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Improvement in employment in the rural territories

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Table of contents

Abstract.....	3
1. Literature Review.....	4
1.1. Introduction.....	4
1.2. Concept and theoretical base of employment.....	7
1.3. Rural-Urban population pattern.....	11
2. Structural employment in rural territories.....	15
2.1. Agricultural employment.....	18
2.2. None-agricultural employment in rural regions.....	21
2.3. Future directions of employment and policies	25
3. Rural employment and practical aspects of labor migration in Azerbaijan	
3.1. Situation with employment in rural territories of Azerbaijan.....	34
3.2. The ways of improvement of in rural employment in Azerbaijan.....	42
4. Methodology and results.....	47
5. Conclusion and summary of findings.....	49
6. Bibliography.....	51

Abstract

Currently, there are dozens of scientific researches and models for shaping theoretical and practical base for the rural employment and the importance of improvement in the rural territories for the whole economy. In fact, even today we can't summarize all the handed recommendations in one theory or approach to describe the best way of rural economic development and the factors contributing in it.

The role of rural development as a part of whole economic growth chain is different in developed and developing countries. Clarification of current rural employment, the main differences in the forms of employment, future trends in employment and rural development have been chosen as the main focus point for this article. This research proposal involves describing the broad understanding of employment and focusing on structural rural employment. This article also describes current rural employment patterns, different ongoing and implemented employment and rural economic development policies, the impact and trends in migration to the rural regions in Azerbaijan. Mixture of different countries' rural policy experiences is demonstrated in various graphs and tables.

1.Literature review

1.1. Introduction.

Last few decades showed us the importance of changing economic pattern in rural regions. Especially in developing countries, rural regions` development became the main tool for fast growth and development. It is still difficult to predict this growth and take into account all the variables including employment for getting whole stable economic growth. However, some experts relate the main economic failures of developing countries with being highly dependent on less developed rural economy and especially agriculture, whereas last few years have shown significant growth in this field.

It is fact that $\frac{1}{2}$ of total world population and $\frac{3}{4}$ of world`s poor population are settled in rural territories. Because of these facts, rural development is still seen as a starting point to tackle with main economic and social issues- poverty, hunger, unemployment, low productivity and less efficiency, gender inequality and so on.

International organizations have spent significant efforts to have visible change in these regions and they have realized various development programs in the way of rural development.

According to International Labor Organization`s Rural Employment and Decent Work Program they have set ongoing visions:

- Rural areas are growing faster with their role of power for economic growth and are seen as a field for job creation purpose. Of course, the growth and contribution should be mutually and equitably.
- Rural area`s full of capacity plays main role for attractiveness for external sources and it is surely believed that stereotypical idea of “typical rural backwardness” will disappear.
- Current investment on especially youth will lead them to find out their own potentials on what they can do and how to contribute to the society and economy both in direct and indirect ways.
- Special role of attracting the other players to invest on the rural development due to high ethic and possible future economic benefit.

Undoubtedly, International Labor Organization has paved clear way to get these visions which are accepted and agreed by the organization's members. There are more than 50 different instruments, including memorandums, guides, 30 conventions, 20 recommendations, 80 projects covering heading technical cooperation appropriate with rural frame. Technical areas are chosen as pain point to focus to influence in, such as creation of small businesses, labor intensive infrastructures, effective employment policy, health and safety issues, micro financing, training and guiding to base on entrepreneurship, gender equality, rising the role of women, youth employment, increasing sectoral work productivity and effectivity.

For being more effective and expanded, all the activities are followed by other international organizations- World Tourism Organization, IFAD, World Bank, UNCTAD, FAO and others.

These partnerships are part of national and international development strategies. Sub strategies are defined as foundation of human resource based rural development to redesign economic growth and development architecture. Of course, in this point higher level of cooperation between different interested parties and local authorities or national correspondents to change short term plans to long term sustainable rural development strategy. The previous experience- it can be local, national, or international, should be taken into account in decision making process.

Table 1: International Labor Organization has determined 10 main elements in Global Employment Agenda:

1	Promoting trade and investment for productive employment and market access for developing countries.
2	Promoting technological change for higher productivity and job creation and improved standards of living.
3	Promoting sustainable development for sustainable livelihoods.
4	Macroeconomic policy for growth and employment: A call for policy integration.
5	Promoting decent employment through entrepreneurship.
6	Employability by improving knowledge and skills.
7	Relevant labor market policies for increasing employment, security in changes in the labor market, equitability and poverty reduction.
8	Social protection as a productive factor.
9	Occupational safety and health: Synergies between security and

	productivity.
10	Productive employment for poverty reduction and development.

Source: International Labor Organization (www.ilo.org)

General Employment Agenda mentions the core link between growth and poverty reduction. It shows the missing part of link and provides the argument that for getting sustainable growth and reduced poverty, there should be balanced system to keep socially sustained society and here well performing labor market is needed. Additionally, Agenda depicts the importance of investment flow to the infrastructure, for raising the level of technological awareness of employees, flow of new advances and technologies to the field. Undoubtedly, there should be easy environment for trade and free movements of production factors to increase the attractiveness of rural areas not only for investors and rural participants, but also for other interested counterparts.

1.2. Concept and theoretical base of employment.

In macroeconomic level, labor market is the demand and supply of labor, which demand of labor is indicated by employers, and supply of labor by employees. There are some other factors can influence to this market- age, gender, education level, domestic and international migration. These factors determine countries` labor market policies for both short and long-term period. The concept of “Labor market” simply is the statistical interpretation of economic activity, level of employment and unemployment within a predetermined area.

Labor market can be thought well-functioning if it can get two main objectives: being efficient and fairness. Efficiency of the market is defined as being able to provide opportunity for all the employees to find jobs in the short term relevant to their experience, education and at the current wage rates. Whereas, fairness of the labor market is providing the fair wage rate in accordance with which he or she has done (the value of work). When we take into account these two objectives, we can easily define that in this stage rural labor market seems poor functioning.

Imbalances between workers and employers are more visible in rural labor market, however, this market also divided into two parallelly going rural farming and non-farming field. The main imbalances are in social, economic and political spheres. These imbalances may differ region by region or can be different in developing and developed societies.

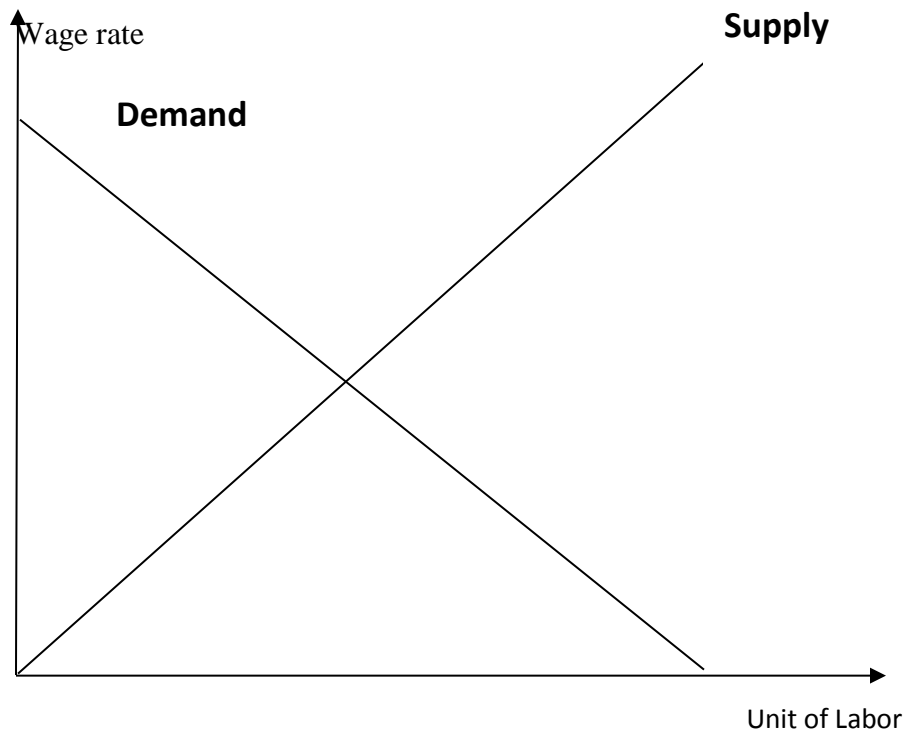
Some of the characteristics of rural labor market can be summed as following:

- Weak labor organizations;
- Gender discrimination (low level of role of women);
- Low level of regulatory system;
- Poor policy implementation;
- Unequal resource allocations;
- Low wage level and so on

When it comes to rural labor market, it should be considered as a system where demand for labor is ruled by level of competitiveness of specific region, and supply is influenced by its demography. Migration will be unchanged influencer in this case too. However, migration effect on the supply of the labor, it is visible measurable side of market. Another issue occurs when it comes to the qualitative aspects of market, which is called as human capital.

Labor market is flexible with migration. In short term migration can change the balance or imbalances depending on the situation in the job market. If there is labor scarcity in the market it can be caused by out migration in the short time, but in the long run in migration will support to fix it or the level of demand will change, because in rural labor market it is more flexible and it is open market for that factor of production.

Figure 1: Demand and Supply in the labor market



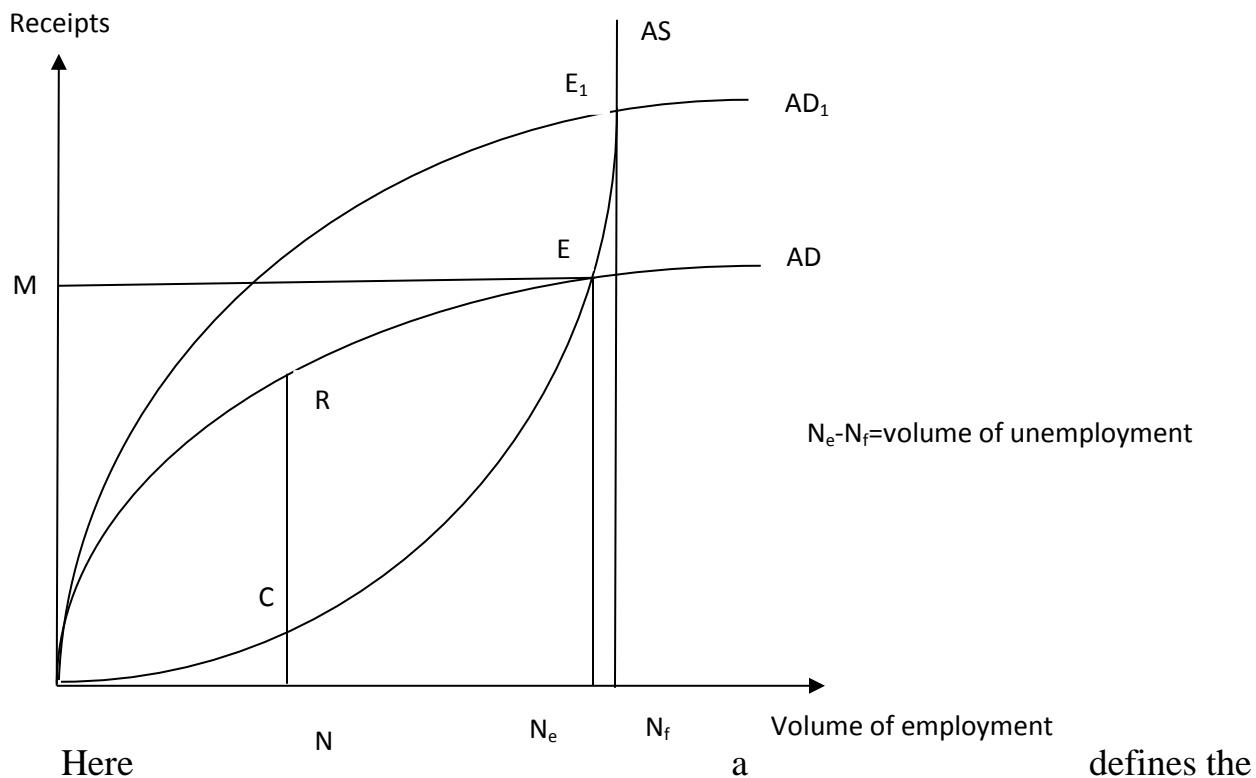
In macroeconomics there is strongly positive correlation between wage and productivity. When there is higher demand in the market, employers will look for employees (scarce resources), then the wage goes up. Abundance of labor supply will create strong competition to get the limited job opportunities and there is downward pressure on wages.

Undeniably, especially in rural labor market other factors are as significant as core determinants. As it is mentioned, rural labor market seems “open” for external workforce- migration and always ready for out migration. Additional workforce will create competitive environment which lags decreasing wage level or vice versa.

