



COUNTRY ANALYSIS 2005
AZERBAIJAN

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Summary

Azerbaijan's hopes for economic growth rest to a large extent on the successful development of the country's vast oil and gas resources in the Caspian Sea region. Of equal importance, however, is Azerbaijan's capacity to effectively manage the resulting large revenue for the purposes of poverty reduction, economic diversification and equitable development of human capital. This objective will depend on the consistent implementation of reforms and continued macroeconomic discipline.

Employment and economic diversification policies and rapid economic growth in Azerbaijan require a responsive education system with a renewed vocational offering, better matching the Bologna process priorities (particularly quality assurance) and attractive pathways across the various levels. Shifts in education choices that have occurred in the last decade will contribute to the weakening of that part of the emerging labour force that has middle-level technical competencies relevant to the industrial sector, and will exacerbate the challenges for the human capital agenda. A sustainable approach to VET reform needs to tackle all key angles: VET policy and strategy within an integrated/lifelong learning perspective; VET institutions; and economy, labour market and employment linkages. The reform strategy needs to build on joint efforts by the government and economic players (sector lobbyists, employers' associations, oil enterprises, foreign direct investment ventures) to take advantage of these groups' interaction and partnership on curricular, funding, employment guidance and regulatory questions generated by the market economy.



This comprehensive VET reform process requires international technical assistance for three main areas: (i) reform conception; (ii) institution and capacity building; and (iii) school development. Key topics for technical assistance include: the qualifications system and national qualifications framework; competence-based learning; a lifelong learning policy framework to underpin the integration of the VET subsystems that has clear pathways and is compatible with a national qualifications framework; and economic sector/cluster analysis with a prospective view of broad occupational profiles and competencies.

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

In 2005, Azerbaijan made the regional headlines through such dramatic events as the opening of a new oil pipeline promising a wave of wealth on the one hand, and hopes of democratisation, equity and transparency on the other. This dichotomy of oil wealth versus transparency and social equity is a distinguishing feature of this crossroads in the country's development.

With the opening of the BTC pipeline¹, oil revenues will contribute to a doubling of the country's economy by 2008. The BTC pipeline is currently the largest in the world, designed to carry one million barrels per day or 50 million tonnes per annum. Oil-related foreign direct investment peaked at 40% of GDP in 2004 and was an important engine of technological renewal and growth, but it is expected to slow down soon. This oil-driven growth will have only a limited direct impact on poverty reduction because it will generate few new jobs and oil rents will accrue mostly in state coffers. The ongoing oil and gas boom is expected to be relatively short-lived unless new fields are discovered.

In 1996 the economy of Azerbaijan started its recovery from the transition slump², exhibiting a strong real GDP growth in the period 1998–2003 (the average for the period was 9.7%). Government estimates indicate a GDP growth of 10.2% in 2004, with non-oil GDP growing by 13.4%. Double-digit growth for oil and non-oil GDP is expected in 2005, according to IMF estimates³. The share of mineral products (with little or no processing) in total exports is very high (82.3% in 2004) and shows that key growth factors are vulnerable to prices in the world markets. In 2003 petroleum accounted for over 86% of total exports, 29% of GDP and nearly 50% of budget revenues. Government projections (2004–2010) indicate a fivefold growth in exports of oil products, while non-oil exports will grow by some 30%. The slow progress in export diversification shows that non-oil competitiveness remains an issue.

The government of Azerbaijan received high marks for responsible fiscal management and sound monetary policy and a good track record for servicing its external debt, and has reached relative macroeconomic stability. However, the inflation rate largely exceeded estimations in 2004 (reaching 6.8% after a stable 2.2% in 2003) and 2005, as a result of demand pressures (investment)⁴, expansionary macro-economic policies, broader use of oil revenues for social and economic development measures, and an 80% wage increase in the public sector since 2003.

As a result of rapid economic growth and increased social spending, poverty declined to 40.2% in 2004 from 49% in 2001 and about 60% in 1994⁵. Progress was stronger in urban areas. While growth in non-oil output was key to poverty reduction, the recent increase in inflation to double digits, if sustained for a prolonged period, could seriously undermine the anti-poverty strategy, curtail employment opportunities and affect the country's medium-term growth potential.

Unemployment and poverty rates are not necessarily directly correlated. The prevalence of poverty has a direct correlation with low-productivity work and high dependency rates⁶. A large share of the poor population is actually employed, according to the household budget survey of 2003; approximately 41% of those who were employed were living below the poverty line (38.9% in urban and 42.8% in rural areas). Rural areas have high rates of underemployment, resulting in a higher incidence of poverty despite much lower unemployment than in urban areas.

