



Center for Analysis of Economic
Reforms and Communication of
the Republic of Azerbaijan

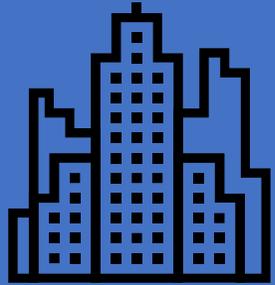


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LABOR MARKET CHALLENGES AND FUTURE OUTLOOK IN AZERBAIJAN

January 19, 2022

Baku, Azerbaijan



Azerbaijan's labor market challenges and future directions

January 2022

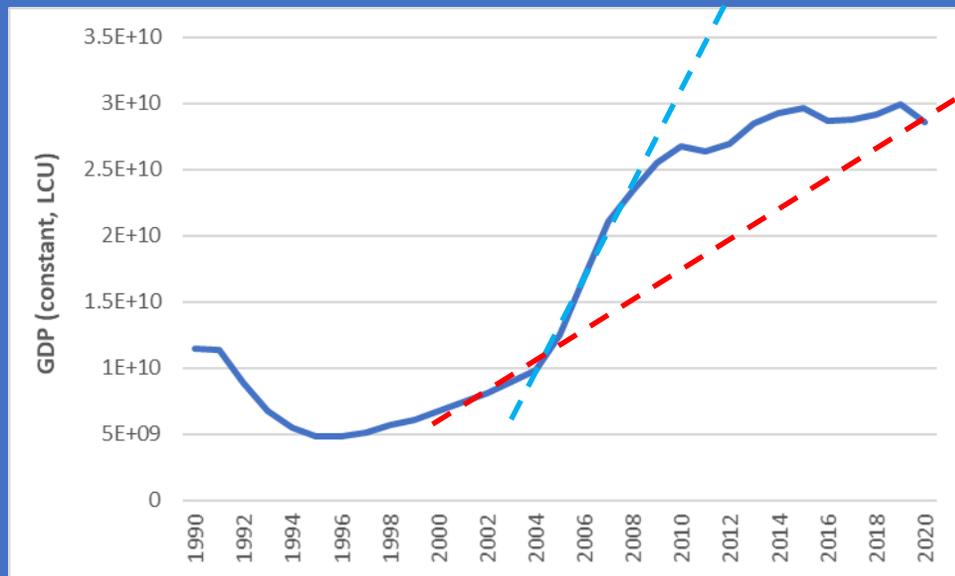


I. Azerbaijan's growth and productivity

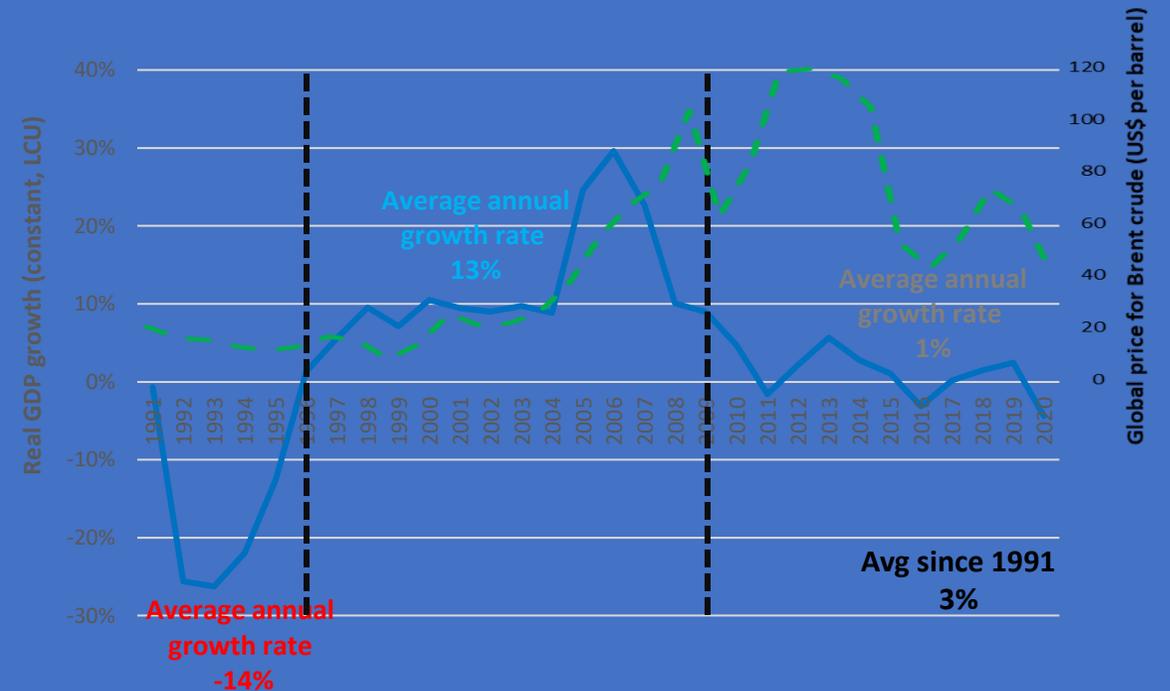
Long-run

- Oil investments made possible the 1996-2009 growth spurt.
- The global financial crisis and the Russian crisis (2014-15) hit hard, and Azerbaijan's growth has been meagre since then.