Until Great Depression classic theory of full employment was accepted, but during the crisis theory couldn't explain the current situation. New revolutionary idea came from Keynes. He rejected the "always full employment" concept and claimed that it can be only an exceptional case, not general. For Keynes, market is driven by demand side not supply. He criticized the classical macroeconomic models with bringing theory of income and employment. He claimed market is demand oriented, and all the changes are catalyzed by the changes in demand. The total demand in the labor market for specific field depends on how much people need this field's output.

Theory itself remarks that it fits to the short run, meaning the changes in population, technology and long term public policy are not taken into consideration. While explaining the determination of employment, theory explains the determinations of income. Base of the theory is effective demand which drives from the idea of "more national output- higher level of employment". Effective demand means in capitalist economy varied level of employment is the result of varied level of demand.

Figure 2: Effective demand and determination of unemployment



total amount of money all the suppliers expect to get and each level of employment determines specific level of aggregate supply. According to Keynes aggregate supply function has positive slope and is determined by volume of employment, because increase in receipts raises the level of employment. As illustrated in the graph there is a limit in the level of output which Keynes depicted it as special case in the economy called full employment.

As aggregate supply aggregate demand function illustrates the aggregate demand prices associated with certain level of employment. In the graph E and E_1 are intersections where aggregate supply and aggregate demand intersected. In these points aggregate supply price and aggregate demand prices are equal, or in another word, functions determined the income and employment.

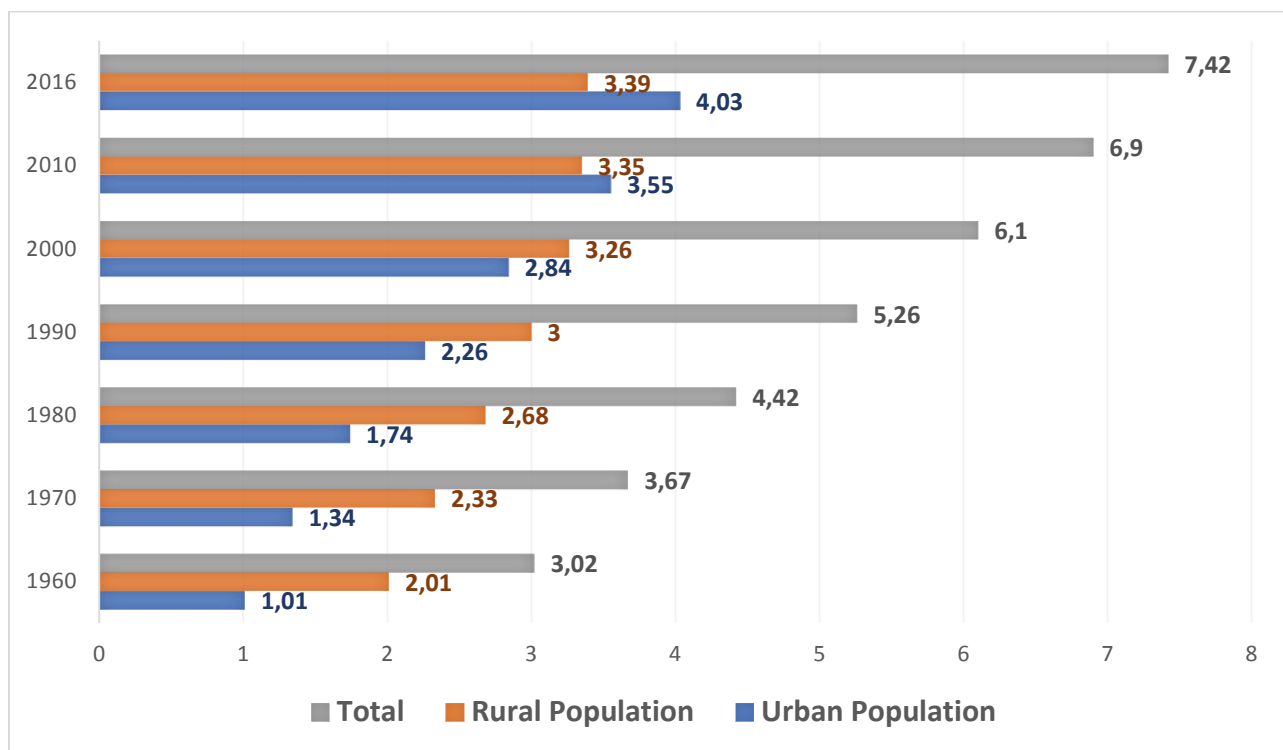
In the N level of employment entrepreneur realizes that his revenue exceeds the cost in the $(R-C)$ difference, and if he adds more labor for production he is able to increase revenue. This process goes till the point E where N_e level of labor has been involved in the production. If he keeps adding more labor to the process, marginal revenue will be less than marginal cost of each additional labor involved. Point N_f shows full employment. After analyzing the case Keynes has decided that in economy $(N_f - N_e)$ unemployment is kept which is called voluntary unemployment. Actually, it is possible to move E to E_1 by increasing the aggregate demand. As known aggregate demand is sum of consumption and investment demand or in another word expenditure in the economy. Not in all the case consumption demand can be increased because of limits, but in any case, for increasing aggregate demand investment demand can be increased and it will create new employment opportunities and at last for full employment.

However, in theory it is possible to get full employment but Keynes has claimed that in capitalist economy even if the consumption demand and investment demand are increased together it would not reach to highest level of employment. Keynes shows in this point what aggregate demand is. He shows aggregate demand can not be sum of only consumption (C) and investment (I), but also government intervention to the market is needed in the form of government expenditure (G). The aggregate demand will be $C+I+G$.

1.3. Rural-urban population pattern

Historically, there has been strong correlation between population growth and economic development. Especially after the industrial revolution in Northern America and Western Europe have shown significant increase in population growth (particularly in big cities). Globalization wave reached to different part of the world at different times and both developing and developed countries have experienced the high population growth which reached its peak at mid-20th century. During 20th century world population has increased 400% and reached to its peak in 1960`s at more than 2% annual growth and then started to decrease slowly to about 1%. Population growth is influenced directly and indirectly by various factors such as education level, income level, life expectancy, family size, birth and death rate, religion and so on.

Figure 3: World population growth rate (%)



Source: World Bank Open Data (www.data.worldbank.org)

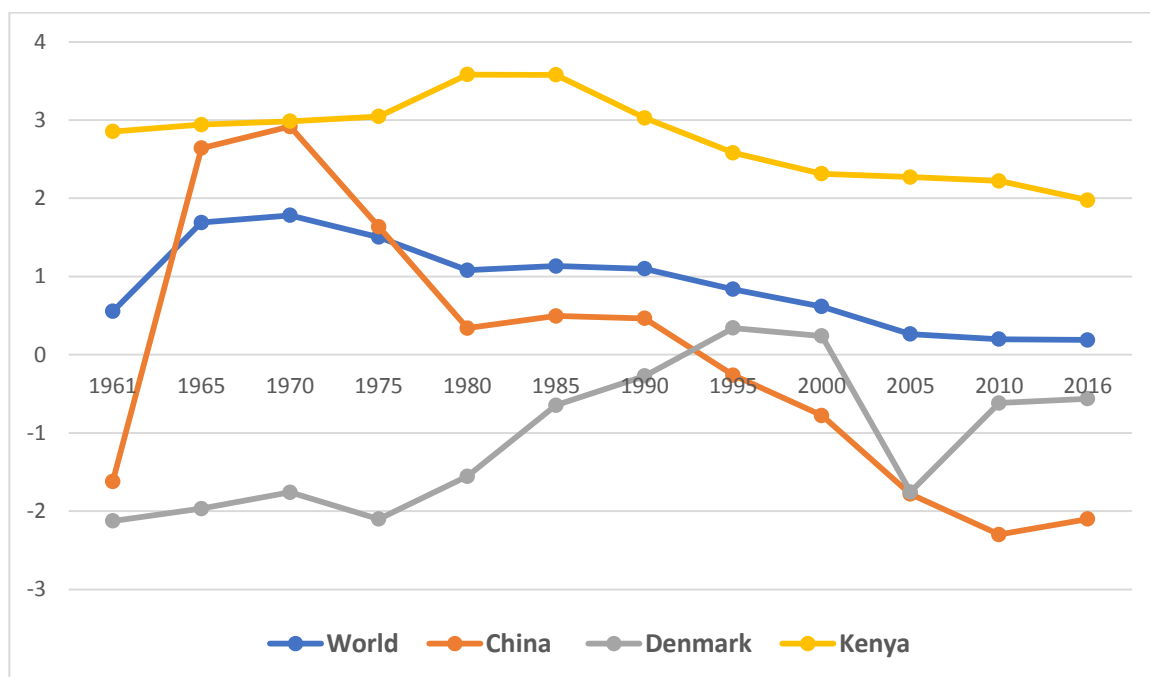
According to the graph over the time both rural and urban population have shown significant increase and after 2000`s the share of urban population overcame the rural population. The main reason is known as rural-to-urban migration.

The motives behind migration from rural territories to urban regions can be divided into 2 parts: pull and push factors.

Generally, when it comes to push factors these are forces which “push” people to move to other areas, especially to cities. The main reason is given as unemployment. People seek job opportunities in fast growing urbans. Rural areas are generally poorer than urban regions and have less opportunities for rapidly growing population. Agricultural dominant rural territories are not able to provide job opportunities for all the people here. For instance, agricultural development in Brazil made it easy to replace bulk of employees from field with machines and most of them moved to cities. Or in Bangladesh as a result of regular natural disasters crops fields are destroyed and millions of people moved to economically more stable area in the search of better life conditions.

Push factors “push” people to cities, beside that there are pull factors which attract people to urban regions. Pull factors include better life standards, more job opportunities, quality education, easy access for better medical services and so on.

Figure 4: Rural population growth (annual %)



Source: World Bank Open Data (www.data.worldbank.org)

Public policy plays important role in the migration trend. For instance, in China case government provides various incentives to rural population. Due to central government`s decision commercial banks provide big loans for private sector to

build, create better infrastructure in the urban territories, or even creating new cities. All these are employment opportunity for people which can be seen pull factor.

The main reasons for rural-urban migration can be summarized as following:

- Employment opportunities;
- The gap in the quality of social services between rural and urban areas;
- Wage differences;
- Natural disasters;
- Government incentives (tax, employment, social payment);
- Social reasons (gender inequality, education, religion) and others.

However, millions of people move from rural territories to urban areas to find better life here, but in consequences increasing population creates some problems for urban areas:

- Poor electricity supply;
- Increasing pollution;
- Increasing unemployment;
- Poverty;
- Lack of shelters;
- Increasing criminal and illegal activities (drugs, violence);
- Public transport problem.

According to statistic data, in 1950`s only 30% of total population was living in urban areas and during the next periods this proportion has changed and it went up to 54% today. Current statistical data shows that most of the high proportion rural populated countries are in Asia, Oceania, Africa (especially in sub-Saharan region). Even in Burundi and Uganda share of rural population is more than 80%. Similarly, in Eastern and South-eastern Asian countries have the similar pattern (for example, Nepal-82%). In compare of indicated regions, Europe and North America have lower share of population residing in the rural territories.

Table 2: Distribution of rural-urban population in the regions.