The much-needed expansion of the non-oil economy faces several constraints, namely low productivity and the strength of monopolies. Barriers to entry and monopolistic behaviour in various product groups hamper the development of private small and medium-sized enterprises (SMEs). In 2004, many SMEs remained state-owned⁷. Productivity and employment indicators differ across SME property forms: in 2004, 3.3% of SMEs with foreign capital produced 44.1% of total SME output and employed 10.3% of the labour force in the sector. Average wages in these firms were much higher than in national capital SMEs (private and state). In 2004 almost half of SME output was produced in the construction sector, one-fifth in industrial production, and over 10% in trade; agriculture constituted less than 1% of SME output.

¹ Baku–Tbilisi–Ceyhan oil pipeline (Caspian Sea to Turkey), officially opened on 25 May 2005.

² The cumulative drop from 1989 was 42.6%. E. Loukoianova and A. Unigovskaya, IMF Working Paper 04/151, "Analysis of recent growth in transition economies", p. 7.

³ *Ex-post assessment of longer-term Program engagement – staff report*, IMF Country Report No. 05/259, p. 5.

⁴ Domestic demand increased much faster than GDP in 2004, mainly due to investment. The headline 12-month Consumer Price Index rate increased to 15.5% in April 2005 (it was 3.6% in December 2003).

⁵ *Ex-post assessment of longer-term Program engagement – staff report*, IMF Country Report No. 05/259, July 2005

⁶ SPPRED Secretariat, *Progress report 2003/2004*, Baku, 2004. Household heads in the age groups 20–29 and 30–39 have 19.5% and 7.6% unemployment rates against poverty rates of 26.9% and 42% respectively.

⁷ State-owned SMEs constitute approximately 12% of the total registered, against 73% of private (national capital) and 3.3% of SMEs with foreign capital. Average wages in SMEs with foreign capital amount to US\$384 per month, against US\$75 in national capital SMEs and US\$44 in state-owned SMEs.

Corruption represents another challenge to democratisation and the consolidation of a market economy. Transparency International's Corruption Perception Index placed Azerbaijan at number 140 (in the list of 146) in 2004, with a score lower than 2, indicating acute corruption⁸. The costs of such widespread corruption are high, particularly in a period of large-scale public contracts. While many legislative acts were passed to fight corruption and improve the business environment, actual implementation has been limited, in part due to a lack of commitment from the highest political authorities.

In demographic terms, Azerbaijan distinguishes itself from neighbouring Armenia and Georgia through positive growth⁹ and a much larger and younger population. The last census, in 1999, registered 7,953 million people; in 2005, Azerbaijan has an estimated population of 8.347 million¹⁰. The main characteristics of Azerbaijan demographics can be delineated as follows¹¹:

- The size of the working-age population (15–64 years) grew slightly from an estimated 66% to 66.8% between 2003 and 2005, while the size of the age group of below 15 years fell from 27.4% to 26.4% in the same period.
- There was a decrease in the size of the urban population in the period 1990–2003, from 54.2% to 50.7%, as a result of immigration. In 2004–05, estimates show a rise back up to 51.5%. Natural growth is higher in rural areas.
- There is a significant group of refugees and internally displaced persons with partly unsolved employment and social inclusion needs, estimated at 0.6 to 1 million individuals.

Sector structures of GDP and employment have changed in different directions in the period 1998–2003: while the share of industry in GDP grew from 21.4% to 33.5%, its share in employment decreased from 6.8% to 4.5%. In agriculture, the opposite occurred: its share of GDP fell from 17.5% to 14.7%, while its share in overall employment increased from 30.8% to 40%, indicating a fall in productivity. Commerce exhibits an increase in both indicators: in GDP share it grew from 5.7% to 6.7%, and in employment it rose from 12% to 16.5%. Construction is a booming sector, but analysis of its contribution to GDP and employment is constrained by the persistence of informal employment even in many large companies¹².

These trends in sector structures of GDP and employment mean that a large part of the labour force has shifted to low-productive agriculture. The share of industry in GDP (including the oil sector) grew by more than 50% from 1998 to 2003, but its share in employment decreased, showing that the emerging industrial enterprises responsible for added-value growth had become more efficient. Growth in oil production occurs mainly where there is foreign investment and related new technology and management and production methods, as well as investment in human resources.

Analysis of the functioning of the labour market is problematic due to a lack of regular and updated labour force surveys¹³ and to misleading figures from the state employment offices, whose coverage of the unemployed is only partial. Data based on registration in employment offices show unemployment rates in the range of 1% to 1.4% (1998–2003). In 2003 employment offices had over 54,000 registered unemployed¹⁴, while the labour force survey recorded over 404,000 unemployed people in that year. Since labour force survey data are available only for 2003, analysis is limited, and the reliability of the

⁸ Transparency International Corruption Perceptions Index 2004; see www.transparency.org. Only Chad, Myanmar, Nigeria, Bangladesh and Haiti fared worse than Azerbaijan. In 2003, Azerbaijan was 125th out of 133.

