

**Ulfat Mehdiyev***The Academy of Public Administration under the President of the Republic of Azerbaijan (Baku, Azerbaijan)***Analysis of the Main Factors Affecting the Development of Human Capital as One of the Key Strategical Objectives in the Republic of Azerbaijan**

Sustainable development is one of the most challenging and pressing challenges facing humanity. One of the driving factors of sustainable development is the successful development of human potential and the transformation of this potential into human capital. In recent decades, reproducible human capital has begun to occupy a significant share in the structure of the national wealth of many developed countries.

In developed countries, the share of human capital in the country's national wealth reaches 70%, thereby significantly exceeding the importance of natural and physical capital in economic growth. Due to the variety of factors and conditions affecting the sustainable development of countries, the development of human potential and the formation of human capital around the world is happening with different dynamics. This largely depends on government priorities and policies in the field of full development of human potential, the creation of favorable social, economic and environmental conditions for its successful implementation. The author researches the factors that influence the development of human capital to varying degrees, analyzes various government policies aimed at the development of human capital, analyses experience of the public administration mechanisms in the Republic of Azerbaijan aimed at human development and the development of human capital. An important aspect of the success of the implementation of government programs is the assessment by influential international organizations of various country indicators. The article also highlights topical issues related to the development of human capital within the framework of national development priorities until 2030. The reforms carried out in the Republic of Azerbaijan in the field of vocational education, health care, demographic policy, the implementation of programs to support the private sector, especially small and medium-sized businesses, the creation of favorable conditions for investment in various sectors of the economy are important factors for the development of human capital in the medium and long term.

The purpose of the article is to study the factors influencing the development of human capital in the Republic of Azerbaijan, to analyze the state measures carried out in the country aimed at creating the necessary conditions for the development of human capital.

**Keywords:** *human capital, public administration, human development, sustainable development, investment*

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Сталий розвиток є одним із найскладніших і нагальних викликів, які стоять перед людством. Одним із рушійних факторів сталого розвитку є успішний розвиток людського потенціалу та перетворення цього потенціалу в людський капітал. В останні десятиліття відтворюваний людський капітал почав займати значну частку в структурі національного багатства багатьох розвинених країн.

У розвинених країнах частка людського капіталу в національному багатстві країни досягає 70%, що значно перевищує значення природного та фізичного капіталу в економічному зростанні. Через різноманітність факторів та умов, що впливають на сталий розвиток країн, розвиток людського потенціалу та формування людського капіталу у всьому світі відбувається з різною динамікою. Це значною мірою залежить від державних пріоритетів та політики у сфері повноцінного розвитку людського потенціалу, створення сприятливих соціальних, економічних та екологічних умов для його успішної реалізації. Автор досліджує фактори, які різною мірою впливають на розвиток людського капіталу, аналізує різноманітну державну політику, спрямовану на розвиток людського капіталу, аналізує досвід механізмів державного управління в Азербайджанській Республіці, спрямованих на розвиток людського потенціалу та розвиток людського капіталу. Важливим аспектом успішності виконання державних програм є оцінка впливовими міжнародними організаціями різноманітних показників країни. У статті також висвітлюються актуальні питання розвитку людського капіталу в рамках національних пріоритетів розвитку до 2030 року. Реформи, що проводяться в Азербайджанській Республіці у сфері професійно-технічної освіти, охорони здоров'я, демографічної політики, реалізації програм підтримка приватного сектора, особливо малого та середнього бізнесу, створення сприятливих умов для інвестування в різні галузі економіки є важливими факторами розвитку людського капіталу в середньостроковій та довгостроковій перспективі.

Метою статті є вивчення факторів, що впливають на розвиток людського капіталу в Азербайджанській Республіці, аналіз проведених у країні державних заходів, спрямованих на створення необхідних умов розвитку людського капіталу.

**Ключові слова:** людський капітал, державне управління, людський розвиток, сталий розвиток, інвестиції

### Introduction

In the concept of human development, the human welfare is in the progress of civilization and thus, representing the main objective of political, social and economic processes. In the paradigm of the development of a post-industrial society, the most important and defining qualities of a person are the level of education, professionalism, readiness for continuous learning, creativity, and intellectual abilities. Human potential, transforming into human capital, becomes the basis for building a modern social and cultural environment, a new "knowledge" economy, innovative technologies and global information systems. These principles, as well as their improvement, taking into account the constantly changing tasks and conditions, underlie the advanced economic and social development of the Republic of Azerbaijan, also ensuring the country's military security.

