

## AZERBAIJAN

### ETF COUNTRY PLAN 2009

#### Summary

The overall mid-term objectives of the ETF Work Programme are to: i) support the European Commission in the development and deployment of external assistance; and ii) support the continuing development of partner country capacities in human capital development for innovation, competitiveness, growth and equity.

In the mid-term perspective emphasis will be placed on governance and administrative capacities for carrying out reforms. ETF assistance in 2009-2013 will support the integrated implementation of the programmes of the Ministry of Education and the Ministry of Labour, and the implementation of the EU VET project through specific initiatives emerging from current developments in education and training and employment and active labour market policy.

In 2009, upon request of EC services, the ETF is planning to provide support to the implementation of the Tacis VET Project; it will also support the Ministry of Education in capacity building for developing and implementing VET policy.

The expectations are that policymakers and key stakeholders in Azerbaijan have strengthened capacities in human capital development policy planning and implementation, for cooperation on cross-sectoral issues, and are better prepared to identify and develop actions for possible a SPSP contribution in human capital development.



#### 1. Socio-economic background

Azerbaijan's exceptionally **strong economic growth** continued in 2007 resulting in higher per-capita income, job creation and lower poverty. In 2007 Azerbaijan possessed the fastest-growing economy, with recorded growth of 25.4%. The Asian Development Bank (ADB) in the Asian Development Outlook – ADO 2008 forecasts that Azerbaijan will lead in the region on Gross Domestic Product (GDP) per capita in 2008/09. According to the Bank, this year GDP per capita will grow by 15.7% and in 2009 by 18%<sup>1</sup>.

While the growth and external outlook for 2009 remain strong, the policy challenges to maintain macroeconomic stability have intensified. **Inflation** rose to almost 20% in 2007 from 11.5% at the end of 2006. A reduction of inflation to moderate levels, buoyant non-oil growth and fiscal sustainability are the main macroeconomic challenges over the medium term. The absorptive capacity of the economy, the institutional framework and the capacity of the administration to

<sup>1</sup> Asian Development Outlook 2008 <http://www.adb.org/Documents/Books/ADO/2008/AZE.pdf>

implement large investment programmes should be improved. To set the basis for strong non-oil growth over the medium term, the authorities need to intensify the implementation of a coherent structural reform agenda. The delay of further improvements in the business environment and productivity, due to slow structural reforms, is likely to damage competitiveness.

**Non-oil GDP growth** is a challenge in Azerbaijan, even though it remained about 12% in 2007, driven mostly by strong non-tradable sectors, particularly construction, commerce and communications. The spectacular growth coupled with very high oil prices pushed per capita GDP to an estimated US\$3,663, and the official rates of poverty and unemployment declined significantly<sup>2</sup>. The productivity of the sector that employs the largest share of Azerbaijan's labour force – agriculture – remains low, and grew by only 1%. Although the oil sector accounts for about 56% of GDP and 94% of industry, the hydrocarbon sector employs less than 1% of the workforce. Despite massive government investment, the country still suffers from uneven regional development, growing inequality, high unemployment and underemployment, and inadequate social services and infrastructure<sup>3</sup>.

The officially reported **poverty** level continued to decline in 2005/06. There are high expectations regarding the reduction of poverty and improvements in the provision of stable energy, water supply, and education. The authorities plan to use financial support to address infrastructure requirements and finance critical infrastructure projects (schools, hospitals, housing for the large number of refugees, electricity supply, roads, irrigation). Still there is a problem of equity and gender balance in access to social benefits, including education and training, and employment.

Azerbaijan has reported significant progress in **job creation** since the end of 2003, amounting to almost half a million new jobs (2003-07), including temporary and permanent jobs (50% of total).

Azerbaijan's **population** shows natural growth, though this has slowed over the past decade. The population of Azerbaijan was estimated at 8.347 million in 2005, and is projected to reach 10.222 million by 2025. Women, who constitute 51.4% of the population in Azerbaijan, legally have equal rights with men; there is only a slight gender misbalance, in particular in education and employment. 35.6 % of the population are young people aged 15 to 34<sup>4</sup>.

