a low unemployment rate, and high flexibility. The negative features include relatively high youth unemployment, a large shift towards low-skilled occupations, a high percentage of self-employed people, and higher growth in wages than in labour productivity. These negative developments can impose certain challenges on the future prospects of the Azerbaijani economy and therefore demand urgent policy responses<sup>10</sup>. Moreover, with young people making up a significant portion of the population, Azerbaijan expects the large influx of youth into the labour market to continue over the next three decades.

After the collapse of the Soviet Union, the activity and employment rates declined significantly, but they have been steadily increasing over the years. The activity rate reached 66.2% in 2017 (up from 64.5% in 2012), with minor differences between men and women (69.7% and 62.9% respectively). The employment rate was 62.9% in 2017, slightly higher for men (66.9%) than for women (59.2% for women).

The overall unemployment rate is low, at 5.0% in 2017, with a minor decrease from 5.2% in 2012. It is higher for women (5.9%) than men (4.1%). The youth unemployment rate (for those aged 15–24) is

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<sup>8</sup> Joint Monitoring of the EU Education Support Programme Azerbaijan 2017–2019: Action Grants for Modernising VET Centres in Azerbaijan, ETF, November 2017, unpublished.

<sup>9</sup> EEAS, *EU-Azerbaijan relations* (factsheet, updated 1 November 2017); [https://eeas.europa.eu/headquarters/headquartershomepage\\_en/4013/EU-Azerbaijan%20relations](https://eeas.europa.eu/headquarters/headquartershomepage_en/4013/EU-Azerbaijan%20relations), retraved 20 July 2018.

<sup>10</sup> [https://www.cbar.az/assets/4315/WP-series-02\\_2016.pdf](https://www.cbar.az/assets/4315/WP-series-02_2016.pdf)

much higher than the overall unemployment rate, having reached 12.9% in 2017, a slight fall from 14.2% in 2012. In that year it was higher for young women (14.9%) than for young men (11.1%). The high unemployment rate among youth compared to general unemployment can be explained by limited job opportunities, lack of work experience, and relatively high reservation wages.

The service sector is the largest source of employment and provides jobs for almost half of the workforce (49.2% in 2017). The agriculture sector accounts for the smallest share of GDP, but provides employment to 36.4% of the workforce, suggesting subsistence-type farming. It also generates about two-fifths of household income in rural areas. The industrial sector accounts for the lowest share of employment (14.4 % in 2017), but the highest share of contribution to GDP.

As the result of recent market-oriented reforms and structural changes in the economy of the country, the share of people employed in the private sector has been increasing. An important characteristic of the employment structure is a high level of self-employment, which has risen noticeably since 2000, reaching 68.4% in 2017. Self-employment has increased across all sectors, particularly in agriculture and construction. In addition, the proportion of informality is high, mainly in agriculture but also in other sectors such as transport, manufacturing, trade, and construction.

Skills mismatch is becoming a growing concern; businesses report an inadequately educated workforce as an obstacle to their business performance. According to Azerbaijan's 2018 Business Climate Survey<sup>11</sup>, carried out with the support of the Delegation of the European Union to Azerbaijan and Eurochambres, the shortage of skilled labour can significantly hamper investment<sup>12</sup>. Despite an encouragingly positive shift in perception among EU businesses of the quality of vocational education (24% of EU companies consider VET training to be satisfactory, compared with only 6% in 2017) and higher education (29% of EU businesses are satisfied with the quality of higher education compared with 15% in 2017), much remains to be done, with 41% and 40% of respondents respectively remaining dissatisfied with the quality of VET and academic education in the country.

## 3.2 Employment policy and institutional setting

One of the main priorities of Azerbaijan's social and economic policy is to create full and productive employment opportunities for everyone in the conditions of implementation of the UN Sustainable Development Goals, as well as to ensure inclusive and sustainable economic development in accordance with the 8th Goal. Ongoing reforms are being implemented in labour market regulation, expansion of active labour market programmes, improvement of the quality of employment services, and prevention of informal employment.

The development concept 'Azerbaijan 2020: a look into to the future', the Strategic Road Maps for the National Economy and Main Economic Sectors, and social state programmes approved by presidential decrees set targets, such as improving the quality of the workforce, developing highly qualified staff based on economic diversification, and improving the institutional infrastructure for strengthening dynamic coordination between demand and supply in the labour market. The state programme Azerbaijani Youth 2016–2021, focused on youth education and employment, includes

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<sup>11</sup> The survey questionnaire was shared through an online survey software package, QuestionPro, with around 400 EU companies representing 27 EU countries. Between 9 February and 16 March 2018, 149 questionnaires were submitted. Face-to-face interviews were also conducted with 17 EU companies representing various sectors. Also, the insights of selected EU businesses participating in the Focus Group Meeting contributed to the evaluation of the data obtained.

