



IN-DEPTH STUDY OF LABOUR MARKET AND VET CHALLENGES AND PERSPECTIVES FOR COUNTRIES PARTICIPATING IN THE EUROPEAN NEIGHBOURHOOD POLICY

SOUTHERN CAUCASUS: AZERBAIJAN

CONTENTS

1	INTRODUCTION.....	3
2	THE ECONOMY.....	5
2.1	ECONOMIC OUTLOOK AND KEY REFORMS.....	5
3	THE LABOUR MARKET.....	8
3.1	KEY FEATURES AND CHALLENGES.....	8
3.2	EMPLOYMENT AND LABOUR MARKET POLICY.....	11
3.3	LABOUR MARKET PERFORMANCE IN RELATIONSHIP TO EDUCATION LEVELS.....	13
3.4	EMPLOYMENT AND UNEMPLOYMENT OF YOUTH.....	16
4	EDUCATION AND TRAINING.....	17
4.1	OVERALL NATIONAL POLICY OBJECTIVES.....	17
4.2	EDUCATION SECTOR.....	17
4.3	OUTSTANDING VET REFORM ISSUES.....	18
4.4	POLICY FRAMEWORK OF THE VET REFORM.....	26
4.5	VET REFORMS.....	27
4.6	THE NEW PHASE: 2006–2007.....	28
4.7	THE MEDIUM-TERM EXPENDITURE FRAMEWORK.....	32
5	CONCLUSIONS AND RECOMMENDATIONS.....	35
	ACRONYMS.....	40
	BIBLIOGRAPHY.....	41

1 INTRODUCTION

This report is an update of the *In-depth study of labour market and VET challenges and perspectives for countries participating in the European Neighbourhood Policy* ('ETF In-depth study'), published by the European Training Foundation (ETF) at the end of 2006¹. The present study includes key inputs from national experts and the State Statistical Committee.

The findings of the study were discussed in October 2007 at a regional meeting that had the aim of fostering a well-grounded debate on the regional- and country-specific priorities of ongoing reforms. The discussion enables ETF to refine the study's findings and recommendations and enhance its relevance for the countries involved. The ETF In-depth study remains largely valid, and this update focuses on recent developments and key issues.

As a new framework for relations with the European Union, the European Neighbourhood Policy (ENP) has opened up a number of opportunities and challenges for the countries in the region. The ENP foresees a move from project to programme support. The sector-wide approach is expected to become the main intervention modality to support genuine reform drive in the countries. ETF has decided to take up the previous analysis and propose a cross-country analysis of key priorities for VET and employment policies within the framework of the ENP Action Plans and the latest national reform orientations. The study aims to help strengthen the effectiveness of the ongoing VET reform processes.

In 2006 Azerbaijan and the European Union (EU) adopted the Action Plan within the EU's ENP framework and signed a memorandum on strategic partnership on energy issues. Both the ENP Action Plan and the country's ongoing World Trade Organization entry negotiations are expected to stimulate reforms.

The country's evident economic advancement has been acknowledged, but progress in the transition to multiparty democracy and a pluralistic society has been slow, and many challenges remain.

Azerbaijan has shown the world's highest growth rates in gross domestic product (GDP) over the last two years thanks to new oil production and increased exports at high world prices. The predominance of the oil sector in the economy creates major strategic challenges for the Government of Azerbaijan (GoA) because:

- the oil boom will be relatively short in duration;
- current large oil revenues need to be managed for sustainable and broad-based development in order to ensure a success story;
- human resources development should be a central part of strategy and investment to ensure that management of oil revenues for sustainable and broad-based development becomes a reality.

There is sufficient evidence worldwide that resource wealth, in particular dependency on exports of a single natural resource with low added value (a single-resource economy), makes it more difficult to achieve economic reform. Azerbaijan is no exception. Progress in structural reforms has been uneven. The transparency of resource revenues has improved, and Azerbaijan was the first country under the Extractive Industry Transparency Initiative (EITI) to submit an internationally audited progress report. But the business environment in the non-oil and gas sectors still requires significant improvement in transparency and efficiency.

The oil sector is a small employer because it is mainly capital intensive. The challenge for Azerbaijan is to support world integration of its non-oil economy, which requires an open and efficient business environment, and a labour force with a wide skills mix. A flexible and responsive education and training system is indispensable for supporting effective skills acquisition and skills upgrading for both youth and adults.

