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The National Observatory, which was created with the support of the European

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EXECUTIVE SUMMARY

Since independence in 1991, literacy levels have remained high in Georgia. The number of illiterate people is less than 1%, and 25% of the population has been through higher education. The enrolment indicators are still quite high with 98% enrolled in primary education, 40% in secondary education, 20% in vocational education and 24% in tertiary education.

However, in spite of these school enrolment ratios, the quality of education has deteriorated significantly. Georgia has the lowest investment in education and VET among the countries eligible for the Tacis Programme. In 1999, 0.7% of GDP was spent on education and only 0.02% on initial VET. Despite the fact that primary education until ninth grade is free of charge, parents are forced to make unofficial expenditure, which is a burden for poor families. The establishment of a system of private tutors reflects the low quality of primary and secondary education, which often is not sufficient to lead on to higher education. This has a negative impact on the poorer part of society that is unable to cover the unofficial costs. There is also a dramatic decline in the attendance rate of poorer students in primary and secondary schools.

Inequality of opportunities has increased, school facilities are in a bad shape, teaching approaches, textbooks and other study materials are outdated and the system of teacher and trainer training is not functional. As it is practically impossible to maintain an appropriate level of material and technical facilities of the schools due to the insufficient state funding, the number of schools and teachers has to be rationalized.

In the Economic Development and Poverty Reduction Programme (EDPRP), education reform is seen as a fundamental component for ensuring the sustainability of development.

1. THE ECONOMY, THE DEMOGRAPHIC SITUATION AND THE LABOUR MARKET

Georgia is situated in the Trans-Caucasian region. It has a territory of 66,700 km² and a population of 4.4 million people. The capital of the country is Tbilisi. Since 1995 the national currency has been the 'lari'. From 1921 to 1990 Georgia was a republic of the USSR. Since 1991 Georgia has been an independent state.

1.1 ECONOMIC SITUATION

The years after independence were characterized by economic decay, which affected all economic sectors. The pace and scope of the economic slump were highest in 1991–94. Alongside the problems related to the systemic restructuring, the situation was aggravated by the civil war and ethnic conflicts that broke out at that time. The major economic indicators for the period 1999–2000 are shown in Table 1 (overleaf). The changing structure of the GDP from 1990–2000 shows negative structural changes in Georgia's national economy. In the 1990s Georgia's economy fell considerably behind its previous level of development. The economic loss for just the period 1991–94 approximated to US\$5–5.5 billion¹. Table 2 (overleaf) shows the structure of GDP by sector from 1990 to 2000.

In 1995–98 positive economic growth brought about changes in the major economic indicators. However, as a result of unfavourable economic processes worldwide – primarily due to the financial crisis in Russia – and of natural calamities such as droughts and earthquakes, from 1999 the pace of economic development slowed down. In 1990–2000, GDP per capita shrank from US\$4,646 to \$507.

1 Guram Kupunia, *Zigzags in Georgia's Economy, Georgian Economy on the Threshold of the XXI Century: Problems and Prospects*, conference materials, Tbilisi, 2000, p. 69.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	100.0	130.1	2.5	2.9	6.6	11.3	16.6	19.5	19.4	10.8	11.9
GDP per capita	100.0	130.0	2.5	0.9	0.7	11.4	16.7	19.6	20.9	10.9	12.0
Total industrial output	100.0	145.3	2.0	1.1	1.1	2.0	2.6	3.1	2.8	2.3	2.6
Total agricultural output	100.0	128.6	5.5	23.4	7.2	16.3	18.5	20.1	18.5	14.9	11.6
General accumulation	100.0	119.8	2.0	0.3	3.6	8.9	3.1	7.1	10.8	4.9	6.6
Investments in fixed assets	100.0	107.5	1.3	0.6	1.2	2.3	3.1	4.8	8.7	4.2	4.1
Engagement of capital assets	100.0	69.3	0.5	0.5	1.1	1.8	2.8	2.8	3.3	9.5	4.6

Table 1: Dynamics of major economic indicators	, 1990–2000 (1990 = 100%)
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Due to Georgia's transition to a market economy in the 1990s, the privatisation of enterprises was actively pursued. By January 2003 over 17,900 enterprises had been privatised. As a consequence, the volume of goods and services produced in the private sector has been growing, as well as its share in GDP (about 63%). To date, about one third of agricultural land has been privatised. The privatisation processes have been accompanied by changes in the profile of privatised enterprises, job cuts and a decreasing scope of production, which was conditioned by objective problems (lack of markets, problems with raw materials, equipment, etc.) as well as subjective ones

(bad management of privatisation, corruption). As a result, the positive outcomes of privatisation have been fewer than expected.

