



COUNTRY ANALYSIS 2005
ARMENIA

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Summary

Since the mid-1990s, the Armenian government has been among the most advanced reformists in the New Independent States, and Armenia has been among the fastest growing economies in the Southern Caucasus. However, Armenia is resource-poor, remains a landlocked economy, and has low income levels despite a high, although rapidly diminishing, stock of human capital. The country's future depends on the government's ability to expand investment in human capital and support export opportunities for Armenian firms by helping them to restructure and by facilitating their linkages with global markets.

An active policy to explore the economic returns of emigration must be implemented to improve the contribution of the Armenian diaspora and recent labour emigrants to productive investment and transfer of technology.

The government needs to maintain the consistency of the current VET reform process and focus on the lifelong learning perspective across the system, which provides incentives to enrol in VET.

Donor assistance is needed to support further development of the VET system within a lifelong learning perspective, and compliance with the Bologna principles. Key topics for donor assistance to VET include: revision of the qualifications system based on a new conceptual foundation in line with international developments; occupational and educational standards based on sound methodology; competence-based learning; quality assurance; and capacity building on information and analysis.



1. Current situation and trends in human resources and labour market development in Armenia

The transition in Armenia occurred in the context of such factors as a serious energy crisis in the first half of the 1990s; a catastrophic earthquake in 1988 in the north; conflict and war with Azerbaijan and a related blockade of major transportation routes; and a serious brain drain resulting from waves of emigration.

Armenia is a resource-poor country with a per capita GDP of US\$893.9 in 2003¹. However, strong growth in recent years has been instrumental in reducing poverty from 50.9% of the population in 2001 to approximately 42.9% in 2003². In 1993, GDP had shrunk to a level amounting to less than half that of 1990, but from 1994 to 2003 growth averaged 8.2% per annum. In 1998–2003 the economy exhibited an average real GDP growth rate of 7.7%³. In 2004, economic growth in Armenia stood at 10.1%, up from the 7% envisaged by the monetary policy programme of the Central Bank of the Republic of Armenia, according to its 2004 report⁴. The drivers of Armenian growth are the subject of some debate, but much of the country's recent performance is linked to the construction boom, exports and significant transfers from emigrants.

At present Armenia has the smallest population of the three ENP countries in the Southern Caucasus region, with an estimated 3,215,700 in 2004 against 3,753,500 a decade previously (1994). The last census (2001) registered, for the first time ever, the shock of the migration that had occurred since the early 1990s⁵. The census counted 3,002,594 de facto population and 3,213,011 de jure. The share of males is 48% of the de jure and 46.9% of the de facto population⁶. Mobility of the population is high – around 200,000 move in and out of the country every year.

Unfavourable demographic trends are clouding Armenia's economic recovery prospects, according to a recent study⁷. The large number of victims of the earthquake of 1988 and the economic disruption that followed the Soviet Union's collapse have contributed significantly to current Armenian demographics (birth and migration rates). Demographic trends have been determined by high emigration and declining birth rates, resulting in a population which is clearly ageing. In 2004, according to official statistics, 10.6% of the population was estimated to be over the age of 65. Though the country's emigration rates have recently declined, the report finds that the damage to the Armenian economy may prove lasting. The Poverty Reduction Strategy Paper (2003) pays relatively little attention to demographic problems; the document simply implies that a reduction in poverty will lead to a decrease in migration.

Another population study, presented at an Organisation for Security and Cooperation in Europe meeting in late 2004, made a startling forecast: if Armenia's demographic trends continue to follow the existing pattern, the country's population could fall to 2.66 million by 2025. That would represent a decrease of over 16% from the official population figure of 3.2 million on 1 January 2005. By 2050, the numbers could tumble still further to 2.33 million.

Roughly a fifth of the population emigrated in the transition period. Migrants were firstly urban, skilled people active in industry, services, and science. Another significant group of emigrants was young people upon completion of their studies (complete general and tertiary education). The resulting brain drain raises a challenge for socioeconomic development in the years ahead.

The Armenian economy shows elements of different structures: alongside a large subsistence economy with low productivity and high self-employment operating mainly informally, a smaller layer of private enterprises in faster growth activities has developed, which have performed a successful transition to the market economy. Alongside these are a number of enterprises and organisations operating at a fraction of the capacity they possessed in previous years, with poor prospects for sustainable growth.

