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Costs and Benefits of Labour Mobility Between the EU and the Eastern Partnership Partner Countries. Country Report: Azerbaijan

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Abstract

Of all the EaP countries, Azerbaijan is perhaps the most advanced in the *migration transition*, namely in moving from being an exporter of labour to a net importer. This unique feature is the direct result of the economic success of the past decade, stimulated by the massive increase in oil and gas revenues.

Upon gaining its independence, Azerbaijan faced much deeper political, economic and social challenges than other former Soviet republics. The military conflict over the disputed Nagorno Karabakh territory of the country with neighbouring Armenia, domestic political instability along with the collapse of traditional trade relations led to a severe economic depression with substantial worsening across all social well-being indices. Having lost almost 60 percent of its pre-independence Gross Domestic Product (GDP), the country experienced the largest economic decline of the post-Soviet area.

Nevertheless, thanks to radical economic stabilization programmes and reforms supported by the International Monetary Fund (IMF) and the World Bank (WB), macroeconomic stability was quickly restored and positive economic growth was achieved starting from 1995. The Production Sharing Agreements signed with major international oil companies to explore, extract and export the vast oil and gas reserves of the country were critical in attracting much-needed foreign direct investment (FDI), and the construction of the Baku-Tbilisi-Ceyhan (BTC) main export oil pipeline enabled a huge windfall of revenues from exports of oil and gas. As a result of the successful implementation of its oil and gas strategy, Azerbaijan has joined the group of middle-income countries, according to World Bank Atlas methodology. In per capita terms, GDP increased by 8.7 times to reach \$5,798 in this period, with Azerbaijan rising to 82nd place among the 182 countries ranked according to on this indicator. The poverty rate was reduced from about 70 percent to single-digits, underpinned by the creation of a State Oil Fund and a successful targeted social assistance programme enabling improvements in the distribution of wealth and the modernization of the economy.

Despite rapid economic growth, macroeconomic stability was well maintained. Average annual inflation in 2000-2011 did not exceed 8 percent, the average surplus on the current account during the decade was about 8 percent of GDP, strategic foreign exchange reserves increased 31-fold to account for 65 percent of GDP.

Despite these positive developments, significant challenges remain in ensuring the long-term sustainability of future growth in the non-oil sectors, namely developing human capital (education) and closing the productivity gap with competitors as well as higher income countries in the years ahead.

The government of Azerbaijan has put a lot of emphasis on strengthening the labour market, given its importance for growth, competitiveness and poverty reduction. Policies and regulatory changes have focused on job creation and growth through promoting private investment and enabling the market entry of small and medium enterprises. As a result, the employment rate has increased substantially, particularly among women. The government has also achieved considerable progress on the regulatory side, with, for example, Azerbaijan moving up the Doing Business ranking from 67 in employment practices in 2008 to 15 in 2009.

Favourable demographic trends resulted in an increasing economically active population (EAP) and also in women's labour participation rate over the period 2000-2010. Population growth, and with it a growing labour force and the lowest unemployment rate in the Caucasus, are the key factors contributing to a stable increase in employment in Azerbaijan. More than one million new jobs were generated in the 10-year period, which drove the poverty rate down from 51 percent in 2000 to 7.6 percent in 2011.

However, there was only a negligible improvement in other labour market indicators, which remain highly concentrated in low value-added activities. Agriculture is still the largest employer, comprising about 40 percent of total employment, while generating only 6 percent of total GDP. The oil and gas sector, on the other hand, generated about 53 percent of GDP in 2007, while contributing only 1 percent to total employment. Symptoms of *Dutch Disease* are well represented by a clear shift of the labour force from tradable to non-tradable sectors, where the government is the dominant employer.

The main critical issue related to education in Azerbaijan is the low productivity of the labour force in employment. According to the World Bank (LSMS 2008), 70 percent of higher education graduates in Azerbaijan work in the public sector, despite low salaries, and only just under 25 percent are engaged in the high-productivity private sector. Given the fact that agriculture is one of the largest employers in the economy and the fact that lower educated employees are concentrated predominantly in this sector, such an employment structure comes as no real surprise.

Azerbaijan's migration experience has taken place against this economic background as well as the wider political transformation and ethnic conflict during the last twenty years. Hundreds of thousands of people migrated to and out of Azerbaijan, causing substantial changes in the demographic situation of the country. At the beginning of the 1990s, the economic crisis and political instability caused by the collapse of the Soviet Union and exacerbated in the case of Azerbaijan by the war with Armenia, resulted in the decision of many people to emigrate from Azerbaijan. Along with the difficulties related to the economic transition, this emigration was in particular caused by the grave economic consequences of the Nagorno-Karabakh conflict with Armenia leading to the emergence of about one million refugees and IDPs.

However, starting from the mid-1990s, migration became more determined by solely economic factors. The start of oil exploration and subsequent economic boom in the country began to reverse the negative tide of migration: the country started to attract people from abroad rather than serve mainly as an outflow country. According to official statistics, the largest migration flows in Azerbaijan were recorded in the first half of the 1990s. Emigrants continued to outnumber immigrants during the second half of the 1990s. However, starting from 2001, the nature of the migration processes started to change and observations showed that migration dynamics turned in favour of immigrants. The last two years have also been remarkable due to the fact that immigrants have outnumbered those emigrating from Azerbaijan.

In tandem with labour migration trends, remittances also increased and have contributed positively to foreign exchange inflows into the Azeri economy over the past decade. Average annual remittances for 2005-2010 were 7-fold higher than the corresponding figure for 2000-2004. However, despite the drastic increase in recent years the level of remittances are still relatively small given the size of the Azerbaijan economy (and compared to other remittance-dependent economies in the region). The ratio of remittances inflows to GDP in Azerbaijan is 4 percent, which is slightly less than the global average (4.5 percent), while substantially lower than the corresponding figure in a number of countries in the Middle East and Central Asia and in the EaP region. Meanwhile, mirroring the developing status of Azerbaijan as a host country to labour migrants, outward remittances have also been increasing.

The volume of remittances is likely to continue to grow, and with it the challenge of macroeconomic management of these transfers. The key channels by which the macroeconomic effects of remittances could be seen have been via debt sustainability, fiscal policy, economic growth, Dutch disease, governance and incentives, etc. The main challenge for policymakers, in general terms, is to design policies that promote remittances and increase their benefits while mitigating against any adverse side effects. Getting these policy prescriptions correct early on is imperative, particularly for resource-rich economies that are

already vulnerable to the negative macroeconomic consequences of the limited absorptive capacity of foreign exchange inflows.

Several policy activities are being undertaken with regards to migration policy in Azerbaijan. These include institutional strengthening of the various divisions of government ministries that actively participate in the area of migration, changes in migration policies, a widening of international relations and, given Azerbaijan's peculiar feature of being both an exporter and importer of migrants, measures to curb illegal migration. Along with government bodies, various international and local NGOs are closely participating in the development of migration policy and the management of migration processes. These organisations provide irreplaceable assistance in the temporary settlement of those identified as migrants, their provision of food and essential goods, identifying employment opportunities and in many other fields. The government is also aiming to involve diaspora organisations dealing with problems faced by Azerbaijanis living abroad. For this reason, diaspora-building has become one of the main directions of Azerbaijan's state policy. This includes several initiatives targeting the development of relations between Azerbaijanis living abroad with their home country, the maintenance of national identity, the use of diaspora's potential to better safeguard national interests, the expansion of relations among various diaspora communities and protection of their cultural and political rights. A law of the Republic of Azerbaijan on "the Public Policy on Azerbaijanis living abroad" and other normative acts in this field, the establishment of a state committee dealing with the diaspora and a number of activities and initiatives welcomed by the international community are all part of important processes being undertaken in connection with the diaspora.

The future evolution of labour migration in Azerbaijan is difficult to forecast, but it will probably be shaped by a series of conflicting and complementary forces. Demographic trends point to increases in the size of the labour force for the next decade or so. Strong economic growth is likely to continue in the future, and with it the demand for labour could continue to increase. But questions abound as to the ability of Azerbaijan's educational system to provide job opportunities for all. At the same time, at least in the next three to five years, the oil-revenue-induced construction spree, together with high and increasing wages compared to neighbouring countries, is likely to continue to attract workers into Azerbaijan. Thus it would not be surprising if the picture of the past few years were to continue to apply in the future, with gross emigration flows moving in parallel with increasing immigration.

It is harder to gauge whether the traditional pattern of labour migration towards the Russian Federation might change towards a more important role for the European Union. At present, cultural, linguistic and social traditions militate against much migration to the EU, and the policies of the EU have been restrictive. The EU could favour a more productive movement of

labour resources from Azerbaijan with the adoption of more liberal policies, probably more targeted towards certain high-skilled categories of workers. For instance, the draft directive on Intra-Company transfers, when adopted, could facilitate temporary migration of high-skilled workers in the oil and gas industry, to the benefit of both Azerbaijani workers and EU firms involved in Oil and Gas exploitation. The EU could also continue and increase its support to institutional development in the areas of migration management and strategy, and could also provide support to better development of diaspora relations in the EU countries with the highest concentration of Azeri migrants. Finally, the EU could support local NGOs in implementing targeted awareness programs among potential migrant groups to inform them about any forthcoming changes in its policies towards labour migration. As for other EaP countries, agreements on important issues such as pension rights, health insurance, recognition of graduate and non-graduate degrees, minimum standards for labour contracts, etc., also very important, would of course require negotiations with individual member states.

1. Introduction

This Report is one of the six studies in the first phase of the EU project on the “Costs and Benefits of Labour Mobility between the EU and the Eastern Partnership Partner Countries”. It aims at providing an informed view of the potential for increased migration flows and their consequences as a result of possible changes in the migration policies of the European Union with regard to Azerbaijan. The Report is comprised of 7 Chapters. Chapters 1 and 2 provide a discussion of relevant developments in the economy and labour market in the period since independence, with emphasis on developments over the last ten years or so. Chapter 3 provides a detailed discussion of trends in migration, and discusses the labour migration profile. Chapter 4 analyses remittances and their impact on income, investment and consumption. Chapter 5 provides a discussion of the available evidence on the costs and benefits of labour migration, emphasising the economic, social and demographic costs and consequences. Chapter 6 discusses current migration policies and institutions, while Chapter 7 discusses various factors that may be useful in forecasting key migration trends in the future.

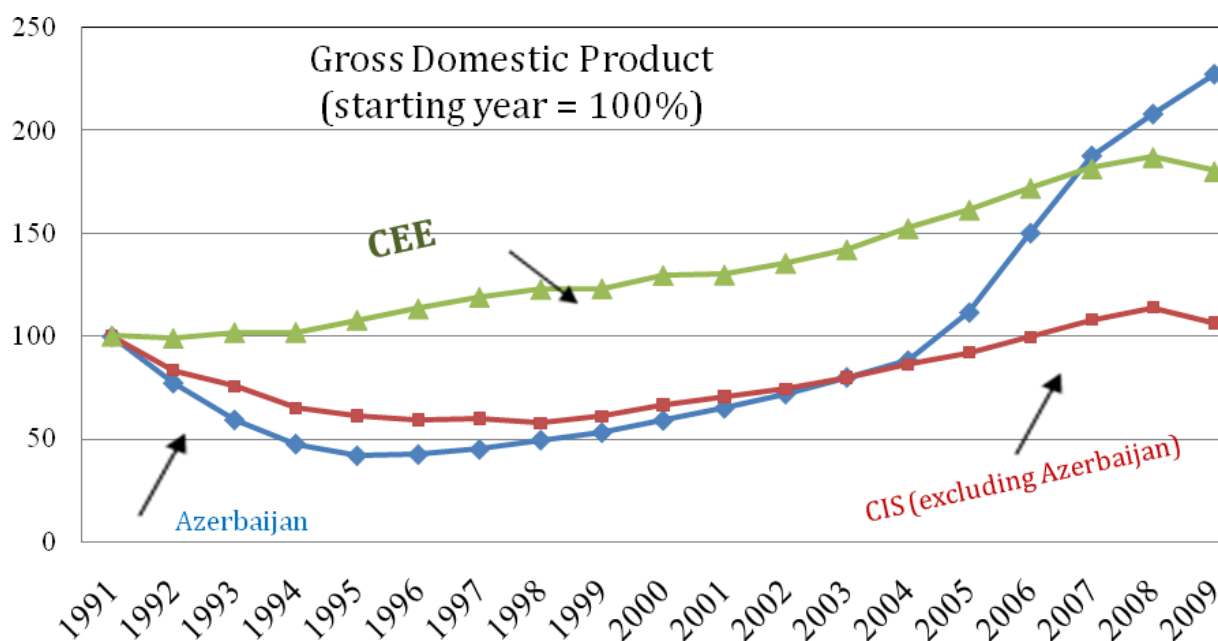
2. Economic Developments since Independence

Upon gaining its independence, Azerbaijan faced much deeper political, economic and social challenges than other former Soviet republics. The military conflict over the disputed Nagorno-Karabakh territory of Azerbaijan with neighbouring Armenia, domestic political instability along with a collapse in traditional trade relations led to a severe economic depression with a substantial worsening of social well-being indices. Having lost almost 60 percent of its pre-independence Gross Domestic Product (GDP), economic decline was the steepest in the post-Soviet area (Figure 1).

Nevertheless, thanks to radical economic stabilisation programmes and reforms supported by the International Monetary Fund (IMF) and the World Bank (WB), macroeconomic stability was quickly restored and positive economic growth was achieved starting from 1995. The Production Sharing Agreements signed with major international oil companies to explore, extract and export the vast oil and gas reserves of the country were critical in attracting much-needed foreign direct investment (FDI), and the construction of the Baku-Tbilisi-Ceyhan (BTC) main export oil pipeline enabled a huge windfall of revenues from exports of oil and gas. As a result of successful implementation of its oil and gas strategy, Azerbaijan has joined the group

of middle-income countries, according to World Bank Atlas methodology. In per capita terms, the Gross Domestic Product (GDP) increased by 8.7 times, reaching \$5,798 in this period, with Azerbaijan rising to 82nd place among 182 countries ranked according to this indicator. The poverty rate was reduced from about 70 percent to single-digits, supported by the creation of a State Oil Fund and a successful targeted social assistance programme enabling improved distribution of wealth and modernisation of the economy.

Figure 1: Gross Domestic Product in CEE, Azerbaijan and CIS (excluding Azerbaijan)



Source: IMF, WEO,

http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/weorept.aspx?sy=1990&ey=2011&scsm=1&ssd=1&sort=country&ds=.&br=1&c=904%2C901&s=NGDP_RPCH&grp=1&a=1&pr.x=57&pr.y=7

Despite rapid economic growth, macroeconomic stability was well maintained. Average annual inflation in 2000-2011 did not exceed 8 percent, the average surplus on the current account during the decade was about 8 percent of GDP, while strategic foreign exchange reserves increased 31-fold to account for 65 percent of GDP.

Public expenditures played a key role in supporting this high pace of development. In 2000-2010, public expenditures increased 15.4 fold having reached 28 percent of GDP. The public sector currently accounts for almost half of aggregate demand. Public investments also saw a tremendous increase (about 95-fold) to account for 35 percent of budget expenditures. Large-scale public investments enabled considerable modernisation of the socio-economic

infrastructure of the country. It is also noteworthy that, overall, investments increased on average by about 28 percent per annum in this period.

As a result of the period of sustained economic growth, the poverty rate was reduced dramatically over the decade. According to State Statistics Committee data, the poverty rate at end-2011 was about 7.6 percent, or about 700 thousand persons living below poverty line (see Table 1). This is a six-fold reduction over the ten-year period. The highest poverty rate is in rural areas and among refugees and Internally Displaced Persons (IDP). The poverty rate of 18 percent among the latter is extremely high, translating into one in every four of the poor so defined being a refugee or IDPs. Pensioners, on the other hand, are in much better situation with 97 percent of them receiving pensions above the minimum standard of living.

Targeted social assistance has played a key role in reducing poverty in Azerbaijan. Hence, as of end-2011, 536 thousand members of 120 families had received social assistance, translating into about 23 manats (about \$30, at the current bilateral exchange rate) per person. Currently, 2/3 of the poor population receive targeted social assistance, which makes up about 1/4 of their income¹.

Table 1: The poverty rate in Azerbaijan

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poverty level, in mantas	35	35,8	38,8	42,6	58	64	70	75	87	95
Poverty rate, in mantas	46.7	44.7	40.2	29.3	20.8	15.8	13.2	10.9	9.1	7.6

Source: State Statistics Committee of the Republic of Azerbaijan

As will be discussed below, remittances seem to serve as an important contributor to poverty reduction and domestic investment. According to the World Bank (2010), remittances may make up as much as 1/3rd of average household income and just under 1/5 of domestic investments. Over the decade the level of remittances from Azerbaijan increased significantly, but was still relatively small given the size of the Azerbaijan economy.

¹ The Multidimensional Poverty Index calculated by the Oxford Centre for Poverty and Human Development initiative for 109 countries in 2010 under the UNDP programme indicates that about half of the 5.3 percent poverty in Azerbaijan is due to underdeveloped healthcare, while 23 percent is due to incomplete coverage of education and only 27 percent is related to low income. The main objective of the index is to define individual poverty not only in terms of income, but also other indicators. The survey estimates 10 indicators in 3 measures (education, health and income - \$1.25 per day), and concludes that about 12.5 percent of population is very close to the poverty line and vulnerable to any income shock that could easily drag them below that line.

Although the overall macroeconomic outlook for Azerbaijan has been positive, driven by rapid oil and gas sector development, non-oil GDP is expected to grow at a much more modest pace hereafter as the production of oil and gas starts to flatten and phase out. Because of substantial profit and capital repatriation outflows of foreign oil companies, a significant divergence between double-digit GDP growth rates on the one hand, and an increase in resources available for domestic absorption on the other, is very likely. This will translate into much more modest growth in private consumption per capita.

The challenge for Azerbaijan is to design and implement a policy agenda that leads to sustainable and inclusive growth, a competitive and diversified economy and continued poverty reduction and improvement in social well-being. The risk of falling into a middle income trap is well represented by the high dependence on the oil and gas sector, which constitutes about 50 percent of GDP, 70 percent of the state budget and 96 percent of total exports. To ensure sustainable and inclusive growth, Azerbaijan needs to diversify its economy by shifting its policy focus onto non-oil sector growth, namely by boosting the competitiveness of the non-oil exports. Such diversification will require substantial capitalisation of the non-oil sector, mainly through sizeable foreign direct investments (FDI), but also a dramatic upgrade of its human capital base.

Azerbaijan possessed a well-developed educational system at the time of independence in 1991, but it failed to subsequently meet the needs of the changing labour market, which is critically important in terms of its impact on economic growth, competitiveness and poverty reduction. Currently, there seem to be strong misalignments between supply of labour through the tertiary education system and labour market demand. While the education system “produces” mostly graduates in education, health, and manufacturing, the bulk of the labour market demand lies in agriculture and services. The quality of available labour is also declining, with Azerbaijan ranking very low in terms of student achievements, equity and participation ratios in tertiary education. Combined with a large informal sector and self-employment, and low productivity, these factors lead to chronic labour shortages and labour market distortions.