Country area	Population (mln)					
	Urban			Rural		
	2009	2025	2050	2009	2025	2050
World	3421	4535	6285	3408	3475	2864
More developed regions	924	1013	1099	309	263	175
Less developed regions	2497	3522	5186	3098	3212	2688
Least developed regions	240	438	914	596	727	758
Other less developed countries	2258	3083	4271	2502	2484	1929
Less developed regions excluding China	1870	2662	4139	2373	2610	2309
Sub-Saharan Africa	308	537	1054	533	656	658

Source: Andrew Copus, Christian Lindner- “Study on employment in rural areas (SERA)”

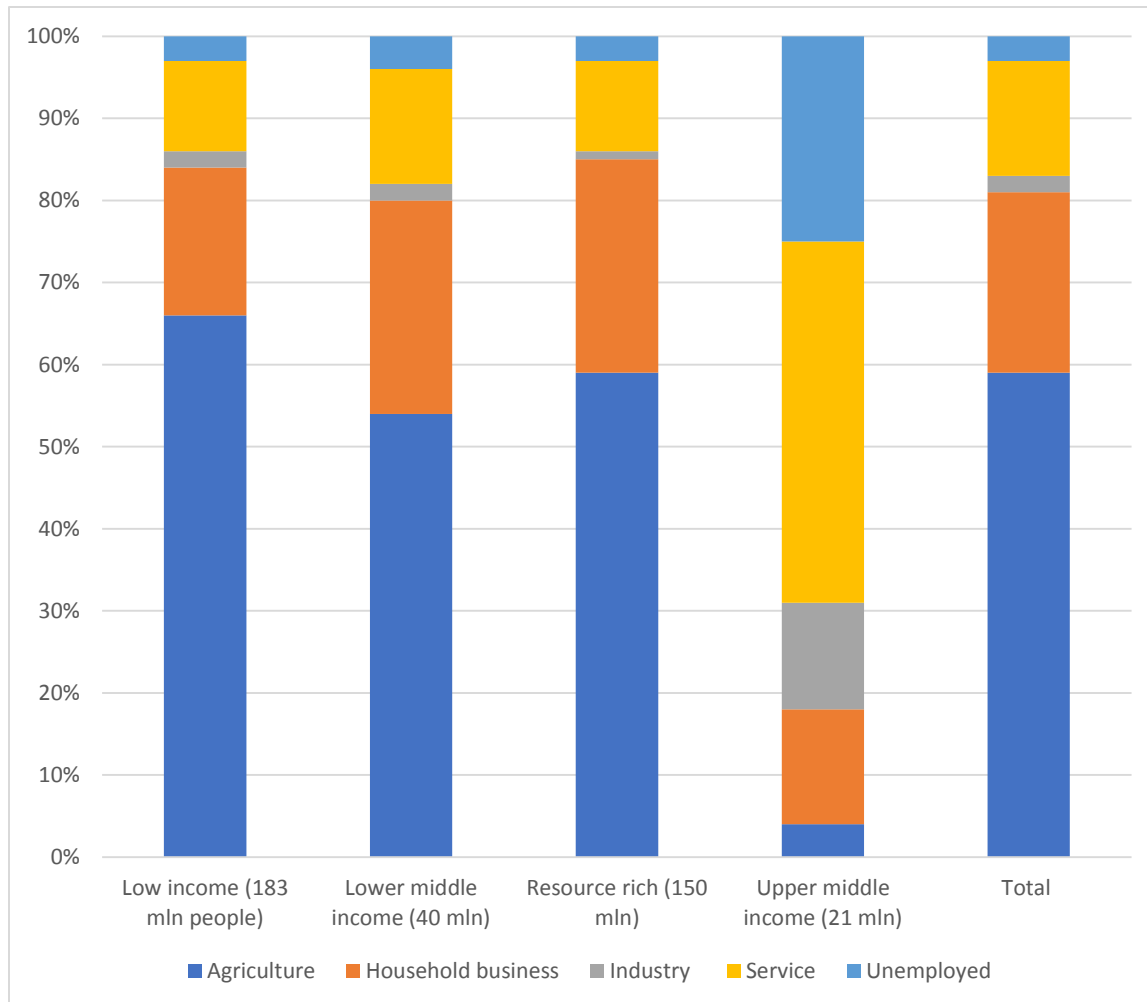
Statistical trends give the clear view about developing countries` rural-urban pattern. It shows that in most of the developing countries people tend to settle in the rural areas and it is not surprise because of some internal and external factors. First and foremost, in most of the developed countries the major catalysator of migration was industrialization process, which happened for instance in Western Europe and North America. Today major rural urban migration trends are observed mostly in African and Asian countries where rural population is majority. Another aspect of the process is high population growth in rural regions and its balancing function between rural and urban territories.

2. Structural employment in rural territories

The phenomenon of structural transformation of employment is explained as the gradual changes from the traditional ways of employment to the contemporary activities. Traditional activities can be agricultural (farming, fishing, agro-forestry) and low value adding manufacturing activities. This structural transformation accompanies long run trend in demography and economic growth. Trends in demography includes population aging and urbanization processes. Especially after the industrial revolution modern developed countries started to diversify their economy from traditional one to more modernized ones and they could tackle with poverty and low productivity issues. Majority of today`s emerging countries are implementing the same policies today, for instance in Asia the core reason for fast economic growth is related to this transformation. Of course, not all the developing countries could gain the same prosperity with following these developed countries. According to ILO, countries particularly in Africa and Latin America have not got the target and it again shows that there is not clearly correlated pattern and dependency in the structural changes of employment and productivity growth overall. Movement of resources from one sector (low productive) to another (high productive) sector is one of the ways to get overall productivity, but as known, can not be only solution. McMillan`s approach to the problem is focusing on long term policies and making these policies sophisticated, investing in technology, improving abilities and skills needed. Only passing stage by stage in the transformation process sustainable economic development goals can be achieved.

In different countries direction of structural change can be toward to different sectors. It can be from agriculture to extractive industry, or tourism, or another sector. For instance, mostly in developing countries set of policies and implementations focused on improvement in extractive industries (which need minimal labor force) failed, because these structural changes had low capacity for job creation purpose. Information communication technology sector, for example, in India or some of South-eastern Asian countries couldn`t provide higher employment opportunities for population. Direct and indirect contribution of structural transition to the labor market is one aspect, another aspect is more improved labor market standards and outcomes.

Figure 5: Sub-Saharan Africa: Estimated Distribution of Employment by Country Type and Sector, 2013



Source: International Monetary Fund (www.imf.org)

Creation of new sectors makes high skilled workers find more appropriate fields. Identification of sectoral characteristics, potential (sectoral) challenges, analyzing the socio-demographic (gender, age, education level, generally accepted way of doing business) are necessary for the final decision making on future policy implementation. For getting the expected result all these factors should be considered- what structural transformation will focus on, will it target genders equally or which kind of negative result can occur.

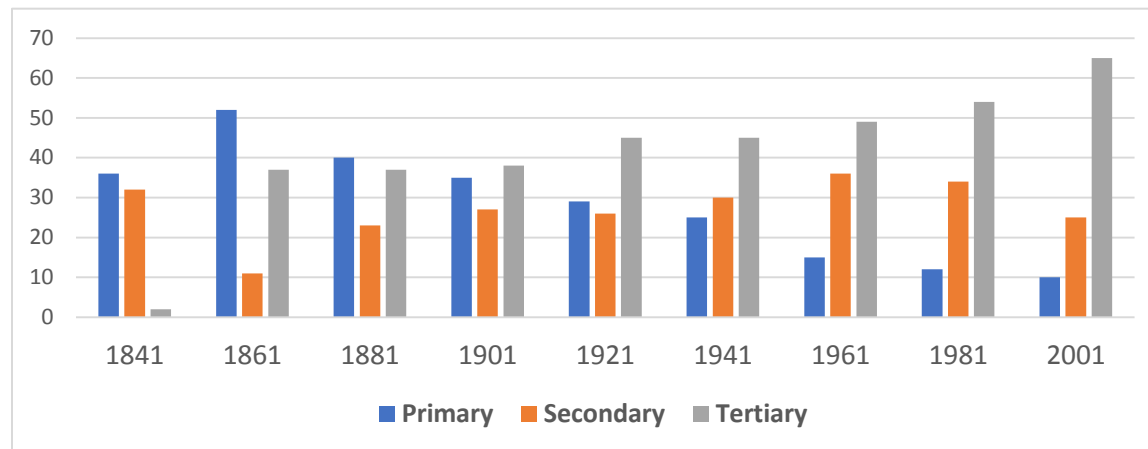
In general, activities in economy are divided into three main sub categories:

1. **Primary activities**- mainly based on extraction or production (primary) of raw materials. For example, agricultural activities are involved in production of some raw materials for later manufacturing and basic food or mining- extraction of raw materials from ground. Other primary activities are fishing, forestry, hunting, farming. These activities are sometimes called as extractive activities.

2. **Secondary activities**- involved in manufacturing, assembly, production and construction related activities. Manufacturing industries get the resources, for example, steel, coal, iron and use it in the production process. The last product may or may not be finished products. Semi manufacturing industries produces unfinished goods (parts).

3. **Tertiary activities**- in the economy it is the service industry. That industry provides service (commercial service) in the economy, such as, insurance, transportation, warehouse, retail, healthcare, education services. Likewise, primary and secondary activities, tertiary activities create value in the value chain, whereas in this sector tangible goods are not produced. The first approach about sectoral distribution of employment was sounded by Fisher and Clark. They have explained movement of people from agriculture to manufacturing and from manufacturing to service sector as one of the most important transformation form of economy. They have referred to income elasticities of demand to explain how why these changes occurred. They claimed that it is mainly because of the hierarchy of needs which explains that when people meet their basic needs- shelter, food, safety, they tend to meet new needs. In this step services occur.

Figure 6: The following graph illustrates the share of employment in different sectors in New Zealand from 1841 to 2001.



Source: Encyclopedia of New Zealand (www.teara.gov.nz)

2.1. Agricultural employment

Especially in developing and emerging countries agriculture is the driving field for employment with covering more than half of total labor force, however over the time non-farming industry has been increasing. According to the Food and Agriculture Organization's statistics, nowadays about 75% of poor people involved in agricultural field and 97% of this belongs to the developing countries. Agriculture is the supply source for food market and direct income source of 86% of rural households (this figure may change depending on the region).

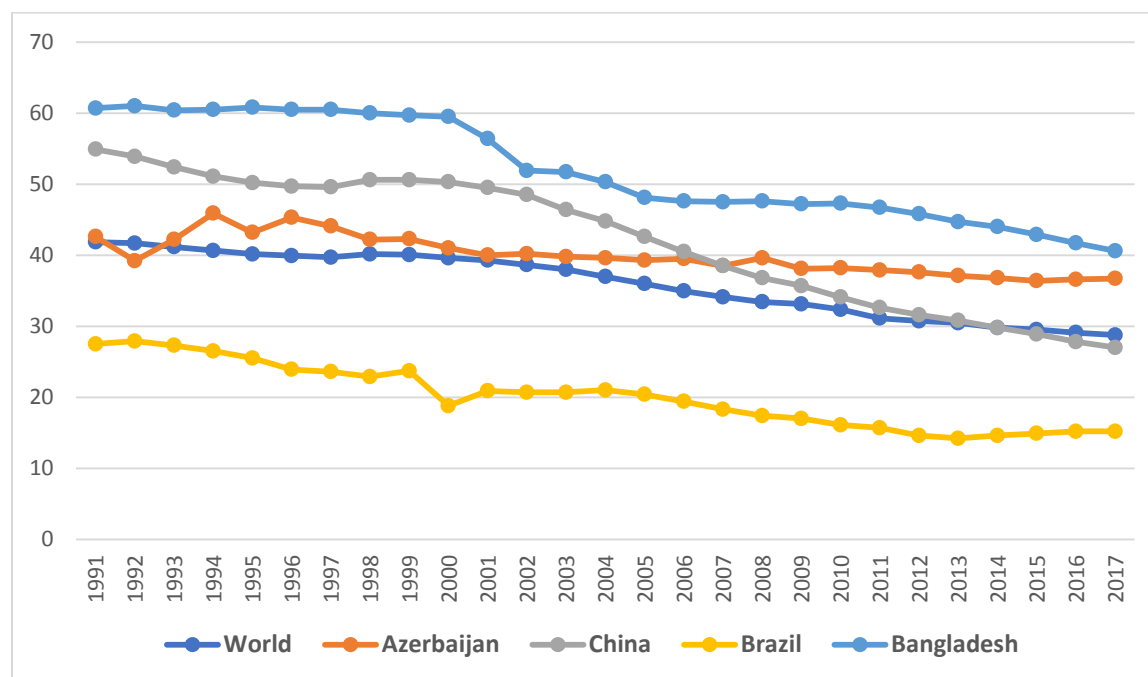
As emphasized, particularly in developing low income countries the proportion of people work for agricultural sector accounts $\frac{3}{4}$ of total population, whereas this figure is about 40% in lower middle-income countries, 15% in upper middle-income countries and less than 3 percentage in developed countries. The trend in the share of agricultural employment is going to decrease over the years, especially in the next few decades decline speed will be higher in lower income countries in compare of higher income or developed countries.

Despite the heterogeneity of agricultural employment in different regions, but there are some similarities and common characteristics: self-employment, small

household business activities, mostly informal employment. In rural territories most of the job opportunities have seasonal characteristics, like farming, tourism and so. Permanent jobs are rarely founded and in most of the cases need some special skills, such as teachers, doctors, and police, engineers.

With taking growing population`s demand into consideration growth in agricultural production and employment are predicted. In 2012, McKinsey claimed that there is growth in the demand for agricultural product market and in the next 20 years 120 mln additional workforce will enter to the job market which mostly will concentrate in agriculture. The similar cases happen in Southern Asian countries (India, Bangladesh).

Figure 7: Employment in agriculture (% of total employment)



Source: www.data.worldbank.org

The development of countries is positively correlated with the decline in the proportion of labor force working for agriculture. In developed countries the decline is mainly due to improved technology and increased productivity. Another aspect of increased productivity is increasing output with less land. That is why even small percentage of population in developed country can produce as much as in developing country with more labor and more land.

The following points may help to understand what the main characteristics of agriculture are in developing countries.