¹ Government of the Republic of Armenia, *Poverty Reduction Strategy Paper progress report (August 2003–August 2004)*, Yerevan, September 2004, p. 7.

² Government of the Republic of Armenia, *Poverty Reduction Strategy Paper progress report (August 2003–August 2004)*, Yerevan, September 2004.

³ E. Loukoianova and A. Unigovskaya, IMF Working Paper 04/151, "Analysis of recent growth in transition economies", pp. 5, 7.

⁴ See www.armeniadiaspora.com/js_05/050525econ.html. The Central Bank states that the unprecedented growth of the country's agriculture was another important peculiarity in 2004. The report points out that agriculture accounted for 3.1% of the overall economic growth rate; the service sector accounted for 4.3%, and the building industry yielded 2.1%. Industrial production accounted for only 0.4%, down from 2003; this can be linked to structural changes in the industrial sector.

⁵ Roughly 800,000 fewer people than estimated before the census.

⁶ State Committee of the Organisation and Conduction of the RA Census 2001, *Results of the census of the Republic of Armenia*, 2001, p. 143.

⁷ See www.eurasianet.org/departments/business/articles/eav030705.shtml, "Social Demographic Challenges of Post-Soviet Armenia", funded by the United Nations Population Fund, 2005.

Armenia has a large informal economy, according to a recent study⁸; informal economic activities represented approximately 49% of GDP in 2002–2003, a higher rate than in the period 1999–2001.

The general shrinkage of economic activity and the collapse of industrial enterprises in the years of transition led to significant structural changes in GDP and in employment. The structure of the economy changed through a marked reduction of the share of industry in GDP (from 33% in 1990 to 22% in 2003) and a growth in the share of agriculture (from 17% to 24%). In 2003 agriculture acquired the leading share of employment (46%), with industry maintaining only a 12.5% share; these figures were 17.7% and 30.4% respectively in 1990. The services sector (including trade and public catering, and transport and communications) increased its contribution to GDP from 30.8% in 1990 to 37.6% in 2003.

Agriculture exhibited an unprecedented increase of its GDP share in 1990–1995 (reaching 42.3% of GDP in 1995) that subsequently declined. The growing accumulation of the labour force in agriculture is critical⁹; in 1995 the share of the labour force in agriculture was 37.4% while the sector produced 42.3% of GDP, whereas in 2003 the labour force share reached 46% but production was only 23.5% of GDP. This concentration of the labour force in agriculture is partly linked to the massive emigration that occurred mainly in the urban population (active in services, industry and scientific work)¹⁰. The concentration of labour surplus in an output-declining sector such as agriculture¹¹ highlights the low productivity of the sector and indirectly contributes, as a reserve of cheap labour, to a slower growth of wages. Subsistence agriculture is a partial solution to underemployment and goes hand in hand with the low income that causes much of the poverty.

Economic growth in the non-agriculture sectors has taken place in conditions of declining employment rates, which occurred mainly in manufacturing (502,900 job losses or 67.7% of losses in non-agricultural sectors). Increases in employment occurred only in the trade sector. Thus, economic growth in the non-agricultural sectors occurred due to an increase in productivity. In Armenia in 1994–2003, during conditions of 8.2% average annual economic growth, employment declined by an average of 3.3% annually (in the non-agricultural sector employment was reduced by 5.7% annually, in conditions of 8.8% average annual economic growth)¹². Analysis shows that some of the job cuts actually concerned “ghost jobs” or fictitious jobs in stagnant enterprises that widely adopted a policy of maintaining employment levels via salary/time cuts and compulsory leave.

Unemployment was officially recognised in 1992 and has increased over time¹³. The 35–49 year age group had the highest employment rates in 2004 (54% to 56%), but the unemployment rate was not low among members of this group (25% to 27.4%). The 60–64 year age group has a relatively high employment rate (40.5% in 2004). The highest unemployment rates are concentrated among the younger groups (15–19, 20–24, 25–29 years), ranging from 65.9% to 32.7%. The most stable high unemployment is in the 20–24 year age group (60.1% in 2001 and 55.1% in 2004).