In this context, the labour market has been and will remain to be one of the top policy priorities of the government in foreseeable future. The National Employment Strategy² identified multiple priorities, including reforms in labour market institutions and policies, modernisation of vocational education and the introduction of life-long learning, improved social protection of

² Employment Strategy of the Republic of Azerbaijan (in Azerbaijani), <http://ses.gov.az/view.php?lang=az&menu=83>

job seekers and unemployed citizens, and promotion of employment of young people, women, the disabled, IDPs, and refugees. The government's target of generating 600,000 new jobs over five years (2004–08) established in the State Programme for the Socio-Economic Development of the Regions (SPSEDR) was met, although approximately half of the jobs created were temporary. The government has also achieved considerable progress on the regulatory side, with Azerbaijan's Doing Business ranking moving from 67 in employment practices in 2008 to 15 in 2009. Declining government interference in the efficient allocation of labour resources will also contribute to the development of the private non-oil economy.

Like many of its neighbours near and far, Azerbaijan is experiencing important demographic changes. According to the medium-term scenario of the UN's population forecast, the number of able-bodied individuals aged 15–64 will increase to 6.55 million by 2015. This population growth will stimulate competition for employment. But on the other hand, because of the rapid decline of birth rates experienced since the 1990s the 15–24-year-old population is projected to shrink from 1.74 million in 2006 to 1.54 million in 2015 and to 1.19 million in 2020. The result will be an aging labour force, an important factor contributing to urgency in undertaking further reforms in labour market policies and regulations, and with important ramifications with regard to the need to increase the domestic labour force through immigrant workers.

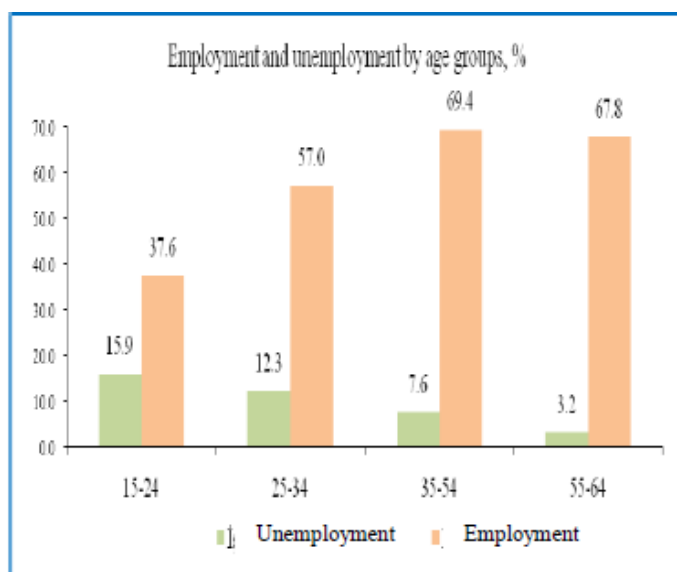
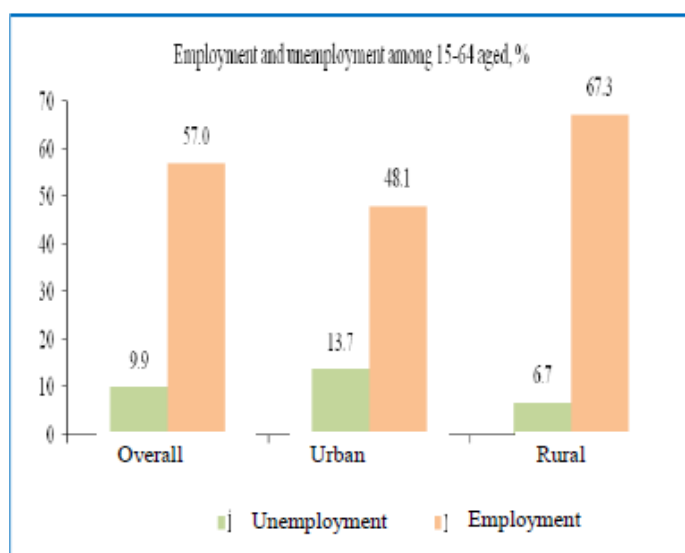
3. Labour Market Trends and Characteristics

3.1. *Employment and Unemployment*

The favourable demographic trends discussed above resulted in an increasing economically active population (EAP) and female labour participation rate in Azerbaijan over the period of 2000-2010. According to official data, about half of the population in Azerbaijan were considered to be economically active in 2010, and the number of EAP increased by 22 percent. According to the 2008 Living Standards Measurement Study (LSMS) by the World Bank,³ the working age population (aged 15-64) was about 70 percent of the total population. Although total labour force participation remained more or less unchanged at about 68 percent during 2000-2009, the female participation rate increased to 65 percent in 2009 (see Figure 2 and 3).⁴

³ World Bank, Living Standards Measurement Study (LSMS), 2008

⁴ Key Indicators of Labour Market (KILM), ILO, <http://kilm.ilo.org/>

Figure 2: Employment and unemployment by age**Figure 3: Employment and unemployment (15-64)**

Source: SSC

Employment also increased over the decade. Azerbaijan has one of the highest employment rates (60 percent) in the region.⁵ According to statistics, employment increased by 671 thousand, or 18 percent, throughout 2000-2011 (Figure 4). Azerbaijan is also ahead of a number of CIS countries in this regard. For comparison, while the number of employed people increased in Azerbaijan, it declined in neighbouring Armenia and Georgia over the decade. Population growth, including labour force growth as well as the lowest unemployment rate in

⁵“Labour Markets and Employability”, European Training Foundation, September, 2010.

the Caucasus are the key factors contributing to the stable increase in employment in Azerbaijan (Table 2).

Figure 4: Number of employed, in thousands



Source: SSC

Table 2: Socio-economic labour market indicators

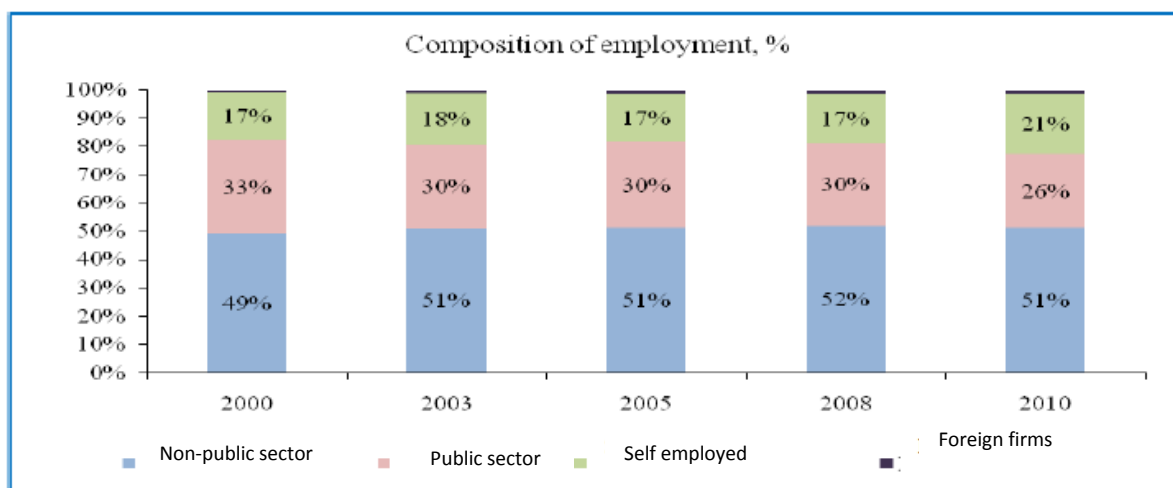
	2000	2003	2004	2005	2006	2007	2008	2009	2010
Average annual size of population – in thousands	8073.6	8309.2	8398.3	8500.3	8609.6	8723.0	8838.5	8947.3	9054.3
Size of economically active population – in thousands	3748.2	4147.9	4157.8	4186.5	4297.3	4335.8	4373.5	4378.2	4587.4
Number of employed –in thousands	3704.5	3747.0	3809.1	3868.7	4006.1	4054.7	4111.3	4118.0	4329.1
Including by form of ownership:									
<i>Public</i>	1278.2	1180.0	1209.3	1229.8	1271.9	1234.6	1244.4	1149.7	1142.7
<i>Non-public</i>	2426.3	2567.0	2599.8	2638.9	2734.2	2820.1	2866.9	2968.3	3186.4
GDP per person of the employed population, in manats	-	2390.6	2569.2	3236.9	4203.4	5210.3	5682.9	6205.2	6145.1

Source: State Statistics Committee of the Republic of Azerbaijan

The main driver of employment is the non-public (private) sector. Over the ten years here being examined, the share of non-public sector in total employment (including self-employed and those employed in foreign firms) increased from 67 percent to 74 percent (Figure 5). As a result, this sector provided jobs for those leaving the public sector, on the one hand, and, on

the other hand, also generated jobs for a considerable portion of approximately 100 thousand net new entrants to the labour market annually.⁶

Figure 5: Composition of employment

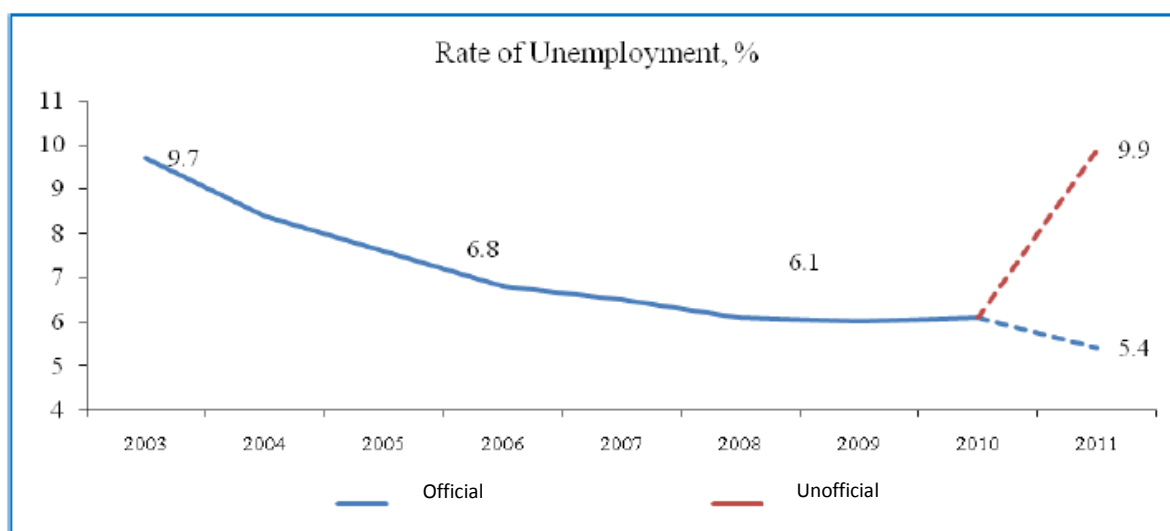


Source: SSC

Interestingly, the share of self-employment is also increasing. Overall, forty percent of employment is reported to be self-employed, while 90 percent of employment in agriculture falls into this category. Throughout 2000-2010, on average, the share of the non-public sector, self-employment and employment in foreign firms comprised 52 percent, 44 percent and 4 percent, respectively.

Unemployment has not seen any considerable decline in recent years, and especially during the boom period, despite strong economic growth. While the latest official data point to unemployment declining to 5.4 percent, according to the World Bank (LSMS 2008), the unemployment rate was about twice as large, at about 9.9 percent in 2011 (Figure 6). Overall, the largest unemployment is found among those with technical-vocational education (13 percent), residents of urban areas (13.7 percent), among 15-24 year-olds (15.9 percent), males (11.4 percent), and the poor (14.5 percent). Statistics indicate that about 2/3 of the unemployed remain jobless for more than 10 months. The relatively long length of joblessness, as well as unemployed people's economic inactivity indicate a stagnant domestic labour market, given that lengthy absence from the labour market tends to lead to loss of core skills, which, in turn, further complicates reintegration of these people back into the labour market.

⁶ According to State Statistics Committee data, annually, 120,000-130,000 new job seekers enter the market, while 25,000-30,000 retire.

Figure 6: Rate of unemployment

Source: SSC

3.2. Wages and Income: the impact of cross-sector labour movements

Azerbaijan has one of the highest average monthly wages among CIS countries. Only Russia and Kazakhstan have higher wages. While the average monthly wage in Azerbaijan is 60 percent of the corresponding figure in Russia, it is 1.5 times higher than in Georgia, Armenia, Ukraine and Moldova and 2.6 times and 5.1 times higher than wages in Kyrgyz Republic and Tajikistan, respectively.

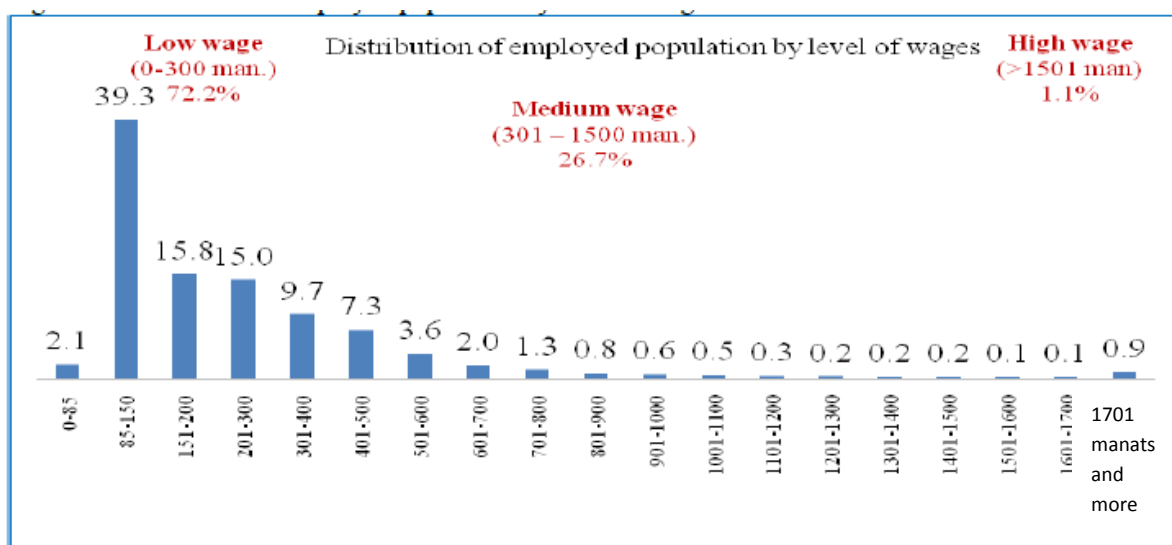
Table 3: Average monthly wage in CIS countries, dollars

	2000	2003	2005	2008	2010
Russia	79	179	303	697	682
Kazakhstan	101	155	256	505	526
Azerbaijan	50	79	131	334	413
Belarus	74	121	215	404	407
Georgia	37	59	113	359	343
Armenia	42	60	114	286	291
Ukraine	42	87	157	343	282
Moldova	33	64	105	243	240
Kyrgyz Republic	26	44	64	147	160
Tajikistan	9	15	27	68	81

Source: State Statistics Committee of the Republic of Azerbaijan

Notwithstanding increasing incomes, the distribution of wages is tilted more towards lower levels. Since fiscal expansion started in 2004 the monetary income of the population has been increasing. The nominal and real incomes of the population rose by 3.1-fold and 2.8-fold, respectively, during 2004-2008, albeit slowing down relatively in the 2 years after the outbreak of the global financial crisis. About 72 percent of employed people work for low-paying wages, while only one percent earn high wages (Figure 7). This clearly demonstrates the unequal distribution of income in the economy.

Figure 7: Distribution of employed population by level of wages



Source: SSC

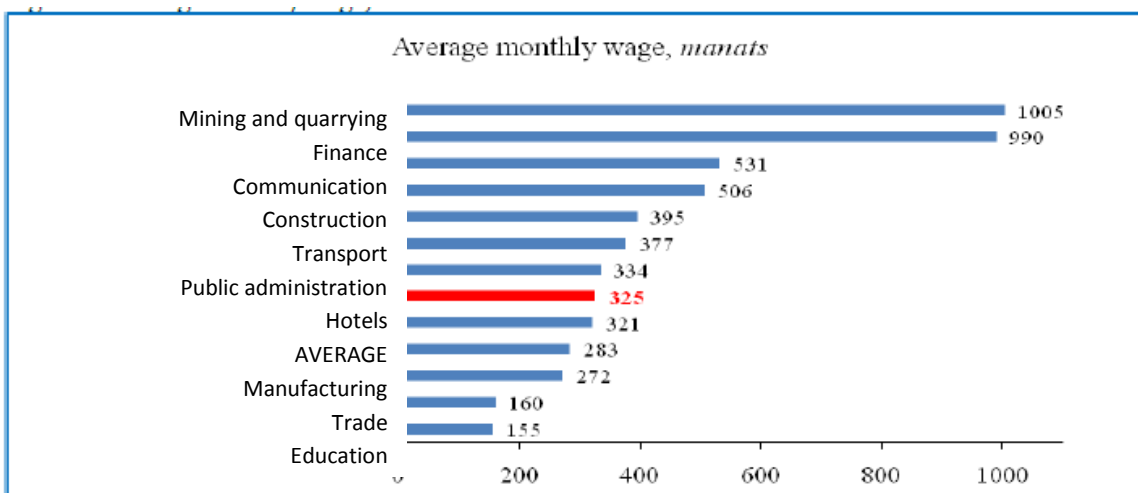
On the other hand, the minimum wage is quite low. Despite a rapid increase, the minimum wage is still only just under 30 percent of the average monthly wage (Figure 8). The fact that the average wage is so much higher than the minimum wage has led to wider wage disparities in the economy. Given this fact it is no coincidence that there are considerable differences both in public and private wages and different sectors of the economy. Hence, currently, the average monthly wage in the private sector exceeds that in the public sector 1.8-fold. This wage gap is particularly evident in certain sectors of the economy (Figure 9). Health, agriculture, education are the sectors with the lowest wage, while mining, finance, communication and construction enjoy high wages. The wage gap between the highest paying - mining - and the lowest paying sectors is about 4-6-fold. The parity of average monthly wages is also distorted by region. In Baku, the average monthly wage is twice the average figure in the regions. Such a difference in wage levels leads to migration of labour to the capital city and its surroundings. Thus, it is of no surprise that currently 45 percent of the employed population (about 2 million people) work in Baku and its suburbs.