In recent years, privatisation has slowed down. In 2002 no enterprise was privatised. The reasons for this are the specificity of the enterprises planned for privatisation (as a rule, these are big enterprises of strategic importance, or unprofitable enterprises with heavy debts), the bad management of privatisation, corruption and negligence, and the lack of proper estimates of the outcomes and objectives of privatisation.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Industry	22.9	26.7	12.6	8.0	8.2	9.5	10.3	9.6	9.2	13.0	13.6
Agriculture and forestry	29.9	26.7	54.8	66.3	64.5	41.9	31.0	28.2	24.8	24.7	20.2
Construction	8.7	7.8	6.7	0.8	1.7	2.2	4.6	4.8	5.7	3.7	3.7
Transport	6.7	6.1	3.5	3.4	4.8	8.0	5.2	8.6	10.8	9.4	11.8
Communication	0.4	0.6	0.6	0.1	0.3	0.5	1.1	1.7	2.3	2.5	2.5
Trade	5.7	5.7	1.7	6.8	8.3	26.0	22.2	22.0	21.8	11.5	12.7
Other sectors of material production	1.7	1.7	1.9	0.6	0.1	0.4	1.6	1.8	1.7	64.8	64.5
Non-material production	18.7	17.5	17.1	8.6	10.0	5.9	20.4	19.1	18.9		
Other	5.3	7.2	1.1	5.4	2.1	5.6	5.6	4.7	4.7		

Table 2: Structure of GDP by sector, 1990–2000

Source: State Statistics Committee of Georgia

In 2002 there were over 60,000 enterprises in Georgia, 75% of which were small and medium-sized ones. A law on 'Support to small and medium-sized enterprises' was passed in 2002, determining the basis of organisational support to small and medium-sized enterprises. Unfortunately, the current economic situation and tax system still hinder the development of small and medium-sized businesses and contribute to informal and shadow sectors. The share of the informal sector in GDP amounts to about 40 to 45%. The scope of the informal sector is a serious negative factor, holding back an effective state social policy.

1.2 SOCIAL SITUATION

The economic slump was accompanied by a sharp deterioration in living standards, the level of growth, and the depth of acute poverty. The average monthly household income amounts to about US\$75 to \$80; of which about 73 to 78% is monetary income, and the remaining 22 to 27% in-kind. Only approximately 33 to 40% of income is obtained from employment; 12 to 15% from selling agricultural products; 5 to 6% from pensions, stipends and state benefits; 6 to 7% as assistance from other people; and 10 to 15% from the sale of property, borrowing money or using available accumulations. This testifies to the deterioration of the material situation of the population - firstly household income is less than half the subsistence level, and secondly the share of income obtained from employment in the overall income is very small.

The biggest share of family expenditure (76%) is on consumer goods; the purchase of food takes up 41%; clothes and footwear 5%; household goods and fuel and energy about 7 to 9%. Transportation takes up about 6% of overall expenditure. It is alarming that 1.5% of family expenditure is taken up by the purchase of tobacco products, while expenditure on education, culture and recreation reach only 2.2%. The share of healthcare is on average 1%.

The above structure of household income and expenditure reflects a low level of living standards. Given a relatively high value of the GINI index² in Georgia (0.39 for total consumption and 0.58 for monetary income), which points to a considerable imbalance in the distribution of income, it becomes clear that most families, and the population at large, are living in poverty. International assistance in the form of grants and low-rate credits, as well as the material wealth accumulated by the population (of the 15 Republics of the Soviet Union, Georgia occupied the first place in terms of living standards), have been instrumental in slowing down the worsening of living standards. Moreover, this has contributed to the physical survival of the people.

According to the conclusions of World Bank research into poverty in Georgia, '[it] is strongly linked to the situation on the labour market... Unemployment and a low level of income generated by employment are the core reasons for which families living in Georgia cannot overcome poverty'³.