Investments in human potential and the possibility of its transformation into human capital have led to a new vision of the role of a person in the economy and a generally recognized understanding that the fundamental component of the development of society and economic growth is human capital, and not material factors. The World Bank, having conducted studies of the economies of almost 200

countries, found that human capital determines 64% of economic growth. Taken together, natural and physical capital is 36% (UNDP, 1996). In the structure of the national wealth of developed countries, human capital significantly prevails (over 70%) over natural and physical capital.

Identifying the key factors affecting the formation and development of human capital, assessing the impact of the state's socio-economic policy on improving performance, implementation of the relevant government strategies and programs aimed at creating favorable conditions for human development and human capital development are topical issues on the agenda of strategic internal policy of the Republic of Azerbaijan.

In the modern sense, the formation of human capital occurs through investment in the well-being of people, in education, health, science, intellectual activity, entrepreneurial ability, mobility, security of citizens and business. Culture, art are also important areas of investment.

Investment flows into human capital (mainly from the state) are carried out in the social sphere. Effective social policy is of particular importance and public investment in the social sphere adds new meaning. (Chesebiyev, 2016) Investments in human capital can be considered quite successful. They

have a very significant and lasting socio-economic result. Other forms of capital have a similar effect to a much lesser extent.

Investments in human capital are made by the family, the person himself, firms, the state, but their effect depends on the personal activity and the ability of self-development of the person himself.

**The purpose of the article** is to study the factors influencing the development of human capital in the Republic of Azerbaijan, to analyze the state measures carried out in the country aimed at creating the necessary conditions for the development of human capital.

### Key results

The modern theory of human capital was developed thanks to American economists, representatives of the "Chicago School" Theodore Schultz and Gerry Becker. T. Schultz was the first to define human capital. In this sense, two books are of greatest importance: "Formation of the capital of education" (1960) and "Investments in human capital" (1961). Having made an in-depth assessment of the economic condition of the developing poor countries, he came to the conclusion that improving the living standards of poor people has a certain dependence on their knowledge and abilities. T. Schultz defined this qualitative economic feature as human capital. (Schultz, 1961). Further development of the theory of human capital became possible thanks to the scientific works of G. Becker. In an article published in 1962, "Investing in Human Capital," he argued that human capital is formed by investing in a person. (Becker, 1962) The priorities for investment were education, including in the workplace, health maintenance, and migration. Research on prices and incomes was also identified as a priority.

The theory of human capital became the subject of criticism of Soviet scientists in the "era of stagnation." At this time, some works of scientists were published, which criticized the successes of western scientists in the field of the theory of human capital. Critical publications were published from the point of view of socialist political economy.

The evolution of the theory of human capital continues at the present stage, there is a qualitative renewal of its components. Currently, there is no unambiguous definition of "human capital". Based on the type of study, its aspects, the interpretation of this definition may differ. (Gvozdeva, & Kazakova, 2017).

Individual scientists are increasingly revising the structure of human capital and include in the concept of human capital social, psychological, ideological, cultural and moral characteristics of people, while, as a rule, the principle of extended interpretation is observed (Buranshina, 2011). The

study of the role and influence of human capital on all components of social life is carried out in an interdisciplinary perspective: economics, sociology, political science, psychology, pedagogy, etc. It should be noted that recently the topic of human potential in modern politics and interest in research has become increasingly relevant political dimension of human capital.

A retrospective analysis of the evolutionary development of the theory of human capital has shown that today the theory of human capital is based on a solid scientific tradition and is a theoretical basis for developing programs for the further development of education systems, science, health care, distribution of migration flows, etc. as well as comprehensive methods for calculating human capital and assessing its impact on the socio-economic development of countries. It is thanks to the emergence of this theory that the economic and then the political dimension of human capital became possible, as a result of which the ideas that were expressed by the classics and founders of this theory were reflected in the real politics of modern states of the world. The definition of human capital has undergone a significant transformation. It should be noted that investments in such components as education and health, along with ordinary investments, can be factors of economic growth. In this regard, in modern conditions, the category of "human capital" is advisable to consider not so much as an economic, but as a socio-economic category.