Figure 8: Wages, manats



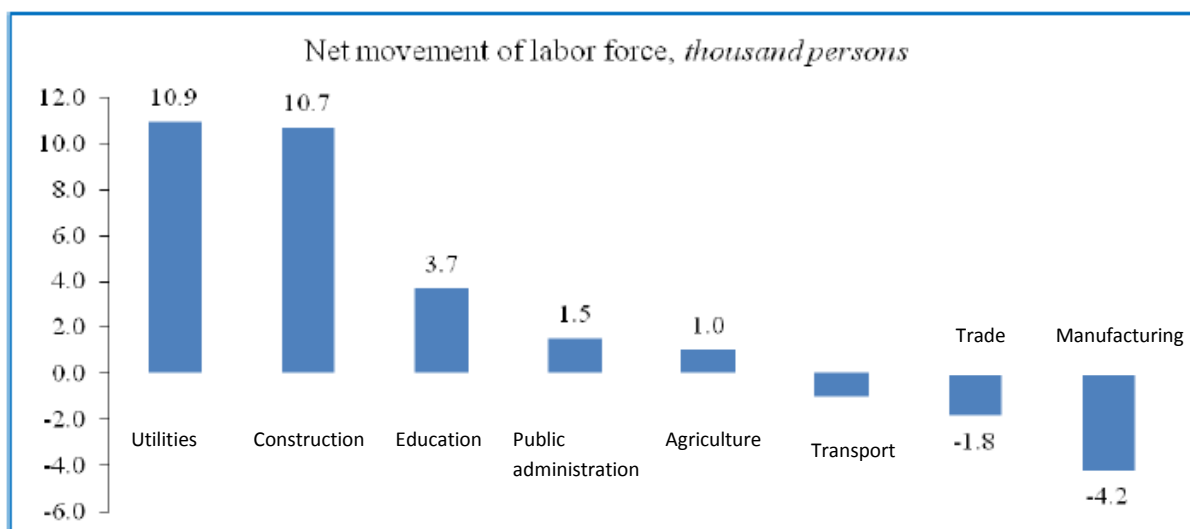
Source: SSC

Figure 9: Average monthly wage, manats



Source: SSC

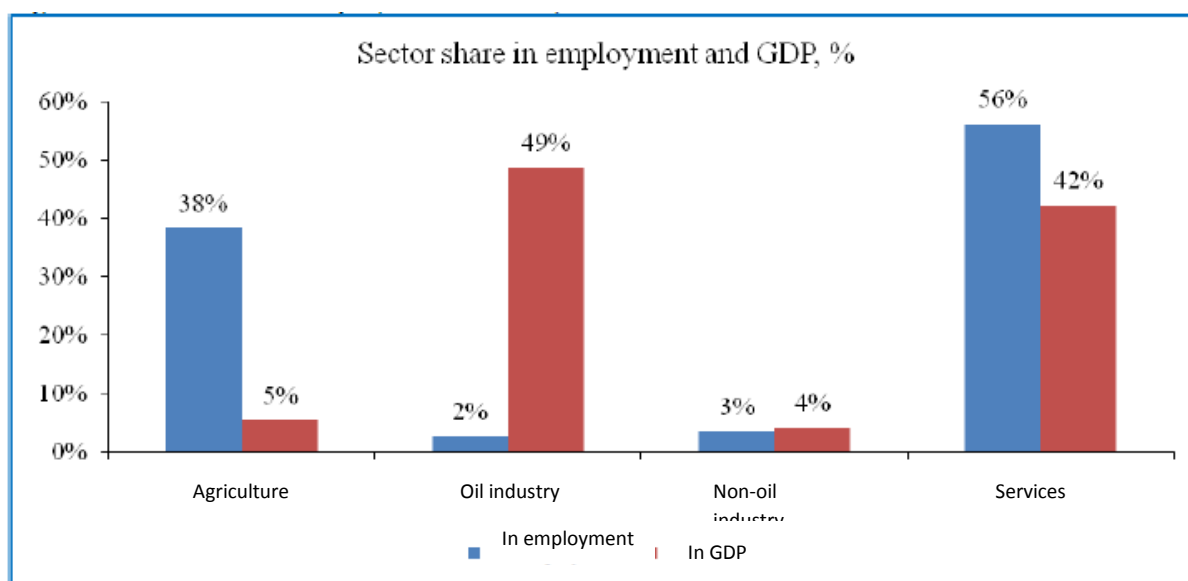
Symptoms of Dutch Disease are visible in the clear shift of labour force from tradable to non-tradable sectors, where the government is the dominant employer. As can be seen from Figure 10, showing net workforce movements in 2010, there is a net outflow of workforce from the tradable sector, with about three thousand leaving it for the non-tradable sector in the period at hand. The fact that agriculture has a net inflow of workforce can be linked to the real impact of the crisis that hit other sectors of the economy hard, as well as the traditional destinations of labour migration from Azerbaijan, namely Russia. In general, those sectors that generate most employment are utilities (electricity, gas and water supply), construction, education and public administration, where fiscal expansion has had a great effect.

Figure 10: Net movement of labour force, thousands

Source: SSC

3.3. Occupation, Industries, Sector

There are substantial disparities in employment by sector and contributions to GDP. As mentioned above, agriculture makes up about 40 percent of total employment, while contributing only 5 percent of GDP (Figure 11). According to the World Bank (LSMS 2008), over 83 percent of agricultural employment can be classified as self-employment, and mostly in rural areas, whereas hired labour accounts for less than 8 percent. A contrasting picture is observed in the oil and gas sector, which despite accounting for about half of GDP, makes up only about 2 percent of total employment. The ratios in the services and non-oil industries are comparable. It should be stressed that the underdevelopment of the non-oil industry explains its low share in total employment. For comparison, in industrialised countries, such as Germany, Japan and Korea the figure is 13 percent, in Norway about 9 percent and in the Czech Republic 20 percent of total employment is concentrated in the manufacturing sector.

Figure 11: Sector share in employment and GDP, %

Source: SSCEducation

Azerbaijan's education system, particularly the tertiary education system, has deteriorated badly since independence in 1991. The country once had a near universal literacy rate (99.6 percent, according to the 1989 census). Virtually all children, regardless of gender, poverty level, or geographic location, once completed 9 years of basic education. However, since 1989, many performance indicators, such as enrolment, quality and relevance of education have fallen dramatically. The immediate result is a low level or lack of the skills required by the economy, leading to labour shortages, unemployment or employment in primarily low productivity activities.

One of the most fundamental problems in the current education system is related to access, namely the extraordinarily low participation rate at pre-primary and tertiary levels. The general tendency is very low rates of enrolment at the pre-school level, although there is just under 100 percent enrolment at - mostly state - primary and secondary schools, and low (15 percent) and declining participation at VET (18 percent) and higher education institutions. Azerbaijan is the only country in the post-Soviet area where strong restrictions exist on entry to tertiary education, with private and fee-based public education having a negligibly limited role.

Consequently, about 75 percent of graduates of secondary education enter the labour market with no specific marketable skills. As a consequence, very few numbers of upper secondary graduates can attend university in Azerbaijan. According to ETF (2010), in 2004/05 higher education took in 19% of general education graduates, while 5.7% enrolled in post-secondary VET. The remaining 75% of secondary general education graduates remained outside

recognised education and training for employment. According to the World Bank (2011), by 2008, this figure had increased to 77 percent.

Another key distortion is related to the presence of serious skill mismatches supplied by the education system and demanded by the economy. As mentioned above, the tertiary education system “produces” specialists primarily in areas such as education, health and oil-related manufacturing, while current demand in the economy is for skills in sectors such as agriculture, services and non-oil related manufacturing. According to the World Bank (CEM 2009), half of the graduates of higher education establishments specialise in education, where employment is only 8.6 percent and with low wages. While about 70 percent of the unemployed population have general secondary education, a maximum of 60 percent of all jobs only require that level of qualifications.

This mismatch leads to a higher unemployment rate among workers with general education, resulting in labour shortages in other specialities, such as qualified crafts and related trade personnel, technicians, employees with computer proficiency, and managers. As reported by the World Bank (CEM 2009), at the November 2007 Baku Job Fair, no suitable candidates could be found for 50 percent of the 7,000 jobs offered. In another study by ETF (2008), with estimations based on the results of Labour Force Surveys, Azerbaijan has an excess supply of workers with secondary general education, although this declined by more than 50 percent between 2003 and 2006.

Official unemployment depicts a different picture, however. As can be seen from Table 4, over the ten-year period the share of officially registered unemployed with higher education was much higher than unemployed with secondary education, which points to a low representativeness of officially registered unemployment. The results of an ETF 2005 survey on the employment status of 2000-02 graduates from vocational and technical schools in Baku and Sumgait, however, showed that 65 percent of the sample was unemployed at the time of the survey.

Table 4: Breakdown of officially registered unemployed by education qualifications (in percent)

	Level of education attainment				
	Higher	Secondary special	Technical-vocational	Secondary education (grades 5-11)	General education (grades 1-4) (including those with no education and with primary education)
Unemployed					
2000	27.2	33.9	-	34.2	4.7
2003	27.7	34.7	-	32.5	5.1
2004	29.5	34.6	-	31.4	4.5
2005	30.7	34.8	-	30.2	4.3
2006	32.6	33.2	16.1	15.1	3.0
2007	34.4	34.2	15.3	13.7	2.4
2008	37.7	35.7	14.5	9.8	2.3
2009	41.4	35.6	13.2	8.3	1.5
2010	42.8	35.5	12.8	7.6	1.3

Source: State Statistics Committee of the Republic of Azerbaijan

Finally, the third critical issue related to education in Azerbaijan is the low productivity of the employed labour force. According to the World Bank (LSMS 2008), 70 percent of higher education graduates work in the public sector, despite low salaries, and only just under 25 percent are engaged in the high-productivity private sector. Given the fact that agriculture is one of the largest “employers” in the economy and the fact that the employed with lower education levels are largely concentrated predominantly in agriculture, such an employment situation is of no surprise.

The failures of the education system have led to public agencies as well as foreign firms establishing their own universities educating future employees. For instance, as highlighted in the World Bank’s CEM report (2009), “for the first time in its world experience, British Petroleum (BP), the key investor in the oil sector, was compelled to establish from scratch a large training centre in Azerbaijan to deal with the low competence levels.” A similar trend is observed in the public domain, with the Ministry of Emergencies, Tourism, Border Service, National Security, and Customs having opened their own academies and universities. These institutions provide graduates with specific skills that would easily get them jobs in the respective ministries. However, highly narrowed specialisation presents a significant challenge for these graduates

to change their profile or place of work later on during their career, thus reducing labour mobility (European Commission 2011).

4. Migration Trends: from Exporter to Importer of Labour

4.1. History and trends in migration

After the defeat of the Azerbaijan Democratic Republic in 1920 to the nascent Soviet Union, Azerbaijan faced a policy of russification of the population, implemented under the guise of spreading socialist ideas. As a result, thousands of Russians and other nationals were forcibly resettled to Azerbaijan. In turn, thousands of Azerbaijanis were labelled as “enemies of the state,” murdered or forcibly moved to remote regions of Russia.

However, the outbreak of World War II halted this large-scale policy. Thousands of young adults from Azerbaijan fought in the war and thousands of refugees mainly from Slavic nations found shelter in the country, which in turn changed the demographic structure.

Migration issues in Azerbaijan in the post-war period were notable in two different respects. First, there was officially-induced migration. According to a decree by the former USSR Council of Ministers dated 23 December, 1947, on “The resettlement of collective farmers and others from Armenia SSR to the Kur-Araz lowland” around 150 thousand Azerbaijanis were removed from their indigenous homeland and the abovementioned population moved into their place.⁷ Second, people moved in response to the opening of opportunities. A case in point is that of the country’s agricultural products sold in Russia’s larger cities. This also involved thousands of young Azerbaijanis participating in construction projects across the USSR (e.g. the construction of the Ulkan and Anqoya districts on the Baykal-Amur Highway, in which approximately 150 thousand Azerbaijanis were involved). The majority of these young people decided to stay in the regions they had moved to for work, further changing the ethnic landscape of Azerbaijan.

⁷ Armenia – Azerbaijan. Historical roots of Mountainous Karabakh conflict. - <http://www.refugees-idps-committee.gov.az/az/pages/2.html>

4.2. Post-Independence Migration

The migration process during Azerbaijan's independence period (1991-present) can be divided into 3 stages. The first stage spans 1990-1995, and can be characterised as a period of forced migration with an ethnic pattern, due to the Nagorno-Karabakh conflict (which affected the migration of Armenians and Azerbaijanis). The collapse of the Soviet Union and ensuing economic hardships in these years also triggered the emigration of Russians, Jews and other ethnic minority groups from Azerbaijan. For these reasons, the first phase of migration in the post-independence period can be described as a permanent resettlement of migrants.

The longest running conflict in the South Caucasus, the Nagorno-Karabakh conflict has produced the largest number of refugees and IDPs in the region. The conflict led first to the deportation of Azerbaijanis from Armenia, and then to the forcing out of Armenians residing in Azerbaijan - mainly to Armenia and Russia.⁸

Moreover, the breakup of the Soviet Union triggered a significant outflow of Russians and Russian-speaking population to Russia and other CIS countries such as Ukraine and Belarus. According to official statistical data, 342,300 people emigrated from Azerbaijan in 1990-1994. The outflow of Russian-speaking citizens was triggered by the growing unpopularity of Russia in the immediate post-independence years. The main contributing factor behind this antipathy towards Russians was Moscow's anti-Azerbaijani position on foreign political issues (especially Russia's close alliance with Armenia). On the other hand, independence resulted in a change of the official language from Russian to Azerbaijani. In this situation many native speakers of Russian, unable to adjust to the new circumstances, had to leave Azerbaijan in search of better opportunities. According to a survey conducted by Russian researcher V. Tishkov in 1994-1995, the Russian-speaking population left Azerbaijan mainly because of financial difficulties and lack of prospects for their children. Among other factors, the most prominent are: concern for personal security, insufficient knowledge of the Azerbaijani language, the declining social status of the Russian-speaking population, a sense of isolation resulting from a severing of ties with family and friends residing in Russia⁹ (Tishkov, 1996, p. 42).

⁸ In late 1987 and early 1988 the first forced population movements occurred as Azerbaijanis fled communal violence in Kafan and Megri in Armenia (De Waal, 2003, pp. 18-19). The conflict quickly spiralled and by early 1991 the entire Azerbaijani community of Armenia (estimated to be more than 200,000 people), and most of the Armenians living in Azerbaijan, some 330,000 people, fled violence from Armenia and Azerbaijan respectively (Yunusov A., Bagdasarian L., 2005, p. 53). The Karabakh war on the one hand and the collapse of the Soviet Union on the other had a direct impact on intensification of migration processes (foreign and internal migration flows) and ethnic changes.

⁹Tishkov V. Migration and new diasporas in post-Soviet countries. M., 1996, 238 p.

Looking at the figures in Table 5 one can see that the main emigration flow fell into the first half of the 1990s. From 1990-1995 the number of immigrants into Azerbaijan was 217,400 and the number of emigrants amounted to 358,300. The numbers then dropped abruptly, according to official statistics. In 1996-2000 Azerbaijan received 27,900 people as immigrants, while approximately 58,400 people emigrated from the country. Russia became the main destination country for Azerbaijani labour migration.

Table 5: International migration (in thousands), 1990-2009

Years	Immigrated to the country for permanent living	Emigrated from the country for permanent living abroad	Net migration	Of which:	
				urban places	rural places
1990	84.3	137.9	-53.6	-52.7	-0.9
1991	66.3	106.4	-40.1	-39.4	-0.7
1992	35.7	49.9	-14.2	-13.8	-0.4
1993	16.3	28.5	-12.2	-11.9	-0.3
1994	8.6	19.6	-11.0	-10.8	-0.2
1995	6.2	16.0	-9.8	-9.5	-0.3
1996	5.8	13.2	-7.4	-7.2	-0.2
1997	7.5	15.7	-8.2	-8.1	-0.1
1998	5.4	10.5	-5.1	-5.0	-0.1
1999	4.8	9.1	-4.3	-3.5	-0.8
2000	4.4	9.9	-5.5	-5.0	-0.5
2001	2.6	7.3	-4.7	-3.6	-1.1
2002	1.2	4.3	-3.1	-2.0	-1.1
2003	2.5	3.8	-1.3	-1.6	0.3
2004	2.4	2.8	-0.4	-0.7	0.3
2005	2.0	2.9	-0.9	-0.6	-0.3
2006	2.2	2.6	-0.4	-1.9	1.5
2007	2.0	3.1	-1.1	-1.4	0.3
2008	3.6	2.5	1.1	0.5	0.6
2009	2.3	1.4	0.9	0.1	0.8

Source: SSC, <http://www.azstat.org/statinfo/demographic/en/050.shtml#s1>

The second phase of migration, spanning 1996-2000 was primarily shaped by economic factors. Unemployment and low wages were factors that led to the emergence of a large number of Azerbaijani migrants moving to neighbouring countries in search of work. Thus, emigration on ethnic grounds was largely replaced by economic emigration. For example, if in 1997-1999 the number of Russians moving from Azerbaijan to Russia was 16,172, at the same period the number of Azerbaijanis migrating to Russia reached approximately 35,000 (See: Table 6). However, as already outlined above, official migration figures seem to underestimate the real outflow of Azerbaijanis to foreign countries and there are indications that with the increase in labour migration after 1996, irregular migration increased as well.

Table 6: Dynamics of migration flow (by ethnic group), 1997-1999

	Migration flow to Russia				Migration flow to Azerbaijan			
	1997	1998	1999	1997-99	1997	1998	1999	1997-99
Azerbaijanis	14.560	11.372	8.955	34.887	2.662	2.415	2.498	7.575
Russians	8.304	5.065	2.803	16.172	732	646	551	1.929
Armenians	2.842	2.374	1.803	7.019	196	198	139	533
Lezgis	1.160	1.192	572	2.924	346	324	354	1.024
Tatars	753	447	272	1.472	90	73	46	209
Ukrainians	382	187	196	765	---	27	34	61
Avars	246	---	120	366	---	---	80	80
Jews	115	114	76	305	---	20	13	33
Other	1.516	1.459	1.105	4.080	276	212	132	620
Total	29.878	22.210	15.902	67.990	4.302	3.915	3.847	12.064

Source: State Committee of the Russian Federation on Statistics, 1998; IOM 2001a, b.

The third phase of migration covers the period from 2001 to the present. Official data suggest relative stability in the sphere of migration and a positive migration balance as of 2008. However, if we compare the official data with those from the receiving countries, it becomes obvious that the Azerbaijani official figures only reflect part of the real outflows. According to the OECD international migration database, inflows from Azerbaijan to OECD countries (i.e. excluding Russia) was more than 150,000 in the period 2000-2009. As noted above, these flow data are predominantly based on residence permits issued by the receiving countries.

4.3. Migration profile

The availability and reliability of emigration data for Azerbaijan is rather limited and it is assumed that the official data issued by the State Statistics Committee of Azerbaijan significantly underestimate the real outflows from and inflows into the country. These data are based on the figures of registration for permanent residency and therefore don't include those

persons who temporarily emigrate without abandoning their permanent residence in Azerbaijan.¹⁰

Of the EU member states, according to EUROSTAT, Germany is the main receiving country with 15,509 Azerbaijani citizens residing in Germany in 2010 (Eurostat, 2011).¹¹ There are some indications that a considerable share of emigrants is irregular. According to EUROSTAT, in the EU in 2010 member states' authorities found more than 800 Azeri citizens to be illegally present in their countries. One should note that this figure only includes those who came to the attention of the national immigration authorities and therefore is not intended as a measure of the total number of irregular migrants in the country.