⁹ Average annual growth rate was 1.2% in the period 1990–1999 (United Nations Population Division data).

¹⁰ Migration has had a serious effect on demographics, but reliable data are unavailable. Various sources refer to over 1 million labour migrants, predominantly from urban areas.

¹¹ State Statistical Committee of Azerbaijan Republic, *Azerbaijan in figures*, Baku, 2005, pp. 146–147; see www.azstat.org/indexen.php.

¹² Data on construction (with a 4.8% share of employment in 2003) are likely to be underestimated.

¹³ The labour force survey was carried out with the support of the UNDP-ILO in mid-2003. It used ILO concepts.

¹⁴ Only 3,111 people or 6% of the registered unemployed, received unemployment benefits in 2003.

results on job creation announced in mid-2005 by the Secretariat of the State Programme on Socio-Economic Development of the Regions (SPSEDR) is questionable¹⁵.

The 2003 labour force survey showed an increase in the economically active (reaching 62.9%) and employed population (grew by 18.6%) since the 1999 census¹⁶. Men represent a much larger share than women (58.5% against 41.5%) in the employed population. Major employers are the public sector, with 29% of employees, and farms, with 27%. The continuing phenomenon of “ghost jobs”¹⁷ partly obscures the real employment situation, however. The number of own-account workers (self-employed, micro individual firms, informal activities, people hired by individuals) exceeds the number of those employed in larger and medium-sized enterprises (19% against 11%).

The unemployment rate was 10.7% in 2003¹⁸, with women more affected than men (12.2% against 9.6%). Youth unemployment is severe, with the age group of under 35 years making up 69% of the unemployed population. The urban unemployment rate is twice as high (14%) as the rural rate (7%).

Analysis of the educational level of the employed population based on the 2003 labour force survey shows an interesting picture that contributes to our understanding of the low productivity of the non-oil economy. The overall educational attainment of the employed population is enviable: 51% had complete secondary general education in 2003, 19% had higher education, 13% had secondary technical education and 7% had initial vocational education¹⁹. The allocation of human resources per employment sector is counterproductive, however; the bulk of the labour force with higher skills (tertiary education) remains employed by the public sector²⁰, despite lower salaries than in the private sector.

Analysis of educational level per type of employment²¹ indicates that the public sector is the largest employer of people with higher education, employing over 70% of such individuals against only 12% employed by private enterprises. Over 45% of employed people with VET qualifications (initial and secondary) work in the state sector. Those employed in the state sector have by far the best educational profile, with approximately half having higher education²² and over one-third having VET qualifications. The proliferation of higher education qualifications in fields of low direct relevance to the industrial sector (teachers, lawyers) partly explains the concentration of this part of the labour force in the public sector.

The private sector (enterprises²³) shows a predominance of people with general education (47.8%), followed by those with VET qualifications (30%); only 22% have higher education qualifications in the private sector. These figures are compatible with the preliminary findings of the ongoing research by the ETF in Azerbaijan²⁴; large and medium-sized private employers have a certain mistrust towards higher education diplomas and many prefer to recruit people with complete general education or with VET qualifications, whom they train afterwards.

¹⁵ The SPSEDR (started in the first quarter of 2004) aims to create 600,000 jobs in five years, but after one-and-a-half years of implementation officials announced that 220,000 jobs had already been created. Reportedly such data are gathered by the regional secretariats of the SPSEDR, but they are not supported by labour force surveys based on international criteria.

¹⁶ These two groups increased by a total of 530,100 people (State Statistical Committee, *Report of the labour force survey 2003*, Baku, 2003).

¹⁷ “Ghost jobs” refers to fictitious jobs in stagnant enterprises that widely adopt a policy of maintaining employment levels via salary/time cuts and compulsory leave.

¹⁸ Compared to an estimated 15.8% based on the 1999 census data.

¹⁹ To understand these figures, it is important to bear in mind that the share of general education students in 2003 was 90%, against 6.4% for higher education students, 1% for initial VET students and 3% for secondary VET students.

²⁰ State structures, ministries and their agencies and services, and enterprises.

²¹ Types used: state sector; private enterprises; farms; self-employed; people employed by individuals.

²² Complete and incomplete.

²³ Farms, self-employed persons and people hired by individuals are considered to be in another category.

²⁴ ETF, “In-depth study on labour market and VET”, ongoing research, final report planned for end 2005.

Among the unemployed population, 70% have complete secondary education against 5% with initial vocational qualifications, 8.5% with secondary vocational qualifications and a similar percentage with higher education, according to the 2003 labour force survey²⁵.