Human capital is currently one of the most significant socio-economic pivotal concepts that allow, through the prism of human interests, to explain that an educated, intellectual, creative, spiritually elevated person is the main strategic resource for the development of society of this and subsequent generations (Ivanov, 2011). The success of the development of society, therefore, is determined not by the indicators of economic growth, but by the indicator of the development of human potential and the conditions for its implementation. The basic components of human development potential include health, education, and professional competence. To them can be added mobility, access to resources, information, active social position. In the absence of these components, a person's choices and opportunities are reduced, and this can lead to insufficient accumulation of human potential. As a result, many potential opportunities remain unfulfilled.

The formation of human potential, as the base of human capital, is influenced by numerous factors: demographic, social, economic, cultural, production, environmental, institutional, etc., which accordingly contribute to the reproduction of human capital. In this process, the role of environmental factors, such as global climate change, as well as the occurrence

of pandemics and their consequences, is also important to ensure the achievement of sustainable development goals and the formation of an inclusive society. The latter is extremely important, since the construction of an inclusive society in Azerbaijan was determined by the President of the country Ilham Aliyev as a priority for 2030 (Order of the President, 2021).

The professionalization is gradually narrowing from general to high-level qualifications, only investment in the knowledge and skills of people necessary to build a sustainably developing inclusive society, the availability of highly qualified specialists in the field of management and production is not enough. It is also necessary to have an appropriately prepared environment, which, according to the level of its preparedness, would be ready to live and work effectively in a steadily developing society with an innovative system for managing the processes of human capital formation.

The basis for promoting the development and improvement of human potential, as well as the formation of human capital is investment. However, in accordance with the concept of staffing for sustainable development, it is important not only to provide the country's economy with human capital that meets the ever-increasing requirements for the level of training of specialists in the field of management and production. In accordance with the national concept of advanced development, it is important to create an environment in the country that would be ready to implement the assigned tasks. Education includes all types of training, with an important place given to on-the-job training. Health care costs include, preventive measures, quality of care, housing. Investment in mobility is necessary in terms of identifying places where a high economic value of human potential and high productivity is possible (McConnell, & Brue, 1993). The vast majority of researchers from a wide variety of scientific schools and fields admit that of all investments in human capital, expenditures

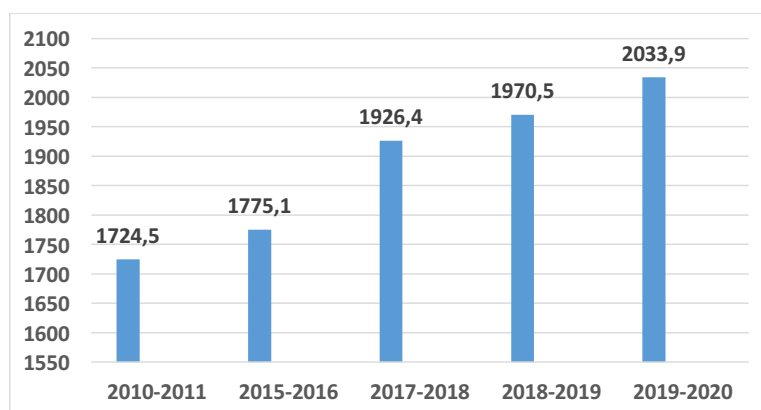
on education and health are considered to be especially important.

The analysis of the data obtained indicates that the formation of human capital requires multidirectional types of investments to improve the quality of life of people. Education and research, healthcare, mobility, security, business creation, culture and the arts are also areas requiring significant investment.

Among all these factors, education is critical. As noted, after the restoration of its independence, the Republic of Azerbaijan paid significant attention to the development of education. This has been reflected in several ways. The concept of President Ilham Aliyev, announced at the World Summit in Geneva (2003) on the transformation of "black gold" (economic dividends from the production and sale of oil and gas) into "human gold" (formation of highly qualified potential) was aimed primarily at creating a material base for development in the country of education at various levels. Within the framework of the concept of President Ilham Aliyev on the transfer of revenues from the oil and gas industry to the formation of human potential, the "State Program for the training of Azerbaijani youth abroad in 2007-2015" was adopted. with a budget of 199.7 million manats, financed by the State Oil Fund of the Republic of Azerbaijan. Thanks to the implementation of this program, 3,558 Azerbaijani students won the right to receive education with scholarships in the world's leading universities (Proshel II syezd, 2018).

Currently, the second state program in this direction is being implemented. It should be noted that a greater number of students were educated in leading universities in Turkey, Russia, Great Britain, Germany, Belarus and Ukraine.