According to UN Population Division and World Bank figures, there were approximately 1.4 million Azerbaijani citizens living outside of Azerbaijan in 2010, the equivalent of 16 percent of the entire population. The main destination country is Russia with about 60% of Azerbaijani emigrants, followed by Ukraine, Kazakhstan, Israel, Germany and Turkey (World Bank, 2011b). Other sources, such as the SSC of the Republic of Azerbaijan, confirm the leading position of Russia as the main destination country. However, if one looks at the international migration database of the OECD, Turkey appears to be becoming an increasingly important destination country for Azerbaijani migrants. According to flow data statistics based on residence permits, 115,000 Azerbaijani went to Turkey between 2000-2009 and received a residence permit for the duration of residence longer than one month. It must be noted that inflows from Azerbaijan to Turkey increased considerably during the second half of the 2000s.¹²

The OECD data may however overestimate the number of Azerbaijani emigrants. For example, this information does not reflect the exact number of people migrating to Turkey from Azerbaijan. OECD figures are based on applications for residence by Azerbaijani citizens. Some of the former Azerbaijan labour migrants from Germany, Russia and Turkey during a meeting¹³ devoted to finding out about their labour experience abroad told us that they had been applying for residence permits to the Ministry of Foreign Affairs in Turkey once every 3 months. Thus they had applied for legal residence permits 4 times a year and as a result each labour migrant could have been noted more than once in the OECD data – depending on the

¹⁰ Information on the method of emigrant and immigrant registration was given by the head of the Department of Demography and Social Statistics of the SSC of the Republic of Azerbaijan, Mr. Agadadash Mamedov.

¹¹ According to the UN Population Division database, the number is higher, at about 23 thousands.

¹² According to the OECD, in 2000 there was an inflow of 10,564 Azerbaijani citizens to Turkey compared to 17,123 in 2009, see OECD International Migration Database <http://stats.oecd.org/Index.aspx?lang=en> (accessed on 25 August 2011).

¹³ The meeting was conducted on 24 September 2011, in Baku city.

number of repeated visa applications that he/she had had in order to obtain a legal residence permit. However, apart from SSC and OECD data, there are no alternative sources of emigration information (official and non-official) that we can rely on to assess the exact scale of outflows of people from Azerbaijan.

Since 2001, due to the successful economic performance discussed earlier, and the country's participation in major regional projects (BTC, TRASECA, NABUCCO etc.), Azerbaijan is gradually becoming an attractive destination for migrants from abroad.

As the head of the migration sector at the Ministry of Labour and Social Protection of the Republic of Azerbaijan, Mr. Fuad Jabbarov, said: "from year to year the number of labour migrants to Azerbaijanis rising and the reason for this trend is the realisation of large-scale economic projects" (Najafov, 2011). Mr. Arzu Rahimov, now the former chief of the State Migration Service of the Republic of Azerbaijan, also echoed this statement. He stressed especially that the political and economic development of Azerbaijan makes the country attractive to migrants, whose numbers are increasing (Akhundov, 2011). As a result, the third phase of migration in post-independence Azerbaijan is of a mixed nature, combining temporary and circular types.

4.4. Evidence of duration (seasonal, not-seasonal)

Limited data is available with regard to the length of labour migrants' migration spells in Azerbaijan. The most comprehensive survey is quite dated (2002), and was conducted by the Forum of Azerbaijan NGOs on Migration¹⁴ (FANGOM). The study showed that the length of the stay in the country was correlated with the distance travelled from the immigrant's country of origin—the further the distance, the longer the migrants tended to stay.

The FANGOM survey evidence was supplement with discussions in the context of meetings held with focus groups of labour migrants. While not statistically significant, the discussions painted a picture of labour migration (from Azerbaijan) occurring in relatively short spells of time, and constrained by the need to obtain the necessary visa, or, in the case of migration to Russia, Ukraine and Turkey (where a visa is not required), to comply with residency rules.

Migration to Western and Central European countries typically takes place initially with a short term visa; when work is found, Azeri migrants are then faced with the familiar difficulty of attempting to gain migrant status, or alternatively of seeking refugee status. The focus groups

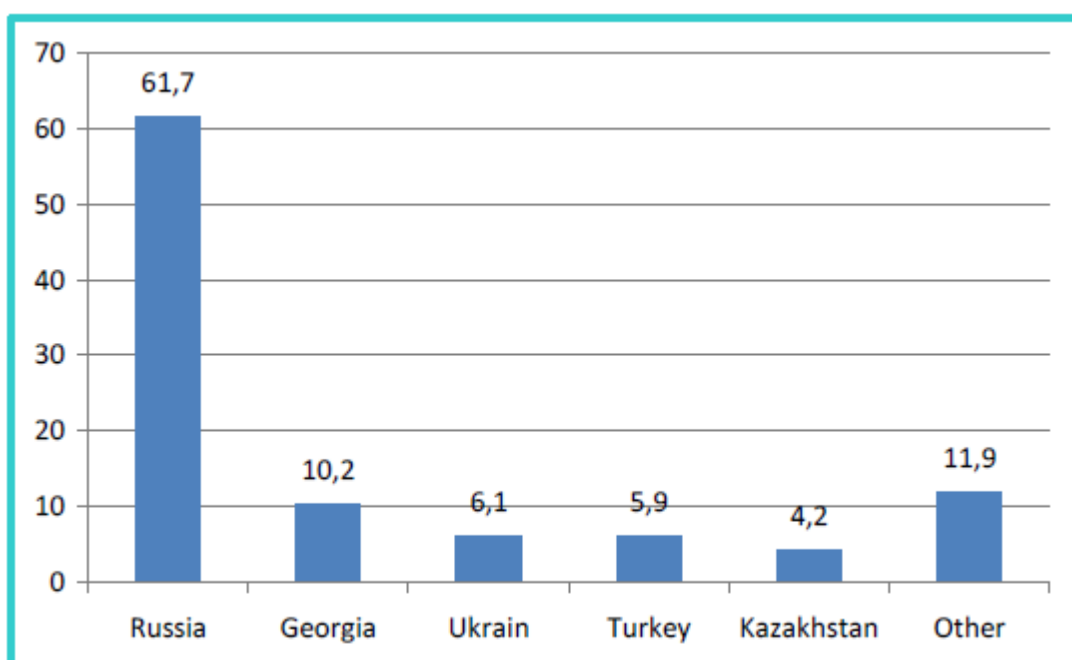
¹⁴ Forum of Azerbaijan NGOs on Migration (FANGOM) is coalition of NGOs dealing with migration issues and established in 1997. Today thirty six Azerbaijan NGOs-members, having a reach experience in migration filed, are FANGOM's members.

confirmed that migrants under those conditions face various threats (labour exploitation, physical or sexual violence etc.). The interviews held with former labour migrants indicated that the majority of them have some information regarding the relevant legal aspects of the destination countries, tended to have strong information about the required documents, but have little knowledge about the administrative rules to be observed and therefore tend not to have exact plans regarding the duration of their stay in the destination countries.

4.5. Directions (countries)

Immigrants. Official migration statistics show that immigrants coming to Azerbaijan are mainly citizens from the Commonwealth of Independent States (CIS) – (96 percent). The majority are from the Russian Federation, Georgia, Ukraine, Turkmenistan and Kazakhstan (See: Figure 12). Immigrants from the 5 largest non-CIS countries who settled in Azerbaijan are the following: Turkey, Iran, Israel, China, and Pakistan.

Figure 12: Country of origin of migrants coming to Azerbaijan

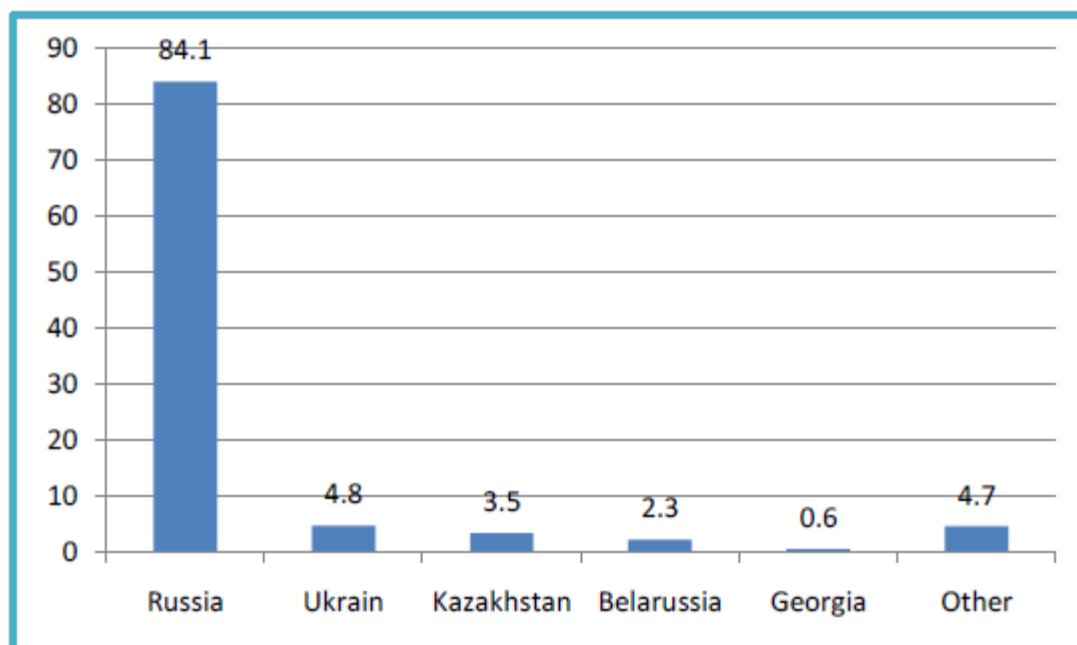


Source: SSC

Emigrants. Figure 13, based on State Statistical Committee and UN Population Division data, shows that of a stock of about 1.4 million emigrants from Azerbaijan the great majority is directed to CIS countries (approximately 82%) with a preponderance of the Russian Federation (61 percent). The European Union accounts for a modest 2.5 percent of migrants (two-thirds of which are in Germany), and Israel and Turkey account for a further 2.4 and 1.3 percent. Some 10 percent of migrants are classified under the “other South” omnibus category. These “stock” data pretty much reflect available flow data from the UN Population Division, which

show that during 1999-2009 about 82 percent of migrants moved to the Russian Federation. All of these data, it should be remembered, concern legally registered migrants and thus likely underestimate the number of actual migrants.

Figure 13: Countries of destination of migrants leaving Azerbaijan



Source: SSC

A major determinant of the preponderance of emigration to the Russian Federation and CIS countries in general is the visa-free regime for Azerbaijani citizens for the majority of those countries. Azerbaijani migrants leaving for Russia can also count on the presence of an active Azerbaijani diaspora, formed during Soviet times and strengthened during the 1990s. Knowledge of the Russian language and Russian traditions also helped them to move and settle in there. In the interviews carried out during the focus groups one of the migrants who travelled to Russia explained the reasons for his migration as follows: “More than half of the people of our village are in Russia. There are some who earn good money. They have built new houses and bought foreign cars”.¹⁵ At the same time, the language and cultural similarities and the geographic proximity between Azerbaijan and Turkey underpinned the decision of many to migrate to Turkey. “All the young adults are working in stone mines in Turkey. I decided to go there because I am familiar with this job”.¹⁶

¹⁵ Interview with Samad Rzayev (a labour migrant who worked in Russia)

¹⁶ Interview with Sahib Maniyev (a labour migrant who worked in Turkey)

4.6. Emigrants' profile

Due to poor information and statistical data, it is only possible to provide limited information on the social demographic profile of emigrants (as well as for internal migrants). The SSC of Azerbaijan provides some information on the gender, age characteristics, and the origin (rural/urban) of migrants. However, as mentioned earlier, these figures provide information only about people who have migrated to another country for permanent residence. Out of the 1,373 people who officially emigrated from Azerbaijan for permanent residence to other countries in 2009, 55% were women. This proportion is slightly higher compared to the total population (51% female and 49% male population in 2009). The majority of emigrants (82%) belong to the age groups 25-29 and 30-34, and most are from urban areas (57%).

A review of immigration statistics of the receiving countries shows that the profile of migrants in terms of gender looks slightly different. For example, according to EUROSTAT data, in Germany, the share of male immigrants from Azerbaijan ranged from 56% in 2003 to 62% in 2006. The ADB Country Report on Remittances of International Migrants and Poverty in Azerbaijan (2008)¹⁷ also reveals “a higher share of male migrant household members (86%) and a much higher share of male remittance-sending migrants (95.5%)”. The discrepancy from the above mentioned official figures might be an indication of the high level of temporary labour migration among the male population.

The ADB Country report also gives interesting information on the age and education levels of Azerbaijani emigrants. According to the report, the socio-demographic characteristics of various age groups show that the highest share for emigrant household members is observed in the age groups 25-34 and 35-44. The Azerbaijani emigrants surveyed by ADB are educated (the majority has secondary (71.9%) and tertiary education (26.1%). Regarding the marital status of the emigrants, the survey showed that most (58.1%) were married (ADB, 2008, p. 27).

Emigrants from Azerbaijan are employed in various industry sectors in Russia, Ukraine, Turkey, Germany, and other countries. Azerbaijani emigrants are generally engaged abroad in self-employment, including small trade (59.8%) and the private sector (20.1%) (ADB, 2008, p. 28). From the ADB report, it is also clear that the majority of Azeri emigrants had worked in agriculture (54.1%), wholesale and retail sectors (16.2%) back in Azerbaijan. While living abroad, these emigrants are working mostly in wholesale/retail (65.9%) and in construction

¹⁷Asian Development Bank (ADB) Country Report on Remittances and International Migrants and Poverty in Azerbaijan. Baku, 2008, 85 p. This report is based on a survey which was conducted by the Centre for Local Economic Development on behalf of the Asian Development Bank in 2007. The sample included 3,900 households and covered Baku, other urban areas and rural areas.

(15.8%). This confirms that the sectors in which migrants work abroad tends to differ from those in their home country (ADB, 2008, p. 29).

Internal and international migration processes are also marked by differences between ethnic communities living in Azerbaijan. Talyshis and Lezgins, for example, are actively involved in internal and external migration processes. There are no concrete data on the number of migrants in this category. It is widely known that there are some spheres of trade which are largely 'controlled' by Talysh communities (for example, sales of subtropical fruits, agricultural vegetables) in the main cities of the Russian Federation. Lezgins, representing the northern region of Azerbaijan, tend to be involved in close trade relations with residents of the Republic of Dagestan (Russian Federation). According to information provided by former labour migrants, Talyshis tend to control the trade in Vikhino, Prajskaya, Lyublino, and Preobrajenskaya markets in Moscow and fruit-vegetable division in the central markets in Saint-Petersburg. In Baku, Talysh communities are also actively involved in the subtropical fruits trade, while Lezgins are involved mostly in service, construction and industry sectors.

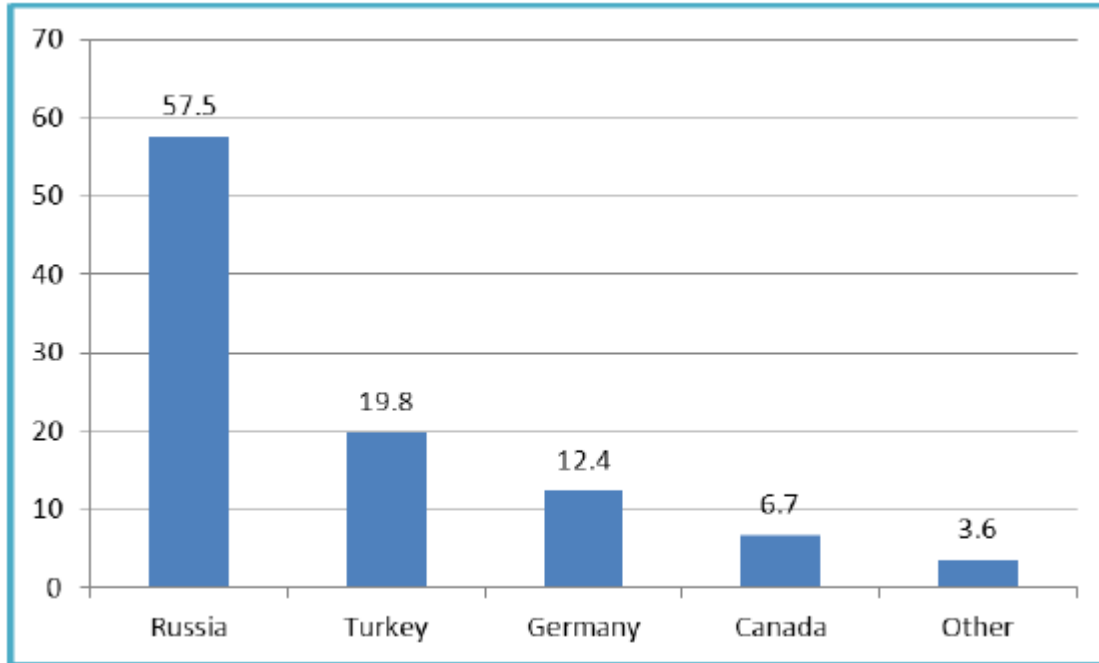
4.7. Why Migrate?

External migration has gone largely in tandem with a redistribution of economic opportunities in the country and consequently of internal migration flows, as discussed earlier. 1/3 of the entire population (2.5 million people) now reside in the Absheron economic zone and produce 45% of GDP. The increase in the population living in Baku and nearby areas is connected to positive changes in the social-economic sphere of the Absheron economic zone. People coming to Baku for employment stay either at relatives' homes, in dormitories, rent an apartment or find other places to live. The other main cause for Azerbaijanis to move to the Absheron peninsula is developmental unevenness across the regions of the republic. Under market economy conditions, foreign organisations, firms and construction and production companies tend to be located in the capital of Azerbaijan, which also leads many people to migrate to Absheron. The majority of the thousands of operating non-governmental organisations created with the support of international organisations are primarily located in Baku. Thus, in terms of employment provision and undertaking of various economic projects, the Baku zone in comparison with other zones holds first place. Even if an unemployment problem exists in Baku, the chances of finding work in country's regions are far lower. In 2003, many factories either ceased to operate in regions other than Baku or their production capacity was only 20-25% utilised.¹⁸ The FANGOM research quoted earlier noted that many of those

¹⁸State Committee for Statistic of Azerbaijan Republic. Statistic data for 2003. Baku, 2004

made redundant by these changes wanted to go to Russia (57.5%) Turkey (19.8%), Germany (12.4%) and even Canada (6.7%) (See: Diagram 14).

Figure 14: Country of destination for potential migrants



Source: FANGOM

Another reason behind people's decision to migrate for economic reasons is related to the complicated situation in the regions. Problems with the provision of potable water, gas and electricity in various regions of the country, for example, were cited as reasons to leave for places with better public services. It is clear that along with these problems, employment is a big issue in the regions. Employed people tend to experience difficulties with low salaries, erratic payment of wages, and need to sell their agricultural products at low prices. This often compels people to leave for the capital city. Many people go to the capital and this flow is not decreasing given the greater possibilities of finding employment in Baku in the growing construction, oil production sectors, or also in small trade and the provision of various types of services.