Significant shifts in education choices have occurred over the last decade, in terms of study areas and educational pathways after compulsory education. Initial VET saw a strong decrease in the number of students and graduations, while secondary VET recovered well after an initial drop²⁶. Tertiary education saw a solid growth in enrolments, students and graduations. Official statistics on the education level of the population aged 15 years and over show a clear growth in the numbers with higher education as well as with secondary general education. Choices in study areas have changed significantly and have resulted in a strong predominance of students in the areas of teaching and social sciences over technical and scientific areas linked with industry, agriculture, transport and communications, and construction. The number of student teachers in public non-tertiary professional education grew by more than three times from 1990 to 2004²⁷, while the number of students in industry-related areas slumped during the same period. Higher education experienced similar shifts, with major increases in the number of students in the areas of economics and teaching but a 50% reduction in students in industry and construction and an even greater loss of numbers in agriculture. In 2003–2004, over 70% of higher education students were concentrated in the areas of teaching, economics and health. In the medium term these trends will erode that part of the emerging labour force with technical and scientific competencies relevant to the economy and create additional challenges for the human capital agenda.

Summary

Dramatically increasing oil and gas revenues, oil-related economic activity and FDI are responsible for much of the two-digit GDP growth since 2003 and projected up to the end of the decade. Oil-driven growth will have a relatively low impact on poverty reduction as it generates few jobs and its rents are accrued mostly by the state. Non-oil growth is key to tackling poverty reduction through more numerous and more productive jobs, but barriers to entry and the strength of monopolies in a number of product groups hamper the development of non-oil enterprises.

Employment grew in 1999–2003, but at a slower pace than GDP. Low-productive jobs, precarious formal and informal jobs and underemployment in subsistence farming cause much of the poverty that still affects over 40% of the population despite the progress associated with the rapid economic growth of 2003–2004.

Gains in economic competitiveness are hampered by a twofold human resources problem: (i) slow reallocation of the skilled labour force from the low-productive public sector, and (ii) erosion of the technical and scientific segments of the new generations due to shifts in education choices.

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

Azerbaijan is in many senses a polarised society, with several development policy and expectational divides. One is the oil–non-oil divide; the other is the urban–rural divide, with Baku at the heart of the oil economy and power. One of the toughest questions to be addressed by the government of Azerbaijan is that of the role of the non-oil areas outside Baku in the future of the country.

²⁵ State Employment Services data show a different picture: 26% of registered unemployed at the beginning of 2003 have higher education qualifications, 33% have general education qualifications and 35% have initial and secondary VET qualifications. Users of the State Employment Services are mainly from vulnerable groups.

²⁶ While secondary VET (colleges) was able to start a recovery after a drop during the first years of transition, initial VET continues to decline. In the period 1990–2000 the number of students in initial VET fell by 72% (from over 82,000 to approximately 23,000), and in 2000–2003 these figures decreased further, by 6%. The number of students in secondary VET fell by 28% in 1990–2000, but then recovered by 26% to reach a figure of approximately 53,700 students. At present enrolment in secondary VET is competitive.

²⁷ The quasi-totality of students in private professional colleges study humanities and teaching.

The government of Azerbaijan recognises the implications of these divides and has adopted policy addressing the need for economic diversification and socioeconomic development in the regions²⁸. Implementation of the latter is relatively recent and results are difficult to assess as yet.

Employment is central to poverty reduction and economic development policy, but a National Employment Strategy (NES)²⁹, though discussed and sent to the Cabinet of Ministers in July 2004, is still not approved. The “substance” of the NES is that “it is not the role of government, but of the private sector to create jobs. Once approved, the Strategy will guide the government to create favourable conditions for Azerbaijani businesspeople and foreign investors to create jobs in the country; and will prepare people, particularly young people, with the skills they need to find jobs”³⁰. The NES should have been adopted in 2004, simultaneously with the SPSEDR, whose main target is job creation.

The present critical situation of the education and training system and human resources development cannot be ascribed to a lack of policy. The adequacy of the policy, and essentially its implementation, is the key problem – weak enforcement and lack of reliable monitoring hamper any coherent results. Poor institutional cooperation is another visible factor, as is the absence of dialogue with social partners on education.

During the transition period Azerbaijan produced a legislative framework and several strategies and development programmes with direct or indirect impacts on education³¹. High-level commissions to support implementation were created to support education sector reform: in 1998 a State Reform Commission was established, and May 2005 saw the introduction of the new Commission on Education under the president of Azerbaijan³². The new Law on Education drafted several years ago went through parliamentary debate in 2005, but was not adopted. This draft has reportedly been withdrawn. There is no law on VET.