Real GDP Growth, 1990-2020



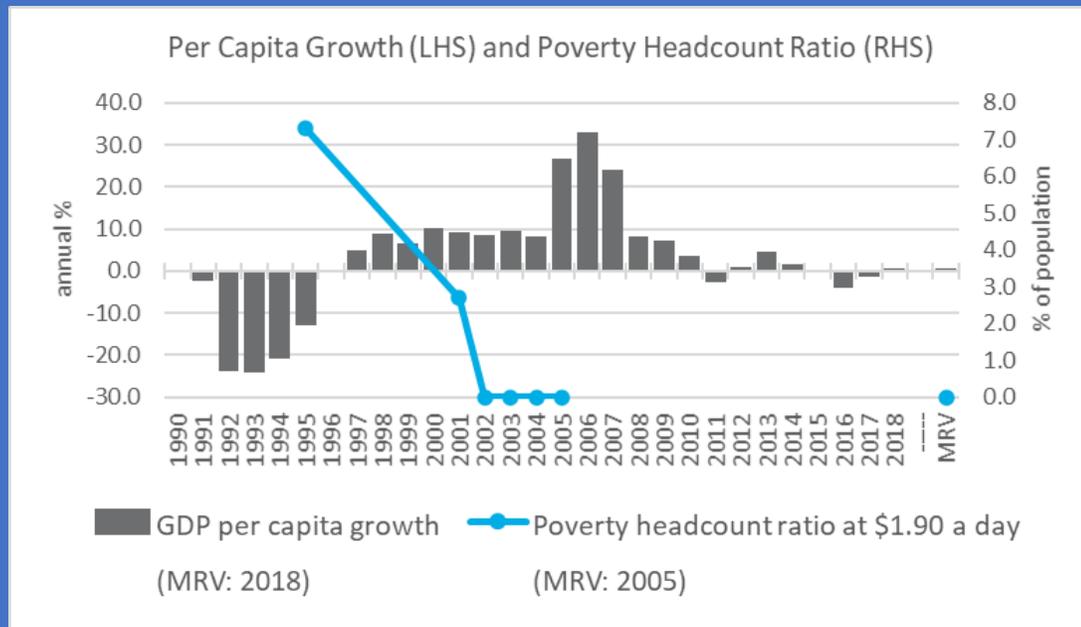
Real GDP Growth Rates, 1990-2020



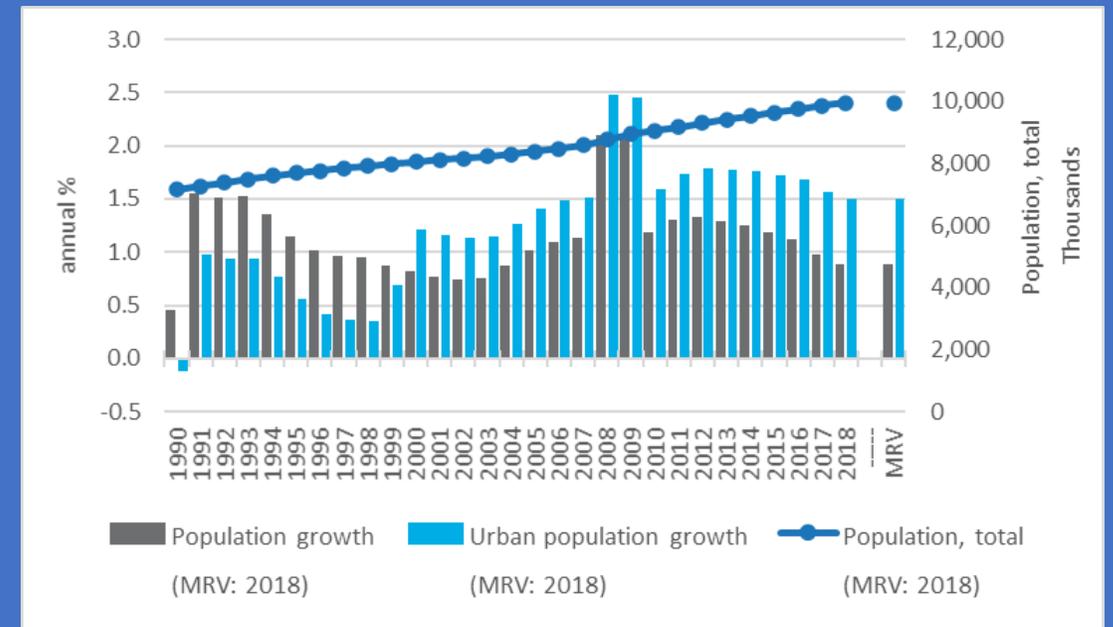
Population and growth

- After oil investments, growth was translated into GDP per capita growth and led to a dramatic poverty reduction.
- Population growth rates have increased and coupled with an urbanisation process.

Growth and Poverty, 1991-2018

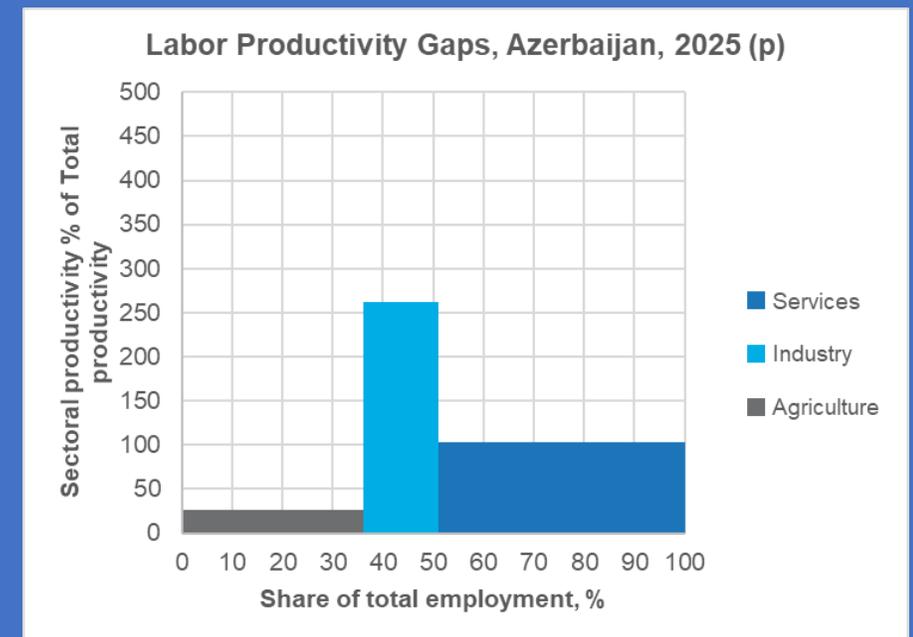
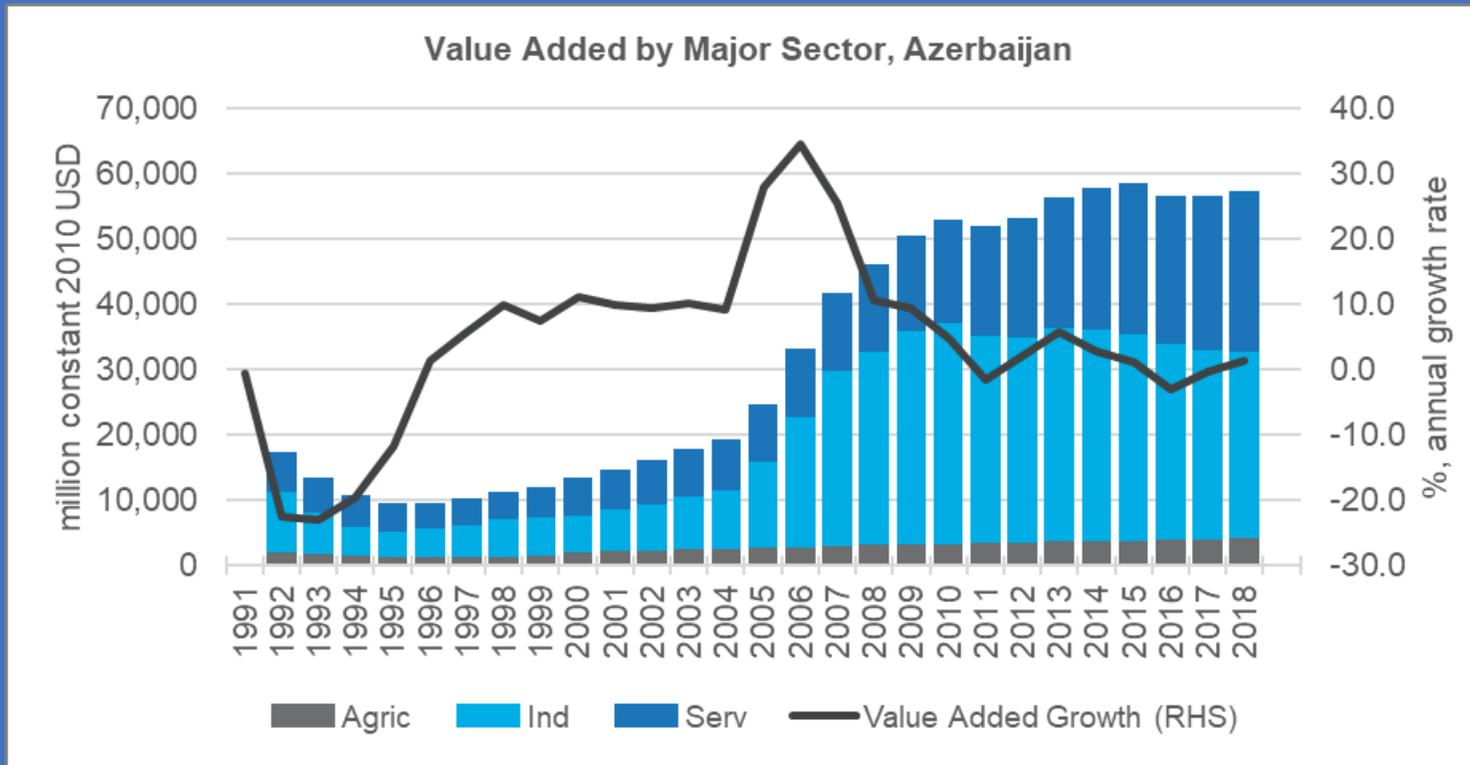


Population Growth, 1990-2018



Productivity gaps

Stagnant value-added growth in manufacturing.