⁸ Friedrich Schneider, *Shadow economies of 145 countries all over the world: Estimation results over the period 1999 to 2003*, March 2005, pp. 18–19. In this study, the shadow economy is defined as market-based legal production of goods and services that are deliberately concealed from the public authorities in order to avoid payment of taxes and social security, compliance with legal labour market standards, and certain administrative procedures. The study does not deal with trade in illicit goods or economic crime. The Armenian figure is the lowest among the three Southern Caucasus countries. Azerbaijan is reported to have reached over 61%, and Georgia 68%. For a rough comparison with other ENP countries, the Ukraine has a rate of 54.7%, the Russian Federation 48.7%, Moldova 49.4% and Belarus 50.4%.

⁹ *A preliminary assessment of the Armenia labour markets with focus on youth employment*, final report, World Bank study carried out by Avag Solutions Ltd, Yerevan, 2004.

¹⁰ In comparison with some New Independent States, in 2003 Armenia showed a higher share of agricultural employment than Azerbaijan, Moldova, Kazakhstan and Uzbekistan; Georgia with 54.85%, Kyrgyzstan with 52.61% and Tajikistan with 46.19% showed higher figures.

¹¹ According to official statistics, employment in agriculture amounted to 509,000 in 2003, compared to 289,000 in 1990.

¹² *A preliminary assessment of the Armenia labour markets with focus on youth employment*, final report, World Bank study carried out by Avag Solutions Ltd, Yerevan, 2004.

¹³ The following figures, provided at the ETF's request by the National Statistical Service in June 2005, show some recovery in activity and employment rates in Armenia in the period 2001–2004; nonetheless, unemployment rates are very high. The unemployment rate fell from 38.9% in 2001 to 32.3% in 2004; the lowest rate in the period was 31.5% in 2003. The employment rate grew from 32.8% in 2001 to 40.5% in 2004, with a regular yearly pace. The overall activity rate was at 53.6% in 2001 but grew to 59.9% in 2004.

State Employment Agency unemployment data differ strongly from the above and show a figure floating from 11.2% in 1999 to 10.4% in 2001 and down to 9.4% in 2002, without further changes until 2004¹⁴. The labour market is neither efficient nor effective due to missed and poor connections between employers, people seeking jobs, and the education and training system. Unemployment exists alongside vacant jobs because of skill shortages.

Informal employment grew significantly in urban areas, accompanied by a reduction in formal incomes. No less than 70% of total employment is located in small enterprises, agricultural work and self-employment. Informality in labour relations among formal enterprises is common; about 80% of employees in trade and services work without labour contracts.

Import substitution and domestic absorption largely contributed to economic growth in 1994–1999, but the period 2000–2003 was characterised by a marked increase in the share of exports in economic growth. Exports registered a strong expansion in 2001–2003, largely due to one key item: polished diamonds¹⁵. This activity has low job creation potential, however.

Progress in poverty reduction indicators throughout 2004 was quicker than anticipated, accordingly to a recent survey by the National Statistical Service (NSS). Among the most surprising figures showing unexpectedly rapid progress was the fact that the percentage of Armenians living below the poverty line fell from 50% in 2002 to 42.9% in 2003. Similarly, the number of the poorest Armenians – those who earn less than 7,742 drams (about US\$15) per month – also took a surprising plunge, from 13.1% of the population in 2002 to 7.4% in 2003. At the same time, the survey indicated that the country's income gap between rich and poor had narrowed slightly. Several government circles and analysts challenged these results, considering them very optimistic. Some representatives of the NSS themselves have admitted to being caught off-guard by the survey's results¹⁶. However, the World Bank has expressed no objections to accepting the results.

Armenia's long-term diaspora, as well as the communities of recent migrants, contribute significantly to supporting households' revenues and investments in the economy. The impact of remittances on Armenian society is significant – the official estimate of remittance inflows was US\$289 million in 2003. A study of 2004 proposes an alternative estimate: roughly US\$900 million, or approximately 30% of GDP¹⁷. The economic effects of remittances are positive for poverty reduction, but also for capital accumulation. The 2004 study concludes that remittances in Armenia reduce poverty and inequality, since for beneficiary households remittances make up 80% of household income on average. Remittances do appear to be going to some of the most vulnerable households. Evidence on the use of remittances suggests that they are invested mostly in housing, land, education and small businesses¹⁸, as well as in education, which would otherwise be unaffordable. The study suggests that remittances can sometimes keep adults out of the labour force.