<sup>12</sup> [https://eeas.europa.eu/sites/eeas/files/business\\_climate\\_report\\_-2018.pdf](https://eeas.europa.eu/sites/eeas/files/business_climate_report_-2018.pdf)

skills development, career guidance, and entrepreneurship. However, the programme is a framework document that provides neither concrete activities nor indicators.

In 2016, the Government of Azerbaijan and the ILO signed a Decent Work Country Programme for 2016–2020. The first priority of the programme is to promote decent employment opportunities and quality jobs for inclusive growth. Two other priority areas focus on employment, working conditions, occupational safety and health, and social dialogue.

The development of the state's Employment Strategy of the Republic of Azerbaijan for 2017–2030 has been finalised with support from the World Bank. The draft was submitted to the Cabinet of Ministers in 2018. The strategy aims at developing an effective employment policy based on existing demographic trends, development perspectives, and economic priorities in the country.

On 1 January 2018, the Law on Compulsory Insurance against Unemployment came into force. The law aims at improving the social protection of the unemployed, introducing a new financing system by establishing an Unemployment Insurance Fund, and promoting a shift from passive to active labour market programmes. The fund will not only cover unemployment insurance benefits but also finance the provision of active labour market measures. The fund's revenues are formed on the basis of insurance payments amounting to 1% of the monthly wage of an employee (0.5% payable by the employer and 0.5% payable by the employee through withholding by the employer). In 2018, the budget will be allocated as follows: unemployment insurance (38%), self-employment programmes (40.2%), training for unemployed people (1.8%), career guidance (1.3%), job fairs (0.13%), wage subsidies (1.55%) and maintaining the administration of the employment service and its local bodies (14.5%). From 2019, the allocation of funds for the analysis of labour market trends and developments and skills needs identification is also envisaged.

The MLSP is responsible for employment and social policy issues. In 2016, a Tripartite Commission on Social and Economic Affairs was established, introducing a new stage in the development of an institutional structure on national tripartite social dialogue. The main objectives of the Tripartite Commission include consulting on draft legislation in the field of social and labour relations, employment and social security, coordinating work on drafting a General Collective Agreement, and assisting in the regulation of social and labour relations at the national level. The Permanent Secretariat of the Tripartite Commission at the MLSP coordinates its work.

The State Employment Service (SES) under the MLSP consists of a central office in Baku, 83 regional employment centres, and three vocational training centres (Baku, Goychay, and Nakhchivan). In general, employment services do not reach many of the unemployed, as only a limited number of job seekers are registered with the SES. At the beginning of 2017, there were 33 000 registered unemployed persons<sup>13</sup>.

Until 2018, the financial resources allocated for active labour market programmes were insufficient and the employment services provided by the SES were quite limited. These services include job search assistance; career guidance and counselling services; organisation of job fairs and labour exchanges; provision of vocational training, retraining, and skills development courses; paid public works; self-employment and small business advisory services; and support to entrepreneurship and start-ups. Regional SES offices also carry out regional labour force surveys (LFS) using reports from enterprises as data sources. Based on the collected data and the LFS, regional SES offices produce

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<sup>13</sup> <https://www.stat.gov.az/source/labour/?lang=en>

so-called balance of labour resources and prepare one-year forecasts of employment by economic sector.

To strengthen the capacity of the SES, the number of staff was significantly increased in the SES regional offices in 2016 and more funds will be provided from the Unemployment Insurance Fund in 2018 for the implementation of active labour market measures. In the period 2017–2020, an EU-funded twinning project, Support to the Ministry on Labour and Social Protection of the Population in Modernising Public Employment Services in the Republic of Azerbaijan, will provide support to the modernisation and expansion of public employment services, ensuring better addressing of the needs of job seekers and employers in the country.

In 2016, the MLSPP initiated a self-employment programme to support the establishment of small-scale household enterprises among low-income families. In 2017, 1 232 such families were involved in this programme and were provided with material and financial assistance, as well as the opportunity to create their own small businesses, mostly in the farming sector. In 2018, it is envisaged that the programme's coverage will be increased five- or sixfold, to attract at least 6 000–7 000 families, including disabled people who want to work. For these purposes, 40% of the budget of the Unemployment Insurance Fund will be allocated to supporting self-employment.