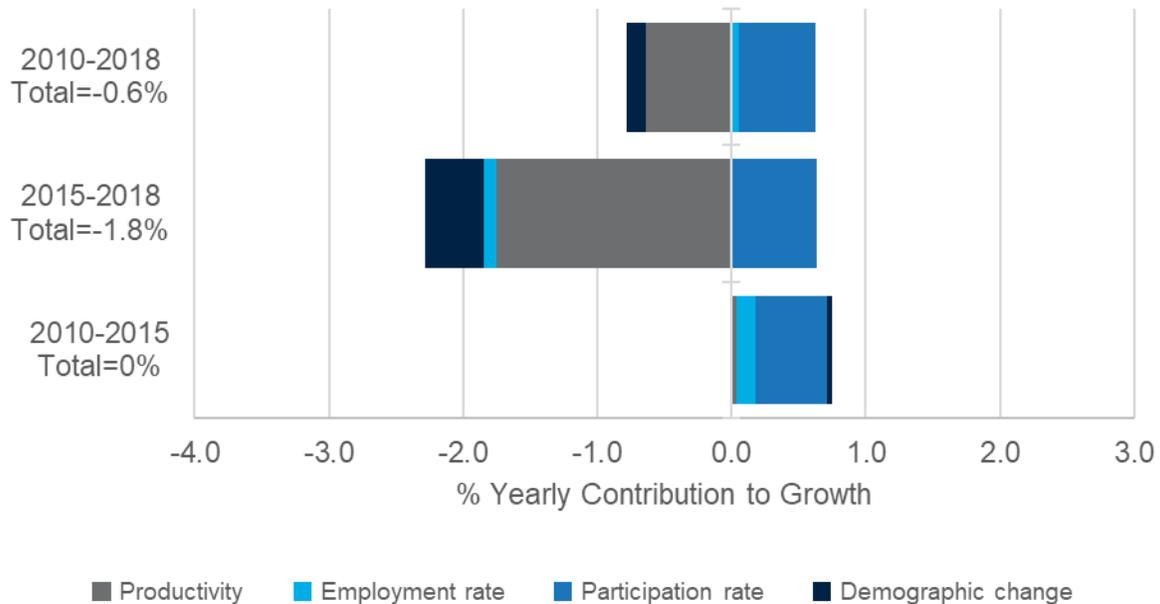


Growth decomposition

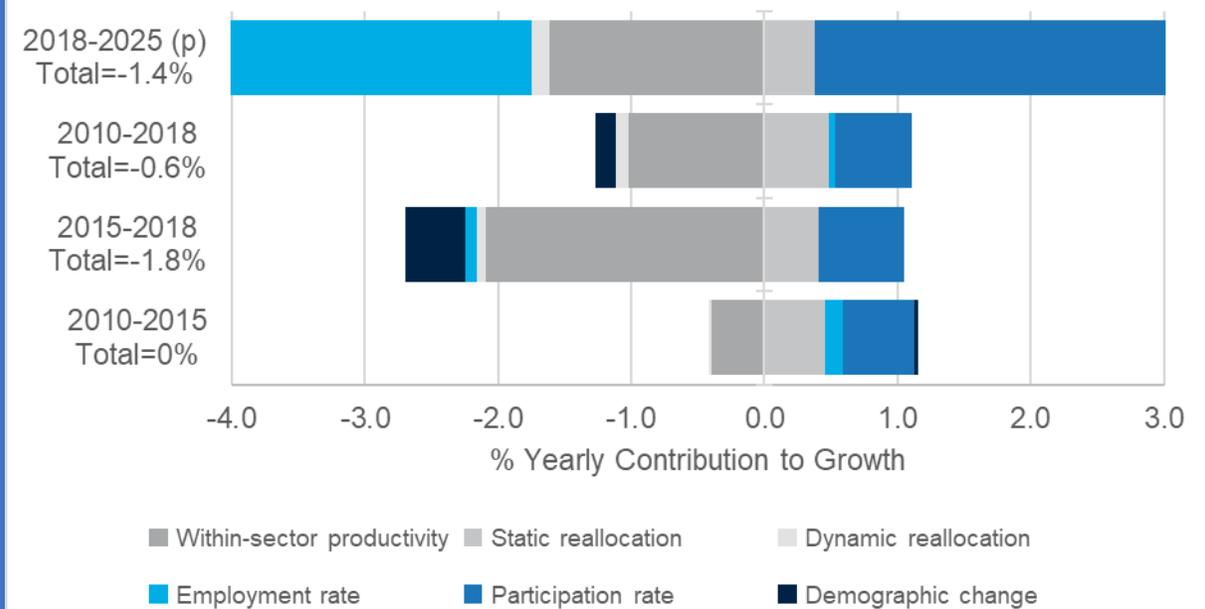
Growth is supported by labor market outcomes despite productivity constraints.

Productivity is limited by both, static and dynamic reallocation.

Decomposition of Growth in per capita Value Added, Azerbaijan



Decomposition of Growth in per capita Value Added, Azerbaijan

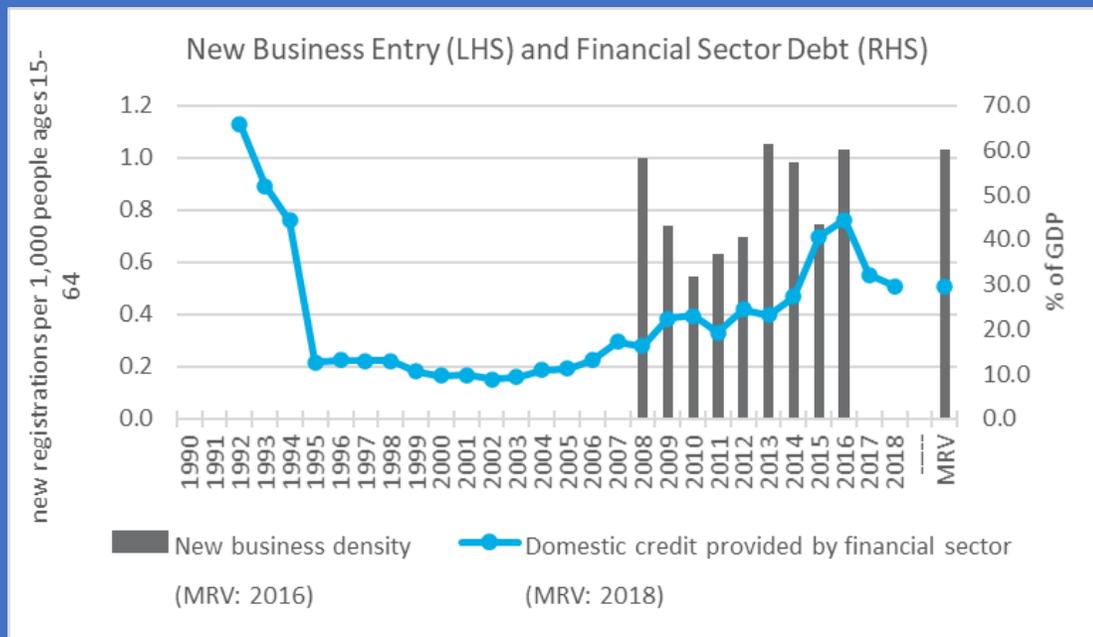


II. Azerbaijan's labor supply

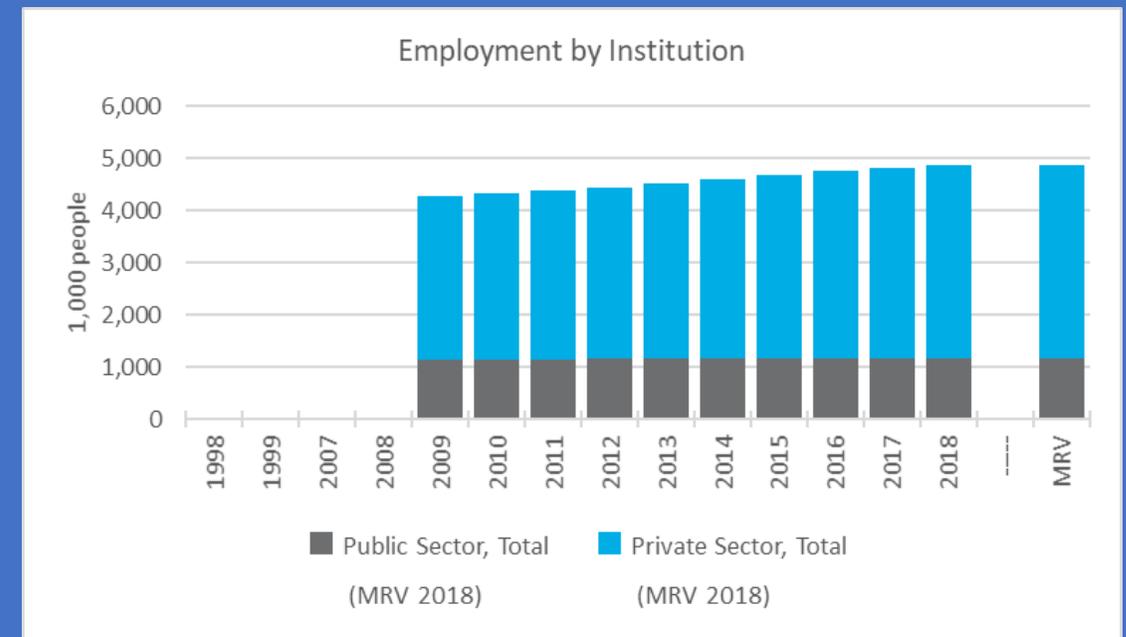
New firms and employment

- Since the crisis, and partly due to growing domestic credit, new firms are entering the market in increasing numbers.
- New firms have provided new employment –even if marginally– to a market with a steady number of public-sector jobs.