One source of pride for Armenia is its tradition of university education and scientific and technological research. Armenia had a very developed education system that provided qualified workers and technicians, and developed new products and technologies for industry. Despite the effects of the transition, enrolment rates have remained high, but policy is needed to support equality and the necessary shifts in the education system: (i) net enrolment in the 8- to 15 year-old age group constitutes 98.7%; (ii) enrolment in senior schools¹⁹ (including initial VET) has fluctuated in recent years between

¹⁴ The total number of registered unemployed was 118,646 at the end of 2003 and 108,622 at the end of 2004.

¹⁵ This item accounted for over 50% of exports in 2002, and 41% in 2004. Polished diamonds are a very high-value raw material (88–91% are imported diamonds and precious metals) and have low added value. Other items with high shares in exports and steady growth trends are: non-precious metals, ores and metals, foodstuffs, textiles, and instruments and devices.

¹⁶ Food Security Statistics raised questions about the criteria used to determine who is “very poor”, saying that the food basket used to determine purchasing power was actually more like a “bread basket”.

¹⁷ USAID, “Remittances in Armenia: Size, impacts, and measures to enhance their contribution to development”, Yerevan, October 2004, unpublished. This study considers remittances from non-emigrant temporary workers and longer-term emigrants, as well as formal and informal transfer channels.

¹⁸ With less going to the formal financial sector as savings.

¹⁹ Compulsory education was eight years' schooling for those who entered school before 2001, and nine for those who entered after 2001. Senior school (general) has a duration of two years after compulsory education. Secondary VET (“middle professional”, colleges) has a duration of two to three years after compulsory or one to one and-a-half years after complete general education and gives a qualification of “junior technician”. Initial VET (now designated

70% and 75%; (iii) approximately 22% of 17 to 24 year-olds were covered in professional education programmes in 1997–2001²⁰.

During the transition period, the public education system (professional and higher education) introduced paid education and reduced the number of non-paying students. Following a period of steep decline in entrants to VET, in recent years this tendency has been inverted and some growth has occurred in the number of applicants to secondary vocational education institutions²¹. The highest concentration of vocational students is in public health and sports (23.1%), economics (17%), teaching (15.8%), and transport and communications (14.1%). Arts and cinema with 6.8% of VET students and industry and construction with 6.2% represent another group worth mentioning. At present, a clear gender imbalance characterises enrolment in secondary VET establishments (colleges), where girls largely dominate. Boys tend to work towards higher education, to a certain extent to avoid military service.

Summary

Large-scale economically driven emigration, primarily of urban residents active in industry and services, has been a major factor in Armenia's overall drop in population since the Soviet collapse in 1991. This has also affected the structure of employment (increase of employment in agriculture) but has had a greater impact on the skills of the Armenian labour force (brain drain).

Armenia's strong economic growth in 1994–2003 occurred in conditions of declining overall employment, particularly in the non-agricultural sectors. Decreasing demographics, gains in productivity in industry and the shift of labour to agriculture and widespread informal employment characterise this challenging feature of Armenian growth. A large shift of the labour force into agriculture occurred, but the sector's share of output in the country's GDP has nonetheless decreased; this shows decreasing productivity in the sector that employs almost half of the labour force.

2. Contribution of HRD to socioeconomic development, with particular attention to employment and social inclusion

The Poverty Reduction Strategy Paper (PRSP) places priority on increasing the public financing of the education system. The target is to increase education expenditure from the consolidated budget, in 2004–2015, by an average of 13% per annum in nominal terms (approximately 4.5% per annum in the first five years, 2004–2008). If in 2003 consolidated budget expenditures in education amounted to 10% of the total state budget expenditure, the target is to reach a 14.1% share in 2006 and a 17.6% share in 2015. This increase will result in an inter-sectoral redistribution of budget expenditure in favour of education. In the first years, the bulk of increased expenditure will benefit secondary education.

