

## **HOW HUMAN RESOURCE DEVELOPMENT CAN CONTRIBUTE TO THE EUROPEAN NEIGHBOURHOOD POLICY**

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# 1. Introduction

Human resources development (HRD) plays a key role in developing people's skills and knowledge. As such it helps promote better living conditions and more active citizenship in society in general. It can make a fundamental contribution to increasing prosperity, employability and social cohesion in modern market economies.

For all of these reasons, developing human capital is one of the EU's main priorities on the Lisbon agenda. Outside the EU, policy makers see HRD as an essential ingredient in underpinning development in transition economies. In those countries with relatively weak education and labour market systems, the return on investment from HRD can be especially high.

This paper aims to outline the contribution that investment in human resources development (HRD<sup>1</sup>) can make in achieving the goals of the European Neighbourhood Policy (ENP). It draws on the expertise the European Training Foundation<sup>2</sup> has built up as an active promoter of human resources development in neighbouring countries over the period 1995-2005 and outlines some of the lessons learned from the investment made by the EU and other donors in the ENP countries over the last decade. It is also intended to inform the forthcoming debate on the European Neighbourhood Partnership Instrument (ENPI) in the EU institutions and gives recommendations as to how the measures proposed in the draft instrument can be taken forward in order to ensure effective and sustainable reform and what contribution a specialised agency, such as the ETF, could make to this process.

## 2. Why invest in human resources?

The ETF firmly believes that education and training play a key role in promoting social and economic well-being. This belief is based on more than ten years of practical experience of helping partner countries reform their education and training systems. Academic research also backs this up and provides a strong rationale for investing in HRD compared to other sectors. Recent research findings show<sup>3</sup>:

- One additional year of schooling can increase aggregate productivity by 5% on impact and a further 2.5-5% in the long run. Overall, the average rate of return for an additional year of schooling is over 10% particularly in low-middle income countries. This represents an opportunity in ENP countries where the average school life duration averages 12.3 years as opposed to an EU 25 average of 15.9 years.
- Improved educational attainment can reduce the unemployment rate by over 6 percentage points and increase labour force participation by over 27 percentage points in the EU15. It can reduce the risk of unemployment by as much as five times. Importantly for transition economies, education also contributes to entrepreneurship by creating awareness of self-employment and developing the relevant skills.
- Access to education gives people a stake in the growth and prosperity of their countries. An additional year of schooling can increase an individual's wages by between 6-9%. There is also a strong relationship between individual wages and on-the-job training.
- Education and training are generally accepted as key factors in improving social capital, health, active citizenship and social stability as well as fighting crime.

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<sup>1</sup> For the purposes of this paper, HRD is a broad term which covers investment throughout the education and training sector, including formal education at all levels, continuing training, and the links between education and training and the labour market

<sup>2</sup> The European Training Foundation is an agency of the EU. Its objective is to assist partner countries in developing high quality education, training and employment systems in order to raise prosperity, employability and stability in partner countries in line with EU external relations policies

<sup>3</sup> Ciccone and de la Fuente, Report to DG Employment 2002; Commission Communication (2003/779) *Human Capital and Productivity Investing Efficiently in Education and Training*. And World Bank report *Return to Investment in Education*, Psacharopoulos and Patrinos 2002

- Finally, estimates of the direct return on investment from human capital are at least as high as investment in physical capital.

### 3. Lessons learned from HRD reform in ENP partner countries 1995-2005

It is clear that investing in human resources can be an efficient way of boosting economic and social well-being. The level of efficiency, however, greatly depends on how investments are made. The EU has already provided substantial support to HRD in each of the ENP countries through national reform programmes and the Tempus programme. With the ENP holding out the prospect of closer economic integration and more liberalisation it is vital that we learn from this past experience. The following are some of the key lessons:

- HRD reforms in the partner countries must be systemic in nature and cover general, vocational and higher education. They are closely related to radical changes in labour markets and cannot be viewed in isolation from these. However, the limited institutional capacity of the countries to define and implement reform is a key constraint.
- Successful HRD reform requires clear long-term policy objectives and an integrated approach. This should combine top down policy development, pilot projects to introduce and test innovation, and bottom up measures to ensure active participation by stakeholders. However, few ENP countries currently have such a policy and reforms so far have often been fragmented and lacking in continuity.
- Reform has often been kick-started and maintained at the initiative of international donors. In early phases of transition, donors play a key role in raising awareness of HRD reforms, influencing the policy agenda and providing resources, but they often lack understanding of specific national contexts. National policymakers are often more interested in funding than in policy making.
- EU experiences can provide a good reference framework and link with EU partners, but they will only work if adapted to national contexts. Individual countries cannot copy reforms from each other, but they can learn from each other. Regional approaches, which facilitate policy learning, can add substantial value to the reform process.
- HRD reform is a long-term investment. At least a generation is needed for substantial changes to work through the formal school system and into the labour market and society at large. It took the EU nearly 30 years to raise the average duration of schooling from 70% of the USA's level in 1971 to 87% in 1999.
- Funding is scarce in all ENP countries. In EU Member States, about 11% of public expenditure is invested in education, while continuing training is funded through public-private partnerships. ENP countries have smaller national budgets, often under strain, so support from donors is needed to fund the system until their economies are strong enough to provide the extra funding.

### 4. Challenges to HRD systems in ENP countries

HRD systems in the ENP countries suffer from a number of structural problems. Some of these will be familiar to an EU audience, others stem from the individual characteristics of certain countries or are the result of the tensions of the transition process. These include centralised systems of governance, obsolete infrastructure, narrow specialisations, isolation of schools from social partners, low status and outdated skills of teachers, outdated curricula and the absence of reliable data.

All Eastern European countries have seen a dramatic decline in public spending on education. Decentralisation has served mainly to push the financial burden from the centre to regions and schools while decision-making has remained under central control. In some Eastern European countries, often those which in Soviet times produced outstanding results such as high literacy and

scientific and technological achievements, the performance of the HRD system is actually deteriorating.

In many Mediterranean countries, vocational education and training systems absorb substantial funds but give poor results. Their HRD systems are usually publicly dominated, supply-driven and designed to play a social role. Mediterranean countries typically have high birth rates, a youthful demographic profile and high unemployment rates. This means that they face ever increasing needs for continuing training for a low-skilled active population. With its ageing population, Eastern Europe is closer to EU trends. Thus the EU lifelong learning approach, developed for such a situation, has more immediate relevance in Eastern Europe than in the Mediterranean.

In general, traditions of systems of governance vary greatly, leading to different levels of decentralisation and social partner involvement. Training is mainly offered by the public system; private provision is either very limited or of uneven quality. Public funding is often not enough to ensure quality of training delivery. Labour markets are only partially restructured and lack transparency and flexibility. Many countries have to deal with levels of unemployment reaching peaks of 30-40%. In others, issues of access and equality for minorities and disadvantaged groups are particularly acute. In the Mediterranean countries, the low participation of women in the labour market is a significant problem. Finally, high proportions of companies and workers operate in the informal sector, often outside the reach of the HRD system.

## 5. How HRD can support the objectives of ENP?

The European Commission recognises the vital role that HRD can play in achieving the goals of its new European Neighbourhood Policy. The draft instrument calls for systemic reform in HRD to achieve those goals and highlights the potential that the education and training sector has to foster cooperation and exchange. The broad areas where HRD is expected to make a contribution towards dialogue and reform include;

- Fighting poverty and promoting sustainable development through better education and training.
- Building the capacity of national institutions and bodies to formulate and implement policies in areas covered by the association, partnership and cooperation agreements.
- Cooperation between EU and partner countries' higher education institutions and mobility of teachers, researchers and students.
- Facilitating understanding between cultures, people-to-people contacts, cooperation between civil societies and exchanges of young people.
- Promoting the development of a market economy including measures to support the private sector, encourage investment and promote global trade.
- Promoting cooperation in the field of migration.
- Supporting cross-border cooperation to promote sustainable economic and social development in border regions.