The **unemployment** rate in Azerbaijan in 2007 was 6.5%, and the economically active population was 4,295 million. The information provided by State Statistics Committee shows that as of 1 August 2007 there were 51,857 officially registered unemployed people, 50.8% of which were women. A total of 70% of the registered unemployed are people under 35 years of age, 26% have higher and secondary specialised education. The share of registered unemployed with higher education has increased steadily to become a leading group<sup>5</sup>. According to World Bank data, 36% of refugees and internally displaced people are formally unemployed. The existence of 1 million refugees and internally displaced people as a result of the conflict over the Nagorno Karabakh region is one of the main factors of the migration process in Azerbaijan<sup>6</sup>. In recent years migration in Azerbaijan has tended to decrease, while there is increase in immigration of foreign labour to the country.

Azerbaijan ranks 66 out of 131 economies in **competitiveness**<sup>7</sup>, and the inadequately educated workforce is among the most problematic factors for doing business. Human resources development remains central to development strategy and investment in the decades ahead. A flexible and responsive education and training system is indispensable for supporting effective skills acquisition and skills upgrading of youth and adults alike.

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<sup>2</sup> Republic of Azerbaijan: 2008 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Republic of Azerbaijan <http://imf.org/external/pubs/ft/scr/2008/cr08214.pdf>

<sup>3</sup> Resident Coordinator's Annual Report 2007 <http://www.un-az.org/doc/rcreport2007.pdf>

<sup>4</sup> The State of youth in Azerbaijan. Summary of Analytical Report. Baku 2007 <http://unesdoc.unesco.org/images/0015/001578/157806e.pdf>

<sup>5</sup> State Statistics Committee <http://www.azstat.org/publications/azfigures/2008/en/005.shtml>

<sup>6</sup> The State Of Youth in Azerbaijan. Summary of Analytical Report. Baku 2007 <http://unesdoc.unesco.org/images/0015/001578/157806e.pdf>

<sup>7</sup> Global Competitiveness Index

## 2. Key policy issues and strategies in human capital development

**Education quality, equity and relevance** represent some of the subjects of most intensive debate in Azerbaijani society and in government circles. There is certainly a need for a responsive education system, with renewed vocational offer, better matching with Bologna process priorities (particularly quality assurance), and attractive pathways across the various levels. Shifts in education choice over the last decade weakened the labour force with middle level technical competencies relevant for industry, and worsened the challenges for the human capital agenda.

Education has received constant attention as a priority area in all strategic development policy documents in Azerbaijan in the last years. The overall educational attainment of the employed population in Azerbaijan is high. Education is the third sector in public expenditure, after industry, construction and mineral products, and defence.

According to the Minister of Education, **vocational education** is the most underdeveloped field in the whole state education system. Over the last two years a lot of funds have been allocated from state budget for the development of the sector. The milestone was the adoption, in July 2007, of the state programme for the development of vocational education 2008-2012, which defined priorities, the main one being the strengthening of infrastructure of vocational education.

The government puts a lot of effort into the development of vocational education. It is plans to repair nine vocational schools in Baku and the regions. Furthermore, six projects are currently being implemented in this field. Today in Azerbaijan there are 114 vocational schools of which 107 more or less meet modern requirements. More than 23,000 people are educated in 101 specialties in vocational schools. Every year approximately 13,000 people are admitted to the vocational schools - 6-7% of first year students, while in leading countries the level is 60%.

However, Azerbaijan is experiencing a growing problem linked to the **inadequacy and inequality** of the skills of its labour force, particularly of young entrants into the labour market. There is currently an imbalance in the **skills mix** of the young labour force, in which graduates of tertiary and secondary general education predominate, while the proportion of young people with qualifications of skilled worker and technician is insignificant.

The position of VET graduates as revealed in the tracer study carried out by the ETF<sup>8</sup> that analysed **employability** and paths to, and within, employment for VET graduates, gives clear signals for policy: i) guidance and information needs to be established and made accessible for young adults; ii) VET reform cannot be separated from reforms in other relevant sectors, or from employment and economic policies; iii) the value and credibility of formal education needs to be restored, but this will depend on the credibility of reform measures and proper interaction with civil society and employers.