New firms and credit, 1992-2018



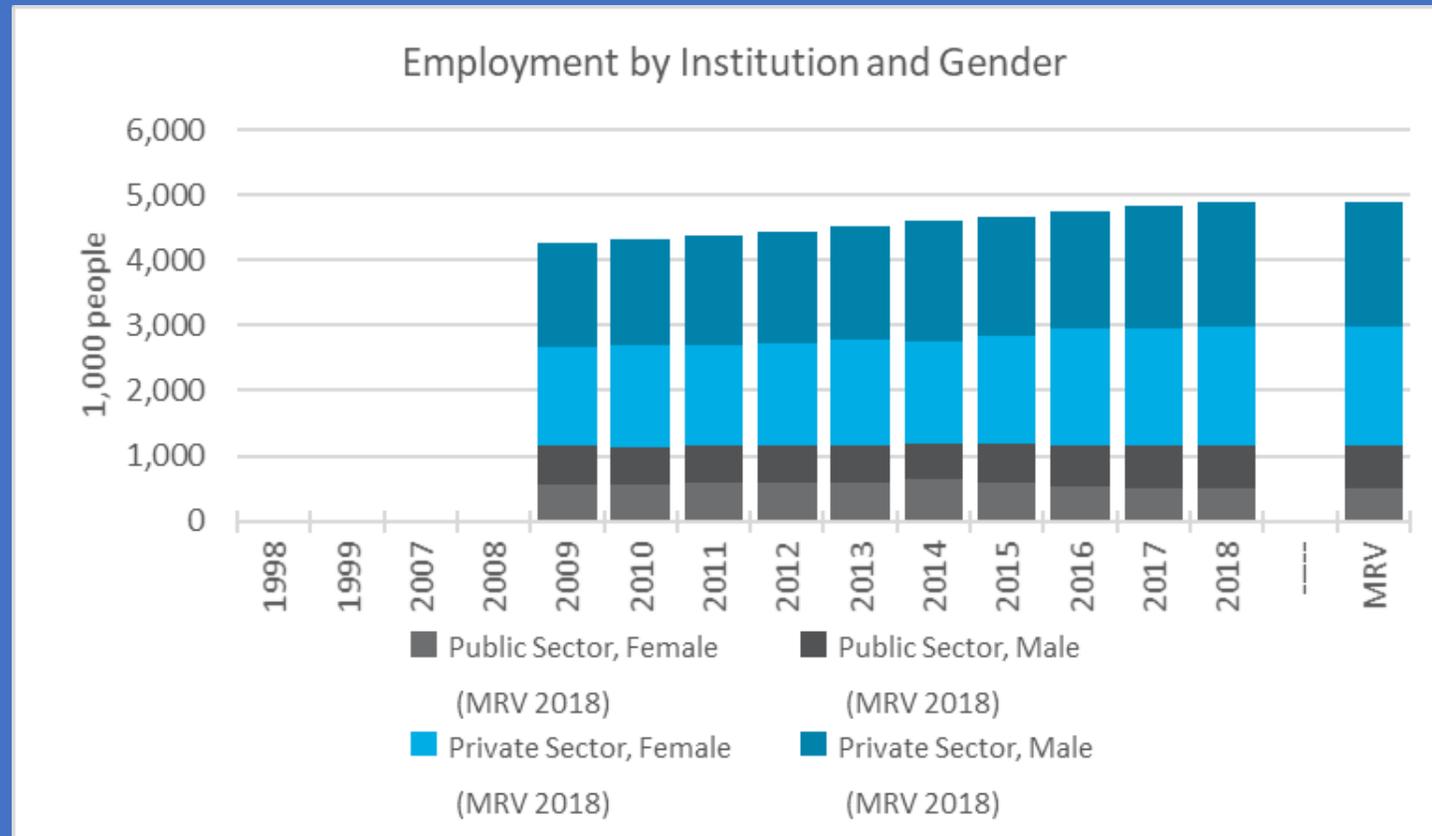
Public & private employment, 2009-18*



Female employment

- The good news is that part of the expansion is due to female employment in the private sector.

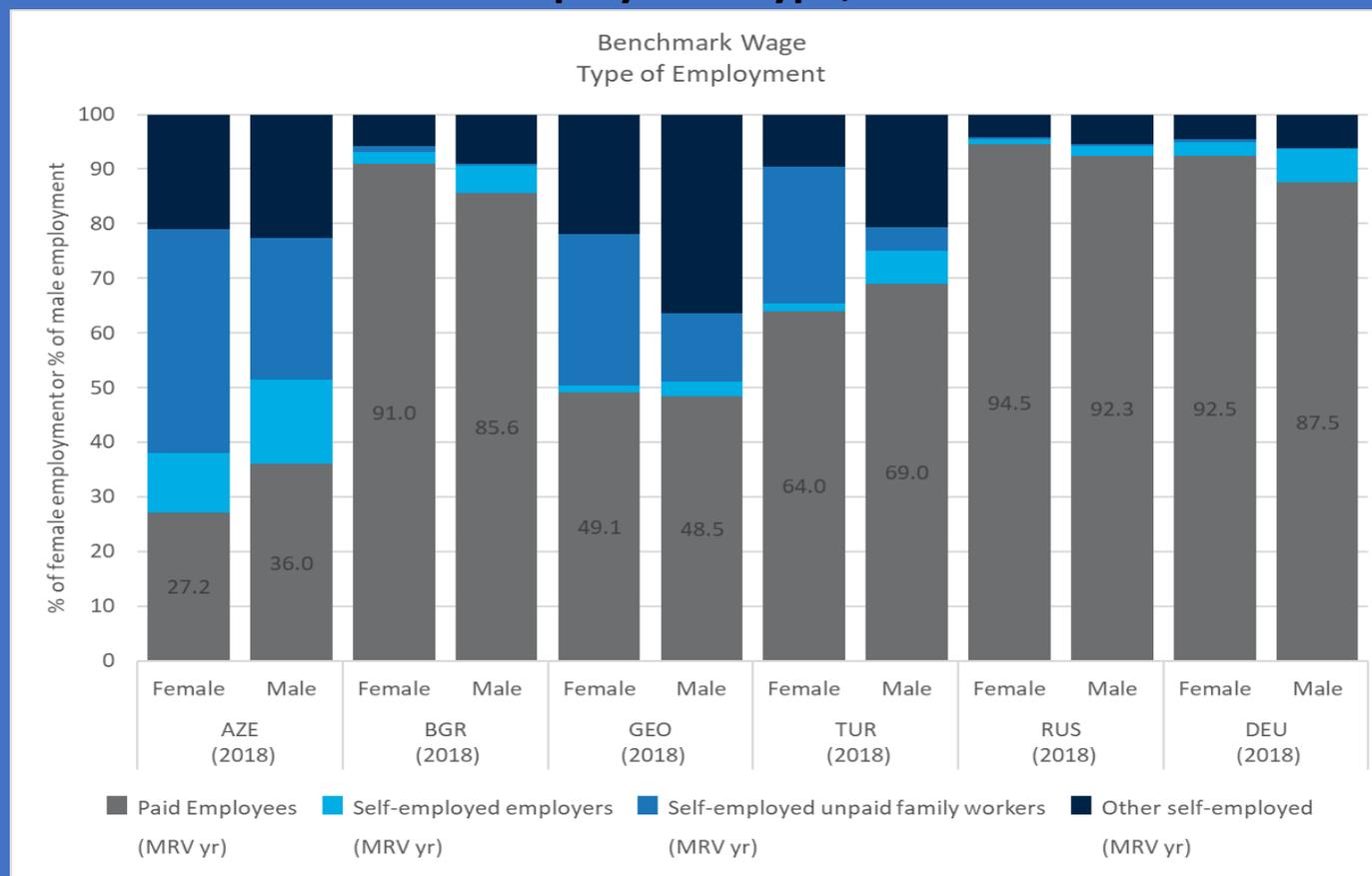
Public-private employment by gender, 2007-18*