Unlike neighbouring Armenia and Georgia, Azerbaijan has a growing population and labour force. The labour force is projected to increase by more than 18% between 2003 and 2010. The unemployment rate decreased from 10.8% to 6.8% between 2003 and 2006 as a result of economic growth and the creation of new jobs. Although this is the best indicator in the Southern Caucasus region, available data and analysis do not allow more in-depth conclusions. Azerbaijan carried out only two labour force surveys (in 2003 and

¹ www.etf.europa.eu

2006) despite the strong priority given to the employment agenda and the high visibility of the country's National Employment Strategy (2005) and the supporting implementation programme (2006). A needed improvement is the development of a systematic and broad labour market analysis and source of information that can be used for policy and programming purposes, including education and training reforms.

Although the crucial importance of rehabilitating the credibility and value of education and training in Azerbaijan has been widely recognized, reforms in education have proved to be a complex matter. The new Law on Education was drafted over half a decade; it was discussed and reviewed but there was a lack of determination to adopt it.

In Azerbaijan there has been growing pressure from the public and from enterprises for education reforms, namely of the vocational education and training (VET) system. The first reform measures in the 1990s had mixed results, and a change in the priorities set for education and training was expressed in the National Employment Strategy of 2005.

Lessons from the VET reforms of the past decade show that the pace of change is slow and that achievements have been partial. VET remains divided into two non-communicating pathways that report to different structures within the same ministry², and synergy between the two is largely insufficient.

Education sector authorities presented the 'Programme on development of vocational education and training in the Republic of Azerbaijan (2007-2012)', which was approved in mid 2007. Although the programme tackles a number of key building blocks of VET modernisation, various issues that are important for the upcoming implementation phase remain open. The programme focuses on school level reforms, modernisation of the content of VET and teachers' development. But it does not foresee any explicit improvements in the overarching institutional setting to deal with the challenges of implementation through new dynamism and new approaches. The programme does not propose new interaction between the different VET pathways or an explicit lifelong learning orientation.

The major practical challenge of the newly adopted 'Programme on development of vocational education and training in the Republic of Azerbaijan (2007-2012)' will be less what to do than how to do it, how much it will cost, who will lead and how will progress be monitored. Sector leadership, younger staffing in the VET department able to deal with new management methods and education policies, adequate levels of funding, effective dialogue and cooperation (cross-sector, institutional and social partnerships), access to expertise, cross-country learning and timely monitoring will be among the key elements for successful implementation.

This report includes update information on the VET reform in 2008 collected on the spot in July 2008. Our report didn't analyse the labour market data of the report of Labour Force Survey (LFS) 2006. This report of LFS is available since July 2008, hence too late for inclusion in our ETF report.

² The professional-technical VET element reports to the VET Department; the secondary specialised education element reports to the Department of Higher Education although it is a non-tertiary level and basically provides diplomas at the level of completed secondary education and professional qualification.

2 THE ECONOMY

Azerbaijan continues to face major challenges to its vision of creating an open, market-oriented economy through economic diversification, of integrating the non-oil economy into world markets, and of securing conditions conducive to long-term sustainable development.

These challenges include:

- improving the business environment through sustained anti-corruption measures, strengthening administrative capacity and enhancing the regulatory environment and the rule of law to create a level playing field conducive to further development of local private enterprises and attraction of foreign investment;
- developing the non-oil and gas sectors of the economy to ensure their competitiveness and to achieve consequent poverty alleviation and sustainable development throughout the country, including rural areas and cities outside the capital, through long-term economic policies and incentive schemes;
- achieving efficient long-term management of oil and gas revenues, and ensuring macroeconomic stability through prudent monetary and fiscal expenditure policies to avoid excessive inflationary pressure and real exchange appreciation.

2.1 *Economic outlook and key reforms*

Azerbaijan has the highest economic growth rate in the Commonwealth of Independent States (CIS) region. The first year of positive growth was 1996, and since 2003 growth has been at double-digit levels. For 2007 the European Bank for Reconstruction and Development (EBRD) indicated a projected 25% growth rate. There has been a fundamental change in the economy since the increase in oil production and the opening of the Baku Tbilisi Ceyhan pipeline. While average economic growth was about 10% during the period from 2002 to 2005, real GDP grew more than 26% in 2005 and increased by an unprecedented 35% in 2006, making Azerbaijan's economy the fastest growing economy in the world. The dramatic growth has resulted in a more than two-fold increase in GDP per capita in recent years, from USD705 per capita in 2001 to USD1 521 in 2005³.

