

# The Mismatch between the Labor Market and Education Outputs in Azerbaijan

## What Can Business Do?

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This analytic policy brief will examine the underlying reasons for what we call the mismatch between the labor market and education outputs in Azerbaijan. It will then suggest possible ways to help businesses overcome this challenge.

For Azerbaijan, the problem of youth employment is particularly important. The Azerbaijani government defines young people as individuals between 14 and 29 years of age, and the percentage of this cohort of the population is above the world average, comprising around 25.8 percent of the country's population. Azerbaijan is on the list of countries struggling with youth employment.

Today, as one of us (Valiyev) has recently written, "out of the 2.8 million workers with secondary education only (the total workforce in Azerbaijan is 4.8 million), around 1.4 million people are aged between 15 and 34 years." This is alarming, as according to the UN, even if employed, this cohort often gets low-paid or unskilled jobs mainly in the informal economy. Hence, it is not surprising that a sizeable subgroup of young people in Azerbaijan are unemployed or inactive due to a lack of sufficient education or training. Studies by the Asian Development Bank and the European Youth Forum published in 2019 and 2018, respectively, indicate that, compared to countries with similar gross domestic product (GDP), Azerbaijan has

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the highest percentage of inactive youth. Thus, Not in Employment, Education, or Training (NEET) youth account for around 23 percent of Azerbaijan's population. The Azerbaijani government intends to reduce this number to 15 percent by the end of 2030.

However, the considerable share of NEETs among the country's youth population highlights the fragility of the local youth community. The situation is disturbing, as various studies have concluded that NEETs are particularly vulnerable to the risks associated with poverty, marginalization, and exclusion. Moreover, they have limited capacity to mitigate those risks due to poor educational background and lack of social networks. The importance of employment is also highlighted in the Employment Strategy of the Republic of Azerbaijan, which is being implemented through the National Action Plan. Additionally, the Ministry of Labor and Social Protection has established centers that provide training to unemployed people. While the courses are helpful to youth in finding jobs, more than these sorts of short-term programs are needed to fill the gap between the requirements of the labor market and acquired skills.

In addition, a relatively low employment rate is a significant concern for people with higher and technical education, too. Although the formal unemployment rate in Azerbaijan hovers around 5.8-6.0 percent and is primarily prevalent among people with no high or technical education, a large chunk of the youth population with higher education also do not have employment or access to the labor market. The absence of the provision of proper skills and competencies at the university level also contributes to the establishment of a mismatch between education and labor market. A survey conducted by the Oxford Research Group in 2022 among the youth population of Azerbaijan showed that 56 percent are dissatisfied with the level and/or quality of their education. Similarly, research done in 2018 among companies headquartered in EU member states and operating in Azerbaijan highlighted a mismatch of skills as one of the main obstacles of working optimally in the country.

The existing problem is officially stated in the State Strategy of the Republic of Azerbaijan on the Development of Education. According to this document, there is a mismatch between the demands of the economy and the skills of university graduates, notwithstanding a high demand in the services and agricultural sectors. However, many young specialists in these fields work in government organizations, leading to a shortage of skilled employees in the private sector. Although considerable improvements have been made in the country's vocational education and training (VET) infrastructure, serious problems remain. Mainly, the number of VET graduates does not match the economic demand in the country. Furthermore, existing vocational and higher education curricula do not meet contemporary standards. Particularly, the situation in higher education institutions (HEI) is alarming, as they lag behind the dynamics and realities of today's Azerbaijani labor market.

## Four Underlying Reasons for the Mismatch

Between September and December 2022, a team of researchers surveyed 80 companies in Azerbaijan, conducted 12 in-depth interviews, and hosted several focus groups with HR managers of companies. Based on the data collected from these sources, four fundamental causes for the disparity were revealed: *one*, a lack of data on the labor market and skills demand; *two*, a lack of coordination and communication between key stakeholders (labor market, HEIs, students, and government); *three*, the absence of skills- and practice-based teaching in HEIs; and *four*, insufficient in-service training for new employees and interns—the lack of life-long learning (LLL) programs. Each will be examined in turn.

*First*, a lack of data. The biggest challenge is the lack of transparent access to disaggregated data by age, location, sex (gender), and income group compiled and held by the State Statistical Committee, the major source for official statistics in Azerbaijan. Some data is not publicly accessible, presumably either because of its poor quality or sensitivity. The unavailability of disaggregated data on real unemployment, inactivity, labor conditions, etc. is a severe obstacle to the development of targeted policies and social protection programs to support the youth.

Along with the scarcity of available data, graduates' analytical and technical capacity is also an issue. As a result, insufficient capacity in some state agencies prevents them from properly collecting and meaningfully interpreting the data. Having access to more detailed raw data may open new avenues for researchers, including assessing a country's progress toward the implementation of policies. An independent report shows that Azerbaijan is among the countries with the least data, with only 21-30 percent of all labor force indicators available. The importance of this finding should be understood in relation to the statement that opens the authoritative *Handbook on Governance Statistics* published in 2020 by the Praia City Group on Governance Statistics, which was established under the auspices of the UN Statistical Commission: "Governance statistics are fundamental to ensuring that the relationship between the State and its citizenry is transparent and accountable."

In Azerbaijan, there are no regularly conducted surveys measuring youth perception, labor market indicators, skills mismatch, and so on. Some private companies do conduct ad-hoc surveys on various issues. However, most of these surveys are inconsistent or cannot measure trends and market demands in the country. Although the Oxford Research Group conducted a youth perception survey in the summer of 2022, it was the only survey in Azerbaijan for the last decade looking at youth situations. Overall, all existing data is quite general or does not provide detailed information necessary to analyze students, graduates, and academic staff required to make accurate forecasts and prepare graduates with competency and skills in compliance with labor market needs.