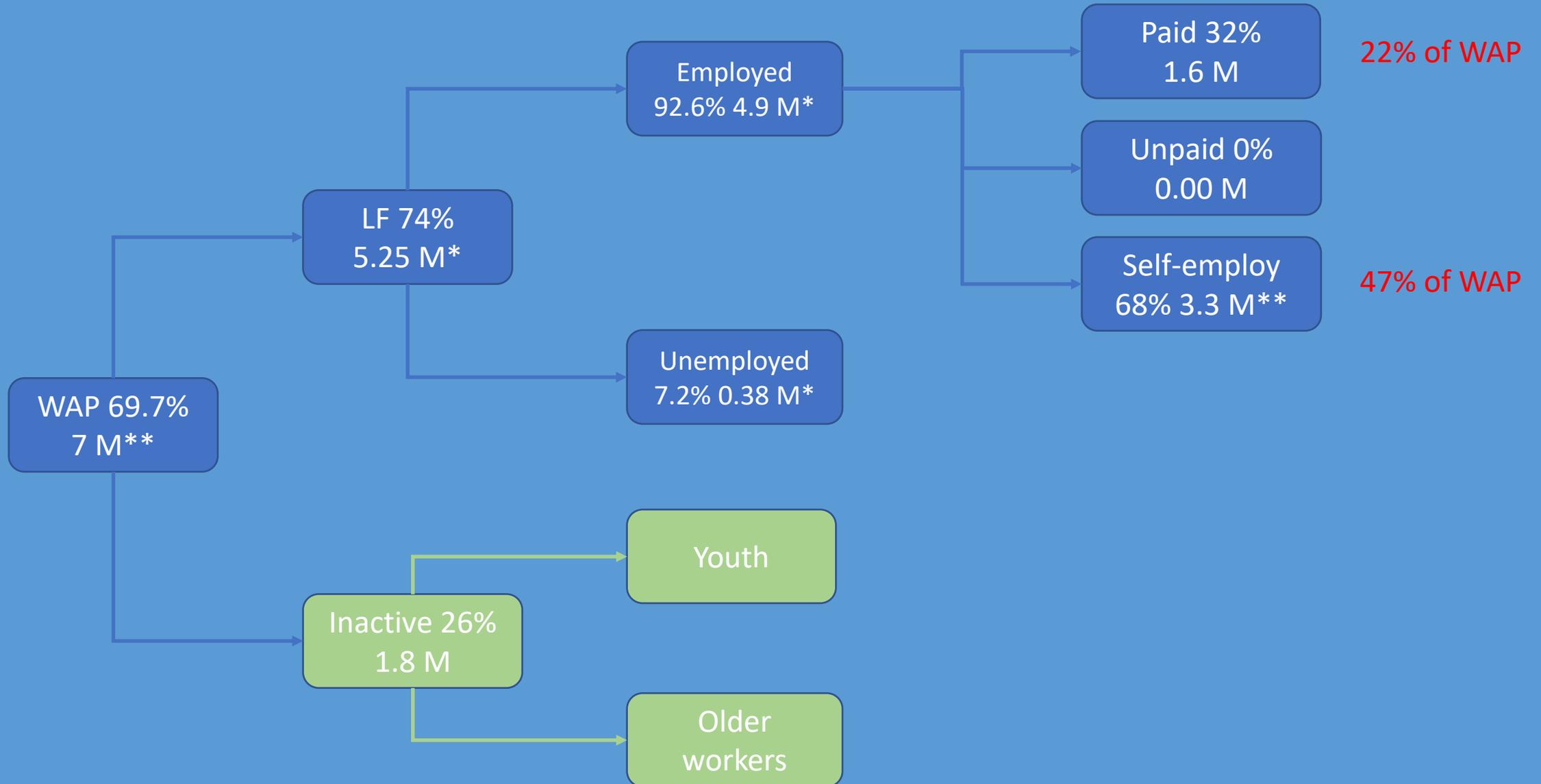
Paid employment and informality

- Paid employment is relatively low particularly compared to most comparator countries.
- Self-employment may represent a significant informality –even more so for women.

Employment type, 2018



Labor supply



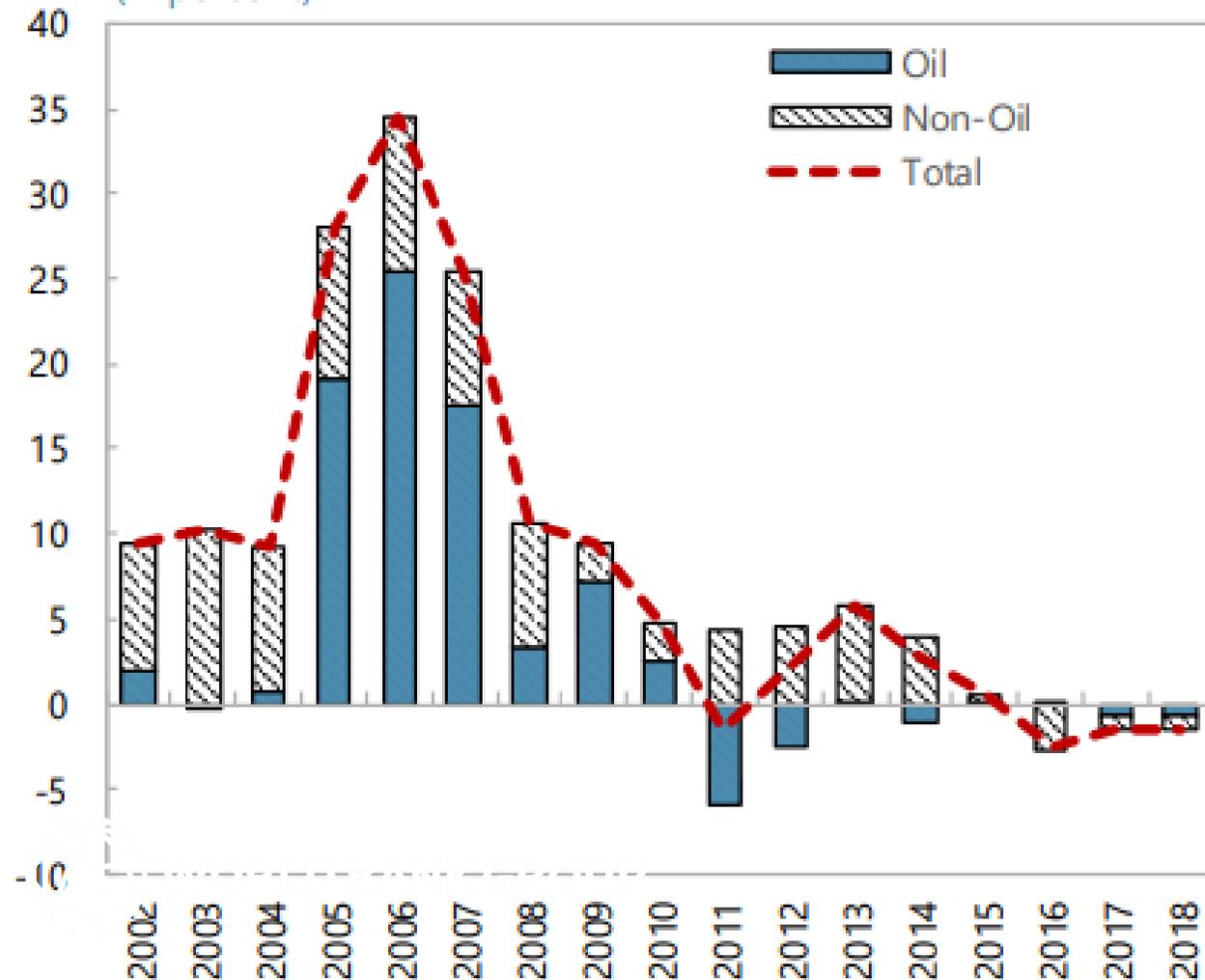
*/ Data from Azerbaijan Bureau of Statistics for 2020