The ETF fully supports the policy objectives proposed by the European Commission. However, the ways in which human resources development could contribute to achieving these goals has not yet been mapped out in detail in the ENPI. The following remarks are intended to clarify the contribution HRD could make and to provide a basis for defining and implementing relevant measures to help reach these objectives.

## **5.1 HRD measures to fight poverty and promote sustainable development through better education and training**

HRD can act as a key tool in the fight against poverty. For instance, young people benefit if priority is given to boosting participation in education and training and reducing the incidence of dropouts. For adults, targeted active labour market policies – such as re-training, guidance and support for alternative job creation through SME development – can be highly effective. The formal HRD system can also play a role in local development and poverty reduction by targeting the needs of groups at risk of social exclusion.

The ETF recommends that support to the reform of HRD systems in ENP countries should give priority to:

- Developing robust policies for education and training which are fully integrated into broader economic and social development policy. (EU experience in embedding HRD policies in employment policies – such as through the European Employment Strategy and Education and Training 2010 – will represent a useful reference.)
- Increasing participation in education and ensuring average attendance to EU/OECD country standards of nine years of obligatory schooling. Introducing measures to reduce dropouts and increase participation by minority groups such as the Roma.
- Improving the quality of education by promoting clear qualifications systems, modern curricula and equipment.
- Increasing the flow of skilled teachers and trainers who can deliver state-of-the-art curricula.
- Ensuring that continuing education and on-the-job training schemes cater for adults at risk of being left behind by technological, social and economic developments.
- Revising the financing of education and training with the long-term aim of producing sustainable budgets. As the private sector develops, public-private partnership should make a growing contribution.
- The ETF recommends that a substantial share of the ENPI budget should be dedicated to support:
  - HRD measures through education reform programmes
  - active labour market initiatives
  - the integration of HRD in sectoral programmes
  - the participation of ENP countries in the new EC programmes, such as the Integrated Programme that will replace Tempus and Leonardo

## **5.2 Building the capacity of national institutions to formulate and implement policies in areas covered by the association, partnership and cooperation agreements**

Poor institutional capacity is a very significant constraint for the ENP countries. The ENI should therefore prioritise capacity building measures for national and local administrations and social partners with a stake in the HRD system. Helping national agencies become capable of providing information and analysis on HRD policy and implementation must be an essential component of this.

In the field of HRD, benchmarking can act as an important tool for bringing neighbour countries closer to the European *soft acquis*. Benchmarking and the open method of coordination are also powerful tools for convergence, modernisation and policy learning. The EU's post Lisbon Education, Training and Employment Indicators and benchmarks, now being gradually introduced within the EU, could also play a role in ENP countries. Moreover, additional indicators could be developed to cover those

issues specific to ENP countries such as poverty or the access of women and minorities to education and training.

### **5.3 Cooperation between EU and partner country higher education institutions and mobility of teachers, researchers and students**

The Tempus programme has proved a useful tool for cooperation in education and higher-level training in partner countries. It has contributed to various positive developments, including institutional capacity-building, policy reform in line with the Bologna Process, introducing a European dimension and generally preparing countries to participate in EU programmes.

Therefore the ETF believes that the Tempus contribution to the development and reform of higher education and training systems should be strengthened and integrated into the overall HRD reform process.

### **5.4 Facilitating understanding between cultures, people-to-people contacts, cooperation between civil societies and exchanges of young people**

HRD can support people-to-people contacts and cooperation through HRD reform (see 5.1 above) and Tempus-type actions (see 5.3 above), in addition to:

- supporting partnerships between institutions (which may include education and training institutions, businesses, social partners, civil society organisations) to develop reform projects linked to these specific actions;
- mobility actions to improve cooperation and enhance mutual understanding between Europe and its neighbours.

### **5.5 HRD measures to promote the development of a market economy including measures to support the private sector, encourage investment and promote global trade**

The ENP provides a route to closer economic integration with the EU for neighbouring countries at the same time as it encourages internal reform. It envisages enhanced preferential trade relations and the prospect of a stake in the EU's internal market based on legislative and regulatory convergence. This process should benefit its neighbours' economies by improving the climate for investment, enabling the growth of the private sector and encouraging foreign direct investment. (COM, 2003/104, p.14)<sup>4</sup>.