VET is recognised as a key item in the human resources and employment policy of the government of Azerbaijan. The State Programme on Poverty Reduction and Economic Development (SPPRED) states that the reduction of poverty depends on the country’s investment in human capital. The SPPRED emphasises that labour productivity and competitiveness require continuing investment in a well-educated and well-trained workforce, an objective that represents a call for urgent redefinition of the goals of vocational education. The SPPRED indicates the following overall strategic objectives for policy measures in the education sector: (i) equality of access to good-quality education; (ii) revision of content and modernisation of teaching methods; (iii) improvement of teachers’ motivation; and (iv) ensuring that VET provides skills that are appropriate to the market economy, particularly to private sector enterprises.

The VET system shows the symptoms of a long-standing crisis. The reforms initiated almost a decade ago are incomplete and have failed to halt the decline in the attractiveness of the VET system. The causes of this failure are linked to institutional weakness and the absence of cooperation with enterprises/employers and with the relevant sectors (labour, agriculture, tourism). Mechanisms to exchange with social partners on skills development needs are not in place. Cooperation between VET schools and employment services is sporadic.

A single ministry administrates the education system, but the flow of information across its departments is weak; this is partly due to installed vested interests. Its relationship with the Ministry of Labour is in deep decline, affecting meaningful HRD policy. The Ministry of Education issues policy, elaborates curricula and also runs the VET establishments. It administrates and controls in a centralised form the whole range of initial VET establishments and a large number³³ of secondary VET establishments.

²⁸ State Programme on Socio-Economic Development of the Regions, approved in February 2004; State Programme on Poverty Reduction and Economic Development, approved in February 2003.

²⁹ With technical assistance from the UNDP and ILO.

³⁰ See <http://projects.takingitglobal.org/YES-Azerbaijan>.

³¹ Since 1996, the government of Azerbaijan has taken some steps to modernise the VET system. In 1996 a decree on “Measures to improve the system of professional education” was approved, and in 1999 a Programme of Reform of Education was initiated.

³² Set up with the aim of bringing the level of education at different levels of the system in line with modern standards, monitoring quality of education, and taking appropriate measures on the basis of the periodical analysis of the current problems in the education system.

³³ Medical and agricultural colleges, under the Ministry of Health and the Ministry of Agriculture.

Two separate and non-communicating public VET subsystems function in Azerbaijan, the initial and the secondary (non-tertiary level)³⁴. Their diverging stated objectives are incompatible with modern enterprise and production management processes; initial VET is aimed at preparing skilled workers who deal with production processes and machinery but don't deal with coordination and supervision functions; secondary VET prepares those who design, coordinate and supervise and who know the functioning of production processes and theoretically the machinery involved, but cannot fulfil a production function. The system doesn't offer communication pathways between these two VET subsystems, and progression from either level to tertiary education is not encouraged by current access regulations. Institutionally, these differences continue; initial VET is under the control of the standalone Department of Professional Technical Education, whereas secondary VET is under the Department of Higher Education.

The fall in the number of initial VET students reflects the reduction in state funding as well as the absence of policy and practice for vocational guidance and an effective user information system. From 1990 to 2000 the number of VET schools decreased from 176 to 110. According to recent Ministry of Education statistics, however, the number of effectively functioning VET schools in 2005 is not higher than 60%–70% of the official figure. To maintain active operations, several VET schools started operating mainly as upper general education establishments (grades 10-11).

Many VET school principals develop production activities for the market³⁵ instead of focusing on the development of attractive training products that are in demand among employers and other users. The drive for survival is now in contradiction to development needs and will lead to the further disruption of the VET system and the erosion of its educational objectives, potential and reputation.

At the end of 2004, the ETF carried out a tracer study on employment among VET graduates in Azerbaijan³⁶, the first in the country. The main findings of the study indicated that 65% of respondents were not employed, only 6% were engaged in further study and only 28% had a job. On top of that, the large majority of those in employment (approximately 60%) worked in jobs entirely unrelated to their vocational qualification. Moreover, 46% of respondents had been unemployed for over one year.

Employability among respondents varied across professional areas³⁷: the highest rates of unemployment were registered among graduates having a diploma in the group designated (for the sake of this survey) "culture and education" (72.1%), followed by those in the groups "chemical-technological" (69.8%) and "economy, administration and law" (68.7%). The best employment rates were registered among graduates in the professional areas of "care services, catering, tourism and sports" (42.9%) and "technical, mechanical and construction" (33.6%). The study showed that the State Employment Services play a minor role in jobseeking solutions, as only around 2% of respondents used this channel.

The State Employment Services of the Ministry of Labour and Social Protection remain the most active initiator of training targeted at registered unemployed people, despite weak institutional organisation and capacity to manage this field. Official figures on the number of trained unemployed in 2002–2004 show a downward trend, despite the growth of registered unemployed³⁸. However, as a result of the reported dissatisfaction with the quality and vocational outreach of training courses organised in cooperation with VET establishments, the State Employment Services progressed in 2005 with plans to establish a new large training centre in Baku.