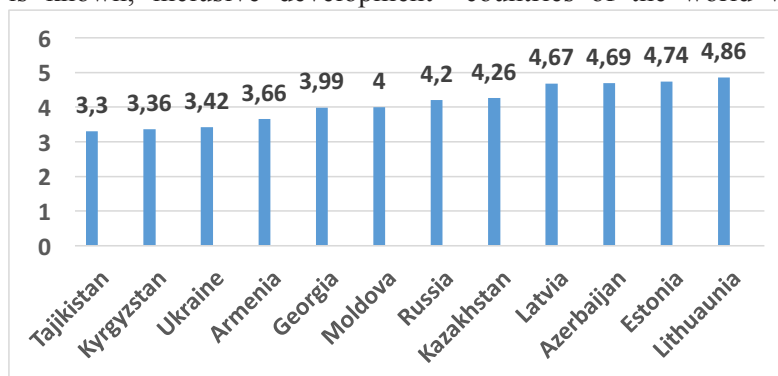
As seen from Fig. 1, in the period from 2010 to 2020, the number of students in the country's universities also increased. The positive dynamics of the number of students testifies to the great interest of young people in higher professional education.



**Fig. 1. Dynamics of changes in the number of students in educational institutions of the Republic of Azerbaijan, thousand people**

The year 2021 marked the 30th anniversary of the collapse of the USSR, the restoration or gaining independence of countries that were part of the Soviet Union. The Russian Academy of National Economy and Public Administration under the President of the Russian Federation has published a special report dedicated to this date. According to the data published in this work, the Republic of Azerbaijan in terms of inclusive development indicators ranks third after Lithuania and Estonia among the countries of the former USSR. As it is known, inclusive development

that ensures the well-being of present and future generations and at the same time demonstrates the absence or insignificance in terms of economic and social inequality, is the most modern indicator characterizing the degree of achievement of the planned sustainable development goals. (Figure 2) A high index of inclusive development is seen as an indicator of effective performance in the development of people's potential in order to build human potential. For the first time on a global level, the index of inclusive development of the countries of the world was calculated in 2018.



**Fig. 2. Indices of inclusive development of countries that were formerly part of the USSR**

The formation of human potential, part of which can later be transformed into human capital, is a long-term strategic process of the formation of an individual's effective capabilities. And this process continues throughout a person's life. (Ustinova, 2015). An analysis of the situation shows that when developing a strategy and policy in the field of building and mobilizing human potential, it is necessary to take into account that this process goes through several stages. As well as demographic policy, actions in the field of building the potential of people and mobilizing this potential as human potential requires consistency, excluding dependence on external (imported) human capital. The policy of the Republic of Azerbaijan in the field of demography is successful, and the country, according to statistics of 2020, is currently and in the future provided with the necessary labor resources. The level of preparation of these resources and the quality of human capital depends on how the various stages of this process are organized.

In the Republic of Azerbaijan, the process of generating knowledge in the field of sustainable development as part of the formation of human potential was launched back in 2000. In 2001, the teaching of the subject on sustainable human development was included in the curricula of secondary schools by the order of the Ministry of Education of the Republic of Azerbaijan. The first training manual on sustainable human development was published in Azerbaijan in 2003. In the UN,

this achievement was presented as "an innovative idea and activity" (Alakbarov, 2017).

Modern textbooks and books for university students include issues of the impact of human development on the development of the non-oil sector, as well as on the sustainable development of the Azerbaijani economy. The Department of Sustainable Development, created in 2013 on the basis of the Academy of Public Administration under the President of the Republic of Azerbaijan, has created a platform for a more detailed study of all aspects of human development. In 2015, by the decree of the Cabinet of Ministers of the Republic of Azerbaijan, "sustainable development management" was included as a new specialty and scientific direction for bachelors, masters and doctoral students. (Alakbarov, 2017).

The increase in social spending, the creation of tens of thousands of jobs annually, investment in education led to the fact that the Republic of Azerbaijan in 2010 in terms of human development entered the number of countries with a high level of development in the UNDP global ranking (UNDP, 2010).

The ongoing reforms to transform "black gold into human gold" continue through closer interaction of the education system, the labor market, the creation of new high-tech enterprises, the successful implementation of state economic programs and concepts. Since 2013, the expansion of innovative activities in all sectors of the

economy has become one of the main directions in sustainable economic development.