The *second* reason for the disparity between the labor market and education outputs in Azerbaijan is lack of coordination and cooperation. University graduates often lack vital soft skills like communication, critical thinking, and leadership. The most feasible solution to this problem is the participation of employment sector representatives in adjusting and developing the curricula of HEIs. However, companies encounter obstacles in accessing universities, as some are reluctant or uninterested in such cooperation. While there is some company-university cooperation, the most popular method to attract potential recruiters is job announcements or social media. And this is due to inadequate coordination.

Furthermore, most HEIs in Azerbaijan do not have career management centers, or if they have them, they do not function properly. HEIs continue to provide students with insufficient information about the demands of the labor market. To improve the situation, the Ministry of Education should regularly analyze employability reports and establish a quota to address the gaps between the number of graduates and employability opportunities.

Additionally, companies in Azerbaijan prefer to attract professionals rather than hire fresh and less experienced graduates. Employers do not want to hire interns or work with current students, as companies often do not put much faith in their skills and competency.

The *third* reason for the mismatch between the labor market and education outputs in Azerbaijan is the absence of skills- and practice-based learning. Most HEI graduates do not have the skills they need to make them competitive. Based on the results of a STEP Employer Skill Survey carried out in Azerbaijan in 2013, a serious skill shortage was detected, especially concerning technical, cognitive, and socio-behavioral skills, coupled with employers' high expectations. It seems unlikely that the situation has fundamentally improved since this survey was conducted one decade ago.

The quality of education remains below standard in many state universities, and teaching methods and textbooks also do not always meet modern standards. Insufficient professional literature in the Azerbaijani language generates a knowledge gap for students who only speak Azerbaijani. The mismatch between university specializations and the labor market is among the major issues facing education. Despite attempts to modernize and diversify the higher education system, the field remains highly state-controlled, even to the extent that the Cabinet of Ministers approves the exact admissions quota at each HEI on an annual basis. The process of identifying this list, including demand forecasting for each specialization (if there is any) is not clear or transparent. Industries are almost entirely disengaged from this process. A recent survey conducted by a youth agency shows that 60 percent of the 8,921 youth surveyed work in areas that have nothing to do with their university degree. Moreover, due to this centralization, universities fail to produce the specialists the market requires.

The *fourth* reason for the mismatch between the labor market and education outputs in Azerbaijan is insufficient in-service training. The focus groups conducted with recruitment and training managers of companies unveil quite a concerning situation. Companies' investment in the continuous development and capacity building of their existing staff is certainly encouraging. However, the vast demand to train and teach fresh graduates and interns should be perceived as a red flag, indicating a lack of necessary skills and training in graduates when they enter the workplace. This can be quite burdensome, financially and otherwise, for companies more interested in hiring “ready products” of HEIs.

As a result of poor linkage between educational institutions and the labor market, interns and newly recruited graduates do not receive proper work-based learning. As stated by the interviewers, due to insufficient coordination between the stakeholders, university graduates do not get the sort of essential basic experience that can be provided with structured internship opportunities and training. Some companies provide preliminary work-based learning opportunities for recent graduates prior to hiring them. However, even they admit that it is not at a sufficient level.

Azerbaijan's ADA University, including the nascent Azerbaijan-Italy University, is doing its part to overcome the challenges enumerated above. But this does not represent a comprehensive, systematic approach at the national level.

## *What Can Businesses Do?*

Changes in curricula, study programs, policies, or teaching methods is a long process and out of the control of the business sector. Still, there are initiatives that its representatives can take or last least champion. These include the following recommendations, which can and should be advocated, driven, and in many aspects implemented by the private sector or business associations. While taking the outcome matrix into consideration, the following actions are suggested:

### *1. A Labor Market Survey and National Students Database.*

- Conduct concrete empirical surveys (labor market analysis) and undertake continuous analyses of the mismatch between labor supply and demand. Survey results and datasets should be made public.
- Establish a network of Career Management Centers for all universities and merge the individual university databases of their graduates into a single one.

### *2. National Employment Initiatives.*

- Set in place a countrywide initiative/event (e.g., a National Employment Fair, a National Career Fair) to bring together employers and graduates as well as other stakeholders in the graduate employment cycle.
- Include stands for training and certification companies to inform the audience about their services and products during this event.

- Host discussion forums, master classes, and speakers to facilitate networking and collaboration during this event.
  - Connect rural and urban companies with relevant potential employees during the fair/exhibit.
  - Conduct career-oriented and subject-specific workshops by practicing professionals on the development and review of CVs, etc., during this event.
3. *A University-Industry Collaboration/Cooperation Platform.*
- Include both “vertical” coordination between different levels of government and “horizontal” coordination between different departments of government that are either directly responsible for setting or influencing skills policies.
  - Ensure that skills initiatives are coherent and mutually reinforcing.
  - Enhance the political legitimacy of policymaking decisions.
4. *Massive Open Online Courses (MOOCs) and Certification Programs.*
- Make a feasibility study to understand the local market’s demand, needs, and capacity for the initiative in advance.
  - Develop a second feasibility study that could be circulated among the key stakeholders for feedback and suggestions.
  - Offer skills-focused courses that range from basic to cutting-edge in partnership with employers.
  - Launch a library of videos on specific skills under the supervision and support of various organizations.