1.3 DEMOGRAPHIC SITUATION

The deterioration of the standard of living has created unfavourable demographic indicators. The total birth rate has fallen from 17% to 8.9%, with the cumulative birth rate amounts to 1.1, which is less than half of the value necessary for the simple reproduction of the population (2.4). The death rate has risen from 8.4% to 9.1%. However, it can be assumed that in reality the death rate is higher than the one shown in the official statistics.

The most acute social-demographic problem is the large scale of migration (also labour migration). Due to this migration the absolute number of the population has decreased: from 1990 to 2000 it shrank by 1 million people to a total of 4.5 million.

² The GINI index measures the extent to which the distribution of income (or consumption) deviates from a perfectly equal distribution.

³ World Bank, Georgia – Poverty and distribution of incomes, report in 2 parts: part 1, March 1999, p. 5.

Given the age structure of the population, the on-going changes in the latter, and the negative balance of external migration that is expected to persist⁴, by the beginning of 2010 the working age population is expected to decrease dramatically while the retirement age group will grow sharply. As a result, the economic and demographic pressure on the working age population will increase.

1.4 SITUATION OF THE LABOUR MARKET

As an aftermath of the economic decay, employment prospects have dramatically reduced, and as a result, the number of unemployed people has risen. In 2002, the official level of unemployment amounted to 10.3%. This official data, however, does not reflect reality. According to expert estimations the real level of unemployment is 30 to 35%. Among the employed, many are 'self-employed' (for instance the rural population, which has about one hectare of land) or working in the informal sector. As the unemployment benefits are low and no real opportunity exists to find a job through the employment service, many unemployed people do not register with the unemployment centres (see Table 3). The growing unemployment rate in recent years can be explained by both the shrinking latent unemployment and by mass redundancies at privatised enterprises/institutions previously financed from the state budget.

The distribution of the employed population by sector does not meet the country's economic development targets. A very small share of the labour force is employed in industry and construction, the biggest part in institutions of state governance and self-government, education and health. The majority of the self-employed work in agriculture, trade, transportation enterprises and community services. Among the self-employed, the share of entrepreneurial employers is still very small (1.2 to 1.5%). However, it is this category that will play a decisive role in the country's economic development and resolution of the unemployment problem.

According to the Labour Market Research carried out in 2002, the demand structure for the work force is as follows: 36% are specialists with the highest qualifications, 15% mid-level specialists, 10% qualified workers in industry, construction, transportation and communication sectors, 39% low-qualified and unqualified workers.

The salary level is very low. In 2000, the average monthly salary amounted to 72.3 lari (about US\$34), which is about 60% of the subsistence level of an average consumer. The official minimum salary is 20 lari (about US\$9), which is about one sixth of the subsistence level (115 lari). The low income generated by employment creates the need for secondary employment, or other forms of activity. Secondary employment is typical for about 10 to 12% of the employed population; for 90% of them it is essential for their survival and that of their families.

The structure of workforce training and its quality require serious improvements. Analysis shows that the distribution of trainees by level of qualification and industry does not meet the needs of the labour market. Despite the fact that for quite a long time the labour market has

Table 3: The share of hired and self-employed population in the total employedpopulation (%)

Year	Share of hired workers	Share of self-employed
1990	90.6	9.4
1995	46.4	53.6
1997	38.4	61.6
2000	37.2	62.8
2001	34.8	65.2

4 It is a well-known fact that the absolute majority of emigrants are people of working age.

been saturated (numerically) by specialists with a higher education background (teachers, engineers, economists, medical doctors, specialists in foreign languages, journalists, etc.), excessive training in these occupations continues, while the demand for qualified advertising agents, insurance agents, security guards, cooks and nurses remains unaddressed.

1.5 EMPLOYERS' REQUIREMENTS FOR KNOWLEDGE AND SKILLS

Employers have been interviewed on their needs for knowledge and skills by means of questionnaires developed specifically for each occupation. The response analysis shows that the majority of employers are not aware of the importance of VET for the success of their business and commercial activities. Despite this, the analysis of the questionnaires concludes that:

employer requirements, in view of the volume and quality of professional

knowledge and level of qualification, have increased considerably, especially regarding new technology/techniques and ICT, socio-psychological qualities of workers, communication culture and knowledge of foreign languages (especially in service sector occupations);

professional skills have become more important; functions and types of professional activities have diversified considerably.