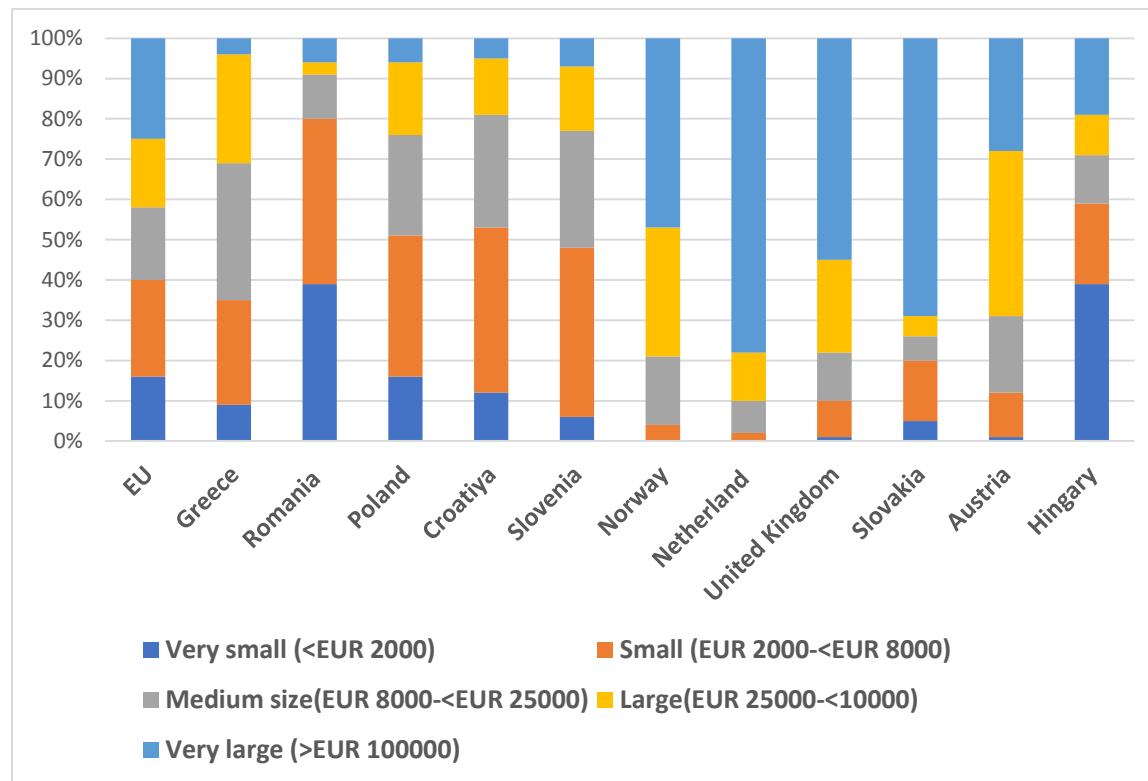
- Being the major part of GDP (e.x. in Africa it is nearly 36%);
- It is the most important source of income for majority households (70%-80%);
- Less developed infrastructure and low productivity;
- Big share of agricultural products in export- import activities;
- Lower annual growth.

It is easy to observe that the big majority of poor regions are rural territories. For instance, in African and Asian rural areas individuals are not able to earn more than \$750 yearly. Factors deriving these results are low productivity, cheaper market prices, less advanced technologies' implementation, low skills and education level, natural disasters and others. They work on core agricultural-farming and sub-sectors including, forestry, fishing, livestock.

Most of the primary activities are characterized by low per capita income. Industrialization and urbanization processes catalyze growth in per capita income and productivity. Majority of the less developed countries try to use it as a tool to get sustained growth and economic development. When we observe developed economies, we can see they were agricultural based economies and have shifted to other sectors over the decades. While it accounts small proportion of their total GNP, but for example in India still 27% of GNP is created by agriculture.

Agriculture in developed countries face with enormous problems: enlargement, consumer preference changes, environmental issues. However, agriculture covers small proportion of employment in these regions, it gives great output. For example, in EU only 22 mln people worked in agriculture in 2013 and member countries still have big capacity not only covering their local agricultural good needs, but also there is big opportunity for export. Economic size of farms in these countries vary country by country.

Figure 8: Share of the labor force directly working on farms, by economic size of farm, 2013 (% of total AWUs)



Source: Eurostat (Agriculture, forestry and fishery statistics)
(www.ec.europa.eu/eurostat)

2.2. Non-agricultural employment in rural regions

Rural economy is divided into 2 sectors: agricultural and non-agricultural sector. Agricultural sector deals with production of primary goods, and non-agricultural sector includes activities done in rural areas but out of farming. This includes public services in rural areas, tourism, retailing, transport services, small industries, manufacturing and others. Over the last few decades, evidences prove that, however, in developing countries agriculture is still main source of income, income of rural households from non-agriculture (NA) sector has been increasing. The idea of development of non-farming in rural communities is gaining power for poverty reduction and rural economic stability. NA activities are diversification in rural economy. The main feature of non-agricultural economy is independency of this

sector from farming and agricultural activities. There are some uncertainties about these two sectors' total independencies. Hazell and Haggblade showed that agricultural and NA sectors are strongly linked and they stimulate, play multiplier function for each other. It is fact that some of these activities are integrated parts of total value chain, for example, food industry heavily depends on food supply from farming areas.

There are two kinds of diversification:

1. Positive diversification- in this case newly formed NA sector has highly capitalized, more productive and high capacity value chain;
2. Negative diversification- NA sector has less capitalized and less productive production, also is not able to employ more people (employment capacity).

Structural transformation raises some questions:

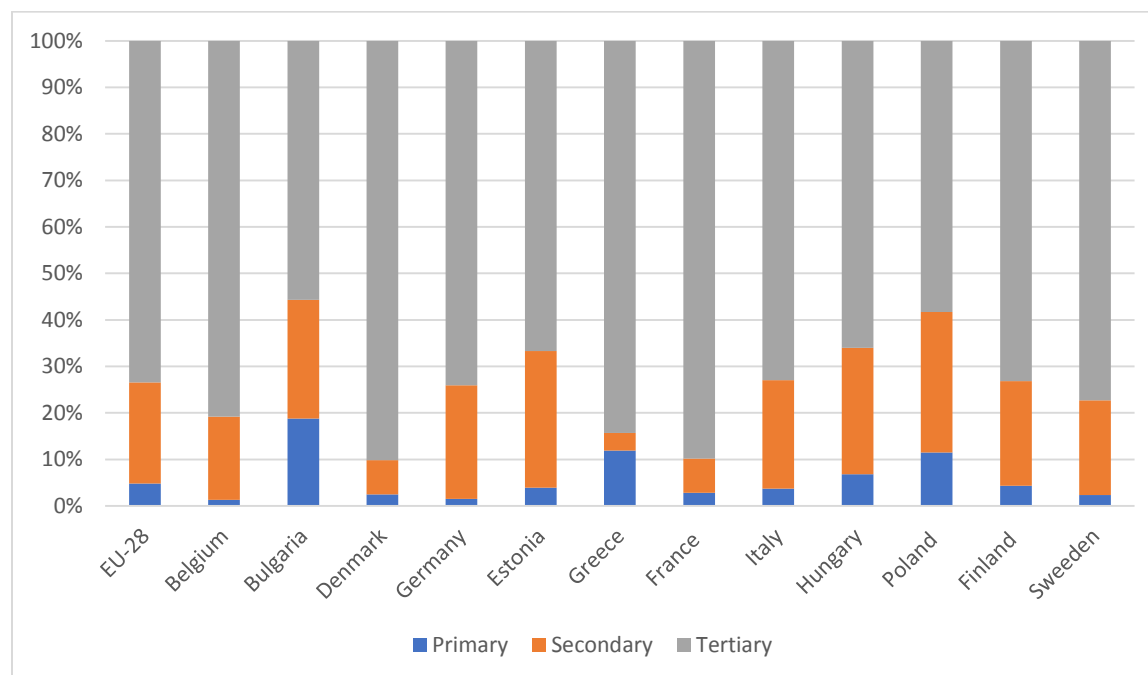
- Is newly born economy able to cover the loss in the agricultural economy by replacing it?
- Will it be enough to provide more employment opportunities and reduce poverty?
- What can be future broaden impact of this transformation on the whole economy?

Firstly, it is more complex issue to forecast and predict how labor market can behave and what can be future effect on the whole economy. Secondly, this change in the structure should not be accepted only as a transformation. It is adaptation process for the changes both in supply and demand market. Number of population-labor force is increasing (labor supply), demand for non-agricultural products and services is increasing which directly and indirectly affecting on the labor demand for this NA economy.

Sustainability of production-consumption link between these two sectors is the base for diversification in rural economy. For instance, if growth of an agricultural production is a step for growth in NA production, then strong linkage can occur.

“Pull” and “push” factors are drivers for diversification. Majority of people in agricultural economy are not specialized in specific production and they are always ready to switch to other sector under the force of “push” and “pull” factors.

Figure 9: Structure of employment in EU countries in 2015



Source: Eurostat (ec.europa.eu/Eurostat)

As a result of structural change in the rural economy, the share of labor transferred to the non-agricultural sector. Also, the share of this transferred labor between rural and urban areas determines the shape of economy. Degree of structural transformation can be seen from the share of secondary and tertiary sectors in GDP. Likewise, share of agriculture declined especially after the end of 20th century.

Lewis presented the reason why people tend to migrate from rural to urban areas. He claims that the main reason here is having nearly zero marginal productivity in rural areas because of having exceed labor supply. That is why total output per head is small. Theory claims that if labor moves to cities, it can create elastic demand in the urban labor market. Marginal productivity in urban sector is higher than rural sector and total output per capita will increase. Also, productivity in industrial sector will be higher.

Wage rate in the agricultural sector is going to increase. Why is it in up-trend and where does this labor force turn to?

In the previous chapter, it is mentioned that activities in the economy are divided into 3 categories: primary, secondary and tertiary activities. Real practices show

how important secondary and tertiary sectors are for employment and reduction in the poverty in rural territories.

The wage can increase if the demand in the market goes up, but we have mentioned that even there is excess labor in the field, but it's not staying in the same point. People who are unemployed or have low living standards (wage) tend to be employed in other fields. Increasing demand and decreasing supply make the wage increase in agricultural sphere. Labor flow to secondary and tertiary sectors increases the supply power and then the relative price and wage tend to decrease. And it is the reason for structural transformation. Some people find these other employment opportunities in the rural areas, which we called it NA employment. Lewis demonstrates that in the long run speed migration within the sector will slower, and the wage gap will be closed with balanced labor markets.

Particularly after 1980's and 1990's in both developing and developed countries segment of self-employed people increased sharply. Some scholars explain it referring to resource crisis in this period. It is similar case with other national or global economic crisis. If companies or other main players in the labor market are unable to provide more employment opportunities, or reduce employment, people will look for other option- self-employment or casual workers.

In practice even, there is high rate of unemployment in the cities. Lewis determines if government stimulate employment in different sectors of economy and if migration is within borders and within sectors, market can regulate itself. But there is immigration from other countries. That causes unexpected results for sectors. Additional labor force increases the labor supply for current demand and it raises unemployment in both agricultural and NA sectors, wage tends to decrease. Another reason for this critique is less effective government policies. Failed government policies are the beginning of demographic and employment crisis within border, for example, in Southern American countries government policies could not reach to their goals.

Developed countries' experiences show that diversification and improvements in NA sector are necessary. In any way it supports poverty reduction, stability in rural economy, increase in productivity, widen opportunities for labor market, higher living standards and so on.

2.3. Future directions of employment and policies

Some experts argue that for getting mentioned long term goals government intervention is necessary. Most of the international organizations have accepted sustainable economic growth by getting reliable and applicable growth in both agricultural and non-agricultural sectors equally important. Agricultural sector as it is mentioned has big potential from employment point of view, but NA sectors should not be forgotten.

The question of which policy or which NA sector is the most relevant to solve and improve rural employment is more complex. Once they are identified, tools should be used step by step.

International Labor Organization (ILO) has developed **Employment Intensive Investment Programme (EIIP)**. Organization has shifted program's focus point from short term to long term to have **effective investment planning** on employment, job creation, reducing poverty, improving working condition and standards, improving productivity and promoting SME's in rural territories. It is thought implementation of employment intensive methods will have more positive results in the regions having high rate unemployment. The objective of EIIP is using limited resources to create appropriate level of infrastructure for the base of employment generation. Most of poor communities in rural areas have limited access for necessary infrastructure, economic opportunities. These factors make rural economy more vulnerable. Undoubtedly, investment in rural infrastructure is must to solve even basic needs of rural people for some services, such as access for clean water, electricity, education, health.

From EIIP point of view the following 6 policy areas should be followed:

- a) Economic policies influence directly or indirectly to the demand side of employment in rural regions;
- b) Economic and social protection of community;
- c) Improved governance and organizational capacity building;
- d) SME's development;
- e) Getting improved level of skills for long term sustainability;
- f) Establishment of labor market institutions and policies.