The European Commission recognises that economic integration measures must be accompanied by policies to address poverty and inequality. It acknowledges the vital role of HRD in increased competitiveness, social inclusion and active citizenship (COM, 2003/104, pp.14, 19), but does not specify which supporting measures are called for<sup>5</sup>. The ETF believes that HRD can contribute to this transformation in several ways:

- Transition economies need flexible HRD systems able to respond to new developments in the labour market. Lifelong learning strategies can ensure that people continue learning after graduation and continue to acquire new skills in line with changes in the labour market. A lot of experience with the development of lifelong learning strategies has been accumulated in the EU

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<sup>4</sup> Current EU cooperation and policy frameworks with Eastern European and Mediterranean partners already acknowledge that trade and investment, private sector development and economic growth are key factors for the transition/transformation process. In particular, regional trade and integration are recognised objectives of EU policy in the Mediterranean, and Free Trade Agreements have been signed with a number of Mediterranean partners. On the other hand Partnership and Cooperation Agreements in force with the Eastern neighbours do not foresee preferential treatment for trade or a timetable for regulatory approximation.

<sup>5</sup> The Kok report clearly states that the "productivity and competitiveness of Europe's economy are directly dependent on a well-educated, skilled and adaptable workforce that is able to embrace change", *Facing the Challenge*, p. 33

and can be shared with partner countries. The building blocks as outlined in the European Commission's *Communication on Lifelong Learning* – partnerships, the learning culture, striving for excellence, insight into the demand, access, and adequate resourcing – all have significance in the context of the neighbourhood development philosophy of the ENP.

- Partnerships between the world of education and the world of work can help increase the skill levels of workers as well as their adaptability in the labour market. The Tempus programme has developed interesting approaches in this field, as has the development of social fund type approaches in the enlargement process.
- SMEs should be a major driving force in most ENP economies. Education and training can help give people an entrepreneurial attitude.

## 5.6 Promoting cooperation in the field of migration

The issue of migration is often seen in terms of using border security to fight organised crime and terrorism. Nevertheless a more positive approach is gradually emerging in the ENP<sup>6</sup>. This places migration within the broader context of ENP economic and social development (COM, 2004/373, p.14) and links it to the issue of skills shortages in the EU (COM, 2003/104, p.11).

Recent analyses on progress towards the Lisbon goals confirm the need for a more open policy on migration. In order to ensure growth despite negative demographic trends, the EU is attempting to boost the skills of its labour force and encourage older workers to keep working. However, the Kok report points out the limits of this approach:

*“Even if full use is made of the labour market potential, selective non EU immigration will be needed to meet European labour market shortages and partly to offset the negative consequences of the ‘brain drain’.” (High Level Group, 2004, p.32).*

This has a number of implications for HRD. Lawful migration means ENP HRD systems and labour markets will have to be properly linked to EU labour markets if they are to serve both local and EU skills needs. Therefore HRD investment in ENP countries should focus on developing transparent qualifications systems which are benchmarked with EU schemes, and ensuring that competencies are recognised across borders. The Bologna process has huge potential to provide such a framework in higher education, as does the Copenhagen process for VET.

## 5.7 Supporting cross-border cooperation to promote sustainable economic and social development in border regions

Although regional cooperation has not featured strongly in EU policy towards Eastern Europe, the Euro-Mediterranean partnership does already include a well-structured regional dimension. By means of the ENP, the European Union aims to encourage more regional and sub-regional cooperation among Mediterranean partners and promote new initiatives among Eastern European neighbours (COM, 2003/393, p.8).

Priorities for regional cooperation with Eastern Europe include employment and social policy, support to SMEs, migration issues, people-to-people issues like academic exchanges, education and training and twinning between local administrations and NGOs. These all entail a high dose of HRD. Priorities for regional cooperation with the Mediterranean include the management of legal migration, human resources mobility and transparency of qualifications (COM, 2004/373, pp.21, 23).

The ETF believes this kind of regional and sub-regional cooperation is a useful way of bringing about gradual integration. This is especially true for those ENP countries currently engaged in decentralising the governance of their education systems.