The PRSP covers secondary vocational and higher education sectors at a second level in its objectives, general education being given top priority. General education is considered as a basis from which to increase enrolment in senior schools and the professional education system, particularly for children from vulnerable families.

The PRSP clearly recognises the role of VET in poverty reduction and economic development, since it states that the principal way to reduce the existing high rate of structural unemployment is to carry out reforms of the VET system. Policy objectives concerning secondary vocational and higher education include: (i) compatibility with rules of market economy; (ii) enhanced quality and compliance with international standards; and (iii) improved accessibility and equality.

The PRSP envisages measures to promote enrolment in both upper secondary school and professional education programmes, with particular attention to equality issues.

"craftsmanship preliminary VET") has a duration of two to three years after compulsory education and gives a qualification of "craftsman".

²⁰ Poverty Reduction Strategy Paper, Yerevan, 2003, pp. 80–81.

²¹ Some figures: in 1991, there were 55,980 VET students; in 1998, 28,390; in 2002, 28,600; and in 2004, 34,184. These are official figures and they represent the total number of students in all years of study. Secondary VET corresponds to "middle professional education".

The state education administration authority is the Ministry of Education and Science. However, the Ministries of Health, Agriculture, Culture and Youth Affairs, and Energy also have VET establishments under their authority. The Law on Education defines the current education programmes offered in Armenia: (i) general education programmes (basic and supplementary); and (ii) professional education programmes (basic and supplementary).

Professional education programmes are aimed at preparing qualified citizens for the world of work through the sequence of the general and professional levels of education, the shaping of abilities and skills, the enlargement of the scope of individuals' knowledge, and the improvement of individuals' qualifications. Basic professional education programmes include: (i) preliminary professional (craftsmanship), corresponding to initial VET; (ii) middle professional (non-tertiary); (iii) higher professional; and (iv) post-graduate professional.

In 2001 Armenia reorganised its public VET establishments to rationalise primary and secondary vocational institutions, reducing redundancies in terms of geographical location and areas of study. Since initial VET schools were not recognised as a separate type of education institution within the framework of the rationalisation programme for professional education (1999), they were reorganised and reshaped into high schools with vocational shifts (45 such establishments) and were either reunited with secondary VET establishments (nine such schools) or dissolved (four VET schools)²². In reality, initial VET was disrupted. Since 2004 the Ministry of Education has been restoring initial VET programmes, and over 24 establishments have resumed services; the overall initial VET curriculum is undergoing revision, however, and is currently narrow and disorganised²³.

In 2003, Armenia engaged in a process of more consistent reform and modernisation of the VET system, with Tacis assistance. In 2004, the Ministry of Education officially adopted the VET Reform Strategy drafted in the framework of Tacis cooperation in 2003–2004. The project identified the key problem areas in the present VET system, which were categorised as follows: (i) Inadequate opportunities for young people and adults in lifelong professional education and training; (ii) low quality of VET provision; (iii) weak organisational structures and partnerships; and (iv) inefficient resource mobilisation, distribution and utilisation. The major strategic guidelines of the Reform Strategy include such points as educational continuity, skills provision according to personal capacities and to economy and labour market needs, involvement of social partners, and lifelong learning.

Expanded Tacis assistance to the implementation of VET reform started in early 2004. This large project focuses on three areas²⁴, and one of its first deliverables was the VET Modernisation Priorities and Action Plan. The Plan prioritised the introduction of competency-based VET standards; the modernisation of quality assurance mechanisms and certification; the creation of a state non-commercial technical support and quality assurance institute; the improvement of cost efficiency and educational outcomes; and the optimisation of VET financing. Financial and technical support for carrying out the modernisation measures is not granted in the state budget, however. In fact, the document is a programme (endorsed by the Ministry) that represents a portfolio for the negotiation of contributions from various donors.

The VET Law drafted with Tacis support in 2003–2004 was adopted in July 2005.