Due to the growing competition of the market, employers are setting increasingly high requirements for qualities such as sense of responsibility, moral qualities, creativity, ethics, flexibility, the ability to overcome stressful situations, updated knowledge and skills, etc.

2. DEVELOPMENTS IN EDUCATION AND TRAINING

Before 2003, compulsory education consisted of only six grades, which resulted in growing numbers of socially disadvantaged adolescents in the country. The problem was further aggravated by internal conflicts. Every year up to 6,000 to 7,000 adolescents left secondary schools without any qualifications. One of the consequences is that about 60% of the population lives below the poverty line, having had only primary education. In 2003 compulsory general education was raised to nine grades, which should to a certain extent, alleviate the problem.

2.1 INITIAL TRAINING

Within formal education, initial training includes secondary and tertiary (post-secondary and higher) vocational education but not secondary general and university level academic education. The structure of initial training (regardless of tertiary vocational education) has been changed according to Table 4.

International level		National level	Educational programme	Basic general education	Length of study	Age	
	4	4A	4A (b)	Initial VET on the basis of general education	Secondary education	1–2 years	17–19
	3	3B		Initial VET, obtaining general education	Secondary education	2–3 years	16–18
	3	3C	3C	Initial VET, without obtaining general secondary education		2 years	16–17
	2		2 (c)	Apprenticeship	Basic secondary education	2–3 years	14–15

Table 4: The initial training structure

In 1998, the Parliament approved the law on initial vocational education and training. It covers the following:

- state educational standards and initial training curricula;
- initial training institutions supported by the state;
- managing bodies of initial training institutions.

The number of initial training schools financed by the state decreased from 158 in 1990 to 48 in 1999. In addition, 10 schools are self-financed. Training is provided in 14 occupations. The state finances only teachers' salaries, which amount to about one fifth of the subsistence level.

2.2 ADULT AND NON-FORMAL TRAINING

There are currently about 200 providers of adult training, including NGOs, international organisations and private providers. Over 10,000 people are trained annually.

As of 2002, non-formal education was offered by 230 providers, including 141 donor agencies that offer about 30 different types of education services in the areas of economics (finance, credit, management, marketing, business and entrepreneurship, management systems), ICT, foreign languages, medicine and psychology, culture, arts, ecology and environmental protection, accounting, standardization, metrology, gender issues, trade, catering, etc.

2.3 GOVERNANCE AND RESPONSIBLE BODIES

VET policy is regulated by the Constitution, the law 'On initial VET' and 'The standard regulations on initial VET institutions', and by other normative documents of the Ministry of Education regulating education institutions. Developments in VET policy reflect the changing orientation from planned to market economy. A major step was the change of the organisational and legal form of initial training institutions. A total of 84 education institutions were founded as legal entities of the public law, which gave them a high degree of independence and responsibility for operating in market conditions. According to the law, they are organisations outside state control and carrying out their activities autonomously. A strategic plan for the development of initial training is in process.

2.4 MODERNISATION OF THE VOCATIONAL EDUCATION AND TRAINING SYSTEM

At present the main challenges of initial training modernisation are as follows:

- raising the quality of education institutions in terms of their integration into the regional economy; creating mechanisms for rapidly addressing labour market needs and setting up vocational orientation and consulting services based in education institutions;
- integrating entrepreneurship into VET, developing professionalism and entrepreneurial qualities, skills and behaviour in students. The first step in this direction was a series of workshops, based on the ETF publication Entrepreneurship in VET for administrators of training institutions, with the participation of social partners. Parallel to this, a module entitled 'Fundamentals of entrepreneurial activities' was developed. Entrepreneurship education is performed both as an integrated part of occupations, and as a separate module;
- introducing commercial occupations according to the market requirements and reviewing curricula and programmes, accompanied by the development and implementation of new vocational standards. This activity began several years ago and has been supported by the ETF, the German Technical Assistance Association, and the Association of People's Universities (Germany). In 2002 vocational standards were developed for the

following occupations: carpentry, builder-painter-decorator, agricultural production (farmer), cook-confectioner, bartender, waiter, head waiter, salesperson, secretary, nurse, machine-operator, electrical and gas welder, driver, auto mechanic, computer operator. Standards were developed and evaluated with the active participation of entrepreneurs, researchers, NGOs and representatives of private businesses;

- retraining and further training of administrators and teachers;
- developing social partnership and mechanisms of interaction between enterprises and education institutions, setting up boards of trustees in VET institutions, creating mechanisms of regional cooperation and interaction between education institutions and employment services;
- enhancing the role of initial training in combating poverty and qualifying disadvantaged groups (refugees and homeless children).