Actions are being implemented to increase youth employment and to facilitate youth transition to work by providing training programmes that use modern learning methods and are relevant to the labour market, improving the career guidance system, and fostering employers' involvement. A project entitled Promoting Innovation and Employment in Azerbaijan, implemented jointly by the MLSPP and the United Nations Development Programme (UNDP) plays an important role in the provision of job search skills for young people. It is based on the SYSLAB (Innovation and Employment System Laboratory) methodology, which promotes modern and innovative methods. In the recent years, SYSLAB training and education centres have been established in Baku, Sumgayit, Ganja, and Masalli districts. As the project that started in 2011 has demonstrated good results in helping young people to find suitable jobs, its implementation has been prolonged. In 2018, the MLSPP will introduce a new measure of wage subsidies for young graduates that will be implemented jointly with the ILO. It is expected that this programme will cover 1 000 students in 2018 and 5 000 students in 2019.

In August 2018, Azerbaijan's president signed an order on additional policy measures in the field of social protection of the population. The order provides the establishment of the new Agency for Sustainable and Operational Social Security (DOST) under the MLSPP and foresees funding of AZN 2 million for the functioning of the agency, the establishment of DOST centres and improvement services in the fields of employment, labour, and social protection.

In recent years, the government has adopted several measures to improve the functioning of the labour market and reduce informal employment. As of 2014, all employment contracts must be registered with the MLSPP at its website (accessible through [www.e-gov.az](http://www.e-gov.az)). After registration, immediate confirmation is obtained and employees can start actual employment. In March 2017, the Commission for Regulation and Coordination of Labour Relations was established by a presidential decree. The commission is headed by the deputy prime minister and includes the ministers of Labour and Social Protection, Taxes, and the Economy, and the chairs of the State Statistics Committee, the Azerbaijan Trade Unions Confederation, and the National Confederation of Entrepreneurs (Employers). In October 2017, the Action Plan on the Prevention of Non-formal Employment in the Republic of Azerbaijan was approved by presidential decree. In 2018, the UNDP and the ILO will

support the MLSPP in the implementation of a pilot programme for the formalisation of informal businesses.

The Strategic Road Map for the Development of Vocational Education and Training is setting up a new task to identify strategic employment areas and forecast labour market demand. In this regard, and with support from the ETF, the MLSPP has started work on the development of the National Skills Observatory.

## STATISTICAL ANNEX - AZERBAIJAN<sup>14</sup>

Annex includes annual data from 2012, 2016 and 2017 or the last available year

	Indicator	2012	2016	2017	
1	Total Population (000)	9235.1	9705.6	9810.0	
2	Relative size of youth population (age group 15-24) (%)	26.9	22.6	21.6	
3	Youth Dependency ratio (%)	31.5	32.6	32.9	
4	Old Dependency ratio (%)	8.0	8.2	8.5	
5	Global Competitive Index	Rank	55	37	35
		Score	4.3	4.55	4.69
6	GDP growth rate (%)	2.2	-3.1	0.1	
7	GDP per capita (PPP) (current international \$)	16180.9	17256.6	17398.2	
8	GDP by sector (%)	Agriculture added value	5.4 (2011)	6.0	M.D.
		Industry added value	65.6 (2011)	51.7	M.D.
		Services added value	29.0 (2011)	42.3	M.D.
9	Poverty headcount ratio at \$3.2 a day (2011 PPP) (%)	M.D.	M.D.	M.D.	
10	Gini index (%)	M.D.	M.D.	M.D.	
11	Educational attainment of adult population (aged 25-64 or 15+) (%) <sup>(2)(1)</sup>	Low	6.3	6.5	6.8
		Medium	76.9	76.8	76.4
		High	16.8	16.8	16.8
12	Gross enrolment rates in secondary education (%)	M.D.	M.D.	M.D.	
13	Share of VET students in secondary education (%)	M.D.	M.D.	M.D.	
14	Gross enrolment rates in upper secondary education (%)	M.D.	M.D.	M.D.	
15	Share of VET students in upper secondary education (%)	16.3	13.7	14.2	
16	Low achievement in reading, mathematics and science – PISA (%)	Reading	72.7 (2009)	N.A.	N.A.
		Mathematics	45.3 (2009)	N.A.	N.A.
		Science	70.0 (2009)	N.A.	N.A.
17	Total	M.D.	6.5 (2014)	M.D.	