These high growth rates explain the total recovery of the economy a decade after a significant slump in output. In 2006 the estimated level of real GDP (=121) surpassed the 1989 level (=100). In comparison, the average estimated level of real GDP in 2006 in the CIS is 94, and only half of the region's economies have now surpassed the pre-transition levels of 1989⁴.

³ IDA at work, *Armenia: Reaping the benefits of steady reforms*, 2007, <http://siteresources.worldbank.org/IDA/Resources/IDA-Armenia.pdf>

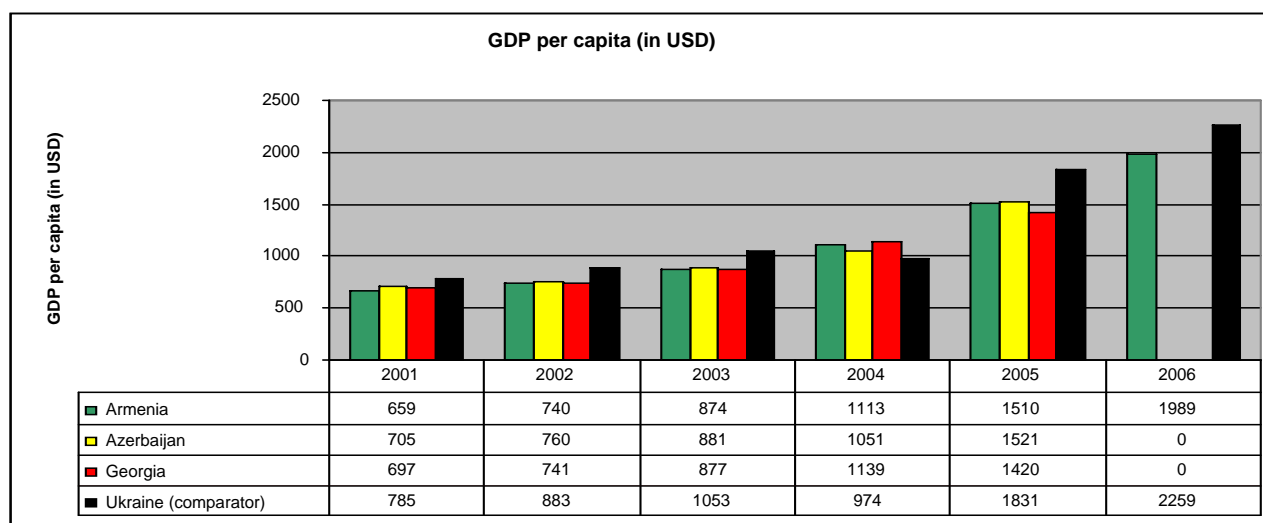
⁴ EBRD *Update report 2007*, www.ebrd.org. Georgia reached an estimated GDP level of 53 (1989 = 100), and Armenia – 126

Table 1. Volume of GDP (as percentage of previous year, constant prices)

	2001	2002	2003	2004	2005	2006
Azerbaijan	109.9	110.6	111.2	110.2	126.4	134.5
Armenia	109.6	113.2	114.0	110.5	113.9	113.3
Belarus	104.7	105.0	107.0	111.4	109.4	109.9
Georgia	104.8	105.5	111.1	105.9	109.6	109.4
Kazakhstan	113.5	109.8	109.3	109.6	109.7	110.6
Kyrgyzstan	105.3	100.0	107.0	107.0	99.8	102.7
Moldova	106.1	107.8	106.6	107.4	107.5	104.0
Russia	105.1	104.7	107.3	107.2	106.4	106.7
Tajikistan	109.6	110.8	111.0	110.3	106.7	107.0
Uzbekistan	104.2	104.0	104.4	107.7	107.0	107.3
Ukraine	109.2	105.2	109.6	112.1	102.6	107.1
CIS average	106	105	108	108	107	108

Source: http://www.cisstat.com/eng/macro_qh.htm

Figure 1. GDP per capita (in USD), Southern Caucasus



Source: EBRD *Update report 2007*. Graph: ETF

GDP growth was led by a rise of 36.6% in industrial production in 2006. The main source of growth was new oil production, accompanied by high oil prices. The sector strongly benefited from increased exports as a result of the opening of the large Baku Tbilisi Ceyhan pipeline in May 2005.