Box 1. Why Migration Occurs

Personal Testimony from the Focus Groups

In interviews with the focus groups, discussions specifically indicated the lack of jobs as the reason for labour migration. Conversations with former labour migrants who left the country and then returned home shows that the main reason for migration for employment purposes was poverty and lack of employment opportunities in their own country.

Reasons such as lack of quality of medical care and education, though not mentioned in the study, can also be considered as reasons for migration. Poverty and limited employment opportunities were the main factors in the decision to migrate abroad for employment purposes. "I am from Western Azerbaijan. I have a family. One daughter and four sons. I am living in a village. Before migrating to Russia I was also living in the village. I had a plot of land and I was cultivating wheat there, but I was not earning enough money. My kids were growing up and the need for money was increasing. That is why I decided to leave for Russia.

Here is another story of man who lost his position of vice-director in an industrial company in Sumgayit in 1990. "Firstly I was thinking only about my family and my kids. As they were growing up their demands grew also. My wife was also unemployed. In order to better my financial conditions I started to repair apartments. But then I understood that the country's condition in all fields is equally tough. I was earning 5-10 USD per day and that was not enough and that is why I started to think more about leaving abroad

One woman who decided to move to Europe explained her decision to migrate as follows: "I had a family but now I am divorced. I have a ten-year boy and originally I am from Armenia. We have a family of six people and there was a time when we lived in one room apartment. The only people working in my family were my father and mother and their income was not enough. My father was a worker, and mother served in different families offering cleaning services. The only way to improve our financial condition was to create a family, which I did in 1997. But in a year this poorly thought through marriage fell apart and I am not sure whether I can call this a divorce but my husband left abroad for employment purposes. Shortly after we found out that he had another family there and did not think about coming back. I was left alone at home with my baby. I brought up my son alone for four years, but life was harsh and I was forced to migrate abroad. I could bring up my son and educate him and I myself could create my new family and marry a foreigner"

The situation described by these labour migrants while abroad indeed coincides with the existing situation investigated in the studies on migration in Azerbaijan and other CIS countries. The only solution to improve the economic situation was to migrate, however this was not always successful. The surveyed public stated that they could not accumulate a lot of capital and could only buy the return ticket to home before leaving their country of destination. Another factor for migration was the interest to obtain information about other countries, gain experience and try ones luck. In general, migrants are people who are ready to risk for a chance to change their existing situation and to realize their dreams. The improvement of economic condition is not the only ground for migration. Some of the interview participants informed that previously they were also earning extra money to sustain their families. This even helped them to buy certain domestic equipment. In other words, the decision undertaken by migrants is not solely a result of their economic necessity.

4.8. The impact of migration on the local labour market

The most obvious impact of migration on the local labour market is through its effect on the size of population, more specifically the EAP. Unofficial estimates suggest that close to 1 million people emigrated from Azerbaijan during the transition, heading mainly to Russia, Turkey and Germany. Recent report by the European Commission indicated with reference to some Russian sources: "... the actual number of ethnic Azerbaijanis in Russia is much higher; some modest estimates place the number between 1.3 million to 1.8 million. These estimates also include seasonal workers or Azerbaijanis who live in Russia on a temporary basis." This estimate is substantially higher than the World Bank figure mentioned in Chapter 3 (in reference to about 800,000 labour migrants in Russia alone in 2010). In particular, for economic reasons, significant numbers of young people have reportedly migrated temporarily to work in Russia, mostly in commercial and informal activities. This is significant given that the total size of active population is close to 4.6 million.

More importantly, though, it has eased somewhat the pressure on the labour market by providing an outlet for excess labour supply in the country. Migrant outflows have increasingly become for work reasons given the limited availability of jobs and low wages in poorly functioning local labour markets, insufficient access to finance and a general lower level and quality of life. Typical characteristics of labour emigration from Azerbaijan are secondary general education level, diversified age groups, jobs held in the host countries mainly in labour-intensive sectors with low skill requirements and low pay, such as trade, construction and catering. When the economic situation and salary levels improve in Azerbaijan, or conversely, economic activity and revenues slowdown in host countries, some migrants may return, adding pressure on the labour market of Azerbaijan.

What distinguishes Azerbaijan from other "exporters" of labour in the CIS area (except for Russia) is that recently the country has started to "import" labour as well. Inflows of foreign labour to the country are not high at the moment and do not lead to any serious threat for the labour market yet. According to unofficial estimates obtained through interviews with Focus Groups, currently, about 9,000 foreign labour migrants have received or extended their permits to work in Azerbaijan. This is a negligible number, given the size of the workforce in Azerbaijan. It is also slightly above 1/3 of the officially reported total number of immigration flow to Azerbaijan during 2000-2009 (25,187 persons) mentioned in Table 7. Construction and mining (mainly oil and gas) are the two sectors that primarily attract the foreign workforce to Azerbaijan, together accounting for about 3/4 of the total stock of foreign labour migrants. Most

of them are males in the 26-45 age group.¹⁹ The top three key countries of origin appear to be Turkey (about half of the foreign labour), Great Britain (mainly to the oil sector) and China (mainly unskilled).

Table 7: Number of persons immigrated to Azerbaijan (2000-2009)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
- Total	4361	2574	1257	2500	2407	2013	2232	1954	3597	2292	25187
Of Which:											
From CIS countries	4233	2477	1202	2452	2334	1963	2207	1915	3188	2217	24188
Russia Federation	2710	1677	782	1656	1466	1158	1394	1269	2024	1580	15716
Ukraine	291	177	86	165	160	104	127	105	174	130	1519
Belarus	29	7	9	19	21	10	28	33	63	40	259
Uzbekistan	142	82	42	109	110	80	111	77	96	70	919
Kazakhstan	150	107	44	96	116	78	94	92	196	157	1130
Georgia	307	210	135	204	300	379	238	158	403	68	2402
Moldova	2	9	4	7	7	2	12	2	9	0	54
Kyrgyzstan	35	22	9	15	5	12	12	10	11	18	149
Tajikistan	6	8	7	15	5	6	7	2	4	0	60
Turkmenistan	175	151	68	162	138	115	171	159	204	154	1497
Other countries	386	27	16	4	6	19	13	8	4	0	483
Other than CIS countries	130	106	59	55	80	52	37	41	418	75	1053
Germany	2	6	-	1	2	-	-	-	7	2	20
USA	5	7	1	-	-	1	1	6	4	6	31
Israel	25	9	4	1	8	5	1	8	2	6	69
Iran	44	30	16	12	22	13	4	7	32	6	186
Turkey	17	19	21	13	22	13	7	8	267	38	425
Estonia	-	1	1	-	-	1	1	2	4	2	12
Lithuania	16	1	1	-	8	5	4	1	-	5	41
Latvia	1	7	1	7	7	5	4	1	2	2	37
Pakistan	1	3	3	5	2	3	-	-	22	-	39
Maldives	2	9	4	7	7	2	12	2	9	6	60
China	-	-	-	-	-	-	-	-	44		44

¹⁹ International Organisation for Migration, "Azerbaijan Labour Migrant Survey Report", 2009

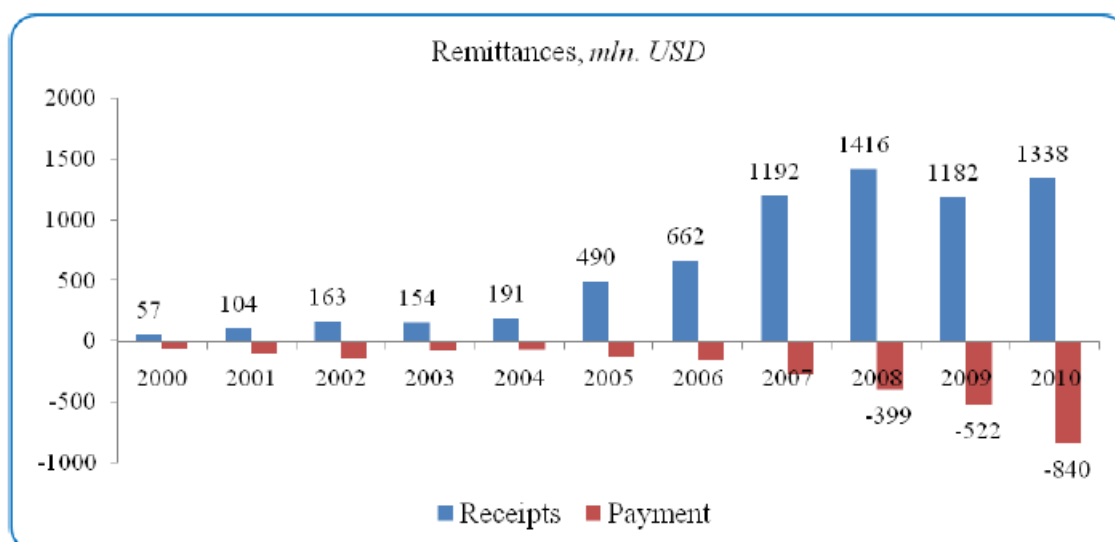
UK	-	-	-	1	1	-	-	2	-		4
Other foreign countries	17	14	7	7	-	4	3	2	10	2	66

Source: SSC, <http://www.azstat.org/statinfo/demographic/en/050.shtml#s1>

Both the high level of internal migration and recent inflow of cheap labour, often illegal, have raised a number of policy and regulatory challenges for the government.²⁰ The National Employment Strategy identifies a number of priorities in this regard, such as preventing illegal labour migration, social protection of labour migrants and protection of their rights, training in local human resources to meet labour market needs, and how to fully utilise the potential of foreign labour migration gaining experience of working in a market economy.

Similar to other countries of the region, there are also two concomitant effects of labour migration in Azerbaijan. The first is the positive effect on income from remittances, which has implications for poverty reduction. The other is related to upgrading of human capital. Current migration may in fact offer a source of acquiring new competences and entrepreneurial attitudes, things which the domestic education system has not been capable of providing. In addition, migration may also facilitate networking with international business and openness to innovation at all levels, both technological and societal.

Figure 15: Remittances, mln. USD



Source: Central Bank of Azerbaijan

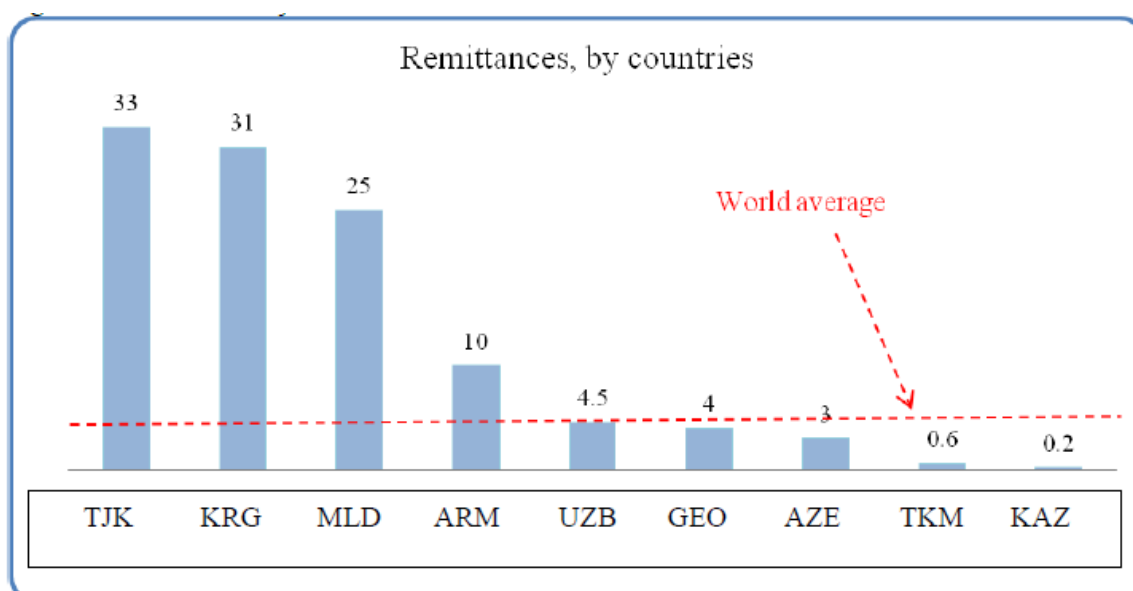
²⁰ Lizzi Feiler (2009)

5. Remittances

5.1. Trends in individuals' transfer flows

Remittances have contributed positively to foreign exchange inflows to the Azeri economy over the decade. Remittances noted an increasing trend throughout the decade, with a substantial boost from 2005. Average annual remittances for 2005-2010 were 7-times higher than the corresponding figure for 2000-2004 (see Figure 15). According to preliminary estimates, the amount of remittances in 2011 increased by a substantial 32 percent and reached \$1.8 bln.

Figure 16: Remittances by countries of destination



Source: IMF, WEO, 2011

Despite the drastic increase in recent years, remittances are still relatively low compared to the size of the Azerbaijan economy (and compared to other remittance-dependent economies in the region). The ratio of remittances to GDP in Azerbaijan is 4 percent, slightly less than the global average (4.5 percent), while substantially lower than the corresponding figure in a number of countries of the Middle East and Central Asia (see Figure 16). For instance, Tajikistan is the most remittance-dependent country in the world with about 33 percent of GDP, while in Kyrgyz Republic remittances constitute 31 percent of GDP.

Consistent with the pattern of geographical location of migrants, Azerbaijan receives about 60 percent of its remittances from the Russian Federation. In 2011, \$967 million of remittances were transferred from Russia to Azerbaijan, according to Bank of Russia.²¹ This is up from

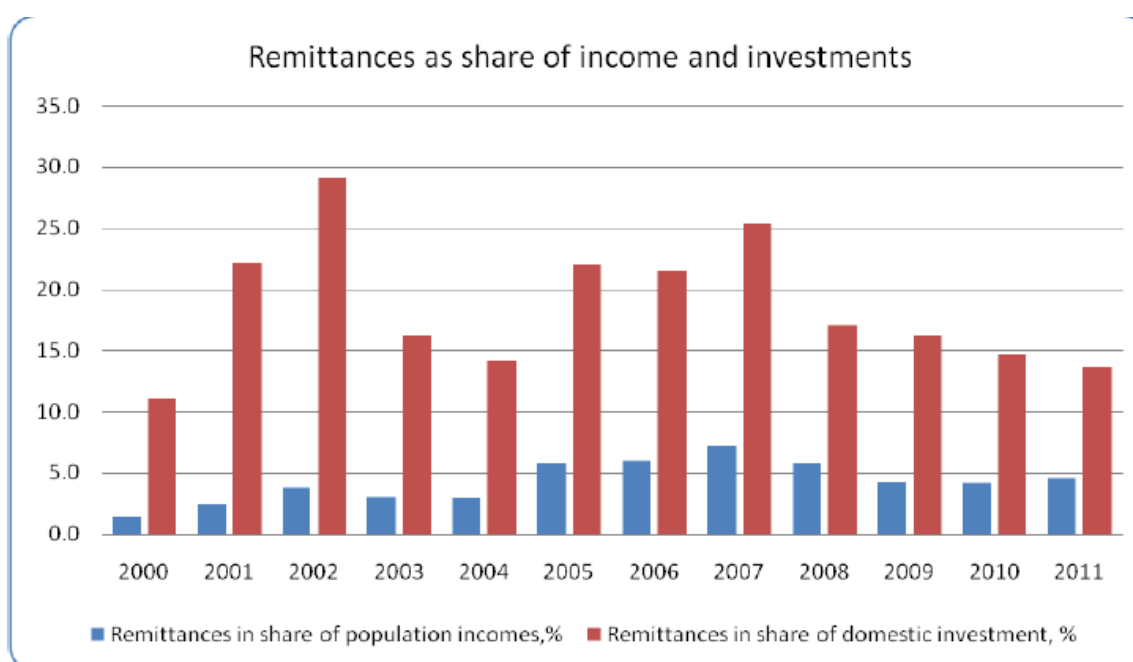
²¹ <http://news.day.az/economy/333700.html>

\$867 million as of end-2010. According to the same source, the sum of the remittances to CIS countries from Russia was \$16.7 billion at end-2011.

5.2. Remittances and consumption patterns

Notwithstanding their relatively small size, remittances seem to serve as an important contributor to poverty reduction and domestic investment. According to the 2008 LSMS of the World Bank (2010), about 16 percent of the population in Azerbaijan receive remittances, which comprise almost 28 percent of their individual income on average. By regional breakdown, this figure is relatively higher in rural areas (30 percent) than urban areas (25 percent). If taken as a ratio to average income of the overall population, however, remittances have a much lower share. For 2000-2010, the average share of remittances in total population income and final consumption expenditure was about 4.5 percent and 6.5 percent, respectively. Survey data also show that the majority of remittance recipients in Azerbaijan are female (52 percent) and are not employed (61 percent). An earlier study by the Asian Development Bank (2006) showed that 77 percent of remittances sent to Azerbaijan were used to compensate for low incomes, with less than half of this used for business investment.

Figure 17: Remittances as a share of income and investments



Source: Central Bank of Azerbaijan, State Statistics Committee

Over the decade, paralleling the increase in the number of migrants into Azerbaijan, the level of remittances from Azerbaijani increased significantly, though still relatively small given the size of the Azerbaijan economy. The total cumulative amount of remittances to other countries from Azerbaijan during 2000-2011 was recorded at \$3.9 billion at end-2011. In 2011 alone, the

amount of transfers increased by another 35.5 percent reaching \$1.1 billion. However, the ratio of such transfer flows to GDP is only 1.7 percent. If taken as a ratio to average income of the overall population, remittances also take up a much lower share. Hence, for 2000-2011, the average share of remittances from Azerbaijan in the population's income and domestic investment was about 2 percent and 9.7 percent, respectively. The share of transfer flows (remittances) from Azerbaijan to Russia was 27%, Turkey 15%, United Kingdom 10%, Ukraine 6% and USA 5% in 2011.

6. Costs and benefits of migration

This chapter reviews the existing evidence on the costs and benefits of migration for Azerbaijan with regard to a variety of dimensions. These include:

- a. The immediate and indirect effects of the increased flows of remittances, both at the macroeconomic level (balance-of-payments effects and effects on macroeconomic management), and at the household/microeconomic level (with regard to the effects on poverty and other socioeconomic variables).
- b. The effects on a number of social indicators potentially affected by migration flows, including direct and indirect effects on the educational system, the effects on migrant and non-migrant families, etc.

6.1. Effects on macroeconomic management of large remittances flows

As discussed above, the volume of remittances will likely continue to grow, and with it so will the challenge of macroeconomic management of these transfers. The key channels of macroeconomic effects of remittances include direct effects on national income and the balance of payments, fiscal policy, Dutch Disease (appreciation of the real exchange rate due to external inflows), governance and incentives.²² The main challenge for policymakers, stated in general terms, is to design policies that promote remittances and increase their benefits while mitigating adverse side effects. Getting these policy prescriptions correct early on is imperative, particularly for resource-rich economies that are already vulnerable to negative macroeconomic consequences of limited absorptive capacity of foreign exchange inflows.