³⁴ While these areas are defined in this report as "initial VET" and "secondary VET" for the sake of simplification, the translation of the latter is in fact "medium specialised education", showing a higher level of qualification ("junior technician", "middle specialist") than the initial VET level ("worker").

³⁵ There is evidence that many public VET schools give priority to production (goods and services) for the market, irrespective of the vocational orientation of the school, and are direct competitors of small local private enterprises. Some of the produce is sold informally.

³⁶ Report available in Russian; see www.etf.eu.int. The survey covered a sample of 1,100 graduates of 2000–2002 from initial and secondary VET (corresponding to 1.4% of the relevant population). The regions surveyed were Baku and Sumgait.

³⁷ See annex 1.11 of the tracer study report for a detailed list of vocations by professional area. These areas do not correspond to the classifier (dated 2002) of initial VET, since they were worked out for the purposes of this study and some vocations were offered by both systems: initial (lycea and VET schools) and secondary (colleges and teknikums).

³⁸ In 2002, 2003 and 2004, respectively 2,321, 2,206 and 2,111 people participated in employment training organised by the State Employment Services.

The prospective and growing non-oil sectors face continuous difficulties in HR management that represent a serious constraint to enterprise development. In various production and service branches, enterprises have no alternative other than to train newly recruited staff in-house. For the high-priority food processing sector the problem is acute, since the VET system has little to offer in the way of recognised sector-relevant qualifications.

The Ministry of Education's centralisation and control over the education and training system have characterised government policy. This has had negative results: irrelevance of qualifications (diplomas don't guarantee competencies), low recognition of official diplomas by many private employers, and a spreading of corruption. Expansion of a private, fragmented and largely unregulated, non-formal and formal training offering has occurred as a response to the perceived low quality of public qualifications. Employers tend to recruit people without paying much attention to their qualifications, and then train or retrain them. Certain sector ministries have started embracing training as a sector function (for example, tourism) and are striving to create their own training centres. Large foreign oil companies have invested in industry-relevant training and modern training facilities, pressed by the insufficiencies of recruited staff and the incapacity of the existing education and training system to work in partnerships. Non-public training providers are not subject to licensing or accreditation, however. No single effective directory of training seems to exist³⁹, causing concerns over how users will have access to open information on training possibilities.

Summary

The critical situation of the education sector in Azerbaijan can largely be ascribed to insufficiencies in governance and poor institutional capacity on the part of the leading body, which is unable to consistently implement and monitor reform. This situation undermines the strategically important human capital development of Azerbaijan.

The adopted initial VET reform framework is almost one decade old and has a low focus on processes and outputs, and its implementation has not been concluded. VET needs to redefine its objectives and role in the education sector to become a real contributor to human resources development in a phase of rapid growth in industry and services.

Cooperation between educational, labour and employment institutions (public and civil) is key to redefining the reform strategy and building the basis for progress towards a responsive and quality-oriented VET system.

In a country with a growing oil sector and increasing industrial production, technical competencies and flexible access to lifelong training are essential to securing competitiveness. Unfortunately, the offer available in the relevant technical vocational areas is limited and uses outdated learning and curricular approaches⁴⁰.

The development of sector-related training has had positive results that are worth sharing with other relevant sectors/clusters (tourism, food processing, agriculture, textiles).

3. Current state of EU HRD-related programmes – achievements and lessons learned in partner countries

Education and training systems have had relatively low priority in EC assistance in Azerbaijan, with the exception of Tempus.

Tempus has contributed to innovation and improvements through non-systemic input in such relevant areas as new curricula and syllabuses (engineering), new fields of specialisation linked to the oil

³⁹ Based on updated information from relevant players: the Ministry of Education, Union of NGOs, and IIZ-DVV (an adult education NGO). The Baku Business Directory contains information on formal schools only.

⁴⁰ Intensive production of new curricula for initial VET occurred in 2002–2004. The approach used (the ratio of general education to vocational subjects, and theory to effective practices) did not change significantly, however. New curricula are based on the academic tradition, overloaded with general education subjects in all areas (humanities/social, scientific/mathematic). Quality assurance mechanisms are weak.

industry, management systems (Baku State University), support systems for the transition from school to the labour market/career centres (Khazar University), development of European cooperation-related studies, and the establishment of an academic quality assurance centre (Khazar University).

Other projects have featured training components. The SMEDA project developed business training programmes with participative methodologies and worked in tandem with other business promotion tools (consulting, support to internationalisation).

The Ministry of Education has not been considered in EC institutional assistance. Tacis projects with training components have had low systemic impact, but some have helped in building non-public specialised sector training organisations (the Bank Training Centre has an excellent reputation in Azerbaijan) or pools of qualified trainers (auditing, international accounting).