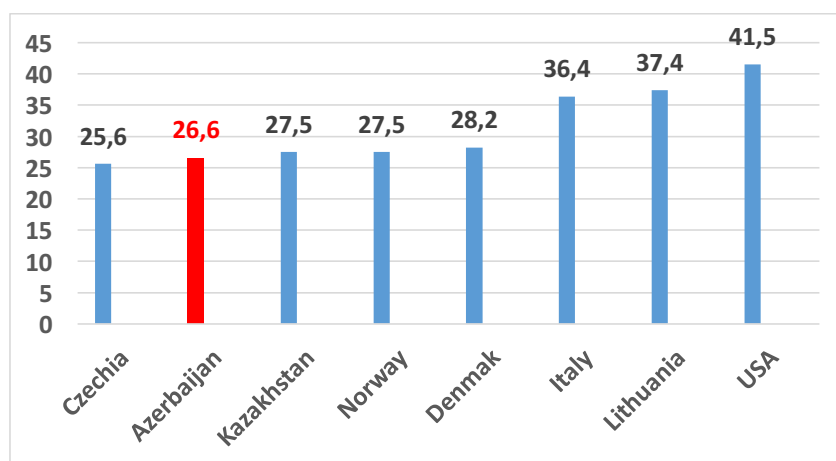
This created a solid foundation for "the formation of a knowledge economy, accelerating the creation of science-intensive technologies and products" (Azerbaijan, 2012). The integration of scientific activities and industries, the creation of conditions for scientific work in accordance with market requirements have become the foundation for building an innovative economy.

The idea of competitive production is the basis for the creation of territorial clusters, industrial parks and industrial zones. On the initiative of the President of the Republic of Azerbaijan Ilham Aliyev, industrial parks have been created in Sumgait, Balakhani, Mingechevir, Piralakhi, Garadagh. The main goal of this initiative is to ensure sustainable development of the non-oil sector, support entrepreneurship, create innovative industrial enterprises based on modern technology and technologies, and increase employment in the manufacturing sector. The creation of high-tech industries on the basis of industrial parks, their connection with scientific, research and production organizations create new conditions and opportunities for the development of human capital, makes the acquired knowledge and skills of young scientists and specialists in demand.

A significant impetus in the development of human capital can be considered the "Strategic Roadmaps" developed and approved in December 2016 for the national economy and 11 major sectors of the economy. It should be noted that within the framework of the national economic perspective, the development of human capital is one of the four strategic goals.

Progressive changes in society and human development are mutually reinforcing. That is, for example, the dynamic development of the economy, respectively, the emergence of its new industries increases the need for more qualified personnel. According to data published by academician U. Alakbarov in 2021, the Republic of Azerbaijan is a country that effectively uses the country's economic opportunities for inclusive development. The fact that in the global ranking of the Republic of Azerbaijan in terms of economic, being in 82nd place, and in terms of inclusive development takes 25th place in the world is considered as high efficiency and high sustainability in managing complex development in the country. Achievement of high results by the Republic of Azerbaijan with less consumption of resources is possible only in conditions of effective management of sustainable development processes. This is achieved through the use of new technologies of public administration in the country, developed and implemented by the President of the country, Mr. Ilham Aliyev.

The conceptual framework for human development and human capital formation envisages ensuring equality. This, in turn, is also the most important among the Sustainable Development Goals, approved by the UN, adopted for the 2015-2030s. In accordance with international standards, there are various technologies for assessing inequality in the distribution of income among the population. One of the most used techniques is the Gini Index. Figure 3 presents data characterizing the Gini index in Azerbaijan and some countries of the world.



**Fig. 3. Gini index in the Republic of Azerbaijan and other selected countries (Competitiveness Index, 2018)**

The countries for comparison were chosen so that they, firstly, cover the states that are leaders in the world in the field of the most equitable distribution of income among the population (Czech Republic, Norway, Denmark). The comparative analysis also included data from countries - representatives of the former USSR (Kazakhstan, Lithuania), as well as countries with a high level of economic development, representatives of the G7 (Italy, USA).

At the beginning of the 21st century, one of the most difficult issues in the Republic of Azerbaijan was poverty reduction, the level of which was 49%. Thanks to the large-scale reforms carried out in the country within the framework of consistently implemented programs to reduce poverty and adapt the “global Millennium Development Goals” at the national level, the poverty rate by 2014 was reduced to 5% (Mehdiyev, 2020). Analyzing the results achieved in the implementation of the MDGs, it can be assumed that in this way the foundation was laid for a new stage of human development and the formation of human capital.