Secondary general education curricula is not designed to develop vocationally relevant skills; there are only **limited vocational education and training opportunities outside the VET system** (primary and secondary) both from the point of view of the number and type of training programmes on offer, and from the point of view of the number and type of participants.

There is a serious **gap in capacity** to foster the development of flexible and relevant youth skills after completion of secondary general education. In the current economic and demographic conditions this is a strategic problem. It is a signal for education policy, as well as for the overall socio-economic development strategy of the country.

Since 1996 the government has taken steps to modernise the VET system. Azerbaijan subscribed to important international education sector programmes, in particular the Bologna Process.

Azerbaijan has produced a **legislative framework**, several strategies and development programmes with a direct or indirect impact on education. High-level commissions were created

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<sup>8</sup> Study on employment and further paths of graduated youth from Vocational and Technical schools in Azerbaijan [http://www.etf.europa.eu/Web.nsf/opennews/311BDC1A3190063FC12570670031AC88\\_EN?OpenDocument](http://www.etf.europa.eu/Web.nsf/opennews/311BDC1A3190063FC12570670031AC88_EN?OpenDocument)

to support the implementation of the education sector reform. The new Law on Education was drafted several years ago, but has not yet been adopted.

Both the poverty reduction (2003) and the employment (2005) strategies include among their priorities the reform and modernisation of the education system. Important aspects in the national employment strategy relate to the recognition of the need to: improve the vocational education system; update training programmes for vocational education and job classifications; study and forecast demand for the various occupational profiles and skill needs in the labour market; carry out institutional reforms in the education system; diversify the financing of education and human capital development.

The **State Programme on the Implementation of the Employment Strategy** (2007-2010) includes some relevant measures to change and reform the VET system:

- Inter-sector co-ordination to monitor education policy (employment and education sectors are the lead institutions)
- Development of a methodology for skills needs forecast;
- Proposal of system of vocational standards and qualifications;
- Proposals for the development of continuing training;
- Introduction of new forms of education financing;
- Learning from international practice and expertise.

The **Programme on VET development** (2007-2012) shows a strong focus on changes in school governance towards greater transparency, autonomy and market orientation. It refers to the modernisation of the VET system in line with contemporary requirements:

- Optimisation of network of VET institutions and improvement of their financial and technical foundations;
- Development of a new model of economic relationships in the field of VET;
- Upgrading the content of VET;
- Improvement of (vocational school) staff development policy;
- Improvement of management in the field of VET.

There are a number of **challenges** not tackled in the State Programme for VET Modernisation, in particular:

- Education sector institutional capacity (“professional ministries”);
- Roles and functions of the various institutions;
- Accreditation of institutions;
- Social protection of students;
- Structural adaptation to a lifelong learning framework;
- Open pathways.

The Study Abroad programme managed by three different state bodies: the State Committee for Student Exams, the Ministry of Education and the President’s Commission on Education, is set to become a major factor in Azerbaijan's development. It is expected that it will significantly improve the economy, filling the human resources gap and providing it with needed professionals, and eventually ensure the sustainable development of Azerbaijan, as well as laying the foundation for future democratisation through the new values and norms acquired.

One of the major obstacles to effective education reforms has been insufficient **policy and programme coordination and cooperation** among critically relevant state institutions. Education policy remains too closed within its institutional boundaries, and does not cooperate sufficiently with other relevant sectors, with national development policies or with social partners in general. A shift towards a more integrated and coherent education and training strategy, with a lifelong learning perspective, will be a challenge for policymakers.

The multi-sector approach of the overarching state programme (SPPRSD) and the recently enhanced donor-driven incentive for inter-sector dialogue in the area of human resources development, in particular the future Tacis VET reform project, are likely to lead to better policy and programme interaction and integration.

### 3. EU and other donor policies and interventions

The education sector has received comparatively little support from international donors, in particular the European Union.

- Previous EU-supported activities in the education sector were limited to the Tempus programme in the field of higher education, following government priorities.

Currently there is a large EU funded project on VET within the Tacis Action Programme (2006), with an intervention based on two objectives: the implementation of a pilot operational partnership between a vocational training institute and an economic sector; and support for the definition of a new national strategy for vocational training in accordance with the adopted national employment strategy. This project is intended to pave the way for likely future sector support under the European Neighbourhood and Partnership Instrument (ENPI).