²² Chami, Ralph, Adolfo Barajas, Thomas Cosimano, Connel Fullenkamp, Michael Gapen, and Peter Montiel (2008) *Macroeconomic Consequences of Remittances*, IMF Occasional Paper No. 259

Globalisation and the negative demographic trends in some of the host countries will ensure that demand for migrant workers remains robust for years to come.

Given the data limitations on quantifying the costs and benefits, the following is just a conceptual summary of the key economic costs and benefits discussed in the relevant literature:

- Loosening of fiscal discipline. If in large volumes, remittances may reduce the government's incentive to maintain fiscal policy discipline, as suggested by empirical evidence. In Azerbaijan, however, the annual inflow of \$1.8 billion of remittances appears to be a lesser concern compared to about \$14 billion of oil revenues envisaged for spending in the 2012 State Budget.
- Economic growth. As remittance recipients rationally substitute remittance income for labour income and, since labour and capital are complementary goods in production, this could negatively affect the rate of capital accumulation. On the other hand, if used for productive investments, the remittances could, in theory, spur economic growth. The limited evidence from the ADB study cited above on the use of remittances for investment by households in Azerbaijan points in that direction, but further data would be required for a clearer assessment.
- Dutch Disease effects. Remittances may exacerbate real exchange appreciation pressures, especially in resource-rich economies. In Azerbaijan, however, with a current account surplus of about \$20 billion in 2011, the annual size of remittance flows is unlikely to pose a serious risk in terms of a further worsening of Dutch Disease.
- Governance and incentives. Remittances have proven to ease the political appetite for policy and institutional reforms, as compensatory remittances may be insure vulnerable social groups against adverse economic shocks, and may veil the need for structural reforms. Again, in Azerbaijan, given the size of annual fiscal spending, including on social safety nets, remittances are unlikely to add substantially to aggravating the problem of lack of reform momentum.
- Debt sustainability. Remittances can lead to a direct or indirect increase in the government's revenue base, thereby reducing the marginal cost of raising revenue for debt servicing. Azerbaijan's total external debt is slightly above 10 percent of its GDP, and while there are no reliable data on private external debt, it is not believed to be high either. In that sense, debt sustainability is not so relevant for the country in terms of being an element of either a cost or a benefit.

- Poverty and inequality reduction. The impact of remittances on poverty and inequality is not totally clear.²³ In addition to the above-mentioned macroeconomic factors, remittances may have important, but mixed, distributive effects. The effect of remittances on poverty seems straightforward enough as they contribute to higher incomes, thus reducing poverty in the short run. But empirical evidence on reduction of inequality appears to be mixed. For Azerbaijan, as discussed in chapter 4, it is quite likely that remittances tend to reduce both poverty and inequality as they mainly accrue to the low-income population, although the extent of the impact may be an issue.

6.2. Costs and benefits of labour mobility for development

A significant portion of the population in Azerbaijan would like to emigrate given the low employment possibilities domestically. A recent study by the European Union (2009) revealed that more than half of respondents in all three South Caucasus countries would like to leave for abroad, with a more widespread intention to migrate in Azerbaijan than in the other two countries (about 77 percent of respondents in Azerbaijan compared to 51-56 percent in Armenia and Georgia).²⁴ The majority of respondents in Azerbaijan (86 percent of men and 62 percent of women) said they would prefer to migrate abroad to work rather than to study, as in the cases of Georgia and Armenia, respectively.

The key cost for long-term development associated with labour mobility is the opportunity cost of the workforce leaving the country permanently, while in the case of Azerbaijan labour migration seems to be mainly temporary and economically motivated. It is likely that labour migrating abroad would return once there are more job opportunities and higher wages in Azerbaijan. But, until that happens, the opportunity cost of the labour migrants, their unfulfilled potential, can be considered as a loss for the country in progressing towards its development agenda. Another element of that cost is the easing of the competitive environment on the local labour market as excess labour relaxes competitiveness constraints on the labour market. Thus poor competition results in distorted quality and the “price” (wages) of human capital. In terms of the benefits, on the other hand, it is critical to note the upgrading of skills and competences of labour migrants, who one day could return and operate back in Azerbaijan.

²³ Mansoor, Ali M., Bryce Quillin (2006) Migration and remittances : Eastern Europe and the former Soviet Union, World Bank

²⁴ European Union, “Migration Processes in the South Caucasus: Azerbaijan, Armenia, Georgia”, 2009

6.3. Brain Gain/Drain through temporary/permanent movement of skilled persons

As noted in Chapter 3, most labour migrants from Azerbaijan have low educational qualifications/skills. While it is true that survey evidence points in the direction of under-utilisation of even these low skills in the occupations of migrants, these features do not point to a worrisome “brain drain” phenomenon in key occupations, for instance among health workers or engineers, as has been observed in a number of countries.

One can also speculate that it is possible that migration might lead to a ‘brain gain’ for the home country in the long run. By serving as an important poverty reduction tool, labour migration can contribute to lowering income inequality. In doing so, migration can also become an important factor in the development of a middle class by providing migrants with opportunities to unleash their entrepreneurial potential in the host country, while subsequently reinvesting their income back in Azerbaijan. As mentioned in the EU report (2009), “migration (also) increases the social capabilities of people and widens their social, political, cultural and communication horizons, which often stimulates critical thinking with regards to the situation in the homeland.”

6.4. Costs of migration on family members left behind

Labour migration has a serious impact on members of the families of migrants left behind. There are some studies about the situation of women affected by labour migration. Specifically, the European Bank for Reconstruction and Development (EBRD) in 2007 conducted the Azerbaijan National Public Opinion Survey on Remittances, which provides interesting statistics. A major finding of the research is that “nine percent of Azeri adults – approximately 523,000 people – received remittances on a regular basis during 2006.” (EBRD, 2007, p.21). From this group, according to the survey, 52% were female remittance recipients. The survey also indicates that the greatest share of women (33% of the respondents) receive remittances from their husbands. In addition, 41% of female remittance recipients receive financial assistance for more than five years, indicating the long-term impact of migration on the families of these women.

The above-mentioned facts testify to a positive impact of remittances on the women who are not (e)migrants and are left behind in Azerbaijan by their family members. However, there are also negative corollaries of the family member’s migration on these women. For one, since labour in rural areas is still dominated by physical labour, the migration of husbands (and other male members of the household) places the whole burden of physical labour on women. Also,

in psychological terms, the women bear the brunt of a lack of communication with their husbands for long periods of time. Dilara Efendieva, the co-chairwoman of the Association for the Protection of Women's Rights in Azerbaijan, argues that the wives of labour migrants as a rule are left behind under the care of their husband's relatives, who control all their actions, including household expenditures and everyday duties. Very often, the wives of migrant workers are barred from continuing their education (or obtaining any professional qualification), getting a job, earning a living or living an independent life. Left on their own, these women are usually subject to psychological pressure from society, which tends to disapprove of women living alone.

Like women, children can be categorised into two main groups: those left behind by parents, and those who migrated with them. Children from the first group are mostly those whose fathers (or both parents) are labour migrants working in other regions of the country or beyond it. Unfortunately, there is no evidence of the number of these children left by one or two parents. Remittances sent by migrant parents may have a positive impact on the children's education and living conditions.

6.5. Impact on education

Little evidence is available on the effects of emigration on migrants' families and children left behind. There is little reason to expect, however, that Azerbaijan would deviate from the general norm in other countries, which has shown that part of remittances contribute to increased expenditures on education by families.

A problem that has been observed concerns children from labour migrant families who returned home and their ability to fit back into the Azerbaijani education system. Children living with their labour migrant parents in Europe may have received their initial education in one of the European languages. For instance, an Azerbaijani migrant who resided in Germany reported during a Focus Group conversation that his child speaks German fluently, while not having knowledge of Azerbaijani. It was very complicated to assign him to a certain school in Baku, since the child spoke only German and there is no school that has German as a language of instruction in Baku and in Azerbaijan as a whole. As a result, the child went to Azerbaijani language courses, passed an exam and lost two years of secondary education as a result.

Within the framework of the project "Application of damage reduction programme among street children", the NGO "Reliable Future" revealed a major problem for the children left behind – early marriages. In many cases, migrant parents are not able to support their children

financially. This in turn makes migrant parents inclined to marry off their daughters left behind as early as possible. In many cases 14-16 year old girls become the victims of early marriages, with attendant consequences on their education.

6.6. Impact on health conditions of migrants

The clear impact of the migration on the health sector is reflected in the health of former labour migrants. Labour migrants' poor health with even some disease outbreaks after coming back to homeland, are among the existing problems faced by these labour migrants in destination countries.

The migrants who returned to Azerbaijan face several problems here. These are related to migrants' health and employment. For example, by the end of 2006, Azerbaijan reported 1,010 (cumulative, 955 AZE citizens) HIV cases; 193 of these reported diagnosed with AIDS, including 140 who died. Of the cases registered with a known transmission mode (86%), 56% had been infected through injecting drug use, and 22% reported infection through heterosexual contact. In 2006, 242 new HIV cases were reported; 72% among injecting drug users. Furthermore, 18 new cases of AIDS and 35 deaths among AIDS cases were reported. Available data suggest that 10-15 % of people living with HIV were infected outside of country, mainly in the Russian Federation and Ukraine. 89% of all HIV cases are among men.²⁵ But already in 2010, the Service of the Health Ministry with reference to the Azerbaijan Republican anti-AIDS Centre of Azerbaijan reported that in Azerbaijan 455 new facts of HIV infection, were detected in 2009. The report notes that in 12 months Azerbaijan noted 455 new HIV infection cases. 437 are Azerbaijani residents and 18 people are foreigners. Of the Azerbaijani citizens, 362 were women and 75 men.²⁶

Poor working conditions, labour exploitation, lack of medical check-ups on a timely basis, limited access to social agencies etc. are some of the factors that cause labour migrants to suffer poor health. Health issues are very pressing in most countries where Azerbaijani labour migrants work, particularly in Turkey and Russia. For example: thousands of Azerbaijan citizens illegally performing labour in Turkey are in danger of being struck by the disease called silicosis²⁷ which can cause death. Migrants from different parts of the world, including those from Azerbaijan (mainly from Nakhchivan²⁸) work in workshops specialised in production of cotton products. Those workshops operate illegally and tend to be very keen on using cheap

²⁵http://www.euro.who.int/aids/ctryinfo/overview/20060118_4

²⁶ 455 cases of HIV-infection revealed in Azerbaijan in 2011 – <http://www.news.az/articles/8009>

²⁷ Diseases incurred by field workers, drillers, those working in ceramics production

²⁸ Manafli R., Aliyev N. Labour with lethal implications. Newspaper «Echo» dated 21 October 2008

labour. Neither the necessary work conditions, nor medical insurance are provided for employees working there. Technical security issues tend to not to be observed very rigorously. According to information provided by the health agencies of Turkey, 500 migrants working in those workshops have been affected by the silicosis disease. According to representatives of some official bodies, investigations made in this field by experts clearly show that the number of those suffering from the disease is from 3 to 5 thousand.²⁹ Most workers are not registered since they have been working illegally, which means they have not had a medical check-up and medical insurance and are thus deprived of social insurance.

Independent experts say that the number of people affected by silicosis is 10 – 15 thousand and most of them are 15 – 25 years old. Most disappointingly, the majority of those working under hard labour conditions agreed to work in these jobs willingly. Due to financial difficulties, many of the migrants who agreed to such hard labour terms and did not sign employment contracts, are abused by the companies they work for and in these circumstances employers have been able to establish their production process with lower costs.

Conversations with two people who were subjected to such hard labour exploitation clearly indicate that they consider themselves too weak in the face of such problems and prefer to be silent about the things that had happened to them. However, those people can independently apply to law-enforcement authorities, which require an indemnity via the court to restore their moral and material rights.

One Azerbaijani labour migrant who was involved into picking subtropical plants in Greece said that the working conditions where he worked were hard and that the salary he was paid was low. After working in the plantations in Greece he returned to Azerbaijan and later had some health problems. Because a wide range of chemical substances were utilised in the plantation where the migrant worked and he did not use any protective equipment (respirator, mask etc.) while working. He was unaware about this danger.

7. Migration Policies and Institutions

The Republic of Azerbaijan has taken several steps and carried out important measures both at legislative and institutional levels with the purpose of regulating migration processes. The State Migration Management Policy Concept of the Republic of Azerbaijan, adopted in 2004, forms the basis of these activities and defines the main objectives to be achieved by the

²⁹ Newspaper “Zaman”, Zaki Aslan

relevant governmental bodies. In order to implement the State Migration Management Policy Concept and reach the objectives defined in this concept, "The State Migration Programme for 2006-2008 of the Republic of Azerbaijan" was approved by the Presidential Decree No. 1575, dated 25 July 2006. The programme is aimed at creation of a more appropriate system in the migration field. The programme sets out the following main directions: i) Improvement of management mechanisms in the field of migration; ii) Increase of efficiency of state regulation in the field of migration; iii) Coordination of the activities of the relevant state bodies in the field of migration; iv) Improvement of the existing legislative framework; v) Introduction of quotas in the field of labour migration; vi) Implementation of complex measures to prevent illegal migration; vii) Cooperation with migration services of foreign countries and international organisations.

Currently, there are more than 20 laws and normative acts dealing with migration-related issues, adopted in the Republic of Azerbaijan, including, "Law on Immigration" and "Law on Labour Migration". Regarding the protection of migrants' rights and freedoms, it should be noted that the Republic of Azerbaijan is a participant of the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Azerbaijan has also joined the Palermo Protocols related, respectively, to the trafficking and smuggling of migrants., Azerbaijan has also signed bilateral agreements on the social security of migrants with Kyrgyzstan, Kazakhstan, Georgia, Ukraine, Italy, Russia, Moldova and Belarus. These agreements cover mostly social protection of circular migration between countries and cover such issues as recognition of the work experience of Azeri migrants in Azerbaijan before migration as well as agreement on compensation by the host country for all health issues incurred at the workplace in the host country. In addition, Azerbaijan has signed a number of bilateral agreements on cooperation in migration issues with the Russian Federation and Moldova.

However, there is no established state policy targeted at promoting circular migration, including the mobility of skilled workers. State policies are mainly directed at regulating immigration and combating illegal migration. In order to implement the state migration policy, develop a migration management system and co-ordinate the activities of the relevant governmental bodies in the migration field, the State Migration Service within the Ministry of Internal Affairs was set up in March 2007.

The legal norms for measures undertaken in relation to the Diaspora were defined in 2002 under the law "State policy on Azerbaijanis living abroad" of the Azerbaijan Republic. To coordinate work with the Azeri Diaspora, the President of Azerbaijan in 2002 signed a decree on the establishment of the State Committee on Affairs of Azerbaijani People Residing Abroad.

In 2008, the committee was renamed to the State Committee on Work with the Diaspora. The Diaspora Committee arranges congresses of the Azeri Diaspora and closely cooperates with Diaspora organisations, aiming to involve them in the development of Azerbaijan. The government of Azerbaijan mainly seeks to involve the Azeri Diaspora in foreign policy, and in the process of resolving the Nagorno-Karabakh conflict. However, there is no clear and systematic state policy regulating all these issues.

As discussed, EU member states are the second largest recipient of Azerbaijani emigrants after the former Soviet Union. But the absence of a facilitated visa regime with the EU countries has a negative impact on the numbers wishing to migrate to this area.

Preparations for the agreement on Readmission between Azerbaijan and the European Union started in 2006 and negotiations are still ongoing. It is expected that once the agreement on readmission is signed, Azerbaijani undocumented migrants will start returning home. Thus, regarding the information of the Azerbaijan Migration Centre, about 50,000 Azerbaijani migrants live in European countries as illegal migrants, of these about 5,000 in Germany (Orujov, 2006). The migrants legally entered the EU and later applied for refugee status, which was rejected (Garayeva, 2008).

It is hard to gauge whether in the future the traditional pattern of labour migration towards the Russian Federation might change towards a more important role for the European Union. At present, cultural, linguistic and social traditions militate against much migration to the EU, and the policies of the EU have been restrictive. The EU could favour a more productive movement of labour resources from Azerbaijan with the adoption of more liberal policies, probably more targeted towards certain high-skilled categories of workers. For instance, the draft directive on Intra-Company transfers, when adopted, could facilitate temporary migration of high-skilled workers in the oil and gas industry, to the benefit of both Azerbaijani workers and EU firms involved in Oil and Gas exploitation. The EU could also continue and increase its support to institutional development in the areas of migration management and strategy, and could also provide support to better development of diaspora relations in the EU countries with the highest concentration of Azeri migrants. Finally, the EU could support local NGOs in implementing targeted awareness programs among potential migrant groups to inform them about any forthcoming changes in its policies towards labour migration. As for other EaP countries, agreements on important issues such as pension rights, health insurance, recognition of graduate and non-graduate degrees, minimum standards for labour contracts, etc., also very important, would of course require negotiations with individual member states.

Some international organisations (such as the IOM and the AWO³⁰) take an active role in supporting migrants returning to Azerbaijan. For example, the IOM assisted 107 and 182 Azerbaijani migrants to return home in 2000 and 2001, respectively. According to the registration form of the IOM, the majority were from Baku. The rest were IDPs who came from the Aghdam, Kalbajar, Jabrayil and Fizuli regions and residents from the other 11 regions (IOM, 2001b, p. 28-30).

Unfortunately in Azerbaijan a deliberate policy of providing comprehensive assistance to returnees does not exist. The IOM and AWO are the only non-governmental organisations which assist migrants predominantly returning from EU countries, by covering their travel expenses and the costs of preparing documents for repatriation, including legal services. If the immigrant is assisted by the AWO, he gets a small amount of financial assistance to cover medical services and drug purchases and to improve living conditions in the first six months after the repatriation. Similar programmes from state structures do not exist.

8. Forecasts / Projections of Migration and Labour Markets

Trends

The preceding chapters have shown that migration in Azerbaijan is influenced by rapidly-changing economic circumstances, which make it particularly difficult to predict future developments, and even more difficult to assess the potential for migration to a particular set of countries, such as the EU.

Mixed results are obtained from surveys³¹ on migration trends conducted by various international organizations periodically in the country. It is clear from the results of these studies that the number of people wanting to leave Azerbaijan is falling year on year. It is also evident that the number of labour migrants is also increasing. It is clear from the data of the State Statistics Committee of the Republic of Azerbaijan that in the last three years migration

³⁰ The AWO (Arbeiterwohlfahrt) is a charity organization established in 1919 in Germany. Its objective is to solve social problems of German society and to provide legal support. In the framework of one of its programmes - "Heimatgarten" - they provide technical support to migrants residing in Germany who want to return home. With the support of this organization within the last 3 years about 30 migrants returned to Azerbaijan and the majority was employed in Germany during their stay in this country.

³¹ See: Krylova-Mueller, L. (2009): Migration Processes in the South Caucasus: Azerbaijan, Armenia, Georgia. Results of Sociological Research. 2008-2009, European Union, ENUT, PHDS, Taso Foundation; IOM (2001b): From motherland to foreign land: Motives, routes and methods of migration in Azerbaijan – Report on migration in Azerbaijan

flows have been positive. It is also evident from the official statistics that on the one hand, the number of the immigrants coming into the country is more than the number of emigrants who leave the country, while on the other hand, the number of foreign labour migrants who arrive in the country with the purpose of being engaged in labour activities is increasing. All of the above confirms that migrants' interest in Azerbaijan has increased, this situation especially appearing in the intensification of migration processes in terms of both qualitative and quantitative indicators.