The reform and modernisation of initial training is hampered by its totally insufficient financing. The law 'On initial VET' identifies a model of multi-channel co-funding of VET institutions. Due to the economic crisis and the high poverty level in the country it has not been possible to fully activate alternative sources of funding, though their number is constantly growing.

With support of the German Institute of International Cooperation of the Association of People's Universities (IIZ/DVV), consultations were held with farmers and workers of the agricultural sector at agricultural institutions in such areas as organisation and running of farms. The consultations involved eight out of 12 regions of the country. Prior to the consultations specialized teachers were trained according to the VET standard 'Master of agricultural production (farmer)'.

3. DEVELOPMENTS IN THE EMPLOYMENT POLICY

3

The legal framework for the state employment policy is set down in the law 'On Employment'. As well as this, a number of legal normative documents (provisions, regulations, instructions) have been adopted, which determine concrete mechanisms to implement the state employment policy. The above legal framework points out the priority of active employment policy against passive measures. Specific attention⁵ has been given to the support of entrepreneurial activities and encouragement of acting entrepreneurs to create new jobs by providing loans, subsidies and guarantees.

The state employment policy is formulated in the state programmes on 'Promoting employment and social protection of the unemployed' that are developed and approved annually together with the country's state budget under the competence of the Ministry of Labour, Health and Social Protection (MoLHSP). Other state entities take an active part in their development, for example the State Employment Service; the Ministry of Economics, Industry and Trade; local administration and self-government bodies, private entities, NGOs, associations of entrepreneurs, professional associations, etc. Since January 2003, the financing, implementation and monitoring of these programmes have been taken over by the Unified State Fund of Social Insurance, which is a legal entity under the public law and controlled by the MoLHSP.

In 2002, the following measures were taken:

- provision of unemployment benefits;
- assistance to the unemployed in finding employment;
- temporary employment of the unemployed;
- training of the unemployed.

⁵ Together with the traditional areas of the employment policy (mediation aimed at work placement of the unemployed, training, re-training and up-skilling the unemployed; organisation of public works for temporary employment; social protection of the unemployed).

Apart from these measures, the

programme for 2003 includes a number of new ones:

- subsidised jobs for workers with low competitiveness;
- creation of new jobs through business incubators;
- setting up of a guarantee fund.

3.1 GOVERNANCE AND RESPONSIBLE BODIES

The supervision of the state employment policy is vested in the MoLHSP; its implementation is processed through the State Employment Service, which is a legal entity under public law that autonomously carries out its activities under the supervision of the MoLHSP. It is made up of the central headquarters, services in the Abkhaz and Adzhar Autonomous Republics, city and district branches.

Private entities also take part in implementing the state employment policy. The participation of social partners is foreseen. In 2001, a General Agreement on the mutual cooperation and responsibilities in the sphere of employment and labour market regulation was concluded between the government, employers' organisations and trade unions. Currently, the Agreement for 2003–04 is being developed.

3.2 EMPLOYMENT SERVICES

The employment services provided to job seekers and unemployed people are mainly offered by the State Employment Service. The services include:

- organisation of job seeker mediation;
- information to job seekers and employers about the demand and supply of the work force;
- vocational orientation for job seekers;
- information to the public about core areas of the state employment policy and programmes;
- provision of temporary employment via public work;
- organisation of vocational training, re-training and up-skilling for job seekers;
- assignation of unemployment benefits.

In 2002, of 39,295 job seekers registered with the State Employment Service, 6,005 people found employment, 155 were employed at public works, 533 were trained through the State Employment Service, and 1,469 were assigned unemployment benefits. A main reason for unemployment is that most of the job seekers have a university degree and the vacancies relate mainly to vocational and unskilled professions.