Despite support from and political will on the part of the Armenian government, the initiated reform faces a number of constraints. Financial and human resource limitations reduce the capacity of the government to implement the key measures of the VET Modernisation Priorities and Action Plan. A number of questions of relevance to the transformation of the VET system are recognised, but the international technical assistance available covers only part of the important and urgent aspects and issues. VET institutions enjoy the political will essential to implementing the reform, but their human and material resources for strategic and development activities are very limited. Opportunities to learn from international practice are still few and far between, and national institutional capacity to deal with the issues presented by the reform (qualification and qualifications frameworks, standards, curriculum, quality assurance, development of teachers, innovative learning methods) requires serious investment.

²² Ministry of Education, Strategy of Preliminary (Craftsmanship) and Middle Professional Education and Training of the Republic of Armenia, Yerevan, 2004.

²³ The catalogue of professions for initial VET comprises roughly 50 main profiles (grouped in eight categories), but of these only 18 are effectively offered in schools.

²⁴ These are (i) policy and strategy; (ii) VET institutions; and (iii) employment and the labour market.

During the years of transition, reduction of public spending in education was remarkable: in 1991 state expenditure on education amounted to 7.2% of GDP, while in 2002 it reached only 2.2%. In the period 2001–2002 some 65% of public funds were channelled to elementary, basic, secondary and special education, and about 16% was allocated to professional education²⁵. In 2002, over three-quarters of all VET students studied on a paid basis.

The low level of public spending on education has resulted in a high level of household spending on education²⁶. In VET, only about 45% of total expenditure is funded by the state; the rest is funded by students' fees and other sources. The necessary expenditure for the development of the education system (rehabilitation of buildings, procurement of modern equipment, training of managers and instructors, new methodological literature, manuals and textbooks) are left to the education institutions and are funded from their external out-of-budget revenues.

The efficiency of the education system is low. In the secondary education system the pupil–teacher and pupil–non-teacher ratios are 11:1 and 18:1 respectively. Teacher remuneration is low, and workload likewise. At the end of 2004 the government started a teacher rationalisation programme, accompanied by social support measures for those affected.

Theoretical teaching still prevails; practice and internships are either formal or incomplete, due to a lack of cooperation with enterprises. Active learning and a focus on critical thinking, problem solving and creativity are still foreign concepts, and the system values theoretical knowledge above all. This situation has had negative effects on the relevance of professional qualifications.

An ETF study carried out in Armenia in 2004 shows that the market for training services has increased and diversified considerably with the arrival of non-public providers, while organisations with NGO status represent about 50% of the approximately 380 training organisations in the country. ITC courses, followed by foreign languages and crafts (jewellery, carpet weaving), predominate. Only a few public VET establishments, restructured in the framework of the rationalisation process, have engaged in adult education and training. In general, access to professional training is limited to the unstable offerings of temporary projects and NGOs or to expensive private providers, thus constraining the lifelong learning needs of the employed and unemployed population, particularly young jobseekers.

The State Employment Agency organises training for the registered unemployed as one of the measures in place to enhance their employability. In 2003 and 2004 roughly 900 people were trained, out of roughly 109,000 registered unemployed (in 2004)²⁷.

Among the registered unemployed, highly skilled professionals represent a large share (34% of the total, against 20% of individuals without professional qualifications). Of these individuals, engineers of various profiles (including programmers) are the most numerous (15%), followed by technicians, teachers, accountants and nurses. The majority of employers' requests to the Employment Services are for skilled workers and skilled professionals. However, the figure of more than 80% long-term unemployed (more than one year) shows that there is a serious mismatch between employers' requirements (and conditions/wages) and jobseekers' skills (and expectations/wages). Many skilled professionals lack the core skills (ITC, English, communication) that employers require on top of the main professional qualification; this gap is recognised by all sides as a serious barrier to relevant employment. Demand for accountants and bookkeepers is high, but these roles require competencies that generally can only be acquired outside the education system (ITC, business English, international standards).

A recent NSS analysis carried out at the ETF's request shows that labour market participants holding VET qualifications have continuously higher unemployment rates than holders of higher education diplomas. Unemployment rates in the range of 32% to 36% among VET professionals more or less compare with those of people with general secondary education, while holders of higher education diplomas show rates in the range of approximately 20% to 25%. Analysis of the employment rate among the various qualifications levels shows a significantly stronger position for higher education (rates increased from 46% to 53% between 2001 and 2004) when compared with VET qualifications (rates are stable, ranging from 42% to 44.5%). This improved employment rate among higher education graduates

²⁵ In Armenia "professional education" includes vocational, secondary, higher and post-graduate professional education programmes.