**/ Data from WDI for 2019

III. Informality

Oil and non-oil growth

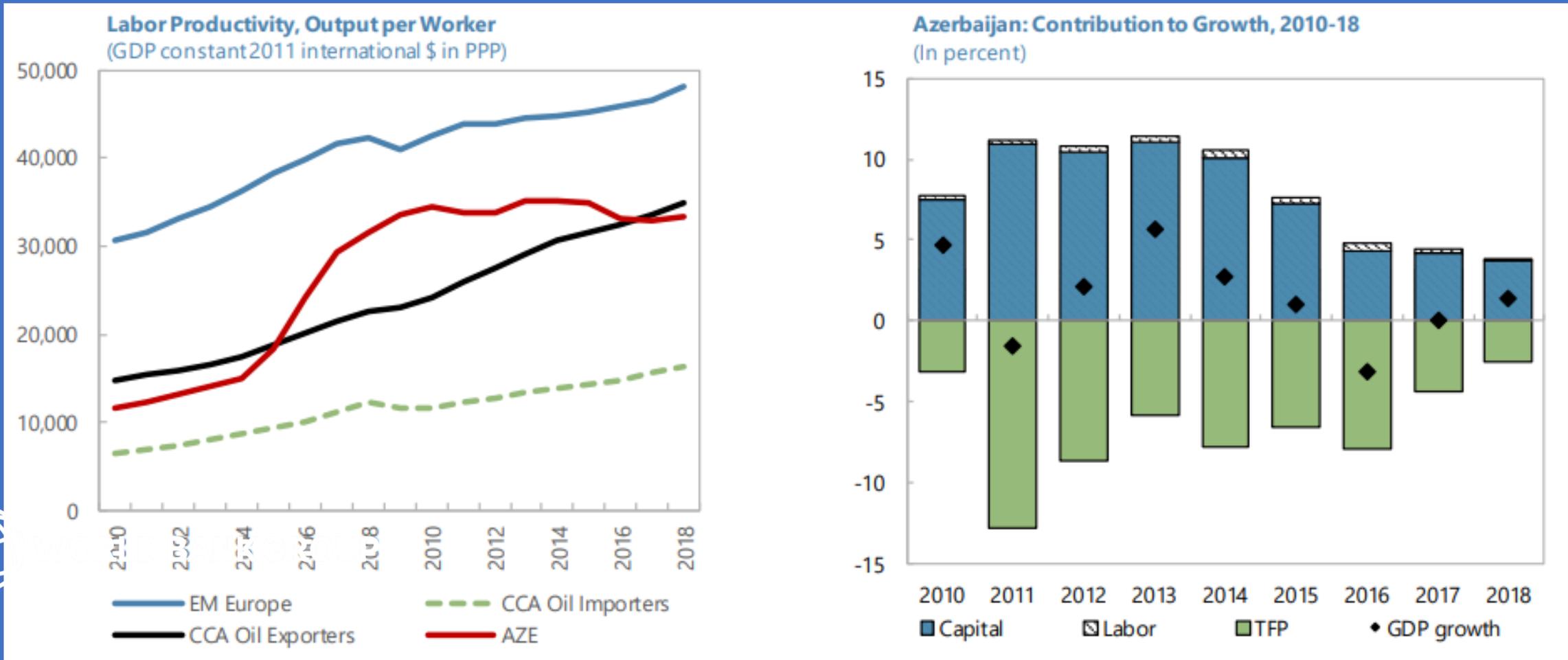
Contributions to Growth
(In percent)



The oil sector dominates the Azeri economy, and the non-oil sector could partly rely on links to oil activities.

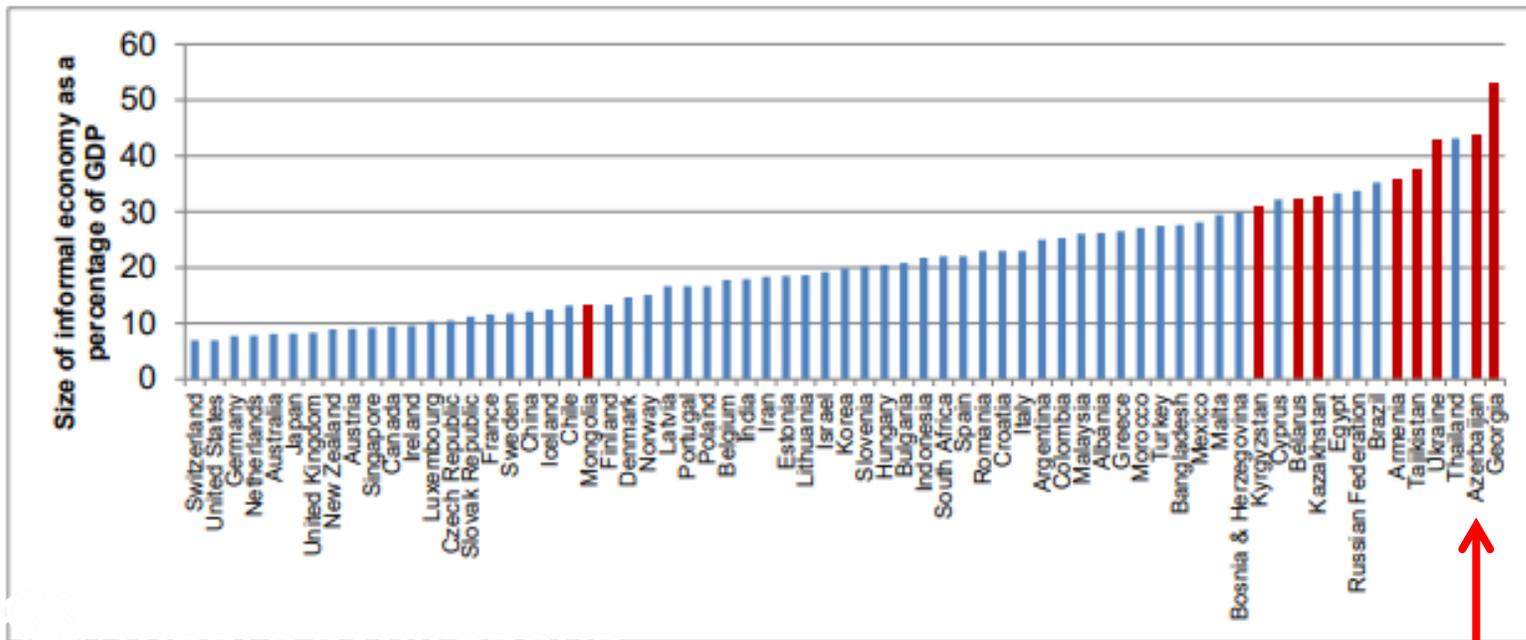
Labor productivity and capital deepening

- Labour productivity while growing, its contribution to growth is almost negligible.
- As TFP contributes negatively, growth is fueled by capital deepening in the oil sector.