It is important to note that, starting in 2012, the development of human capital and the creation of conditions for its reproduction is one of the main strategic tasks within the framework of national priorities for socio-economic development. Ensuring inclusive and sustainable development building a peaceful and inclusive society is one of the key priorities of the Azerbaijani government, and the country has clearly demonstrated its commitment to the transition to sustainable development and alignment of government programs and strategies with the SDGs. Azerbaijan's unwavering commitment is confirmed by the approval in February 2021 of “Azerbaijan 2030: National Priorities for Socio-Economic Development”. (Order of the President, 2021; Third Voluntary, 2021). Azerbaijan views the implementation of the SDGs as an opportunity to ensure integration

and development and seeks to adapt policies, strategies and programs implemented at the national and regional levels to the SDGs. The key point here is to ensure the effectiveness and efficiency of the implemented policies and measures.

Currently, in the country as a whole, some of the contradictions arising between the education system and the labor market are a topical issue. The market requires experienced workers, and graduates of higher educational institutions sometimes turn out to be uncompetitive due to the mismatch between supply and demand for qualified personnel (Employment outcomes, 2018).

The Strategic Roadmap for Vocational Education and Training (VET) 2016–2025, adopted by the Azerbaijani government in December 2016, defines the short-, medium- and long-term vision for the development of VET. An Integrated Framework for System Improvement sets out goals to bring about radical improvements in a number of aspects of VET, such as creating a positive new image for VET; create a governance structure for VET providers based on improved public-private partnerships; create a streamlined and streamlined network of public VET providers; increase the attractiveness of the VET system for the private sector; and create and launch 10 VET schools that will be equipped with the latest technology in their VET profiles. One of the priorities of the European Union (EU) assistance to Azerbaijan is to support skills development, with a particular focus on VET, in order to help the country better align the skills of the workforce with the needs of employers. Currently, there are EU programs that are important for the development of human capital in Azerbaijan. The objectives of the program are related to improving the quality and relevance of the education system with a focus on higher education and VET, increasing the attractiveness and relevance of all levels of VET for the labor market, and strengthening civic participation, governance

and inclusiveness of education. The project worth 3.1 million Euros was implemented in 2017-2019. in order to improve the quality of education in the framework of VET, by creating the necessary regulatory documents and curriculum. In 2020, a 4-year EU project was launched to improve the quality of the vocational education system in Azerbaijan worth 5.6 million Euros, implemented in Azerbaijan with the support of UNDP.

### Conclusions

The research has shown that high efficiency in practice, the formation of highly competitive human potential, as the basis of modern human capital, is achieved through the use of synergistic technologies for managing state development processes with the involvement of national and international development institutions, civil society, and widespread practice of volunteering in partnership. It has been established that the integrated system for the formation of human potential and human capital used in the Republic of Azerbaijan is highly effective and provides advanced economic and social development, high defense capability of the country.

Comparative studies have shown that a further increase in the efficiency of human capital formation predetermines the need to take into account the requirements of the promising labor market when determining specializations in the process of training personnel in the country in higher and secondary educational institutions.

The Azerbaijani government recognizes the importance of human capital development as a necessary prerequisite for reducing the country's dependence on oil and gas revenues and increasing its resilience to external shocks. The government is committed to the process of reforming the national education system and has declared education one of the main priority areas of public policy. The most important and long-term goal is to align the

country's education policy with its changing demographic situation, the skills needed to compete in the 21st century, and the efficient and effective allocation of financial resources.

A gradual transition to a new model of economic growth, capable of solving the main tasks of creating jobs and reducing social and regional inequality, will require modernization and adjustment of human capital in the country. The real challenge lies in developing human capital that is ready to adapt to continuous change.

The actions taken to diversify the economy and develop high value-added activities in the non-oil sectors along with the oil and gas industry have increased the demand for a competitive and professional workforce. From this perspective, the VET sector is expected to provide advanced training to meet the growing and changing needs of the labor market. The skills development system should better support the national priority of economic diversification by addressing skills shortages and wasting and further developing education.

The results of the study show that for the implementation of the process of state regulation of the creation of human capital in the Republic of Azerbaijan and the achievement of the set goals, it is important to improve the mechanism of public administration in the field of vocational education at all levels. It is necessary to conduct regular studies of the labor market in order to optimize the educational process, predict the demand for certain specialties in the labor market, identify new and in-demand professions that do not yet have mechanisms for formal training. The implementation of educational work in the field of human capital development by both state and public institutions among the population will make it possible to more expediently transform the accumulated human potential into human capital.

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