Increased oil production and exports, together with high prices, have resulted in an economic structure that is more than ever focused on oil. Currently the oil sector accounts for about 54% of GDP and represents three quarters of industry's share of GDP. The predominance of the oil sector in the economy is the root of the key strategic challenges faced by the GoA because:

- the oil boom will be relatively short in duration;
- current large oil revenues need to be managed for sustainable and broad-based development in order to ensure a success story;
- human resources development should be a central part of strategy and investment to ensure that management of oil revenues for sustainable and broad-based development becomes a reality.

The non-oil economy shows a different pattern of growth, but the GoA is aware that diversification is indispensable for employment and sustainable growth agendas, and for closer integration into the world economy. In 2006 the non-oil sector grew by about 7.5%, partly as a result of spill-over effects from the oil industry. Growth was particularly evident in the machinery, chemical, construction and telecommunications sectors. But agriculture, which is the sector that employs the largest share of Azerbaijan's labour, remains low in productivity. It grew by only 1%⁵.

Budget revenues almost doubled in 2006 as a result of surging oil revenues, leading to a fiscal surplus of about 0.5% of GDP. This occurred despite an increase of more than 80% in public spending, particularly for the construction of infrastructure and transport.

Wage increases and growth in domestic demand have exerted upward inflationary pressure. At the end of 2006 inflation reached 11.4%, from 5.4% in the previous year. The real exchange rate appreciated by about 10.5% year on year in 2006. The EBRD *Update report 2007* indicates a projection of a 16% inflation rate for 2007. International Monetary Fund (IMF) reports (2007) emphasise the risks for the sustainability of growth associated with the more relaxed macroeconomic policy implemented by the GoA.

In 2006 the external sector registered a 70% growth of exports. Oil exports increased by 75% and represent a 93% share of total exports. Imports grew by only 24% in the sequence of completion of major oil and gas projects and related capital investments. This contributed to improving the trade balance; surplus reached 39% of GDP (up from 26% in 2005). The external debt decreased from 13.1% to 9.9% of GDP.

The new EBRD Strategy for Azerbaijan emphasises that the business environment of the non-oil sector requires significant improvement to attract more investment (domestic and foreign), to channel growth to the non-oil regions and to further reduce poverty.

The complex tax and customs system, bureaucratic delays and corruption continue to be major obstacles to the development of private enterprises, particularly in the non-oil sector. Although the anti-corruption law became effective in January 2005, the Anti-corruption Commission has been slow in implementing it. Azerbaijan was ranked 99th out of 175 countries by the World Bank's Doing Business Survey in 2006, an improvement of only one place from 2005. Monopolies continue to hamper competition, while instances of government intervention in investments in the non-oil sector have had a negative impact on investors' confidence. A new law on investment activity that is intended to level the playing field for domestic and external investors has been delayed and is currently under discussion. The level of foreign direct investment in non-oil sectors of the economy remains low.

An economy that is so highly dependent on the energy sector is vulnerable to energy shocks. Economic diversification is essential for long-term sustainability. The recent large increase in public expenditure of 80% in 2006 and an expected increase of 50% in 2007 raise concerns not only about further inflationary and exchange rate pressures, but also about general absorption capacity and the long-term sustainability of public finances, given the expected decrease of oil production in the medium term.

In the context of substantial oil revenues, the government's major challenge is to maintain macroeconomic stability while efficiently addressing large investment needs and the incidence of poverty in the country. This would require designing a long-term budget expenditure policy (in terms of size and composition of expenditure), and an effective public investment management programme aimed at improving the investment climate, increasing the competitiveness of the non-oil sector, and establishing efficient infrastructure.