A Tacis project aimed at developing a VET reform strategy and implementation in pilot regions is planned in the 2004–2006 National Indicative Programme (NIP), though design of the project has been postponed.

4. Significant investments from other international/bilateral donors in the field of HRD

The World Bank supports education sector development with an IDA standard credit. A first credit of US\$18 million was approved in May 2003 to help finance Azerbaijan's Education Sector Development Project, which constitutes the first phase of the Education Reform Programme. After 2007 the project intends to look at the interfaces of VET with the education system.

The main purposes of the government's Education Reform Programme are to realign the entire sector with the needs of the emerging market economy and new social conditions, increase learning achievements for all students, and improve the quality and efficiency of general education.

The Education Sector Development Project has a duration of four years (2003–2007) and is intended to assist the government in strengthening its capacity to plan, manage and monitor the Education Reform Programme more effectively and efficiently and make the highest priority investments in selected districts. The Project consists of the following components, each of which includes several subcomponents and/or activities: (i) quality and relevance of general education (through curriculum reform, teacher development, provision of reading materials for all general school libraries in the country); (ii) efficiency and finance reforms; (iii) equity and access (through the provision of school grants in selected less-advantaged districts); and (iv) management strengthening (through the establishment of a new system of student assessment, the establishment of education management information systems and the development of a management, planning and monitoring capacity).

German Technical Cooperation (GTZ) assists with some developments in initial VET through regional projects. One of the most visible examples deals with the improvement of teaching methods using a cascade approach to train selected teachers. The project has delivered exhaustive training materials, and several stages of teacher training have been completed. However, the introduction of these more participative and active teaching methods is limited by the weak absorption capacity of a system that is struggling to survive and has insufficient creativity to find the path to recovery and development.

The ETF established a National Observatory that had a short and difficult life and was finally closed several years ago. In mid-2004, cooperation with Azerbaijan was resumed, focusing on capacity building in information and analysis. Weak cooperation with the ETF limited the country's exposure to international VET developments and to networking with other CIS countries that have achieved positive results in the reform of their education and training systems.

The ILO has provided technical assistance for the elaboration of the draft NES. International cooperation in the employment and labour market area has been limited and non-systemic, however. The State Employment Services' new training centre has enjoyed some ILO technical assistance for curricular issues (business/entrepreneurship training).

Adult learning policy is the focus of activities for the German organisation IIZ-DVV, but in the absence of technical assistance and policy advice instruments, and given the difficulties of cooperating with public education institutions, the impact of this donor's assistance is fragmented.

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

1. Education quality, equity and relevance represent one of most intensively debated subjects in Azerbaijani society and government circles.

The education and skills development agenda faces a twofold challenge: (i) internal – the rapid growth of the economy raises the need for new responsive mechanisms for skills development, which have still to be developed; and (ii) external – the recent entry of Azerbaijan into the Bologna process⁴¹ will expose the system's insufficiencies in terms of quality assurance and comparability to broader scrutiny, and could therefore become a driving force for revisiting the reform process.

The internal challenge above points towards two paths: (i) attention to previously ignored areas of education processes, outputs and quality assurance; and (ii) a turnaround in adult learning.

Shifts in education choices have led to a strong reduction in the number of people qualified in occupational areas relevant to industry, transport, communications and construction within the emerging generation of human resources. This is a major issue for the growth of oil and non-oil enterprises. The government needs to pay attention to the strategic analysis of economic sectors and their human resource perspectives, with a view to identifying broad occupational profiles and educational needs that must be considered in the education reform strategy. However, the Ministry of Education remains poorly equipped in analytical and information-gathering capacity. Its inability to understand the trends of the market and economic sectors for education policy purposes is a result of its institutional insufficiencies and the poor sector cooperation that characterises the system. The Ministry of Education remains poorly involved in such cross-sector projects as Human Capital Development, despite their thematic relevance.

What is at stake here is so fundamental that a multi-level approach is needed. Levers 1 (strategy and policy) and 2 (capacity building), below, are proposed to address this challenge and open the possibilities for multiple donor assistance. Lever 4 (partnerships with labour market institutions) addresses the practice level of the challenge (schools, local communities, economic zones).

2. HRD is a key element of economic, employment and poverty reduction policy in Azerbaijan. To invert the effects of the present long-standing crisis in education despite the initiated reform, the government needs to enhance institutional and sector cooperation and take into consideration the interests and potentialities of the economic sectors and social partners.

Together with a multi-layered policy to improve the business climate, skills and training are a major element that must be given high priority to underpin the development of non-oil business, innovation and entrepreneurship.