Azerbaijan has achieved significant progress across all social and economic sectors in recent years. In particular, the state budget and gross domestic products have expanded, the establishing of industrial institutions has led to creation of new jobs, the development of ownership, renewal of infrastructure, expansion of construction work, improvement of municipal service standards and other achievements, leading to an increase in the number of migrants who would like to come to the country to engage in labour activities. Today, foreigners work in various fields in Azerbaijan. Many are professionals who earn high salaries and work in energy and service sectors. But, at the same time, domestic employment has risen strongly and this process is continuing in Azerbaijan. The strengthening of these factors will mean migration flows remaining positive and a continued increase in the number of migrants. The data also show that these factors will increase the number of people who want to leave the country and work in Russia, Ukraine, Turkey, and, to some extent, in European Union countries.

The medium- to longer-term demographic projections as well as development goals of the country will also stimulate competition for employment. According to UN projections, the steady growth of the Azerbaijan labour force will continue in the medium-term, stabilising in the long term. The population of Azerbaijan is projected to reach 9.5 million people in 2015, while the working-age population will total 6.5 million. This is mainly due to higher birth rate and a higher share of the older population compared to CIS countries. By 2050, Azerbaijan's birth rate will be almost twice as high as its neighbours combined, due to a drop in the fertility rate and number of births per year in Georgia and Armenia.

The age composition in Azerbaijan is also conducive for positive demographic projections. According to the ETF (2010), Azerbaijan has one of the lowest old-age dependency ratios among the CIS countries: the ratio of population aged 60 and over to population aged 15–59 is only around 13 percent (2007) compared to 25 percent in Russia, 31 percent in Ukraine, 19 percent in Armenia, and 28 percent in Georgia.

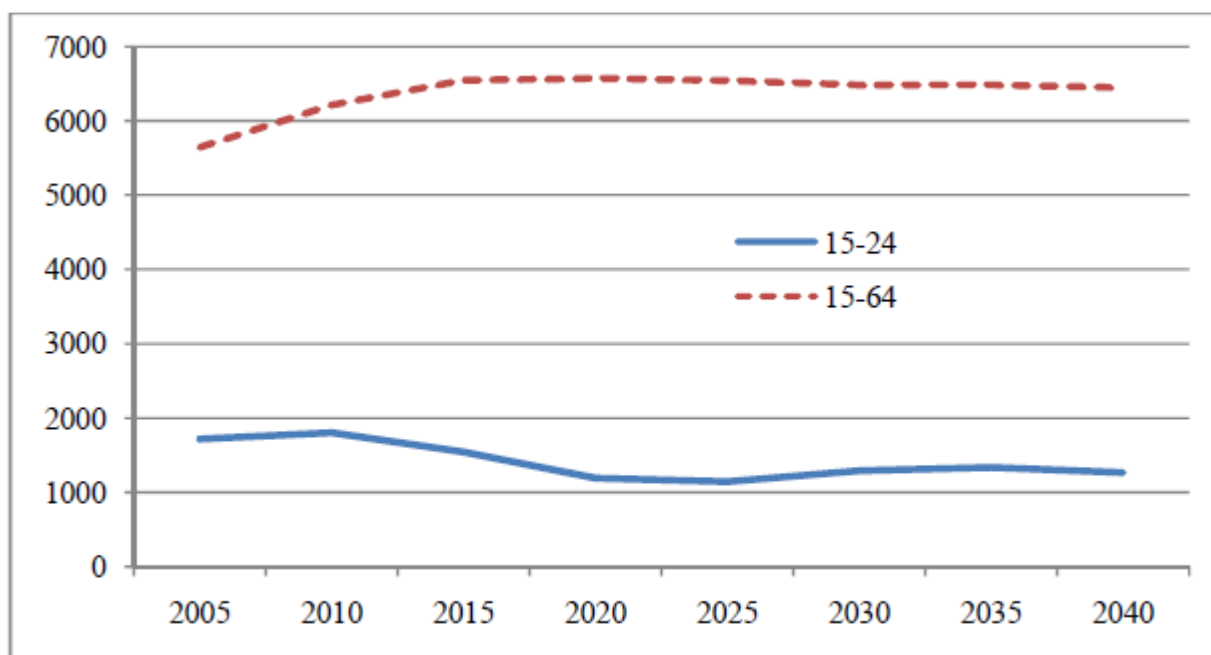
On the other hand, progress in doubling the size of the national income by 2020 through diversification and rebalancing of the economy towards export-driven growth will necessitate a substantial demand for labour, specially skilled, and in tradable sectors. It is projected that when the generation born in the 1990s, when birth-rates declined rapidly, enters the labour force, their number (aged 15–24) will shrink from 1.740 million in 2006 to 1.540 million in 2015 and to 1.190 million in 2020. As such, it is projected that by 2050 the share of able-bodied individuals will drop from 69.5 percent to 64.7 percent with some implications for the aging of the labour force. These trends will, of course, increase pressure on the government to create more jobs, especially in the non-oil tradable and labour-intensive sectors.

With the projected increase in the labour supply and development objectives of diversification and doubling the national income in less than a decade, the structure of the economy has to undergo a serious structural change. This will imply a substantial rebalancing of the economy from its focus on non-tradables and demand for predominantly low skilled labour to a strong tradables sector, possibly with a high share of services, such as communications, transport and finance and high quality of human capital. According to Kuddo (2009) with reference to Nazarov and Dayiyev 2008, currently about 120,000 to 130,000 people with secondary, technical- vocational, specialised secondary, and higher education enter the labour market each year, of which about 20 percent have higher education, 12 percent have specialised secondary, 10 percent have technical-vocational, more than 50 percent have secondary general education, and approximately 5 percent have only basic education. New entrants into the labour market find it difficult to find a job in the high-productivity, high-wage oil sector that creates very few jobs, and are squeezed into either unemployment or low productivity work in non-oil sectors.

This picture will have to change given the projections of population growth in Azerbaijan. The projections of age structure of the population in Azerbaijan are such that this would necessitate the economy to grow in a much more broad-based and diversified manner to absorb the anticipated increase in labour supply. According to the World Bank (2009), due to relatively high fertility rates in the past, the number of working-age population (15-64) in Azerbaijan is rapidly increasing- from 4.986 million in 1999 (population census data) to 5.965 million in 2008, a growth of over 20 percent.³² During the next decade, the number of able-bodied population aged 15-64 will increase further to 6.550 million in 2015 (Figure 18). As a result, it is anticipated that competition for jobs and employment will increase. The country's economy, therefore, needs to create jobs to meet growing demand.

³² Azerbaijan Living Conditions Assessment Report, World Bank, 2010

Figure 18: Working-age Population Forecast for Azerbaijan (in thousands)



Note: Based on medium scenario of the UN population forecast.

Source: UN.

Generally, from a strategic perspective, Azerbaijan needs a comprehensive approach to improving its level and quality of employment. There is a potential for employment growth through various labour market policy measures that the government can undertake, in addition to facilitating the general macroeconomic and business environment. The policies should include measures on both the demand and supply sides that ultimately lead to increases in the employment rate. Some of the most critical issues on the demand side in the near future include boosting the non-oil demand for labour by (i) using labour-intensive approaches in all public investment and maintenance programmes (which according to projections should account for around 5 per cent of GDP in the next few years) and (ii) pushing ahead with the development and implementation of mortgage lending for construction or purchase of houses or apartments. Other policies require efforts in a number of areas that encourage economic diversification, effective regulatory policies, an attractive investment climate, education and professional training systems that develop relevant and high-quality skills, and a social safety net that offers protection while encouraging employability.

The failure to implement structural reforms to orchestrate a gradual shift towards export-oriented growth of the non-oil sector with high value-added output and highly productive jobs, on the other hand, risks aggravating the Dutch Disease problem with continued negative effects on labour market. In such a scenario, in the medium- to longer-term, Azerbaijan will continue to import labour migrants, while sustained low returns to poor-quality domestic education will continue to drive incentives of high unskilled labour outmigration to traditional

host countries. This trend is rather unsustainable in the long-run as exhaustion of hydrocarbon reserves will inevitable result in the collapse of real wages, disruption of economic activity and a forced rebalancing of the economy, including the labour market.

The future evolution of labour migration in Azerbaijan is, thus, difficult to forecast, but it will probably be shaped by all of the conflicting and complementary forces mentioned above. On the one hand, demographic trends point to increases in the size of the labour force for the next decade or so. In addition, strong economic growth is likely to continue in the medium-term, and with it the demand for labour could continue to increase. But there are two fundamental questions that are to be addressed: (i) will the government be able to implement its ambitious economic diversification agenda successfully to generate sustainable demand for high-quality labour; and (ii) will the Azerbaijan's educational system be able to supply such labour resources by providing job opportunities for all. At the same time, at least in the next three to five years, the oil-revenue-induced construction spree, together with high and increasing wages compared to neighbouring countries is likely to continue to attract workers into Azerbaijan. Thus it would not be surprising if the picture of the past few years were to continue to apply in the future, with gross migration flows abroad going in parallel with perhaps increasing immigration. However, it remains to be seen whether the labour and education policies will be capable of coping with the longer-term challenge of economic rebalancing.

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Annex 1. Literature Review

A. Literature review on labour markets in Azerbaijan

According to “**Azerbaijan Living Conditions Assessment Report**”, **World Bank, 2010**,³³ to realise its aspiration of building a well-diversified and knowledge-based economy with a skilled labour force and flexible labour market, Azerbaijan will have to reconsider its labour market and employment policies and regulations. A comprehensive approach to improving employment, namely calls for “... sound economic and regulatory policies, an attractive investment climate, efficient labour market regulations and institutions, education and training systems that develop relevant and high-quality skills, and a social safety net that offers protection while encouraging employability.” The report suggests focusing on various labour market policy measures on both the demand and supply side in addition to facilitating the general macroeconomic and business environment.

A key focus of the recent Transition Report of the European Bank for Reconstruction and Development (EBRD) “**Life in Transition, after the crisis**”, **2010** is to present the results of the survey on critical dimensions of life satisfaction conducted in transition countries.³⁴ According to the report, life satisfaction in most transition countries is noticeably lower than in western European countries, while the level of optimism about the future, however, remains quite high.

Azerbaijan takes a position close to the middle in the range of countries surveyed, with the percentage of respondents satisfied with life increasing from less than 30 percent in 2006 to above 40 percent in 2010, ahead of Baltic and Eastern European states such as Latvia, Bulgaria and Macedonia. The survey results indicate that in most transition countries (21 out of 28 countries), although moderately declining since 2006, slightly less than half of respondents still view the market economy as the best economic system than any other alternative. Support for democracy is even higher. As for tolerance, in general, people in transition countries are tolerant towards those of a different religion, but when it comes to immigrants and those of a different race, the variation across countries is much wider. The general implication of these results for Azerbaijan is that cultural compatibility will probably remain one of the most fundamental factors affecting labour migrants’ decisions on the

³³ Azerbaijan Living Conditions Assessment Report, World Bank, 2010

³⁴ EBRD, Life in Transition, after the crisis, 2010

destination of migration in the foreseeable future, as Central and Eastern Europe looks less attractive as a migration-tolerant destination.

LiTS II also identifies some important gender-related differences with regard to access to employment in the transition region. The most important finding is a significantly lower likelihood of women working for wages in line with men's.

However, there is a large variation in this regard across the sub-regions. It is noteworthy that, "... within the CIS+M (Commonwealth of Independent States plus Mongolia) area, only about 25-28 percent of women have worked for wages in Armenia, Azerbaijan and Tajikistan, while 67-70 per cent have done so in Belarus and Russia." In addition, the level of economic development seems to be not the only important factor explaining gender differences in employment rates by country. It is particularly interesting that Azerbaijan has a much higher gender gap in employment rates than other countries with similar income per capita, perhaps, ahead of only Turkey, as shown in this graph.

According to the **United Nations Development Assistance Framework's (UNDAF) Common Country Assessment (2003)**, the gender gap in employment participation rates in Azerbaijan is particularly significant in the most active years of work.³⁵ This result points to a trend that economically active women are retreating from highly productive labour market segments preferring instead temporary jobs, often in the public sector earning low wages. In other words, even with higher employment rates, which do not necessarily imply higher income security, women are more vulnerable to poverty than men.

Higher, but unsustainable rural employment, coupled with substantial youth unemployment, points to the presence of significant structural imbalances in the domestic labour market of Azerbaijan. The employment rate in rural areas is slightly higher than that in urban areas mainly due to the opportunities for agricultural self-employment, which are limited given the low competitiveness and high transaction costs associated with developing agricultural assets. Youth unemployment, on the other hand is rather high, especially among young people with secondary special and vocational education. According to the World Bank's White Paper on "**Strategic Vision for the Future of Tertiary Education in Azerbaijan (2011)**", Azerbaijan has the second lowest participation rate in tertiary education³⁶ (19 percent) in the entire Europe

³⁵CCA, UNDAF, August, 2003

³⁶Vocational plus higher education

and Central Asia region, and far lower than most of the neighbouring countries,³⁷ let alone the EU average of 62 percent.³⁸ Vocational education does not appear to meet the demands of young people, both quantitatively and qualitatively, to be competitive on the labour market.

To diversify the economy driven by growth of non-oil exports, Azerbaijan's labour market must go through a substantial structural shift, which demands upgrading the supply of quantity and quality labour to the respective demands of the private non-oil sector. According to the World Bank's Report titled "**Azerbaijan: Building Competitiveness for Increased Non-oil Trade and Investment – An Integrated Strategy and Action Plan (INOTIS, 2003)**", the country's education system, particularly at the vocational and higher education levels, needs to be reoriented towards the needs of a market system.³⁹ Declining quality of and access to tertiary education implies that the workforce is quickly losing its skills or the existing skills become obsolete. An increasing share of the economically active population with higher education is either unemployed, or self-employed in low-skilled, small-scale, informal activities and agriculture. In the decade between 2000 and 2010, the share of unemployed who had higher or secondary special education has gone up from 60 percent to 90 percent. This is a clear manifestation of a significant skills mismatch in the economy.

Cumbersome procedures for hiring and dismissal of labour set forth in the Labour Code as well as restrictions similar to ones in the European Union (EU) on a few statutory benefits present a particularly significant challenge for small and medium enterprises (SMEs). The report provides a detailed analysis of the Labour Code that has been in effect since 1999. The analyses show that the code is quite liberal in hiring with no quantitative constraints on the expatriate workforce. However, there are long and complicated procedures for hiring, which include licensing firms to hire foreign workers, in addition to individual work permit procedures. This is considered to be one of the most critical areas of red tape that deters most foreign investors to come in. On the other hand, and perhaps most importantly, there are relatively strict provisions for dismissal and generous statutory benefits that especially impact SMEs. It is mandatory to have written employment contracts and usually for an unlimited period. However, fixed-term contracts are also possible under certain conditions. There are restrictions on dismissals for economic reasons, while dismissals without notice are limited to only a few cases, such as drunkenness, theft, and "immoral activity." Dismissal for other reasons, such as incompetence, must be preceded by a history of (well-recorded) under-performance. The

³⁷For instance, 51 percent for Bulgaria, 50 percent for Armenia, 41 percent for Kazakhstan, 38 percent for Turkey, and 33 percent for Moldova.

³⁸"Strategic Vision for the Future of Tertiary Education in Azerbaijan", White Paper, World Bank, 2011.

³⁹ Azerbaijan: Building Competitiveness for Increased Non-oil Trade and Investment – An Integrated Strategy and Action Plan. WB, Europe and Central Asia Region, 2003 April

Labour Code imposes restrictions on such aspects as working hours and large minimum requirements to paid holidays, maternity leave, and other statutory benefits. Such provisions are similar to those applied in the EU area and can substantially increase the operating costs of the SMEs.

The effectiveness of Active Labour Market Programmes (ALMPs) by government depends on specific circumstances and the local context, such as wage flexibility, the incentives for the unemployed to accept jobs, the attractiveness of the country for foreign investors, etc. Kuddo describes in his Report titled “**Employment Services and Active Labour Market Programmes in Eastern European and Central Asian Countries**” (World Bank, 2009) large informal labour markets and low capacity to implement such programmes as a major limitation in the countries of Europe and Central Asia (ECA).⁴⁰ In such circumstances, the author points to some other programmes, such as youth training programs or job counselling programmes which have proven to be much more effective than in developed countries owing to lack of abundant supplies of skilled workers in transition countries. The report highlights several recommendations to improve the delivery of ALMPs, namely the importance of focusing on the design and targeting to avoid “creaming” effects, pre-entry assessment and screening of participants to measure progress, an increased emphasis on job search assistance, an increasing reliance on private delivery of services, use of performance-based contracting, implementing ongoing gross impact evaluation and developing local partnerships with key stakeholders.

The National Employment Strategy⁴¹ (NES) of the government highlights key priorities on employment and labour market policies for the period of 2006-2015. The strategy was developed and endorsed by the authorities in 2005 and the first phase covering 2006-2010 has already been implemented. During the first phase, the unemployment rate was considerably lowered, social protection of the unemployed and vulnerable groups in the population was enhanced, and a number of actions were taken to improve the functioning of the labour market. The objective of the second phase (2011-2015) is to provide an enabling environment for efficient employment opportunities and an improved labour market in the country. The strategy sets forth and is expected to yield a number of important outcomes, such as improved systems of human resource development, namely vocational and technical

⁴⁰“Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries.” Arvo Kuddo. 2009, Washington DC, World Bank

⁴¹ Employment Strategy of the Republic of Azerbaijan (in Azerbaijani), <http://ses.gov.az/view.php?lang=az&menu=83>

education and improved institutional and business environment with regard to labour market regulation through deeper structural reforms.

As a result of the implementation of the first phase of the NES, Azerbaijan has made considerable progress in liberalising its labour market regulations compared to some of the former Soviet countries. The paper titled **“Labour Markets and Employability”** by the European Training Foundation (ETF, 2010) compared the current state of affairs as well as trends and challenges in this regard in Belarus, Moldova, Ukraine, Armenia, Georgia and Azerbaijan.⁴² It is noteworthy that Azerbaijan has successfully liberalised its Labour Code, in fact, only Georgia seems to have a more liberal labour market policy. However, implementation and effective enforcement still remain problematic, while employment policies are not funded adequately in any of these countries compared to their Eastern European peers. Finally, weak institutional capacity in designing and implementing active and passive labour market policies has resulted in an imbalance between labour market flexibility and security with the latter being rather limited.