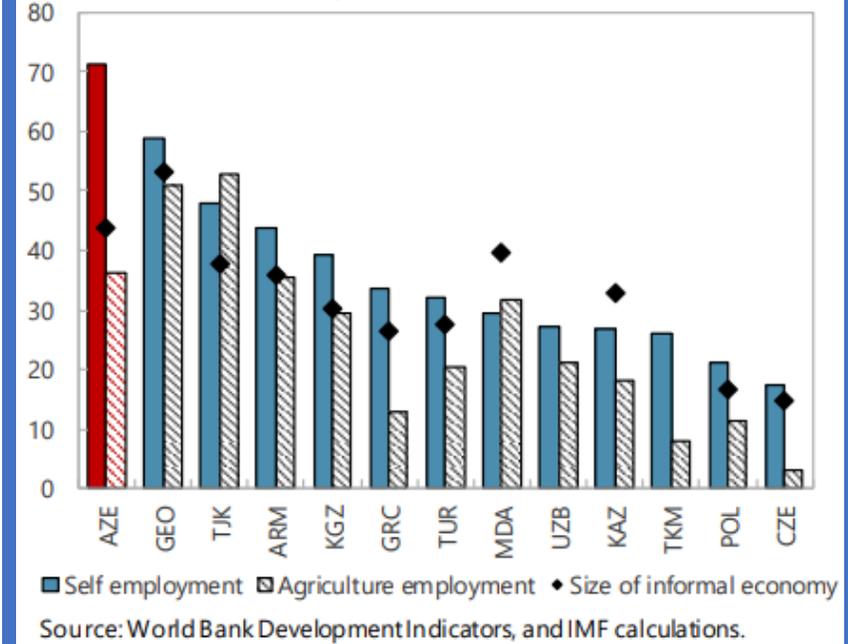
Size of informality in Azerbaijan

Figure 1. Estimates of the size of the informal sector in 2015



Source: (Medina and Schneider, 2018^[16]; OECD, 2018^[19])

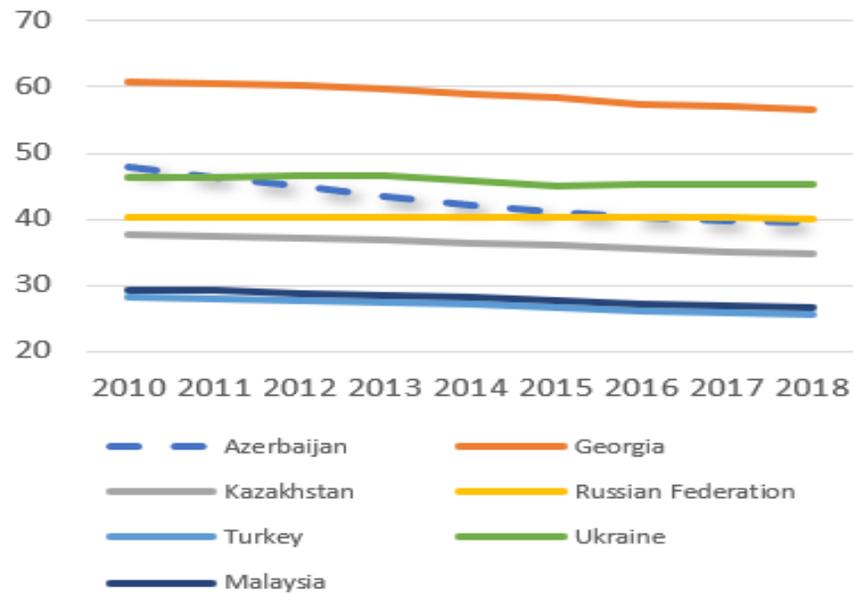
Employment Status Relative to Informality, 2018
(Percent of total employment)



Source: World Bank Development Indicators, and IMF calculations.

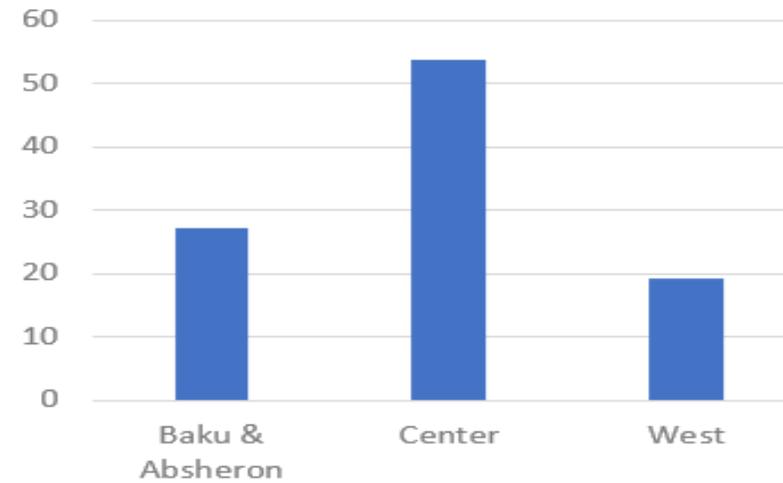
Declining informality

Figure 24: Dynamic general equilibrium (DGE) model estimates of informal output (% of GDP)



Source: Elgin, C., M. A. Kose, F. Ohnsorge, and S. Yu. 2021. "Chapter 2: Understanding the Informal Economy: Concepts and Trends." In "The Long Shadow of Informality: Challenges and Policies", edited by F. Ohnsorge and S. Yu. Washington, DC: World Bank.

Figure 25: Percent of firms competing against unregistered or informal firms



Source: World Bank Enterprise Survey in Azerbaijan 2019

IV. Key labor market challenges

Overview--key labor market challenges in Azerbaijan

- Sluggish growth may constrain businesses from **hiring**
- Productivity growth constraints in the form of **lack of structural change**
- Potentially **insufficient employment growth**
- Significant **informality**
- Significant **inactivity (especially among women)**
- **Little unemployment protection to workers and employment support to jobseekers (including upskilling)**

IV. Future directions

Three areas for policy action:



Human Capital and Lifelong Learning



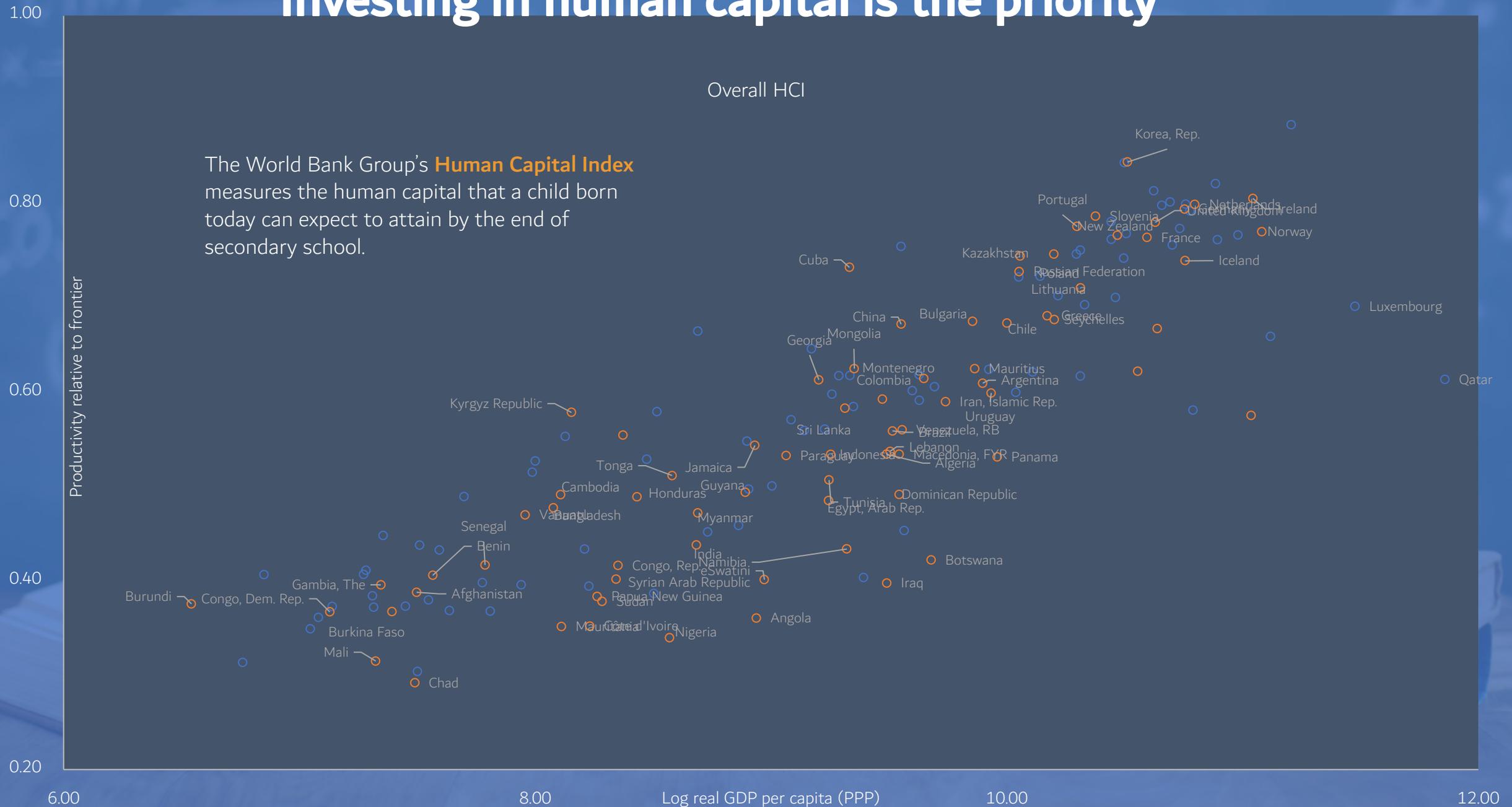
Social Protection and Labor Policies



Incentivizing job creation

Investing in human capital is the priority

The World Bank Group's **Human Capital Index** measures the human capital that a child born today can expect to attain by the end of secondary school.