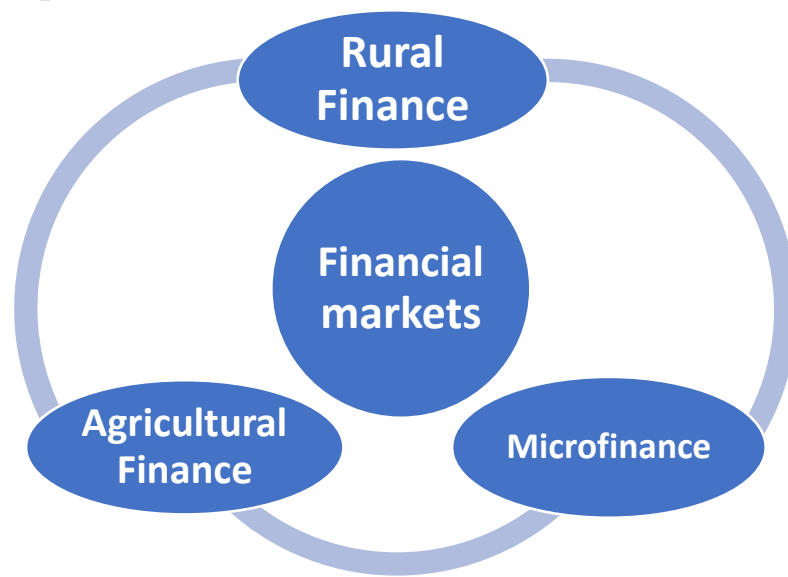
Before implementation of any policy, however estimation is too difficult, but potential future effects- limited available resources, alternatives, possible outcomes, time frame should be identified. Additionally, during the program regular impact assessment should be done- how program is going in accordance, which variables are emerging, whether there is variation from target or not.

There are several public investment programs which economic, social and environmental development are priorities. In this programs micro and macro environmental factors should be taken into account, then appropriate policy can be determined. These public investment programs may create big employment opportunities, diminish inequalities (gender, regional, structural), pave better way for income flow to selected groups in the region. Less developed infrastructure makes rural activities less efficient. In some developing countries lack of infrastructure is the main reason for underdevelopment. As known some countries focus on agricultural based food and basic products` export and import, which is stimulating agriculture directly. Also, it leads for development of other branches related to export and import relations, such as transportation, warehousing and advertisement. It expands market capacity, provides currency flow, and involve more labor.

In poor regions investment on public utilities and infrastructure, human capital resources are the basics. It is a part of government intervention through diverting government expenditure to poorly developed sectors. Here the main focus would be infrastructure- roads, ports, plants, warehouses, or steps on the way of better human capital- investment on education system, people, trainings.

Studies has shown that there is positive relation between strong **financial system** and economic development. People in rural areas need more access for financial resources. Less developed financial system in these communities make it tough to get financial support (credit) to divert it for different purposes- asset building, expansion of business, purchase of other assets and resources, risk mitigation.

Figure 10: Scope of Finance in rural economies.



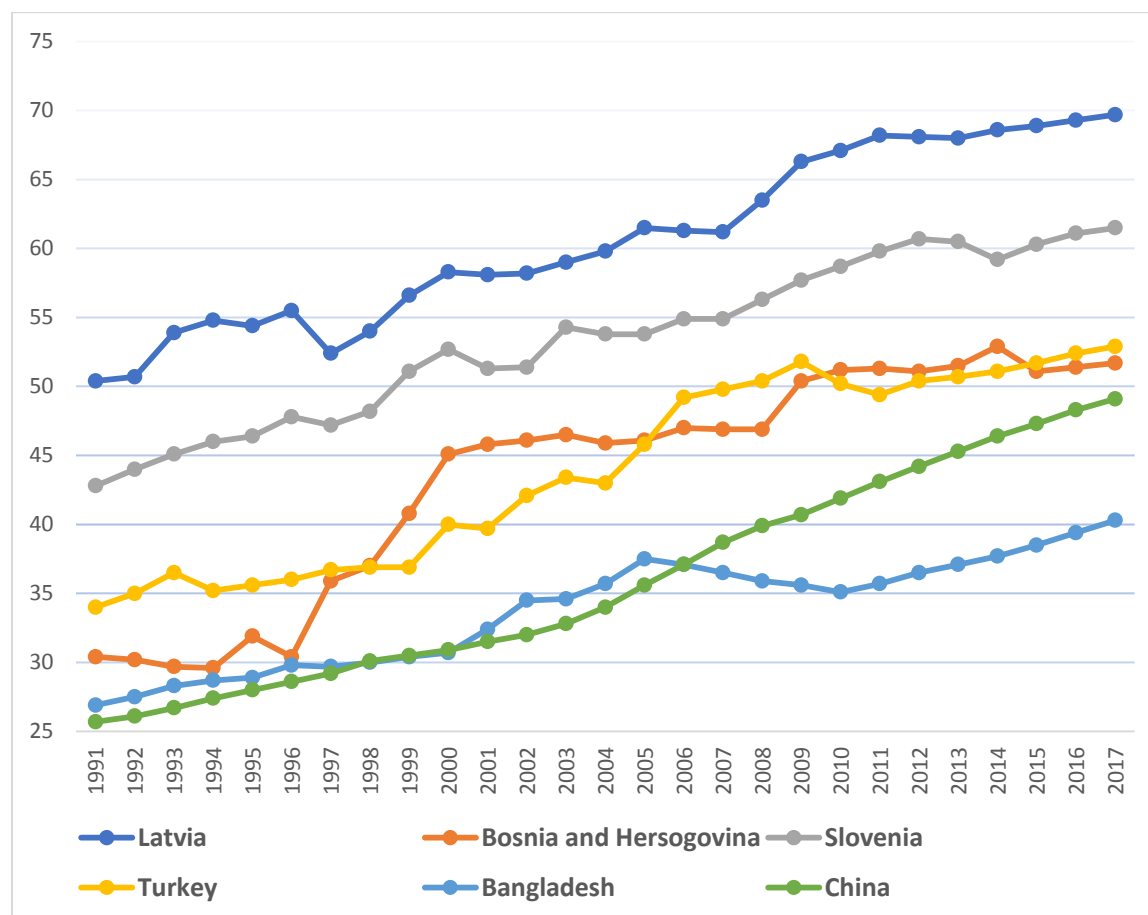
As a result of following factors most of the rural areas do not have access for financial institutions` services:

- 1) Less developed or lack of infrastructure (communication, transport) make transactions more expensive. In normal cases people in rural areas need small amount of financial support and if there is such a big transaction cost, it discourages people to use such expensive and less available tools.
- 2) In most of the cases, for long term investment or funding financial institutions need collaterals or fixed flow of income as a guarantee. But as known, especially in rural areas informal employment and marketable property rights issues are more complex.
- 3) Rural economy is more fragile and there are dozens of factors (such as natural factors) can influence on economy. Financial institutions are less interested on providing loans and long-term investment on risky and less insured sectors.
- 4) Instead of well-developed financial tools, in rural areas there are some more open and available sources- informal or semi-informal financial institutions providing loans and needed resources with available delivery channels. These providers use less developed, traditional methods with weak managerial and institutional base.

There are some sample cases in Southern Asian countries which have different structured microcredit unions which provides short and long term small credits for people in rural areas. With these credits thousands of people have found their small family businesses. For example, Grameen Bank microfinance organization in Bangladesh was founded as a small microfinance program with providing tiny amount credits (less than \$5) and it grew too fast. Today only bank's number of employee is more than 20,000 and helped millions of people to set their own businesses up. Public and private sectors have to be interested in such an effective program.

Rural service sector has big potential for employment. Statistical data show that in developed countries most of the people are involved in service sector both in rural and urban territories. For example, in England most of the people in rural employed by public service sector.

Figure 11: Employment in services (% of total employment)



Source: World Bank Open Data (www.data.worldbank.org)

Graphical illustration gives clear view how fast employment shifted from primary and secondary sector to service. It has increased considerably both in metropolitan and nonmetropolitan locations. Technological change and improved infrastructure enables service sector move broadly to the rural areas. Service sector in rural communities is more powerful on employment, because it generally accompanies toward small and medium enterprises. However, there is still wage gap on the service sector between urban and rural territories. Because small firms tend to have a few people and give low wage payment to employees.

There is also skill gap between urban and rural areas. Gibbs (2004) argues that over the last few decades shifts to service sector lowered low skilled employment in rural areas and the skill gaps between rural and urban is mainly due to lower return of education and training in rural areas in compare of urban territories. Despite lower return, there is another aspect of issue which called opportunities, can be found in rural areas. Both employers and employees are reluctant to spend more on training because of broad informal and temporary employment.

In the last few years **rural tourism** became as one of the trend service sector. Hotel, catering and tourism services are important source of employment and income especially in specific rural areas. And rural tourism has big prospective for keeping locals not to immigrate to urban or other regions. For example, only in Europe 12 mln people involved in tourism which is 22% of total service sector employment. 7 mln of this people work for food and beverage industry and 2 mln in transportation. Rural tourism is attractive because it can provide employment opportunities not only directly but also supportive industries can also be “job creator”. With less formal trainings it can involve people from different groups and segments (women, young, migrants, cultural minority groups). Tourism needs new services, better infrastructure (roads, ports, airports, bridges, hotels, restaurants) and all these things are contribution to the community.

Taking into account all these benefits to the rural society governments should:

- Improve policies to divert benefits of tourism to the society with protecting natural resources and using limited resources efficiently;
- Control on reallocation of benefits of rural tourism on local community, promoting employment and local ownerships on these resources;
- Creation of better financial access for all the stakeholders, especially promote small, medium enterprises to involve in these activities by giving credit and loans;

- Providing regular evaluation of tourism's effect on the environment and society;
- Enhancing quality of transport system in the regions for better access within and to tourism destinations;
- Encouraging local businesses to create local infrastructure in their frame of power;
- Setting standards for labor market to increase work standards and quality of service;
- Encouraging local businesses to use local sources to diminish dependency from abroad and contribute to the local participants;
- Enhancing awareness among people about job opportunities, retaining jobs in related sectors.
- Support private sector in skill development, training programs. Encourage them invest in education and related infrastructures.

Government policies are needed firstly focus on enhancing the awareness of current problems and solutions in rural areas. It may include trainings and other stimulating steps. Investment and expenditure on education system will increase skill level and it would be easier for people to find a job in the job market.

In agricultural based economies sometime government is needed to interact and cooperate with private sector. Some experts argue that for keeping stable labor market government has to bear some cost related to industries. The brightest example can be government purchasing (**Buying Local**)- government controls demand for these sectors' products and give guarantee that what they produce will be bought by government in market prices. Spending on local businesses' output, even if it is costlier in compare of import is serving for job creation purpose. Studies by American Economic Review depicted that in 2008 crisis employment growth rate of local employers was higher than big employers. However, from employment point of view, buying locally can encourage local producers employ more people and keep their production, but rejecting efficient (cheaper) nonlocal goods is also deadweight loss for economy. Of course, another intervention tool can be price regulation but it is totally arguable point in market economy. In market economy prices are determined by demand and supply.

Subsidy is another tool can be used effectively by the government or public corporation to control and upkeep production and employment in rural territories. Subsidies are benefits (financial) given to particular sector (manufacturing, sale,

export, import, distribution) of economy to stimulate production or keep this strategic field alive in short, medium and long term. It can be cash subsidies or tax incentives. In fact, as Shoup mentioned, subsidies are government incentives to local businesses for altering relative prices and reallocation of resources as in favor. For example, in some countries government provides subsidy for specific food's production. Subsidies stimulate appropriate sectors and individuals for increasing production and production efficiency. Main farm subsidies are insurance, private loss coverage, export promotion. In USA annually about \$25 bln is given to different sectors as subsidy.

Actually, in most of the countries socio-economists argue that subsidies are not specific for competitive market economy. It reduces market competitiveness, because other players can't compete with subsidized ones. Another argument is that government subsidy makes these sectors independent on subsidies. Sector can stay alive as long as subsidies are given. It is also important to decide how much it is important to keep it working.

Stimulating employment in the sector **tax incentives** policies can be implemented in short and long term. Tax incentives are mainly focused on specific regions or specific field of economy. In specific regions if there is high out migration, government decides income, land, profit, sale tax reduction. Tax reduction or tax incentive can have multiplier effect on economy— unemployment rate decreases, structural capital transfer runs up, and it can also bring new technology to the field. If there is tax incentive in the rural areas, companies will tend to set their plant, offices in suburban, rural areas, local and foreign investment increases in the sectors.

