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Good Practices in Social Security

Good practice in operation since: 2017

Preventing informal employment in Azerbaijan A case of the Ministry of Labour and Social Protection of the Population of the Republic of Azerbaijan

State Social Protection Fund under the Ministry of Labour and Social Protection of the Population
of the Republic of Azerbaijan
Azerbaijan

Summary

In 2017, the Action Plan for the prevention of informal employment in the Republic of Azerbaijan was approved by Order No. 3287, dated 9 October 2017 and issued by the President of the Republic of Azerbaijan. 36 tasks have been assigned to concerned governmental agencies that will work in close collaboration with social partners under the supervision and coordination of the Commission on the Regulation and Coordination of Labour Relations.

The Action Plan is a core legislation act for reference and provides the policy approaches in five different areas: the improvement of normative legal acts; the improvement of administration; the strengthening of control measures in the prevention of informal employment; putting in place a monitoring and evaluation system, and finally the establishment of awareness raising and promotional work against informal employment.

In this paper, we will try to describe the main challenges, the policy measures to address these challenges, and the results expected and achieved.

The issue or challenge

What was the issue or challenge addressed by your good practice? Please provide a short description.

According to the latest report of the International Labour Office (ILO), 2 billion people or more than 61 per cent of the world's employed population make their living in the informal economy. The figures are high in Africa (85.8 per cent) and relatively low in Europe and Central Asia region at around 25.1 per cent. The proportion in Azerbaijan is relatively higher compared to other European countries.

The informal economy in general and informal employment in particular affects the country mainly in two ways. First, it impacts the state budget negatively since informality leads to tax evasion which in turn deprives the state a part of its income and hence constrains its functionalities.

Second, informal employment leads to the violation of workers' social and labour rights. An informally employed worker is not able to benefit from social security rights such as paid annual leave, maternity and sick leave, insurance from accidents in the workplace and occupational diseases, retirement pensions and so on.

To address these problems, the idea was to establish a legislative and administrative system that would make both employers and employees keen on formalizing employment relations. Based on empirical evidence, it is known that enforcement policy approaches alone do not give desirable results and that incentives may lead to abuse by employers. Thus, the objective was to create a balanced policy approach (stick-and-carrot) that would facilitated the transition of workers from the informal to the formal economy.

Addressing the challenge

What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or

strategy, focusing especially on their innovative feature(s) and expected or intended effects.

For the first time, we introduced the term “informal employment” in the legislation by adopting a new Law on Employment. For the purpose of defining the distinction between labour relations and independent contractors (in order to prevent employers from misusing the legislation for their own benefit), amendments to the Labour and Civil Code were prepared and will soon be adopted.

Also, ground-breaking steps were taken by the Ministry of Taxes: effective January 2019 and for a duration of eight years, employees working in the private and non-oil sectors of the economy are free of paying income taxes of 14 per cent. In order to achieve an optimal sharing between employers and employees of the compulsory state social insurance for workers in these sectors, employers will pay 15 per cent instead of 22 per cent of all total wages, and employees will contribute 10 per cent instead of 3 per cent to his/her individual social insurance account. Additionally, laws on mortgage and compulsory health insurance were introduced in order to provide incentives to those who work formally.

As for administrative and control measures, traditional labour inspections and controls are gradually being replaced by an electronic audit system through data sharing and data matching systems. For this purpose the electronic information systems of government agencies are being integrated with the newly introduced single electronic information system of the Control of Informal Employment. As a complementary measure, legal assistance centres were established under the local and regional labour inspectorates.

One of the most significant and necessary measure to facilitate the formalization of employment relations locally was the establishment of coordination committees to assist employment in all regions of Azerbaijan. The main function of the committees is to coordinate the activities of local state agencies and social partners in addressing employment issues.

Targets to be achieved

What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.

The objective of all the actions taken and measures adopted was the reduction of the size of the shadow economy by formalizing employment relations and legalizing the informal sector. An increase in the number of labour contracts is one of the key performance indicators. Another indicator is an increase in social security contributions through the elimination of “envelop wages” and the transition of bogus self-employed persons to formal employment. Formalizing and legalizing the informal sector does not only result in the growth of qualitative indicators; it also means decent work for all.

Evaluating the results

Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.

Despite the short time, more than 100,000 labour contracts were registered in 2018 compared to the previous year. It is expected that the figures will be even higher in 2019 on account of the major tax incentives that will be introduced in January 2019.

Lessons learned

Based on the organization's experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.

Three indispensable factors to combat informal employment are the following: symmetry between state and citizen morality or, in other words, social trust; a balanced approach between enforcement and incentive measures; and political will.

Three risks that could arise in the implementation of the above-mentioned policy approaches could be the reluctance of employers to comply with the law in order to avoid taxes; the lack of knowledge among employees of relevant information on the provisions of legislation; and a short term preference for higher wages (through tax evasion) over the long term benefits of formal employment.