²⁶ Various contributions for extra-curricular activities, out-of-class tutoring and other informal payments.

²⁷ Women represent approximately 70% of registered unemployed (in 2003 and 2004), and are the large majority among the beneficiaries of training programmes (approximately 84% in 2003–2004).

is partly linked to an excess supply of labour force with higher education qualifications competing for jobs that require mostly secondary professional qualifications. Poor human resources management policy at the level of government and employers has caused this inappropriate allocation of skills and qualifications to jobs.

Summary

Education reform is a high priority. In 2003 Armenia began a consistent VET reform process that needs further and broader support to be sustainable. Challenges are institutional (resource limitations, poor labour market linkages) and social (shifts in students' options during the transition period that enhanced the traditional effort to acquire higher education diplomas).

An increasingly visible paradox in the Armenian labour market is the fact that when competing for jobs requiring secondary vocational qualifications, holders of VET qualifications are at a disadvantage to the excessive number of jobseekers with higher education qualifications. The inappropriate allocation of human resources to existing jobs is counterproductive to the competitiveness of the economy.

3. Current state of play of EU HRD-related programmes – achievements and lessons learned

Tacis supports VET reform in Armenia through the project “Support to the development of an integrated vocational education and training system”, started in early 2004. Preliminary work was delivered through the short-term project “Support to the development of a strategy and legal framework for the implementation of the VET reform”.

Tacis assistance has resulted in the creation of the VET strategy and the VET Modernisation Priorities and Action Plan, approved by the government, as well as the VET Law adopted in mid-2005. At present the Tacis project is working to develop modular curricula for three pilot profiles (textiles, auto mechanics and land management), and pilot testing is planned for the school year 2005/06. A second Tacis project in support of VET reform will be extended, but its revised strategy is not yet defined.

In line with the Ministry of Education's budget for technical assistance, some important areas will not be covered by the ongoing Tacis technical assistance and will require complementary contributions. These include revision of the qualifications system and adoption of a new conceptual basis in line with international developments; elaboration of occupational and educational standards based on sound methodology; sector studies and linkage with occupational profiles; improvement of curriculum development and assessment methods; revision of the catalogue of occupations; quality assurance policy; and institution building.

4. Significant investments by other donors in the field of HRD

International cooperation partners are also active in the area of VET – GTZ is conducting a regional programme and a teacher training project (modernisation of teaching methods). The latter focuses on active participative methods and is carried out through the usual cascade approach. Difficulties in implementing the new learning methods exist within a system that has only recently opened up to innovation.

Other international NGOs are developing studies and debate in the area of adult education (IIZ-DVV, Germany) and lobbying for the elaboration of a high-level framework for lifelong learning.

SIDA has assisted three pilot regional offices of the State Employment Agency with capacity-building and policy advice activities. Although there have been recognised benefits in terms of higher effectiveness, thematic coverage and geographic outreach are still limited. USAID and the World Bank have funded some relevant studies on labour market trends, employment policy and the need for development of the State Employment Agency – these studies propose some viable options for multi-

level measures, but little is being done with donor support to improve the dynamism of the participants in the labour market itself.

World Bank education sector reform in Armenia focuses on general education.

5. Main challenges for HRD and labour market-related reform and modernisation processes in underpinning European Neighbourhood and Partnership Instrument objectives

Armenia's future prospects for social and economic development will benefit from an improved cross-boarder situation, most notably if the recently announced (mid-2005) positive developments in the negotiations with Turkey, which are a new dimension in the political map of the region, create substantial results.

Armenia must maintain a consistent focus on developing its human capital *and* improving the competitiveness of its labour force. Armenia's poor natural resources means that the country faces the unavoidable need to make better and more substantial investments in human capital. Moreover, Armenia must recover from the effects of the technical and scientific brain drain that quickly eroded the previously recognised quality of its labour force.

Active policy is needed to stimulate demographic growth and to reverse migration, both of which are long-term processes. Armenia's policy armoury should stimulate and diversify the economic returns of migration, which can embrace investments in new competitive clusters, technology transfer and improved linkages with external markets for Armenian businesses.