Agriculture is the main income source for most of rural communities. There are dozens of risks and difficulties they may face. Part of these risks do not depend on farmers and rural people, such as weather condition, natural disasters. During the shocks one of the most vulnerable part of economy is agriculture. They face with big losses and damages. Agricultural insurance can play vital role to protect this sector from outside risks. Especially, crop and livestock are more riskier and needs protection. In the case of agricultural insurance policy implemented, people employed in these sectors will have incentive to continue, attract more investment to expand their activities. Agricultural insurance has big potential to reduce uncertainties and can give advantages to farmers attract more investment, get credit for their businesses. In the absence of this policy, agriculture is one of the higher

risky sector for investors and banks to give loans. Players may face with big widespread loan defaults.

In rural territories, particularly in developing societies, promoting **youth employment** is priority. Nearly 90% of world`s 1.2 bln youth live in developing countries and quarter of world working poor is youth aged between 15 and 24. In stagnant growing rural areas there is limited opportunities for youth to build their future. Majority share of youth, especially in Africa, work in informal economy for small firms, micro businesses as semi or unskilled workers with low wages and in exploitive work conditions. Big majority of rural-urban migrants is young generation as a result of less access to education, financial and local (land) resources in rural areas.

However, there is still high rate youth unemployment, but this trend is going to decrease. According to the data, in Latin America 20% of decrease in the youth unemployment and the same rate increase in non-farming activities in rural regions. Formally registered youth workers get access for better working condition, social security coverage, higher income, opportunity to gain more skills, but still half of youth in Latin America are unemployed in rural areas.

International Fund for Agricultural Development demonstrates this problem in more sensitive way: Both developed and developing countries have two choices- do their best to create employment opportunities for society especially for youth group or be ready to face with more complex social and economic problems, economic instabilities in the next future. In structural transformation, the driving power is and will be youth.

According to the model, rural-urban migration is strongly needed by industrial sector in urban areas, which serves for unemployment reduction and covering the gap in productivity. In reality, the population is also increasing in urban areas and more skilled people in urban areas are able to fill majority part of these needed labor gap. They get formal employment opportunities and that is why low skilled migrated labor force has to look for other employment opportunities- low salary, worse work condition, part time job options and so on. It shows rural-urban migration does not always bring “happiness” to the economy. Stimulation of rural employment in this point of view is urgently needed to increase welfare in rural.

Gender issues still remains in most of developing societies, such as lower wage rate, less work opportunities, less access to the sources (land and financial) and

education, worse nutrition for women. In compare of men, women don't have broaden access for resources, social protection and even limiting social norms and practices make them be in disadvantaged position. They provide limited serve to society, mostly, as a part of family they can provide care, and unpaid employment. Rural policy should focus on eradicating unemployment equally with focusing in both agricultural and non-agricultural sectors. Encouraging young entrepreneurs to build and invest in new businesses, setting new small financing agencies to support rural society.

In another word, for getting sustainable economic development in rural areas it is must to have strong labor market. Government policies are able to create better environment for community and control the whole complex variables. For this purpose, all the tools mentioned above are necessary. Depending on countries' individual characteristics the effectivity and efficiency of these tools may differ.

International organizations develop strategies in accordance with countries' short and long-term development goals. Here, of course, regional and local factors are taken into consideration.

Rural development as a backbone of economic growth needs more attention to be paid for getting sustainable economic development from different point of views. Policy directions mentioned above- youth employment, gender issues, subsidiaries and tax incentives, local and foreign investment and other policy directions are just some ways of getting long-term targets.

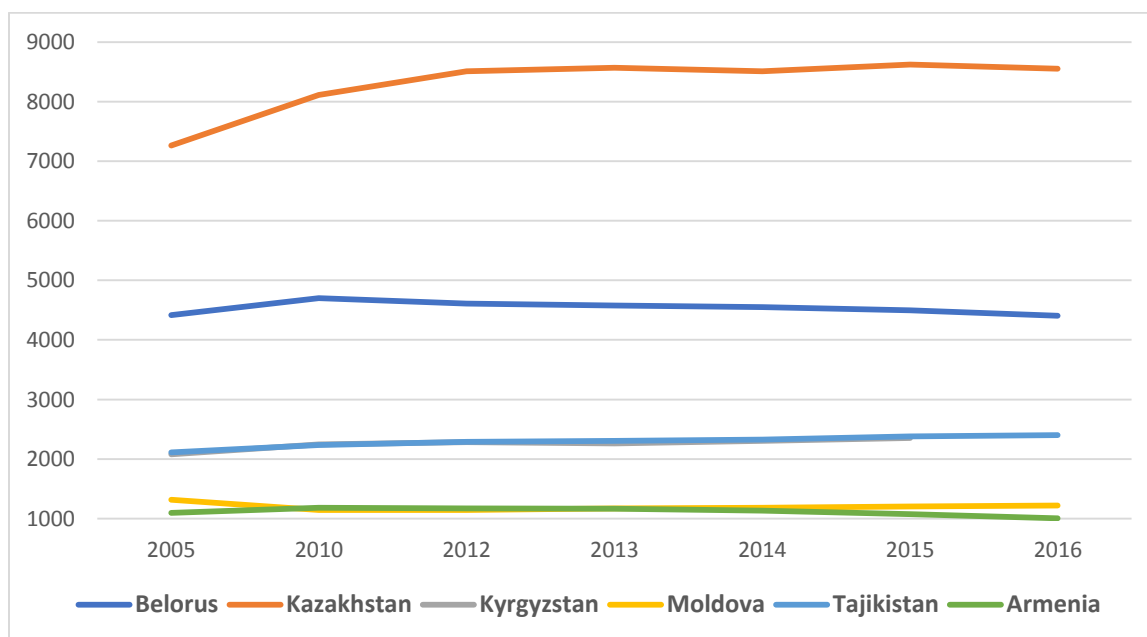
3. Rural employment and practical aspects of labor migration in Azerbaijan

3.1. Trends and current situation in Azerbaijan`s labor market.

After the collapse of Soviet Union as all the union member countries, Azerbaijan has experienced dramatic decrease in most of the fields of economy. High inflation, low productivity, diminished employment is specific for this period. Though there have been significant changes in the structure of economy, these transition countries including Azerbaijan started to pave new path. Of course, here new policies and new directions were needed. Labor market as a vulnerable and driving part of economy needed specific attention. Importance of labor market is that it supplies one of production factors and which determines future of economic growth within the borders.

Structural transformation wave reached its peak when Azerbaijan gained independency. Before that agriculture and industry were main employment sectors which has changed toward service sector gradually. However, service sector has big potential for employment but this potential is not enough to overlap the chances in other sectors.

Figure 12: Labor force in Commonwealth of Independence States (thousands of people)



Source: The World Bank Open Data (www.data.worldbank.org)

In the early 1990`s, another social and economic shock came with the occupation of Azerbaijan territories by Armenia, which resulted enormous economic cost. In these years deportation of people had shock effect on labor market- more than a million refugees changed their places.

In last two decades, development of labor market and improvement in effectivity of labor resources has been main priority of Azerbaijan`s social-economic policies. Dynamic economic growth has been held through regular social and economic policies. Especially, in the last decade all resources and policies have been diverted to regions` economic development, increasing people`s welfare and getting sustainable economic growth.

All these policies surely showed their effects on labor market. In regions, especially in non-oil sector new employment opportunities have been created every year. Between 200 and 2016, share of people employed by government sector decreased from 30.3% to 24.6%, whereas private sector employment increased more than 30%. According to the statistical data, in 2016 primary and secondary sectors employed 50.7% of people and remaining 49.3% involved in tertiary (service) sector.

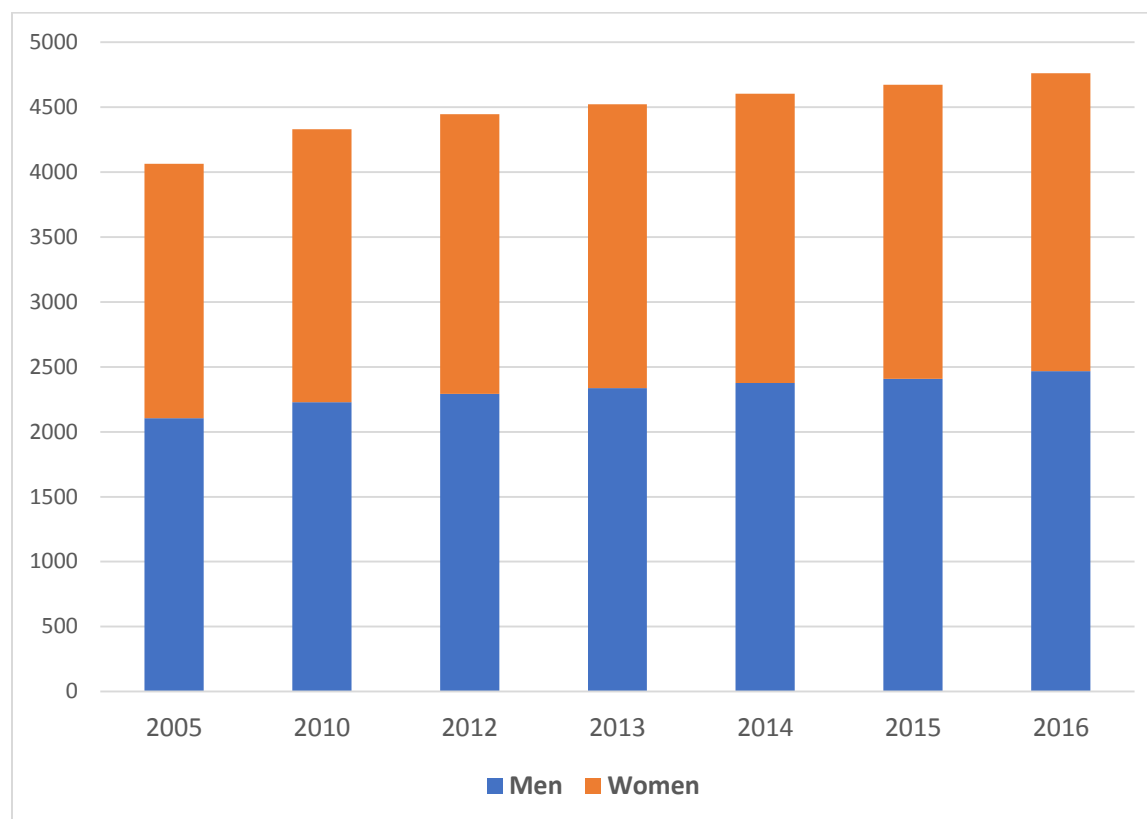
The proportion of unemployed women has decreased gradually from 51.6% in 2005 to 38.1% in 2016. Average wage has increased about 4 times in 2005-2016. Average wage has increased about 4 times in 2005-2016 and all of them are done as a result of liberalizing the economy, increasing competitiveness of market players through using resources effectively, giving special attention on development of small and medium businesses. Data show that new employment opportunities are mainly created in the regions and especially in private sector.

Labor market is one of the main area influencing to economic growth, poverty level. In 2016, population increased 1.2% and reached 9.7 mln people, which urban population accounted 53.1% and 46.9% was rural population. Azerbaijan is characterized by big share of young population. Between 1990 and 2016, the share of population aged between 15 and 64 increased from 62.3% to 71.3%. It shows increasing need for new employment opportunities.

After gaining independence, Azerbaijan has started to spent special efforts for attracting investment to private sector to create better environment for

employment. This includes both local and foreign investment to different fields of economy.

Figure 13: Labor force in Azerbaijan (thousands of people).



Source: State Statistics Committee of The Republic of Azerbaijan (www.stat.gov.az)

As a result of 2008-2009 global economic crisis unemployment rate has reached to 6.1% in 2010, mainly because of private sector's vulnerability. Several short and long-term programs have been implemented over the years to increase level of employment, decrease unemployment and poverty rate, get sustainable labor market. "Employment Policy of Republic of Azerbaijan" for 2006-2011, "State Program on Implementation of Employment Policy of Republic of Azerbaijan" for 2007-2015 and 2011-2015 have been implemented successfully.

During 2003-2015 1.5 mln new employment opportunities have been created and 1 mln of that is temporary jobs. Government pays special attention on regions' economic development. That is why 76% of these new job opportunities belong to regions and 88% is in private sectors.

Undoubtedly, structure of employment in economy has changed in a great deal. The biggest change has been observed in the private sector. Proportion of people

involved in public sector was 56% in 1996 and decreased sharply to 25% in 2015. This change is mainly due to development of private sector. However, public sector employment is important but economic growth is specially catalyzed by growth in private sector.

Undoubtedly, economic growth has brought new opportunities for gender equality. Men keep 51.1%, and women account 48.9% of total employment (2015). Unemployment rate for men was 5% (women-6.9%) in cities and 3.2% (4.8%) in rural territories.