The EU–Azerbaijan European Neighbourhood Policy (ENP) Action Plan consistently draws attention to the systemic development of the education and training sector, within the framework of Azerbaijan’s reform programme. The priorities set out in the EU–Azerbaijan Action Plan encompass far-reaching reforms in the education and training sector, in particular through assistance to the implementation of a national education reform strategy (in the period to 2013), and reform of the education and training systems, including VET, by fostering lifelong learning, elaborating a legislative basis for education, and enhancing the transparency and accountability of the sector. Other objectives set out in the Action Plan include important elements such as enhancing the involvement of social partners and civil society to support the responsiveness of education and training to the labour market and the economy; the development and implementation of quality assurance in the field of education and training, by using the Tempus programme as an example; and enhancing the policy dialogue between EU and Azerbaijani authorities in the field of education, training and young people.

The strengthening of regional (cross-country) cooperation, in particular through the enhancement of participation in regional cooperation initiatives in education and other areas, is one of the priority areas of the EU–Azerbaijan Action Plan.

- Vocational education and training (VET) is increasingly perceived as a tool for achieving the Millennium Development Goals, being a key factor in combating poverty and social cohesion. UNESCO supports the efforts to bridge the gap between work and education. In June 2007, the project ‘Revitalizing Vocational Education in Azerbaijan’ was launched in Baku with the support of the Ministry of Education of the Republic of Azerbaijan and the Heidar Aliev Foundation. The project aims at modernising the VET system in Azerbaijan to align it with sustainable development goals and the requirements of a market economy. The actions that to be taken as part of the project include the modernisation of curricula for a number of subjects, such as hospitality and tourism, information and communication technologies and the teaching of the English language, as well as the establishment of a TVET Staff Development and Learning Resource Centre.
- There is a joint Azerbaijan-Korean project “Establishment of High Vocational Education Center” implemented within the frame of the Memorandum signed in August 2007 by the

Ministry of Education of Azerbaijan and the South Korean company DAEWOO. The idea is to establish the High Vocational Education Centre on the basis of vocational education school No4 in Baku, and is planned to be commissioned in two years. The total cost of the project is US\$ 32 million. Azerbaijan's and the South Korean Economic Development and Cooperation Fund's contributions are US\$10 million and US\$22 million respectively. The objective is to improve vocational education, as well as to solve the problem of staffing industrial enterprises. Some 1,050 students can receive education in the centre provided with more than 5,000 units of equipment of 633 nominations, as well as laboratories, a library, hostel, dining room and meeting room for 650 people. There are the tasks of developing manuals, textbooks, national curricula of vocational education, and also organising training for teaching staff by Azerbaijani specialists trained in South Korea.

- Since 2003 the United Nations Development Programme (UNDP) has assisted the project 'Transform Black Gold into Human Gold', the recent elaboration of the new SPPRS, and the national employment strategy. The International Labour Organisation and the UNDP have also provided technical assistance for the development of a new training facility targeted at job seekers and run by the Ministry of Labour. This project has had limited results because of the absence of a policy for adult learning and the lack of institutional technical and financial capacity to consolidate and introduce the proposed approaches more widely (modular learning, entrepreneurship learning). Within the joint UNDP/UNFPA project the second Labour Force Survey (LFS) conducted by the State Statistics Committee was finalised in 2006.
- Adult learning policy is the focus of the activities of the German organisation IIZ-DVV, which, since 2002, has carried out several projects in the area of adult education, including vocational training for adults. The projects included research; support to the creation of consultancy services; marketing of education services; support to several training providers in the regions, and repair works and curriculum development for training adults in the professions of "welder" and "tractor operator". In 2007, IIZ DVV in all three countries in the region, within the Eurasia supported ENP Civic Dialogue project, carried out policy analysis and in 2008 they produced an analytical document called "Support in the Research of Vocational Education Policy and European Neighbourhood Policy". This was initiated in September 2007 and completed in February 2008.
- The World Bank's new Country Partnership Strategy (CPS) for 2007-2010 is based on a broad policy reform approach combined with sector investment projects in agriculture, transport, water, refugees/internally displaced people, environment, education, health, and energy. Analytical and advisory assistance for the next four years includes Programmatic Poverty Assessments, Programmatic Public Expenditure Reviews (PER), an update on the CFAA (financial accountability) and CPAR (procurement), and ongoing work on trade facilitation and mitigation of the social costs of utility price increases. The objectives of the US\$45.5 million Second Education Sector Development Project (APL 2) approved in April 2008, are to: (i) improve teaching and learning results in general secondary schools (a) which receive new school libraries, and (b) where teachers adopt improved teaching practices as a result of in-service training; and (ii) improve the efficiency of spending in education. The project components are following: (i) supporting the implementation of the general education curriculum and further curriculum reforms to successfully engage teachers, students, and education managers in the implementation of the new general education curriculum, and to develop new learning materials and school libraries; (ii) support education reform by modernising in-service teacher training systems and practices, building on the institutional framework supported by APL 1; (iii) using student assessment for education quality improvement is to build up a new evaluation and assessment culture in Azerbaijan, which emphasises not just standards and the selection of the academically able, but a commitment to improving learning outcomes for all students. Assessment information will be made available in a user-friendly way to non-expert audiences, and feedback from assessment reflected in policy making; (iv) promoting school readiness to increase the readiness of children between 5 and 6 years of age, targeting regions where access to preschool institutions is severely restricted; (v) strengthening education policy development and management to strengthen the capacity of the education authorities to manage and implement education reforms; and (vi) project