The reform processes started in VET with Tacis assistance will not yield the expected overarching effects (improved employability and better job–skills matching) without the appropriate complementary employment policies and more dynamic job creation in the non-agricultural sectors.

The sustainable success of VET modernisation will likewise depend on the consistency of its base of support, including such factors as government policy and funding; the institutional and human resources capacity of the government; the contribution of social partners, particularly employers; and the donor community and its readiness to provide technical assistance and contribute to exchanges of experience.

The modernisation of VET cannot be separated from a clear policy towards a coherent and functioning lifelong learning system, which is at present a new item in the debate. Two separate non-communicating VET levels continue to coexist without attractive pathways across the education system that could provide an incentive to enrol in VET. From this perspective Armenia may benefit from its entry into the Bologna process²⁸ and from increased exposure to international practice. The entry of Armenia into the Bologna process must become a driver for change, also embracing the reform of the qualifications system and national qualifications framework.

Tools and capacities to observe and analyse trends in the economic sectors and labour market in correlation with education and training need to be built and systematically applied if the government is to improve the quality of its decision making.

The competitiveness of most Armenian industries will depend on the continuing availability of:

- personnel with modern technical skills and core competencies;
- personnel with sound industry-relevant qualifications;
- personnel with business and management training; and
- effective innovation and research linkages between businesses and education and training institutions.

²⁸ On 19 May 2005, the fourth Ministerial Conference of the Bologna Process accepted applications from Armenia, Azerbaijan, Georgia, Moldova and Ukraine to participate in the Bologna process.

The inappropriate allocation of human resources to existing jobs mentioned above contributes to lengthening distortions in education choices and in the relevance of qualifications. Active policy is needed to reverse the established trend towards higher education irrespective of the quality and market value of the awarded diplomas, and to increase enrolments in technological and industry-relevant profiles at the expense of educational options geared towards some sort of social prestige but lacking in sustainable employment opportunities in the medium term.

6. Levers in HRD and related labour market policies through which sustainable system reform can be triggered

Labour market area: The technical assistance provided to the Employment Agency by donors needs to be enhanced and continued to embrace policy and technical capacity, with a focus on the job creation challenges of the economy.

Measures to build the capacity of the Employment Agency and its regional offices are needed to improve the effectiveness of active labour market policies and to introduce new and creative forms of cooperation with education and training institutions.

Measures to support partnerships with education and training institutions aimed at providing labour market information and vocational and career guidance are likely to be attractive and effective for both sides, and will contribute to much-needed institutional and inter-sectoral dialogue.

Policy aimed at attracting migrants into growth industries and new technology sectors may help to reduce skills mismatches and gaps in such sectors, as well as contributing to efficient technology transfer processes. Measures to support these objectives through information exchanges and incentives need to be developed in cooperation with the economic sectors and Armenian international interest groups.

VET reform area: The VET reform process is very young, and continued support for its further consolidation is essential.

Fields relevant to the VET modernisation process where technical assistance is necessary include: revision of the qualifications system and adoption of a new conceptual basis in line with international developments; elaboration of broad occupational and educational profiles based on sound methodology and revision of the catalogue of occupations; improvement of curriculum development and assessment methods; quality assurance policy and mechanisms; reliable and accessible information and guidance mechanisms in support of education choices; observation, information and analysis in support of policy and programming; and governance.

Reform needs to place emphasis on lifelong learning mechanisms that offer attractive pathways across the education system and provide incentives to enrol in more open VET.

Technical assistance and institution-to-institution contacts are needed to support further development at (i) education policy and programming level (capacity building) and (ii) school level (partnerships with local and school networks in partner countries, exchanges with local training and employment networks, capacity building for school management).

Development and expansion of the adult learning area – policy, quality assurance and recognition – is key to ensuring that education reform embraces an effective and operational lifelong learning framework. To respond to the short and medium-term challenges of an economy whose single resource is human capital, adult learning needs to have a strategic position in future development exchanges.

Measures to support the development of policy and quality assurance concepts are needed via technical assistance and exchanges on international practice. Financing, recognition and validation are important aspects for which technical assistance and advice are essential.

HOW TO CONTACT US

Further information can be found on the
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