Table 3: Currently Azerbaijan`s rural labor market has following characteristics:

Positive characteristics	Negative characteristics
<ul style="list-style-type: none"> • High rate labor force participation • Lower unemployment rate • More flexible labor force • Higher share part-time employment • Higher gender equality in employment 	<ul style="list-style-type: none"> • Big share of low skilled labor force • Trend to low skilled occupation • Big proportion of self-employment • Low productivity growth • Higher youth unemployment

Intellectual potential of population as one of the labor market quality determinant give us clear view about where we have to turn our efforts. Survey data show that only 19% of employed people have higher education and they are specialized in specific fields, and 51% of economic activeness people have secondary education degree. Negative consequence is that nearly 20% of unemployed people have higher or incomplete education.

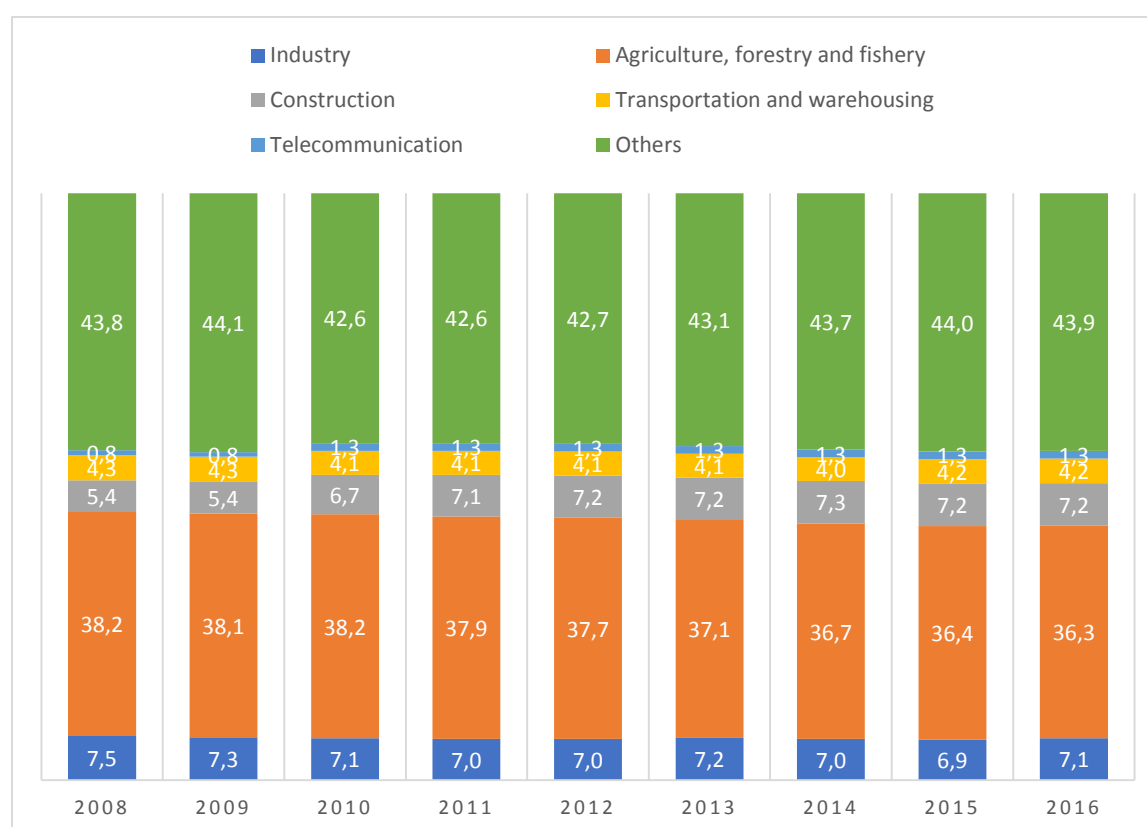
Official statistics show however unemployment rate among youth has decreased over the years but there is still visible gap between rural and urban regions. For instance, youth (15-24) unemployment has decreased from 22% (2000) to 13.4% (2015), but this rate is 11.6% in 20-24 age group women and 18.8% in men. There is big contrast in unemployment between genders in rural and urban areas. 40.7% of 15-19 age group women and 28.6% men in the cities, 5.2% women and 10% of men in rural areas were unemployed in 2015.

Government has determined set of long-term goals for getting appropriate level of welfare in the society and sustainable development. For this purpose, big revenues from oil and gas sector is planned to spend on non-oil sector`s diversification.

Diversification in the economy will serve for

The problem in the economy is that sectors which employs big share of population cover small share in GDP. For example, in 2015 oil and gas industry covered 1.1% of employment but constituted big portion of gross domestic value, whereas 36.4% people involved in agriculture measured 6% of GDP.

Figure 14: Employment in different sectors (%).

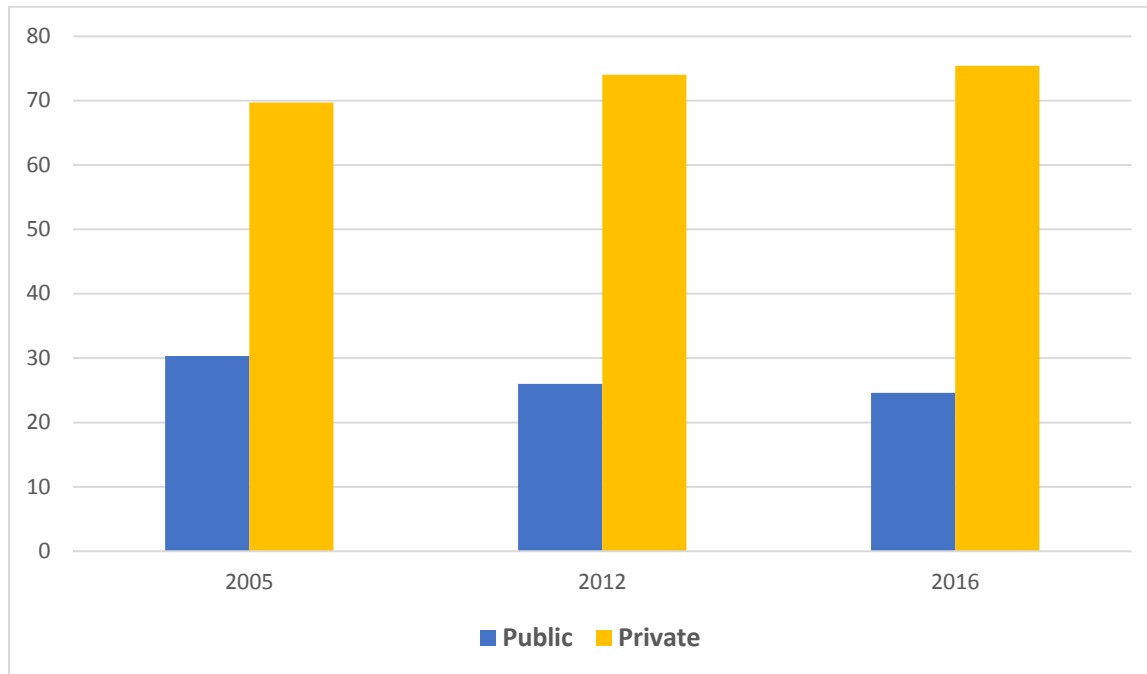


Source: State Statistics Committee of The Republic of Azerbaijan (www.stat.gov.az)

As mentioned, after the Soviet Union all the member countries have experienced significant changes- diversification in their economy and structural transformation in their labor market. Reallocation of labor resources in the economies differs depending on resource rich and resource poor countries` characteristics. Resource rich countries had more advantages to recover the economy and reach to previous level.

Answer to the question of which sector (public or private) has contributed more to the employment can be changed over the years. In the beginning of independency, most of new job opportunities were in public sector which came from “Soviet tradition”. After the privatization, share of private sector employment increased drastically. Even in Kazakhstan public sector employment decreased from more than 80% in 1995 to 20% in 2008.

Figure 15: Public and private sector employment in Azerbaijan (%)



Source: State Statistics Committee of The Republic of Azerbaijan (www.stat.gov.az)

Analysis shows that Euroasian countries` productivity growth is mainly catalyzed by effective use of limited resources within different sectors rather than reallocation of labor resources to more efficient (productive) sectors. As known, appropriate level of productivity growth can be achieved by structural change- the transition of labor resources from less productive sector (e.x. agriculture) to more productive sectors (e.x. service) or technological advancement, capital accumulation can enhance the process. In Azerbaijan, labor productivity growth is mostly explained by sectoral productivity growth, but Kazakhstan, Armenia have faced with enormous structural transformation.

Another important point to determine productivity of labor market is determining the changes in tradeable sectors. Labor market can shift to service sector, but how it can affect on other tradeable sectors` growth.

Table 4: Annual growth rate of labor productivity and labor cost in 1999-2009.

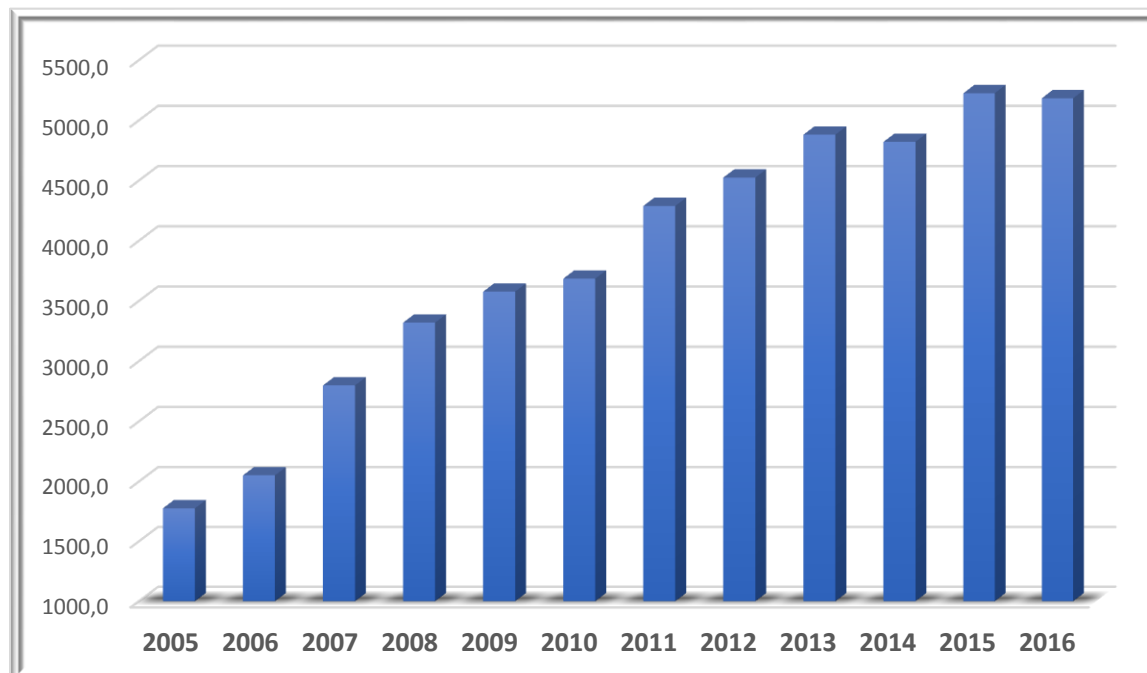
Sector	Azerbaijan		Georgia	
	Labor productivity	Unit labor cost	Labor productivity	Unit labor cost
Food and beverage	-0.8	17.4	12.4	-2.5
Tobacco products	5.6	9.0	42.8	-12.4
Textile industry	6.0	7.5	24.5	-12.0
Wearing apparel, fur	11.6	3.7	14.5	-0.3
Wood products (excluding furniture)	10.1	12.9	19.0	-6.8
Refined petroleum products	5.5	7.4	10.7	-10.5
Chemical and chemical products	4.2	7.2	16.6	-2.3
Fabricated metal products	8.1	5.6	17.2	-0.9
Recycling	10	3.9	37.3	-35.3
Motor vehicles, trailers	17.6	14.3	10.5	-4.2
Radio, television equipment	24.2	-3.4	-7.6	5.7
Electrical machinery and apparatus	18.4	-7.5	24.8	-3.5
Furniture manufacturing	15.1	-0.8	11.2	-1.8
Total manufacturing	7.3	5.8	14.1	-3.1

Source: World Bank. "Diversified Development: Making the most of Natural Resources in Euroasia"

Table shows that during 1999-2009 growth rate of unit labor cost was higher than output and productivity of labor force in several sectors was slower than labor cost. Especially after 2004, unit labor cost in manufacturing went up significantly, whereas productivity stagnated.

Agriculture is the third biggest economic sector after oil and construction industry. Total production output increased nearly in all the sectors over this period. In the following, total agricultural output is given in mln manats. Over the 10 year period total output has increased about 3 times.

Figure 16: Total agricultural output (mln manat)



Source: State Statistics Committee of The Republic of Azerbaijan (www.stat.gov.az)

3.2. The ways of improvement of rural employment in Azerbaijan

Despite of several successful social and economic policies in the labor market, there is still informal employment, especially in rural territories. Implementation of advance technology and new standards is planned to create more transparent labor market. Labor market has several problems, including inadequacy in supply and demand for labor, high rate of youth unemployment (especially in urban areas), big share of agriculture in employment.