<sup>14</sup> Data update on 04/09/2018

	Indicator		2012	2016	2017
	Participation in training/lifelong learning (age group 25-64) by sex (%)	Male	M.D.	7.6 (2014)	M.D.
		Female	M.D.	5.3 (2014)	M.D.
18	Early leavers from education and training (age group 18-24) by sex (%)	Total	M.D.	M.D.	M.D.
		Male	M.D.	M.D.	M.D.
		Female	M.D.	M.D.	M.D.
19	Activity rates by sex (aged 15+) (%)	Total	64.5	66.0	66.2
		Male	67.8	69.5	69.7
		Female	61.4	62.8	62.9
20	Employment rates by sex (aged 15+) (%)	Total	61.2	62.7	62.9
		Male	64.9	66.6	66.9
		Female	57.6	59.0	59.2
21	Unemployment rates by sex (aged 15+) (%)	Total	5.2	5.0	5.0
		Male	4.3	4.2	4.1
		Female	6.1	6.0	5.9
22	Unemployment rates by educational attainment (aged 15+) (%) <sup>(2)</sup>	Low	9.5	9.4	9.0
		Medium	4.7	4.8	4.7
		High	5.3	4.3	4.2
23	Youth unemployment rates by sex (aged 15-24) (%)	Total	14.2	13.1	12.9
		Male	12.2	11.3	11.1
		Female	16.3	15.1	14.9
24	Proportion of long-term unemployed out of the total unemployed (aged 15+) (%)		67.1	66.6	61.6
25	Long-term unemployment rate (aged 15+) (%)		3.5	3.4	3.1
26	Incidence of self-employment (%)		66.7	68.2	68.4
27	Share of the employed in a public sector (%) <sup>(5)</sup>		26.1	24.6	24.0
28	Employment by sector (%)	Agriculture	37.7	36.3	36.4
		Industry	14.3	14.3	14.4
		Services	48.0	49.4	49.2
29	Employment in the informal sector		M.D.	M.D.	M.D.
30	Proportion of people aged 15–24 not in employment, education or training (NEETs), by sex (%)	Total	M.D.	M.D.	M.D.
		Male	M.D.	M.D.	M.D.



	Indicator	2012	2016	2017
	Female	M.D.	M.D.	M.D.
31	Public expenditure on education (as % of GDP)	2.7	2.9	2.5
32	Public expenditure on education (as % of total public expenditure)	8.3	9.9	9.9
33	Skill gaps (%)	0.5 (2013)	N.A.	N.A.
34	The contribution of SMEs to GDP (value added, %)(4)	2.7	4.0 (2015) (3)	M.D.
35	The share of SMEs in employment %(4) (6)	6.4	6.3 (2015)	M.D.

**Sources:**

3, 4, 6, 7, 8 - The World Bank, World Development Indicators database

5 - World Economic Forum

1, 2, 11, 15, 17, 19, 20, 21, 22, 23, 25, 26, 28, 31, 32, 34, 35 - State Statistical Committee of the Republic of Azerbaijan

16, 33 - OECD Statistical database

24, 27 - ILOSTAT

**Legend:**

N.A. = Not Applicable

M.D. = Missing Data

**Note:**

(1) Values refer to active population

(2) Low = Primary education, Main education; Medium = Secondary education, Vocational education, Secondary specialized education; High = Higher education

(3) Preliminary data

(4) Data refer to small entrepreneurship subjects that include enterprises with the average number of employees up to 25 and the annual revenue of 200 thousand manats, including private entrepreneurs (excluding farm-households).