Zooming in on lifelong learning: how to?

- *Market/demand-driven* – put employers in the driver’s seat with government oversight
 - Agile mechanisms to link providers with employers, preferably at the local level; Improved TVET for services (business, socio-emotional skills)
 - This should guide courses offering, curricula, standards, assessment and evaluations, recruitment and training of instructors
 - Blur the line between classroom & work- more work-based learning, apprenticeships/internships,
- *Tailor to the needs of the client population* – one size won’t fit all
 - Age and gender sensitive training delivery, remedy basic skills gaps, offer diverse pathways that enable positive labor trajectories
- *Results-oriented and evidence-based programs*– data + feedback = Δ performance
 - Enable smarter decisions and labor matching through regular access to quality data on demand, graduates’ performance (tracer studies/labor observatories/employment services), and periodic evaluations including of program impacts

Work is school

- The average person accumulates schooling for 10 years but works up to 50 years.
 - *Returns to experience are studied and found to be higher in developed countries with still considerable impact on wages and human capital accumulation and economic growth.*
- Skills learned on the job are not always the same as the ones taught in school. They are, nonetheless, skills that make a person more valuable to an employer.
- Consideration for well-designed on the job training, apprenticeship program

Bringing private sector on board to upgrade skills

- **Collaboration between Government of India, World Bank and JPMorgan**
- **JPMorgan Chase's funds helping four of India's Sector Skills Councils develop job-relevant skills among young adults.**
- **Sector Skills Councils play such an important role in defining job requirements, devising training and, finally, in certifying and assessing performance."**
- **National Observatories have an important role to give a better understanding of occupational and skills demand (Chile's example)**

To know more about each Sector Skill Council, click the sector icon(s) below:



Aerospace and Aviation Sector Skill Council



Agriculture Skill Council of India



Apparel Made-Ups & Home Furnishing Sector Skill Council



Automotive Skills Development Council



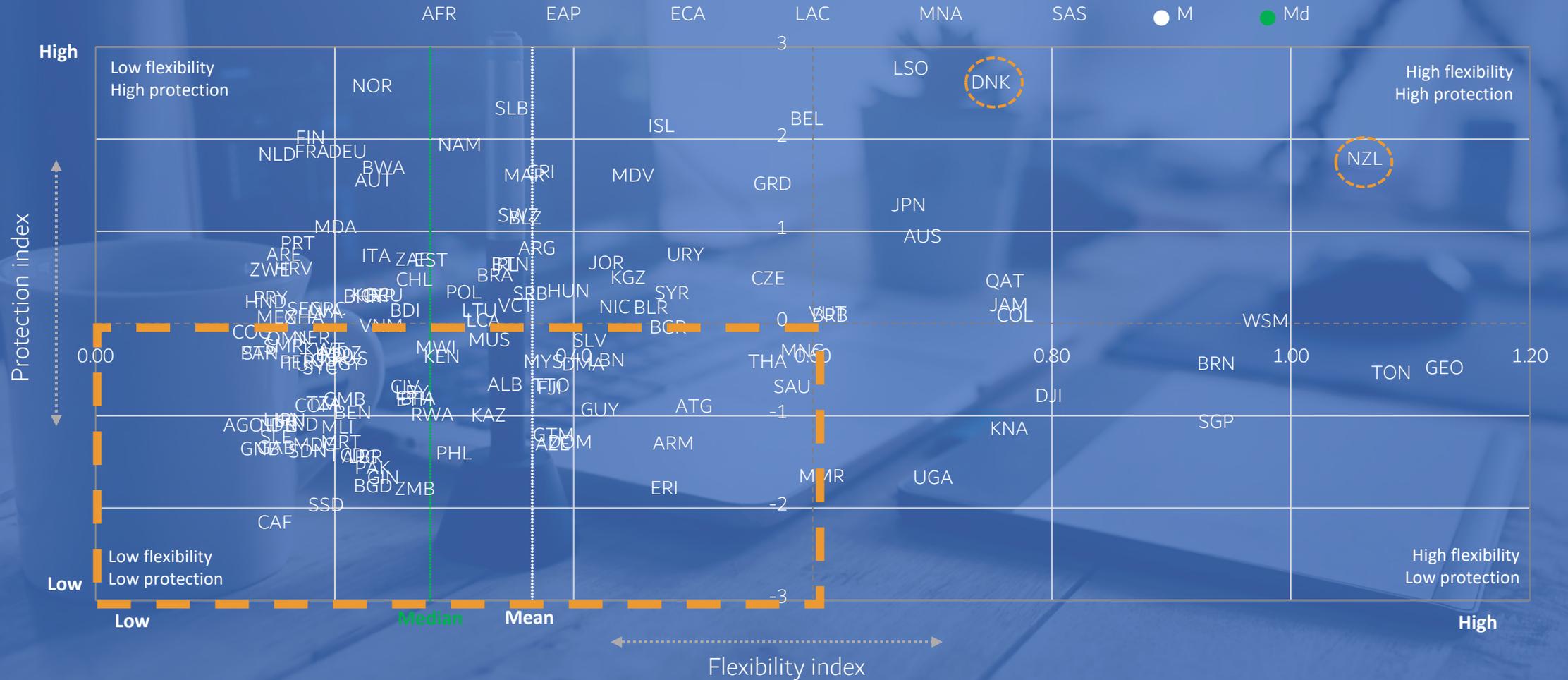
Beauty & Wellness Sector Skill Council



BFSI Sector Skill Council Of India

Complementing strong social protection with labor market flexibility

Labor market and protection policy challenges across countries



Source: Courtesy of V. Moreira, using indicators by Packard and Montenegro (2017), WB Worldwide Governance Indicators (WGI) Project, WB World Development Indicators (WDI), The Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE)

Bringing more women into the labor force

- Reforms that address family laws, workplace harassment, discrimination in hiring and wages, and even certain trade policies (such as those that can have gendered effects that benefit certain female-dominated industries like apparel).
- In countries with highly educated women, incentives/programs for women to pursue careers in certain industries
 - Misalignment with labor demand so encourage careers in more male dominated industries or managerial level jobs in industry
 - Examples from textiles industry in Sri Lanka, Cambodia, Egypt, Pakistan, Bangladesh

Strong
employment
services can
support
addressing
skills
mismatches

- Improving intermediation
 - Online services
 - Jobs platform matching jobseekers and employers
 - Online access to wage and occupational trends
- Better menu of ALMPs
 - Contracting out of services (voc training, counseling and other)
 - Adequate coverage
 - Programs designed in partnership with firms/employers

Labor demand: Targeted measures to crowd-in private investment for jobs and productivity

Incentivize
private sector
for job
creation

Key challenge: how and how much to subsidize job creation

- Amount of subsidies allocated to different sectors need to be determined based on jobs growth potential of firms
- Not easy to determine criteria for selection and targeting of sectors and determination of the amount of subsidies
- E. g.; “Services” has potential and can provide “higher productivity jobs” with right incentives and skilled labor

THANK YOU FOR YOUR ATTENTION

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