Reform of the education system aimed at transforming it into a direct contributor to the high-priority human capital intentions of Azerbaijan cannot be conceived and carried out in isolation from relevant socioeconomic development policy. These premises require reflection and actions to improve the institutional setting of education as well as its capacity for policy making and policy implementation in the new framework of the ENP and Bologna and Copenhagen processes.

Levers 1 (policy and strategy) and 4 (partnerships between education and labour market institutions/sectors) are proposed below to address this challenge from a perspective that seeks synchronised top-down/bottom-up progression.

3. The VET system is fragmented into two non-communicating non-tertiary levels. The objectives, qualifications and institutional setting of each group differ radically, as do their respective image and attractiveness to youngsters. Effective and stimulating linkages throughout the system that underpin the lifelong learning perspective based on a qualifications framework are an essential strand of the reform that can be supported by international exposure and cooperation in education. Lever 1 (strategy and policy) and Lever 3 (qualifications framework) will address this broad issue.

⁴¹ On 19 May 2005.

VET establishments face difficult options. Insufficient funding leads principals to adopt various cost-recovery tactics to survive, and such measures do not necessarily contribute to the improvement of these institutions' education and skills development potential. Poor strategic vision contributes to this trade-off of "school survival versus system development". In 2005 the Department of Professional-Technical Education increased its requests for government support to VET schools. However, the substance of these requests is focused on financial and school equipment needs in isolation from an overall concept and strategic framework to revisit the reform that has still to be developed. Levers to tackle this challenge need to be multi-level, addressing both policy (Lever 1) and capacity building in school management (Lever 2).

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

A sustainable approach to VET reform in Azerbaijan needs to tackle all key angles: VET policy and strategy in a lifelong learning framework, VET institutions, VET financing, and labour market and employment linkages.

In Azerbaijan, all sides recognise the urgent need to start a new phase in the reform of the VET system with an emphasis on its better integration into the education system, offering attractive educational pathways and a good balance of inputs and outcomes. A successful revisited VET reform concept and implementation will depend on the improvement of the institutional setting and framework of the Ministry of Education.

Reform needs to be built on a constructive dialogue between the education authorities and the economic sectors and social partners. A strategic orientation towards the education and training needs of the growing economic sectors will improve the support basis and financial sustainability of the reform. This dialogue should be institutionalised and made operational, to ascertain contributions in all major issues and topics of the VET reform. Donor assistance needs to include this strand in policy advice and technical assistance strategies in the phase ahead.

A Tacis project to support VET reform in Azerbaijan is foreseen in the 2004–2006 National Indicative Programme, and its planning is expected in the 2006–2007 Action Programme. Its successful implementation will be a direct lever to relaunching an integrated and comprehensive programme of VET reform. This technical assistance project needs to be conceived and carried out within an intersectoral coordination framework in order to build the basis of a new and broader interface for VET that is relevant to lifelong learning and responsive to market developments and players.

Institutional capacity building in the areas of the labour market and employment, and VET is crucial, but has barely been considered in donor assistance.

Technical assistance to support improvements in policy-making processes, to enhance the role and effectiveness of labour market and employment institutions and to modernise the information interfaces and methods of those institutions is key to supporting ongoing state programmes. Institution-to-institution exchanges and policy advice are essential complements to technical assistance in a medium-term perspective.

In VET, donor assistance to institution and capacity building needs to address issues of relevance and efficiency in institutional performance at various levels: (i) policy and decision makers at government level; (ii) management of VET establishments; and (iii) methodological institutions (teachers' development and learning, curriculum development). As the leading education institution, the Ministry of Education needs to build a relevant and efficient contribution to cross-sector human capital development and policy.

In the area of qualifications, the entry of Azerbaijan into the Bologna process may become a driver for change with consequences extending as far as embracing the need to work on a national qualifications framework. Assuming that Bologna process participants will be tempted to look at the issues presented

by the European Qualifications Framework (EQF), now in a stage of consultation⁴², Azerbaijan may be able to use to great benefit the chances offered by cooperation with New Independent States and EU Member States in the ENP framework.

Donors' technical assistance and institution-to-institution exchanges on the issue of a revised qualifications system and national qualifications framework are likely to receive prompt acceptance by the government, given the links to European integration in education and labour markets.

Donor assistance is needed to address policy and mechanisms to link education and training institutions with labour market and employment institutions/sector associations, and to enhance the support basis for modernisation at both policy and school levels. Technical assistance and institutional capacity building is important for supporting partnerships between education institutions, employment agencies and employer/sector associations with the purpose of creating and implementing flexible and relevant schemes of labour market information and professional and career guidance, and attracting the economic sector interest and input necessary for market relevance and the sustainable progress of the programme of reform.

⁴² As an officially recognised participant in the Bologna process, Azerbaijan takes part in the consultation process of the European Qualifications Framework.

HOW TO CONTACT US

Further information can be found on the
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