(5) ETF calculation

(6) Based on the average annual number of employees

## ANNEX: INDICATORS' DEFINITIONS

	Description	Definition
1	Total population (000)	The total population is estimated as the number of persons having their usual residence in a country on 1 January of the respective year. When information on the usually resident population is not available, legal or registered residents can be considered.
2	Relative size of youth population (age group 15-24) (%)	The ratio of the youth population (aged 15–24) to the working-age population (usually aged 15–64 or 15–74).
3	Youth Dependency ratio (%)	The ratio of younger dependants (people younger than 15) to the working-age population (those in the 15–64 age group).
4	Old Dependency ratio (%)	The ratio of older dependants (people older than 64) to the working-age population (those in the 15–64 age group).
5	Global Competitiveness Index	The Global Competitiveness Index assesses the competitiveness landscape providing inside into the drivers of countries' productivity and prosperity. It expressed as scores on a 1 to 7 scale, with 7 being the most desirable outcome.
6	GDP growth rate (%)	The annual percentage growth rate of GDP at market prices based on constant local currency.
7	GDP per capita (PPP) (current international \$)	The market value of all final goods and services produced within a country in a given period of time (GDP), divided by the total population, and converted to international dollars using purchasing power parity (PPP) rates.
8	GDP by sector (%)	The share of value added from Agriculture, Industry and Services.
9	Poverty headcount ratio at \$3.2 a day (PPP) (%)	The percentage of the population living on less than \$3.2 a day at 2011 international prices.
10	Gini index (%)	Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.
11	Educational attainment of adult population (25-64 or aged 15+) (%)	Educational attainment refers to the highest educational level achieved by individuals expressed as a percentage of all persons in that age group.
12	Gross enrolment rates in secondary education (%)	Number of students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education.
13	Share of VET students in secondary (%)	The proportion of VET students in secondary education out of the total number of pupils and students in secondary education (general + VET)
14	Gross enrolment rates in upper secondary education (%)	Number of students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education.
15	Share of VET students in upper secondary education (%)	The proportion of VET students in upper secondary education out of the total number of pupils and students in upper secondary education (general education + VET)

	Description	Definition
16	Low achievement in reading, maths and science – PISA (%)	The share of 15-years-olds falling to reach level 2 in reading, mathematics and science.
17	Participation in training/lifelong learning (age group 25-64) by sex (%)	The share of persons aged 25–64 who stated that they received education or training in the four weeks preceding the (LFS) survey.
18	Early leavers from education and training (age group 18-24) by sex (%)	The percentage of the population aged 18–24 with at most lower secondary education who were not in further education or training during the four weeks preceding the (LFS) survey. Lower secondary education refers to ISCED 1997 level 0–3C short for data up to 2013 and to ISCED 2011 level 0–2 for data from 2014 onwards.
19	Activity rates by sex (aged 15+) (%)	Activity rates represent the labour force as a percentage of the population of working age.
20	Employment rates by sex (aged 15+) (%)	Employment rate represents persons in employment as a percentage of the population of working age.
21	Unemployment rates by sex (aged 15+) (%)	Unemployment rate represents unemployed persons as a percentage of the labour force.
22	Unemployment rates by educational attainment (aged 15+) (%)	Educational levels refer to the highest educational level successfully completed. Three levels are consider: Low (ISCED level 0-2), Medium (ISCED level 3-4) and High (ISCED 1997 level 5–6, and ISCED 2011 level 5–8)
23	Youth unemployment rates by sex (aged 15-24) (%)	Youth unemployment rate represents young unemployed persons aged (15-24) as a percentage of the labour force (15-24).
24	Proportion of long-term unemployed out of the total unemployed (aged 15+) (%)	Number of unemployed persons aged 15+ who are long-term unemployed (12 months or more) as a percentage of unemployed persons aged 15+.
25	Long-term unemployment rate (age 15+) (%)	Number of unemployed persons aged 15+ who are long-term unemployed (12 months or more) as a percentage of the labour force aged 15+.
26	Incidence of self-employment (%)	The share of self-employed as a proportion of total employment. Self-employment includes employers, own-account workers, members of producers' cooperatives and contributing family workers.
27	Share of the employed in a public sector (%)	The share of employed in a public sector as a proportion of total employment.
28	Employment by sector (%)	The share of employed in Agriculture, Industry and Services.
29	Employment in the informal sector	Share of persons employed in the informal sector in total non-agricultural employment.
30	Proportion of people aged 15–24 not in employment, education or training (NEETs) (%)	The percentage of the population of a given age group and sex who is not employed and not involved in further education or training.
31	Public expenditure on education (as % of GDP)	Public expenditure on education expressed as a percentage of GDP. Generally, the public sector funds education either by directly bearing the current and capital expenses of educational institutions, or by supporting students and their families with scholarships and public loans as well as by transferring public subsidies for educational activities to private firms or non-profit

	Description	Definition
		organisations. Both types of transactions together are reported as total public expenditure on education.
32	Public expenditure on education (as % of total public expenditure)	Public expenditure on education expressed as a of total public expenditure. Generally, the public sector funds education either by directly bearing the current and capital expenses of educational institutions, or by supporting students and their families with scholarships and public loans as well as by transferring public subsidies for educational activities to private firms or non-profit organisations. Both types of transactions together are reported as total public expenditure on education.
33	Skill gaps (%)	The percentage of firms identifying an inadequately educated workforce as a major constraint.
34	The contribution of SMEs to GDP (%)	The share of value added from small and medium businesses (SMEs).
35	The share of SMEs in employment (%)	The share of persons employed in small and medium businesses.

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