Lower job generation compared to the pace of growth, modest and declining wage employment rates, high rates of self-employment in subsistence and low productivity agriculture, underemployment, especially among young people are the common characteristics observed in all three South Caucasus countries. A recent synthesis report on **“Social Protection and Social Inclusion in Armenia, Azerbaijan and Georgia”** by the European Commission (EC, 2011) discusses these key similarities and peculiarities of labour market trends in Armenia, Azerbaijan and Georgia.⁴³ The analysis indicates that recent economic growth in all three countries was driven by consumption financed from resource revenues and remittances. Hence job creation was modest, mainly replacing the jobs lost in the early years of transition and privatisation. Also, albeit declining in recent years, the employment rate in Azerbaijan is the highest of the three countries, which is explained by the much higher extent of labour migration from the other two countries than Azerbaijan. Although Azerbaijan has the lowest unemployment rate (6 percent) in the South Caucasus, youth unemployment is much higher (14 percent), especially among those with secondary education (58 percent).

The recent study **“Migration Processes in the South Caucasus: Azerbaijan, Armenia, Georgia”** funded by the European Union (2009) revealed that more than half of respondents in all three South Caucasus countries would like to leave for abroad with a more widespread

⁴² “Labor Markets and Employability”, European Training Foundation, September, 2010.

⁴³ Social Protection and Social Inclusion in Armenia, Azerbaijan and Georgia - Synthesis Report, European Commission, 2011

intention to migrate in Azerbaijan than in the other two countries (about 77 percent of respondents in Azerbaijan compared to 51-56 percent in Armenia and Georgia).⁴⁴ The majority of respondents in Azerbaijan (86 percent of men and 62 percent of women) prefer to migrate abroad to work rather than to study or leave, as in the cases of Georgia and Armenia respectively.

Excess supply of labour with secondary education, coupled with lack of in-country retraining opportunities, is one of the key determinants explaining labour migration. This is particularly true for the South Caucasus, as stated in Castel-Branco (**“Vocational Education and Training: Challenges and Opportunities in the Southern Caucasus. Cross-country report: Armenia – Azerbaijan – Georgia”, ETF, 2008**).⁴⁵ Analysing the results of two Labour Force Surveys (held in 2003 and 2006), the paper shows that although declining, Azerbaijan still has excess supply of labour with secondary education, while experiencing a deficit in the workforce with higher and vocational education. Faced with lack of retraining opportunities, and without any specialisation this labour has no other alternative than to go into informal sectors or migrating, mainly to Russia, Turkey or Germany. In this respect, the paper draws attention to two main positive effects of labour migration in the region, which is to be considered by public policy. The first effect is increasing remittances, and the other is related to upgrading of human capital. In other words, migration is not just a brain drain, but potentially also a source of upgraded skills, entrepreneurial attitudes, networking opportunities and openness to technological and societal innovation.

Institutional rigidities and policies can also have a large impact on labour market outcomes in transition countries. H. Lehmann and Alexander M. (**“How Important Are Labour Market Institutions for Labour Market Performance in Transition Countries?” IZA Discussion Paper No. 4673, December 2009**) conducted an insightful study on the countries of Eastern Europe and Central Asia over 1995 to 2008 offering a first comprehensive study of the evolution of labour market institutions and policies in the transition economies, and providing new evidence on the complementary nature of labour market institutions and policies.⁴⁶ More specifically, the paper shows that although the entire transition region has undergone a general trend towards liberalisation since the mid-1990s, there are important differences across

⁴⁴ Krylova-Mueller, L. (2009): Migration Processes in the South Caucasus: Azerbaijan, Armenia, Georgia. Results of Sociological Research. 2008-2009

⁴⁵ Eduarda Castel-Branco, “Vocational Education and Training: Challenges and Opportunities in the Southern Caucasus. Cross-country report: Armenia – Azerbaijan – Georgia”, European Training Foundation, October 2008

⁴⁶ H. Lehmann and Alexander M. “How Important Are Labour Market Institutions for Labour Market Performance in Transition Countries?” IZA Discussion Paper No. 4673, December 2009

countries. In particular, the former Soviet Union countries have undergone much more radical liberalisation of their labour market regulations than in Central Europe by liberalising their unemployment protection legislation and reducing the tax wedge on labour. Overall, the study confirms a view that institutions matter and that deregulation of the labour market can improve its performance. The paper also finds evidence of positive effects of complementarities in designing broader reform programmes focusing not only on the unemployment rate, but rather covering wider set of labour market outcomes.

Overall, higher output, but “jobless growth” in the face of young and growing populations with skills obsolescence and skills inadequacy of labour migrants is what generally characterises CIS countries. The recent paper titled “**Developments and challenges for employment policies in the Commonwealth of Independent States**” by ETF (2006) also concurs with the view that the exceptionally high pace of growth in CIS over the transition period was mainly driven by low value added primary sectors, which had limited impact on boosting domestic employment rates, especially in the tradable sectors of the economy.⁴⁷ The non-tradable sectors, such as construction and services face substantial difficulties in attracting the required workforce due to both the skill- and cost-sensitivity of these activities. To equip people with the necessary skills required in these sectors many companies are compelled to provide their own professional training services, in light of lower returns on additional years of formal vocational and technical schooling. On the other hand, the cost gap could easily be filled by attracting labour migrants, as the local workforce is often too costly. On the supply side, with limited employment opportunities in the formal sector, the informal sector became the most affordable and feasible alternative in most CIS countries.

B. Literature review on labour migration

Although labour migration is a problem for Azerbaijan, there are few published pieces to research in this field. Existing literature encompasses: a) political documents and legislative acts (laws, state programmes etc.); b) academic articles and books (also textbooks, methodological supplies and materials published in mass media); c) reports reflecting the results of revolution and research.

a) *Political documents and legislative acts*: Since regaining independence, more than 20 laws and other normative acts about effective management of migration processes have been adopted. From time to time these laws have been improved with new clauses and

⁴⁷ Developments and challenges for employment policies in the Commonwealth of Independent States, ETF, April 2006

amendments. The following laws are the most important with regard to the management of labour migration. “Leave the country and return back and passports” (signed on June 14th 1994), “On the lower conditions of foreigners and people who do not have citizenship” (March 13th 1996) “On immigration” (December 22nd 1998), “On labour migration” (October 28th 1999), “On fight against the trafficking in human beings” (June 28th 2005). In addition, we should also mention the Programme of Migration Plan of the Azerbaijan Republic which was legislated on 25th July 2006 and “The National Activity Plan on the Fight against Trafficking in Human Beings” (2009-2013) which was approved on 6th February 2009. Despite the fact that today’s immigration legislation of the Azerbaijan Republic covers all aspects of immigration policy, it still needs further improvements as the country is located at the crossroad of migration processes. Matters of citizenship, effective management of emigration and immigration processes, the legal status of migrants, including refugees and IDPs, the fight against illegal migration and human trafficking are the main aspects being stressed by the current migration legislation. Recently in order to manage and regulate the migration processes a number of solid measures have been implemented. Making additions and changes in the legislation as well as filling the gaps in this sphere are improving legislation dealing with the development of the migration system, strict compliance of processes regarding the issuance to foreigners and stateless persons of refugee statuses. The final approval of the migration code, which includes the main aspects of migration policy, is on ongoing process.

b) Academic articles and books: in the monograph “**Migration processes in Azerbaijan**” (Sardarov M., 2004) the history of migration in Azerbaijan and its theoretical problems were researched, with the available social-political situation analysed in the country at the end of the 1980s and the beginning of the 1990s, the reasons of the intensification of the migration process being investigated, and the regulation of these processes in the country analysed in terms of the various foreign organisations’ assistance. The book argues that the large migration movements at the end of 1980s were attributable to the forced expulsion of Azerbaijanis from Armenia because of the Nagorno-Karabakh conflict. During that period, together with Azerbaijani refugees from Armenia, IDPs of different nations (Russia, Iran, Iraq, Georgia, Turkey, Afghanistan, and Uzbekistan) also took asylum in Azerbaijan. As a result one million refugee and IDPs were resettled in Azerbaijan, leading to worsening social and economic conditions. Under these circumstances, and faced with great difficulties, many Azerbaijanis were compelled to go to abroad. Most of these were able-bodied people, thus unfavourably affecting the demographic condition of the country. The monograph points out that despite the existence of several state programmes related to the integration of IDPs and refugees, adopting a legislation act in the field of migration, and despite international organisations’ efforts, problems here remain high. For this reason alone it is mentioned that a)

the adaptation of the existing laws to international legal norms in the migration legislation b) establishment of an information bank on labour migration, c) preparation of unique state strategy, d) implementing of an educational programme aimed at informing wide sections of the population of the programmes, e) the need for greater conceptual investigation to improve effective management of migration processes.

The book titled “**Migration policy in modern Azerbaijan and international cooperation**” (Abdullayev F., 2009) is devoted to the main principles of migration processes in the modern Azerbaijan republic, world practice in this field and to the actual issues of international cooperation. Special attention in this book was directed to the genesis of the migration policy of the Azerbaijan government, national specifics and strategic directions, formation of policies and analysis of perspectives and stages of evolution. The book points out that the determinants of migration flows were of a political, national and ethnic character in the early years of independence, but then economic motives became more pronounced. In the 1990s labour migration was characterised by the outflow of citizens of the Azerbaijan Republic to other countries, but in more recent years political stability and favourable socio-economic developments have decreased the migration flow abroad. On the contrary, they have provided the basis for the return of many migrants, and for Azerbaijan to become an attractive country for legal and illegal migration flows. The author’s conclusion is that there is not a single migration policy and there is a need for an optimal model choice here. For this reason migration policy has become the priority of the government and wider society.

Another monograph by the title of “**The migration processes in Azerbaijan**” (Yunusov A., 2009) analyses the reasons and results of mass displacement in Azerbaijani society, attitudes to foreigners and the role of government in migration. Special attention is paid to the population who migrated to CIS countries and Russia and to the problems they faced in the destination countries. The author divides the migration process in Azerbaijan into 4 stages. The first stage (1987-1994) is characterised by ethno-political aspects; in the second stage (1995-1998) by economic conditions and the third stage (1999-2008) by mixed and contradictory factors. The monograph mentions that the mass displacement of population which was caused by the Nagorno-Karabakh conflict and the collapse of Soviet Union significantly changed the ethnic and social attitudes of country and made it more prone to unemployment, labour migration and urbanisation. In the first stage of migration process the replacement of population is related to the war, closing of industrial enterprises and crisis in agriculture. These factors caused an exodus from the regions, with able-bodied people going to large cities in Azerbaijan and abroad. The author’s conclusion is that the exodus from the regions and the intensification of urbanisation complicate the demographic balance in the republic and create conditions ripe for social explosion. In addition, the location of the Azerbaijan republic in a favourable geographic

situation means it is used as a transit country. The military conflicts in the countries close to Azerbaijan also led thousands of people to come to the country in search of asylum. Most asylum seekers in Azerbaijan chose to stay for a long time, some of them returning to their countries and some moving on to third countries (such as Canada, France and the USA). Moreover the economic development observed and economic projects undertaken in recent years have made Azerbaijan an attractive country for foreign migrants.

The theoretical and practical aspects of human rights, population and migration problems, the diversity of opinions and approaches in this field, international experience and key international norms, also providing the basis for local legislation of various countries, are analysed in the textbook titled **“Human rights, population and migration problems in modern International Law”** (Aliyev A., 2009). The textbook pursues three directions which are closely related to each other. The problem of human rights is viewed in the first of them, population and migration problems in the second, the status problems faced by foreigners and people without citizenship in the third. Special attention is drawn to the migration of population globally and the increasing role of international organisations in this field. The author mentions modern educational-technical development, increasing migration and legislation on human rights and freedom as important factors that impact population’s attitudes to reform.

The fight against trafficking in human beings and the role of International organisations is analysed in the collection titled **“Trafficking in human beings: methodical advice and normative documents”** (AMC, 2009). The location of Azerbaijan in a transit area by virtue of its geographical position is one of the main factors helping to explain the intensification of migration, with illegal migration one of the most problematic areas as well as trafficking in human beings. Combating these processes includes activities conducted on the legislative, institutional and operative planes. Given the widespread nature of these activities, they require urgent attention in Azerbaijan.

c) Reports reflecting original research: the sphere of research on migration is new in Azerbaijan and for this reason there is not very much research into it yet. Most research on migration has been conducted by International Migration Organisation and International Labour Organisation. These studies do not cover all aspects of migration processes. Nevertheless, there is analysis of certain aspects of migration life and policy in this field discussed in some of these studies.

The aim of the report **“The transit way from Azerbaijan to Europe and business research”** (IOM, 2000) is to analyse the typical features of migrants. The report shows that people who want to leave Azerbaijan in legal ways tend to face some bureaucratic obstacles before they have even left Azerbaijan. Moreover, international borders also create their own challenges.

People who use illegal methods for realising their migration plans to foreign countries as a result are faced with difficulties and problems on the legal bases of staying in the countries of destination. The conclusion arising from the report are related to people leaving Azerbaijan for economic reasons seeking better living conditions in an another country. In the main, high-educated and adult Azerbaijani migrants intend to go to Western European countries and North America using illegal ways and do so whenever possible. The large part of migrants who are engaged in labour activities abroad migrates to the CIS countries (especially Russia, Ukraine and Kazakhstan). The proposal put forward in the conclusion of the report is to create a wide information network and information base.

The report “**From motherland to foreign country: the motives, routes and methods of migration in Azerbaijan**” (IOM, 2001b) investigates the motives, routes, and methods of irregular migration, the reasons of this phenomenon and aims to inform interested parties and the Azerbaijan government about the issue with a view to eliminating negative impacts on society. The report argues that the main factors for the migration of Azeris to the West in the past two decades have been ethnic, economic and political. In addition, the majority is ethnic Azerbaijani women and men who leave the country with various specializations and levels of education are aged 20-40 ages. Finding job and better living conditions are an attractive factor. Moreover, a restricted political situation, corruption and lack of free business activity, poor legislation and illegal activities also lead to migration. Another factor related is that Germany, Holland, Turkey, USA, Canada and UK are favourable choices for potential migrants among 39 countries researched. Research shows that migrants from Azerbaijan don't intend to migrate permanently and the initial evidence show that the life is not as easy as potential migrants had expected, which is why most of them come back after a certain period of time. Mediators are often the single source of information for potential migrants about migration possibilities, but the information given by them is often limited and deceptive. The report suggest that the prevention of illegal migration would be best accomplished through general economic improvement, elimination of poverty, programmes to increase real income of families, and thorough coordination and support by authorities engaged in issues related to migration and national legislation.

The report “**Shattered dreams. The results of research on trafficking in human beings in Azerbaijan**” (IOM, 2002) analyses trafficking in human beings and argues that harsh social-economic conditions, poverty, gaps in the legislative base, in particular weak punishment for human trafficking offences create favourable conditions for the evolution of this social problem. Azerbaijan also is not an exception in this case. 19-35 year-old women with low incomes are often transported illegally to the United Arab Emirates and Turkey. These women depend on the human traffickers regardless to their will and many suffer violence, isolation, threats and

lack of rights to free movement. Most of those victims involved in the trafficking of human beings are transported by friends, relatives or acquaintances. But some travelling and employment agencies also were engaged with human trafficking activities. The lack of government control on marriage, travel and employment agencies creates conducive conditions for the joint activities of specialised criminal structures in the transportation and involvement of victims. In addition, Azerbaijan plays transition role for the illegal transportation of women for sexual purposes and this may be explained in part by its geographical location. The women who are involved in such trafficking are transported from Azerbaijan to Russia, Ukraine and Central Asia. The report defined the steps taken by the government in this regard and the policy and legislative gaps in this area, stressing the need for legislation to protect the victims of trafficking and bringing traffickers to book.

The report “**The next step ...research on transit migration in Azerbaijan**” (IOM, 2003) gathered information designed to assist government officials and civil society to manage migration processes, especially transit migration, strengthening efforts in the field of regulation. It is argued that the location of Azerbaijan on the crossroads of transit ways is the main factor for transit migration. For this reason the number of people moving to other countries increases each year. Most transit migrants are people who graduated secondary and vocational schools in the Near East, Southern Asia and CIS countries. Political and economic instability is the main reason for their migration. The geographic position of Azerbaijan and cultural closeness with the migrant’s country is an attractive factor which tends to bring those people to Azerbaijan. The language similarity, social tolerance and government policy help explain the number of such migrants, . The report notes that the majority of transit migrants who come to Azerbaijan are 18-34 years old. Many migrants with low skills come to the country in legal and illegal ways. On average, the number of educated migrants arriving legally are more than illegal migrants. It is also clear from the report that although the gender balance between legal migrants is equal, men make up more of the illegal migrants. The final destination countries for most illegal migrants are Canada, the USA and Western Europe. Nevertheless, most legal migrants want to return to their own country or go to Western Europe. Although most legal migrants intend to leave Azerbaijan at their own expense, illegal migrants tend to want to do it through humanitarian organisations, travel agencies and mediators’ assistance. The recommended provisions in the report take into consideration the improvement of transit transport rules, border infrastructure (including technical supplements and personnel) of international standard for effective management of transit migration and organising widespread information campaigns.

The main purpose of the report titled “**Results of analyses into the legal bases of the fight against human trafficking in Azerbaijan**” (ILO, 2008a) is recommendation to the Azerbaijan

government and others who are interested in the fight against trafficking in humans, with particular attention to the law “Combating human trafficking” of the Azerbaijan Republic and National Activity Plan and payment of compensation to the victims of these processes. The research suggests that in the fight against trafficking in human beings government support must be intensified, cooperation must be developed between the government and NGOs and the effectiveness of combating the problem must be increased with new and better legislation.

The aim of the report titled “**Labour exploitation and the determinants of trafficking in human beings: a general view**” (ILO, 2008b) was to improve national response mechanism and to include the labour market in preparing a programme in preventing and eliminating all forms of trafficking in human beings. The features and determinants of forced labour of Azerbaijani citizens who are engaged in labour activity abroad is viewed and analysed in the report. The document shows that information on trafficking in human beings and the labour market in Azerbaijan is limited mainly to people involved in sexual exploitation. So the problems on labour exploitation have been less researched. The report mentions that it is impossible to gauge the exact number of people who have been affected by labour exploitation. Moreover it is also highlighted that not only migrant women and children but also men can be involved in such exploitation. The exploitation of men is largely in the industrial sectors of the Russia Federation, Turkey and European countries. Women are exploited in the sex business and also in restaurants and agricultural areas. The destination countries of women are the United Arab Emirates, Turkey and European countries.

The goal of the title of research “**Rural - city labour migration in Azerbaijan**” (Aliyev I., 2008) was to analyse the main tensions caused by the changing urban-rural profile and factors related to the flow of rural population into large cities. The research shows that the effective management of rural-urban migration is an important issue in eliminating inequality and enhancing the socio-economic development of the country. With this in mind, special attention was drawn policies aimed at slowing the urbanisation process, in particular the movement of people from rural regions to the cities, and makes suggestions on effective management of internal migration for eliminating the imbalance between the capital, large cities and the regions of country. The author’s conclusion is that the stagnation in agriculture, undeveloped infrastructure and the lack of access to important social services lead people to leave rural areas and the development urban areas, especially industry, construction, and service spheres, attract people from regions. Despite the expansion of internal migration this process has largely taken place outside of official control and many people who moved to the large cities were not registered anywhere. As a result the origin, age, gender and other profiles of people belonging to this category are unclear, which make it difficult to create a single strategy on effective management of rural-urban migration. For this reason there is a need for



information about the numbers and characteristic features of such migrants, which entails greater research in this area.

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