There are dozens of social, economic, objective and subjective factors causing employment problems. As one of the subjective factor, problems related with legislation play significant importance on the sustainability of labor market. Some experts and economic advisors argue that current Law on Employment is not able to tackle with issues in contemporary labor market in Azerbaijan. They think that there are several gaps in the legislation which were appropriate to the traditional labor market and transition of labor market variables has created new needs to be changed. Additionally, new control mechanisms are needed to control variables and efficiency of economic policies. Current labor market inadequacies show that there should be some necessary changes in the legal regulatory environment to form institutional framework:

- Changing labor market patterns require appropriate modifications and relevant amendments to ensure better investment, capital flow, entrepreneurship environment in the domestic market.
- Applying international standards and amendments to the legislation, changes in the Labor Code to create better environment for job creation would serve for increasing standards of wellbeing and improvements and sustainability of labor market.

In the beginning of 1990`s when refugees and internally displaced people migrated to different parts of country it was the time unemployment went up and productivity stagnated. Nearly a million refugees and internally displaced people entered to the labor market after the occupation of one fifth of Azerbaijan territory by Armenia.

High rate of informal employment is another big problem in labor market. In 2000, research has found out that informal employment accounted about 39% of total employment. In 2009, International labor Organization announced decreased 28% of total non-agricultural informal employment. Most of these informal jobs are

retail, agriculture and small businesses. These people mostly tend to be employed by low skill requiring fields. According to Decent Work Agenda, informal employment may create two main challenges. Firstly, people involved in informal sector employment are not able to use social coverage and they will not get benefit from labor market policies. Secondly, in the case of any need people will not have to protect their rights and they will not be eligible to get standard employment indicators if they have not been registered formally.

In compare of other developed economies, of course rate of informal employment is undeniably high. All these inadequacies made government pay special attention to control such volatile system. That is why government has started to implement short and long-term State Employment Programs to reduce unemployment, increase employment both in rural and urban areas, strength non-oil sector particularly which are priority for the economy. Following State Programs and policies are some of them:

- State Program of Socio-economic Development of the Regions for 2004-2008;
- State Program on Poverty Reduction and Economic Development for 2003-2005;
- State Policy on Employment for 2006-2015;
- State Program on Poverty Reduction and Sustainable Development for 2008-2015.

State Employment Policy for 2006-2015 has determined priority of policy directions. Policy has chosen main areas should be focused as development of business environment, especially through development of environment for SMEs and institutional environment to enhance job creation process.

Employment Policy is planned to get:

1. Setting a balance between current demand for labor and supply power of labor market;
2. Advancement in the human resources through provision of relevant training to the necessary fields;
3. Enhancing the use of oil revenues for the development of human capital;

4. Improvement in financial institutions, financial system and financial-credit policy of country as a driving force for creation and expansion of SMEs;
5. Implementation of relevant tax policy to stimulate the growth of non-oil sector and employment in rural and urban areas;
6. Creation of new employment opportunities fit to contemporary job standards with higher productivity and higher effectiveness;
7. Stimulation of economy to base on private sector involvement, developed entrepreneurship, small and medium businesses;
8. Controlling local labor market through the control on domestic and foreign migration;
9. Implementation of international standards and international labor market practices on domestic labor market;
10. Development of institutional base for supporting people who are willing to set their business in appropriate sector;
11. Creation of single information database system of labor market to make interested parties get relevant information in the short time;
12. Establishment of control mechanisms to ensure the effectiveness of implementation of policy and transparency of variables of labor market.

Taking regional differences, domestic labor market's characteristics into consideration it is clear that the main directions of region's especially rural territories' development are reduction of poverty and unemployment, increasing quality of local human resources to enhance living standards. Of course, one of the first step here is diverting local and foreign investment to the regions. Increasing level of processing, production and productivity in the regions, especially in rural areas is priority. As State Program for Socio-economic Development of Regions of The Republic of Azerbaijan for 2004-2008 other socio-economic programs deal with diminishing negative influences of unemployment in the local market. Here providing social security to the local unemployed people have to be covered in the policy. Policy has to provide better condition for harmonized environment for public and private sectors' collaboration. Because, it would be difficult to get sustainable positive results without coworking between the sectors. It should be

seen as a system which is empowered by public policies and carried by private sector.

In “Development Concept- Azerbaijan 2020” it has been shown that Azerbaijan is going to be economically sustainable country with development in all the sectors. And increasing employment, life standards, decreasing poverty are the main priorities in development policies. Here driving challenges have been determined as implementation of innovative approach to the economy, increasing quality of human capital, development of other sectors to eliminate the dependency on oil industry. With appropriate regular policies it is possible to get modernization in oil and non-oil industry, improvement in labor market policy, development in agrarian rural economy, expansion of proportion of secondary and tertiary sectors in the whole economy.

As noted, rural economy in Azerbaijan is mostly based on agriculture- primary sector. But in the recent years there have been slight increase in the transition of economy to the secondary and tertiary sector. Potential of labor market makes it enable. If it is taken into consideration that share of increasing domestic and foreign investment on regions` development play main role on the change of structure of economy, future trend is visible- new employment opportunities, better business environment for private sector, increasing productivity and total output, transition of economy from “capital concentrated” to “regioconcentrated” and decreasing role of oil industry in the economy.

For the rural economies` development one of the best option is using other economically developed countries` previous experiences with taking domestic economy`s and domestic labor market`s features into account. For example, in the beginning of 2000`s increasing role of oil industry and increasing dependency from oil industry revenue started experts think again how to diversify structure of economy not to face with “Netherland crisis” when one-sector oriented economy can face crisis in the economy or which kind of policies can be implemented to turn from import dependent country export oriented one.

Agriculture as one of the priority field of economy has come to stage. Of course, if we think how agrarian sector is important for the development of regions, it is must to strength this sector. Socio-economic policies have been implemented to develop agricultural and non-agricultural sectors in rural areas. For this purpose government has given several incentives to the business and individuals involve in particular sectors and created different institutions for controlling and supporting.

Ministry of Economy of The Republic of Azerbaijan, Ministry of Finance of The Republic of Azerbaijan, Ministry of Taxes of The Republic of Azerbaijan, Ministry of Agriculture of The Republic of Azerbaijan, State Customs Committee, National Fund for Entrepreneurship Support and other government bodies cooperate together on realization of these policies.

Private sector is backbone of economy. Government provides dozens of incentives, including tax incentives, subsidies, easy access for financial- credit resources, leasing opportunities to agricultural and non-agricultural sectors.

Growth of private sector needs stimulation, better access for financial resources, more competitive environment. Better financial- credit system is as important as other fundamental factors for local businesses, especially SMEs. However, there is increasing investment by domestic and foreign private units, government also contributes to finance private sector. As an example, National Fund for Entrepreneurship Support (NFES) can be mentioned as one of the contributor for the growth of private sector. NFES evaluates investment projects in the private sector and provides short and long-term credits for entrepreneurs to set and expand their businesses which plays significant role on jobs creation and economic development in the regions.

Another public legal entity called ABAD (ASAN support to family businesses) was founded in 2016 by the State Agency for Public Service and Social Innovations. As NFES, ABAD centers provide support to family businesses deal with arts, crafts agriculture. Main areas of support by ABAD include business planning, marketing, legal assistance, branding and so on. ABAD centers are concentrated on supporting family businesses to increase their competitiveness and involving them closely in socio-economic life to increase employment in the regions.

Foreign improved agricultural experiences are going to be implemented in the regions of Azerbaijan. These agricultural units which are called “Agroparks” have been successfully implemented in different countries. “Yalama Agropark” as one of the biggest investment project in agriculture has successful been created in the Xachmaz district in Azerbaijan. These agroparks enable farmers to bring modern technologies and innovations to the field to increase productivity of production, cultivation of range of competitive agricultural products and creation of national brands in this sector. Of course, it is big opportunity for small and medium enterprises to be involved and specialized in specific field of agriculture and role in

decreasing unemployment in rural territories. Agroparks have big capacity for export of agricultural products and this new concept would be gamechanger in the agrarian economy with its range of advantages.

4. Methodology and results

In this section of thesis, methodology of research paper, types of data collection and analysis of data are given. This research proposal includes qualitative and quantitative analysis of data.

This research paper is prepared for determination of ways of improvement in rural employment, patterns in developing and developed countries, changes in the structure of economy and labor market, as well as future trends and expectations in advanced and emerging countries` labor markets. The nature of research proposal includes comparative analysis of current and historical data of various regions for identification of future trends. In the third chapter, thesis includes deep analysis of patterns of Azerbaijan`s labor market. Tables, diagrams and graphs are given to shape clear view about rural labor market of Azerbaijan and different regions.

In the first chapter, thesis deals with concept and theoretical approaches to employment and additionally describes rural-urban population pattern, how theory identifies the role of population distribution in rural and urban areas.

Second chapter gives detailed view of agricultural and non-agricultural sectoral employment in both developing and advanced territories in the world. Comparative analysis of different countries and sectors makes it easy to observe regional rural employment differences.

Third chapter examines current and historical view of rural and urban labor market of Azerbaijan, challenges and possible ways of policy implementations.

And last chapter summarizes the whole information and gives main findings.

This research proposal is prepared based on researcher`s primary and different secondary sources of information. Secondary data collected by researcher from other research papers, different international organizations` publications, web sources, domestic and foreign companies` reports. More than 30 different books and online web pages, countries` reports, international organizations` internet resources and annual reports, including World Bank, International Labor

Organization, International Fund for Agricultural Development, European Union, European Commission and others.

Deductive and inductive research methods have been used to explain models and real cases theoretically. Deductive method is used when theories are able to explain cases, but in inductive method real cases and experiences are the base for new approach to be explained theoretically.

Qualitative and quantitative data are given in this research paper to explain current and historical situation, characteristics of regions. The differences and comparisons between the regions` labor market characteristics, features of regions, effectivity and efficiency of policies, results are described with qualitative data. Quantitative data are given to see statistical and historical comparison of economic sectors and changes in the labor market.

5. Conclusion and summary of findings

Rural economy is the backbone of economic development in emerging and developed countries. The efficiency and structure of rural labor market determines the shape of economic growth. Particularly some developing countries heavily depend on rural economy. Any structural change in the economy or in the labor market determines these countries' future growth. Of course, as in rural-urban migration, there are several "pull" and "push" factors stimulating these changes.

Experts think that the key of growth in advanced economies is related with structural changes in economy from primary sector to secondary and tertiary sectors. This is step-by-step process. Labor market has to have motives ("pull" and "push" factors) to change field of activity. Growing demand for labor force, increasing wage rates, increasing productivity are some of these motives can be achieved by primary or secondary sector-based economy. Following factors can be motives for primary and secondary sector-based economy to shift:

- Growing demand in other sectors or exceed labor supply in the initial sector;
- Increasing wage rates;
- Increasing productivity in other sectors;
- Increasing proportion of high skilled labor force and so on.

However, some countries and their labor markets have welcomed these structural transformation, some of them were not successful. There are some reasons why economies have not successfully shifted to other sectors: abundance of resources and higher productivity in current economic sector, scarcity in the labor market, more mobile labor force. That is why there is big gap between regions in the structure of economy. High developed countries are characterized by big share of tertiary-service sector in the economy, whereas in less developed countries economy is mainly based on primary sector. Relatively labor market is also distributed among the sectors.

When it comes to rural economy, it is not only agricultural sector. Non-agricultural sector is getting to be bigger nearly in all countries. Non-agricultural sector includes both industrial (manufacturing and production) and service sector. Labor market resources are reallocated among these sectors.

In Azerbaijan, especially after 1990's, economy has started to move from traditional activities to the secondary and tertiary sector. However, over the years the role of primary sector in employment has decreased, but even today agrarian

sector is characterized by high importance for employment. Share of agriculture is still small in GDP. With relevant policies in the economy oil sector dependent country-Azerbaijan has started to diversify source of revenue for economy. That is why year by year non-oil sector is growing. Policies are mainly focused on diversification of economy in non-oil sectors in the regions. However, over the years agriculture was main area for employment, currently this trend is changing.

For getting sustainable economic growth, stability in the labor market is crucial. Rural sector has big capacity for the growth of whole economy and labor market. There are different ways and policies can be used by governments to develop economy through the improvements in the labor market. These policies can get their long-term goals and improvement in labor market by passing several stages:

Firstly, policy direction should be determined. Here question is “why”. As known, structural transformation can also be negative if initial sector has more productivity. All the variables which can influence to the total output should be analyzed before the implementation of policy.

In the next step, the answer to the question of “how” should be answered. It means all the resources should be determined for more effective results.

And as a last stage there should be regular assessment of influences of these policies in the labor market and in the whole economy.

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