coordination, monitoring and evaluation to support the coordination, administration, and monitoring of project activities.

- In May 2008 the World Bank approved a US\$26.7 million credit for the Social Protection Development Project, which aims at improving the delivery of labour market and social protection interventions through strengthened institutions and improved targeting of social safety net programmes.

The project aims to make improvements in four key areas: labour market reform, capacity building and social safety net development, pension system development, project management. The primary target group includes job seekers, young labour market participants, and young people choosing a career path, as well as very poor households, current and future pensioners, and people with disabilities in need of disability certification. The project provides assistance to the reform of the pension system in Azerbaijan.

The project aims to significantly improve labour market institutions, policies and programmes and strengthen capacity for labour market and employment policy formulation and implementation. It also finances the strengthening of job search and matching services, career counselling, and training programmes.

#### 4. ETF intervention strategy in the mid-term perspective 2009-13

The overall mid-term objectives of the ETF Work Programme are to: i) support the European Commission in the development and deployment of external assistance; and ii) support the continuing development of partner country capacities in human capital development for innovation, competitiveness, growth and equity.

Priority areas for ETF support in the mid-term perspective are as follows:

- enhanced effectiveness and relevance of Community assistance programmes to partner countries in the field of HRD, alignment of the EU aid flow to national priorities
- awareness of and capacities for the preparation of the sector based approach in education and training
- transfer of relevant policy lessons between EU Member States and partner countries, as well as the engagement of partner countries in relevant EU policies and programmes
- country stakeholder capacities developing and implementing more integrated and relevant education and training policies and strategic measures to meet the needs of wide target groups
- NQF strategy measures and contributions to VET reform
- regional cooperation in VET between Azerbaijan and its neighbouring countries

The ETF will continue to support EU efforts to enhance Azerbaijan's own reform programmes in the broad area of human capital development. Expertise provision to the EC for ENPI programming and ad hoc advice at the request of the Commission will be the methods of support. The ETF's priorities in supporting the delivery of Community assistance in Azerbaijan are the Tacis VET reform project and further developments under the ENP Action Plan.

ETF intervention in the country will be designed to meet the most urgent challenges of VET reform at the policy level: education strategy; coordination and cooperation among critically relevant state institutions; the capacity.

The specific mid-term objective for ETF support is to contribute to (1) the development of integrated coherent education and training policies with a lifelong learning perspective, linked to economic and social development objectives, including equity and gender issues; (2) enhanced

capacities to develop and implement the policies, including at school level; (3) inter-sectoral dialogue.