Decentralised cooperation requires local governments to have the capacity to fulfil their role and pursue reforms. Cross-border and/or sub-regional exchanges can be helpful for institution and capacity building and for the promotion of networking. New Member States and candidate countries

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<sup>6</sup> The Commission proposal for a European Neighbourhood and Partnership Instrument includes support for a thematic programme in the area of migration management.

could play an important role in the sub-regional dimension of the ENP as they are already familiar with the transition problems facing their Eastern European neighbours.

## 6. Conclusions

HRD represents a strategic investment sector for the EU to achieve its policy goals in neighbouring countries. HRD is not only an essential ingredient for economic development in partner countries, but can also provide the countries and their citizens with the competences to access the EU internal market and benefit from cross-border cooperation. It is fundamental for fostering active citizenship, promoting social cohesion and combating discrimination. Finally, HRD represents an attractive win-win field of investment through which both EU and the partner country can agree on clear long-term benefits.

The ETF's experience shows that the methodological approach chosen to promote reform is critical. Investment in HRD is much more effective when top-down policy-driven systemic reform is complemented by structured opportunities for bottom-up cooperation among a broad range of stakeholders. A sense of ownership is crucial; in order to be *sustainable*, HRD reform policies need to be *owned* by national policy makers and other stakeholders. They also have to *fit* the particular national context of each of the countries such as those defined by their economic, social, cultural and institutional history.

If the return on investment is to be maximised, HRD must be fully integrated into broader socio-economic development policies and key policy areas such as migration, poverty alleviation or cross-border cooperation. These are the challenges facing the EU in the formulation of the European Neighbourhood Partnership Instrument in terms of HRD.

# Annex 1

## Possible contributions by ETF to achieving the goals of the European Neighbourhood Policy

### 1. The role of ETF

The ETF aims to help partner countries develop high quality education, training and employment systems to increase prosperity, employability and stability in line with EU external relations policies. As an EU agency, ETF promotes the values and objectives of the EU. The ETF's main services include:

- helping EU institutions assess needs in partner countries as well as programme assistance and follow-up;
- supporting the identification, content monitoring and impact assessment of EU interventions;
- disseminating EU policies and innovative practice to partner countries;
- providing general services such as information on education, training and employment in the partner countries, best practice in the EU Member States, focused capacity building among policy makers, and implementing small-scale pilot projects to test innovative approaches to reform in partner countries;
- technical assistance to the EC Tempus programme

### 2. Possible contribution by the ETF to the implementation of ENPI

The ETF could contribute to EU policy goals in the Neighbourhood through short-term and mid-term actions.

Short-term contributions concern the period up to 2006 for which Tacis and MEDA assistance have already been programmed. This period will also be used to prepare for the next generation of programmes, under the ENPI, through assistance in drawing up Action Plans, programming and baseline studies in participation with stakeholders from the partner countries and EU institutions.

*Short-term contributions may include:*

- Helping national governments to define education and training policy frameworks which also reflect Neighbourhood priorities
- Reformulating pipeline Tacis/MEDA projects in line with Neighbourhood priorities
- Assessment of the readiness of partner countries to participate in EU policy initiatives and programmes
- Support to EU institutions in formulating HRD measures in the new programmes
- Reviewing the usefulness of existing EU instruments for institution and capacity building in HRD in candidate countries such as Tempus institution building, Phare pre-accession, and twinning
- Developing key indicators to support benchmarking of reform progress
- Undertaking state of play assessments of HRD and labour market systems

*Mid-term contributions may include:*

- Assisting EC delegations with capacity and institution building for adoption of (parts of) the HRD and employment/LM *acquis* and/or relevant EU experience
- Contribution to monitoring the progress of the implementation of the joint action plans with regard to benchmarks relevant for HRD and employment
- Design, monitoring and assessment of Neighbourhood reform programmes
- Facilitating synergy between EU and Member State support schemes
- Feeding back information and analysis to EU institutions on the progress of reform
- Assisting the Commission in the preparation and implementation of the next generation of EU education and training programmes.