Employment services are also offered by private employment agencies that widely use the media, special promotional materials, and services of special agents to inform the public. Private employment agencies can charge employers for their services but they are not allowed to charge the unemployed for mediation, though in practice this is often violated. In addition to mediation they offer analysis of employers' needs, based on which a multi-stage selection of personnel is carried out with the organisation of specialized training, etc.

4. INTERNATIONAL ASSISTANCE

4.1 EU ASSISTANCE

The Tacis Action Programme 2002–03, with an indicative budget of 14 million, focused on support for institutional reform, as well as on support in addressing the social consequences of transition, with special attention to the health sector. Support to education was only provided through Tempus.

In 2003 the European Commission undertook a significant revision of the country strategy paper (CSP) 2002-06 in light of the serious deterioration of the security situation in the country. The Commission declared it was ready to continue to provide support to Georgia if serious steps were taken towards credible reforms against the current weak rule of law, high levels of corruption, internal conflicts, as well as high levels of external debt. The revised Community assistance strategy aims therefore at encouraging the reform process and strengthening civil society and identifies poverty reduction as the primary focus.

The National Observatory - established in 1997 with Tacis and ETF support - is the only institution in Georgia in charge of the gathering, analysis and dissemination of customised information and data on training and the labour market in support of VET reform in the country. In partnership with the Finnish National Board of Education and the Latvian National Observatory, the Georgian National Observatory implemented the project on 'Developing strategies for knowledge management'. The project aimed at setting up a flow of information on VET and the labour market. It strengthened the National Observatory's function as a centre of information and knowledge on VET.

The above mentioned revised CSP 2003–06 and related National Indicative Programme (NIP) 2004–06 include three new key areas of Community assistance:

 the promotion of rule of law, good governance and respect of human rights;

- specific measures to support the fight against poverty, with particular focus on health and social safety nets;
- the promotion of conflict prevention, resolution and post-conflict rehabilitation.

Support in the field of education is not foreseen outside Tempus. In the fight against poverty in Georgia, Tacis has therefore given priority to health and social security over education.

4.2 OTHER DONORS

Apart from insufficient state support, vocational education and training in Georgia is stymied by a lack of donor organisations and international projects. There is no donor organisation supporting initial vocational education and training. Partner organisations are the ETF and GTZ (German Technical Cooperation Agency). Georgia's partner country for VET is Finland and its National Board of Education.

The World Bank is supporting the reform of general secondary education with its project on 'Education strengthening and realignment'. It started in 2002 and the Bank allocated almost US\$30 million.

5. CONCLUSIONS

VET is slowly embarking on the path of transformation, adaptation to the new social and economic situation and the changing requirements of the labour market. These processes are revealed in:

- changing VET policy and its orientation towards the labour market;
- the creation of new VET standards based on employers' requirements and international experience;
- considerable expansion of the autonomy of state vocational institutions and their functions;
- the introduction of training for adults and unemployed people;
- the development of cooperation between VET policy/institutions and labour and employment entities;
- the strengthening of interaction with international organisations.

According to the inconsistent position of policies regarding the importance of a well-performing VET system, there is a lack of strategy for a VET system reform. But there are groups of committed people who promote the importance of VET in curbing unemployment and combating poverty. However, in moving towards these goals, there is not only the problem of insufficient policy support but also the following:

- a low level of integration of vocational institutions in the economy;
- weak links between vocational institutions and enterprises;
- inadequate involvement of social partners and entrepreneurs in VET;
- insufficient interaction between vocational institutions and employment services;
- discrepancy between the material and technical basis of vocational institutions and the new vocational standards;
- a low level of economic thinking of VET principals and teachers;
- slow introduction of new teaching methods;
- insufficient work with socially disadvantaged groups and the disabled to raise their employability;
- insufficient emphasis on VET for women;
- lack of vocational research institutes.

LIST OF ACRONYMS

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CIS	Commonwealth of Independent States					
CSP	Country strategy paper					
EU	European Union					
GDP	Gross domestic product					
ICT	Information and communication technology					
MoLHSP	HSP Ministry of Labour, Health and Social Protection					
NGO	Non-governmental organisation					
NIP	National indicative programme					
VET	Vocational education and training					

EUROPEAN TRAINING FOUNDATION

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