The ETF will place its strategic focus on policy advice relevant to three areas, which are in line with, and complement, the priorities expressed in the draft EU–Azerbaijan Action Plan, while matching the priorities of the government:

- human resources sector policy development and monitoring – through targeted expert assistance and peer learning;
- qualifications: system review, quality assurance, validation and recognition of competencies, development of qualification standards and learning outcome oriented curricula;
- dialogue: institutional and social, with view to strengthening inter-sector policy and programme coordination on one side, and the more effective involvement of social partners in policy-shaping processes on the other.
- legislative and institutional developments

The overall objectives of the 2009 work programme are (1) to support the European Commission in the development and deployment of external assistance; (2) to support the continuing development of partner country capacities in human capital development.

The specific objectives for ETF work in 2009 will be (1) upon request of EC services, to provide support to the implementation of the TACIS VET project (2) to support the Ministry of Education in capacity building for developing and implementation of the VET strategy.

- In 2009 the ETF will undertake, at the request of the EC, the content monitoring of the VET project.
- The activities described below follow up of the corresponding projects that started in 2006 and 2007 accordingly, and will provide information and contribute to the discussions of the VET strategy to be developed within the project. The **National Qualifications** project, which serves as a platform for exchanging information and cooperation in technical and policy issues related to NQF, with a wider VET reform agenda will be finalised. The concept of a national qualifications framework as a potential tool for modernising the education and training system, for structuring the qualification system, with a view to improving the attractiveness of VET, enhancing social dialogue on the topic, as well as improving information and analysis to support VET policy, will be further explored with the network of stakeholders, also in the VET project.

Practical experience translated into policy recommendations, will be reviewed and summarised in the form of a publication. Sharing experience with EU Member States and other countries involved in the project will take place at a final conference to take place in Moscow.

In view of the government intention to establish a Qualification Agency, its outcomes will be helpful.

- In the context of the Black Sea Synergy Initiative, in the second phase of the **Black Sea Employment Review** project, the ETF will carry out a comparative employment review. This activity adds value in strategic areas by offering policy advice and relevant information for evidence-based policy, by proposing both the methodology for research and the analysis, as well as developing local capacity for labour market research.

The project addresses the challenges faced by the Black Sea region countries, and highlighted in several ENP Action Plans: decreasing activity rates and high unemployment levels, informal economy, low-quality and low-paid jobs, skills mismatch, migration.

It responds to the labour market information tasks expressed in government programmes. The availability of the right information/ analysis as well as institutional capacity is crucial in addressing the challenges of labour market and reforming human capital development systems.



The project will focus on analysing the above-mentioned issues of the labour markets in five countries in a comparative perspective. Special attention will be given to gender aggregated data and analysis. The regional focus of the project on selected labour market issues will help policymakers understand the structural trends in the region and provide relevant analysis on the generation of human capital and how outputs from the education and training systems are used and allocated in the labour markets.

The analysis will be complemented by a number of awareness-raising and information/experience sharing activities for key policymakers.

Both activities can help employers in promising sectors, in terms of analysing their own needs in a satisfactory manner and being able to formulate requests to the education—and notably to the VET system.

- The ETF will provide **support to the VET Department** of the Ministry of Education in capacity building in the area of policy and tools for effective functioning of schools, in particular through better school management and modern qualifications and curriculum development, in view of innovations and lifelong learning.

ETF activities will help involve the main actors. Regular **dialogue** will be ensured, with a view to new, specific requests emerging from the debate taking place around the draft VET reform law. This additional ETF support will be provided directly to the national authorities or via the EC/European Neighbourhood and Partnership Instrument (ENPI) channel, as appropriate and depending on requirements.

- The ETF will support **legislative and institutional developments** that will accompany the reform process, in particular through tailored support to qualification structures to be established in the course of the modernisation process.

In its work the ETF will use tools such as information provision, exchanges, self-assessment, peer-learning and learning-by-doing, in particular at the sector level. Tourism will remain a priority sector.

The expected key results of ETF interventions in the mid term period are: improved relevance of human capital development components in EU funded interventions, enriched education and training policy debates, and measures developed to build an education and training system that plays a role in active employment, social inclusion and poverty reduction efforts.

The policymakers and key stakeholders in Azerbaijan will have strengthened capacities in human capital development policy planning and implementation, for cooperation on cross-sectoral issues, and are better prepared to identify and develop actions for possible SPSP contributions to human capital development.