⁵ EBRD *Update report 2007*, www.ebrd.org

3 THE LABOUR MARKET

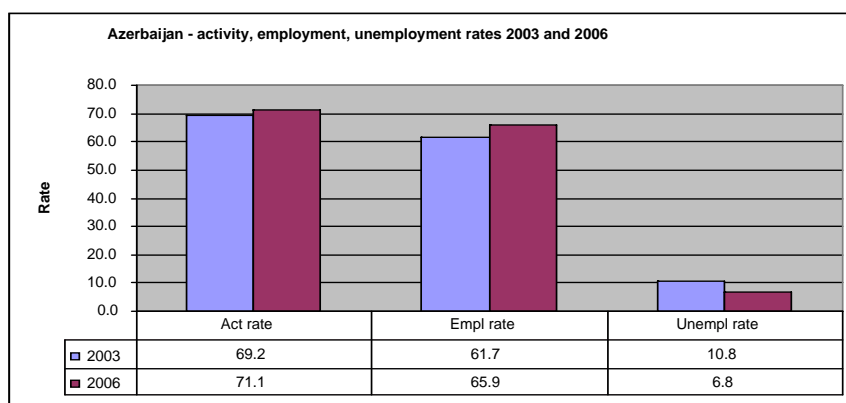
3.1 Key features and challenges

Data and analysis represent one of the difficulties for objective research and policy formulation in Azerbaijan. Analysis of the functioning of the labour market is problematic, since only two labour force surveys (LFS) were carried out (in 2003 and 2006). The report of the LFS 2006 was not available when this update report was written. Data gathered by the State Employment Service (SES) only partially cover labour market trends. Reports of the Household Budget Surveys are not published on the website of the State Statistical Committee (SSC), and there is no significant research activity on labour market and employment trends, apart from those that are useful for monitoring the poverty reduction strategy. A new LFS was carried out end 2006 but its report was made available by mid 2008. Hence these results are not used in our report.

According to the LFS 2003 the unemployment rate was 10.7%⁶; women were affected more than men (12.2% compared with 9.6%). Younger groups showed much higher unemployment rates than the average (24% for the 24–29 age group). Almost half of the 404,000 unemployed people were young (in the 20–29 age group). But data based on registration in the SES show unemployment rates in the range of 1% to 1.4% (1998 to 2003), demonstrating the inability of the SES to monitor the labour market.

The LFS 2003 showed that the economically active population numbered approximately 3.79 million people, or 69% of the total population; this was an increase of 11.2% over the 1999 census. This trend is linked mainly to the growth of the number of people active in small private businesses, predominantly in farming and commerce.

Figure 2. Activity, employment and unemployment rates in Azerbaijan, from LFS 2003 and LFS 2006



Source: SSC, data for 2006 provided at request of ETF. Graph: ETF

These indicators show significant improvements during the period of highest economic growth and are more positive than similar indicators for neighbouring Armenia and Georgia.

Azerbaijan has reported important progress in creating jobs since the end of 2003. Almost half a million new jobs were created between 2003 and 2007; about 50% were temporary jobs and about 50% were permanent jobs. Of the 248 000 permanent jobs, 40% were created by physical persons, such as small entrepreneurs who are not registered as legal entities such as corporations; 23% were created in new enterprises and organisations; and 3% were created in existing enterprises.

The sectors that have the highest share of new permanent jobs are:

- manufacturing (11%);
- construction (10%);
- trade (9%);
- ministries and other central institutions (8%);
- agriculture (5%).

⁶ 10.8%, according to data delivered by SSC in 2007 for this update report.

Surprisingly, subsectors such as hotels and restaurants, which are related to tourism, the sector that is considered strategic for economic diversification, have created less than 1 600 permanent jobs.

Table 2 is from the ETF In-depth study 2006 and is based on data from the SSC report 'New jobs'.

Table 2. Number and percentage of jobs created from 1 October 2003 to 1 October 2005

Total jobs created	310 466	%
Permanent jobs created in:		
• new enterprises and organisations	40 727	13.1
• existing enterprises and organisations	52 693	17.0
• reactivated enterprises and organisations	7 483	2.4
• Activities of physical persons	54 394	17.5
Temporary and/or seasonal jobs	155 169	50.0

Source: SSC, 'New jobs', October 2005

State organisations created a total of 18 591 jobs. Of these, 10 177 were permanent (7% of all permanent jobs created) and 8 414 were temporary or seasonal (5.5% of all the temporary or seasonal jobs created). This confirms the role of the state as both permanent and seasonal employer.

The distribution of the jobs created fluctuated significantly across economic regions, as did the share of permanent jobs (but not the share of seasonal and temporary jobs). Baku, the capital, registered 49 511 new jobs, and the vast majority (98%), were permanent jobs, probably in enterprises. The new permanent jobs in the city of Baku alone represent a third of all new permanent jobs reported, which again demonstrates the economic advantage that this part of the country has. The region of Aran reported 90 822 new jobs, of which only 30% were permanent. Lankaran, a region that has strong prospects for agribusiness and domestic tourism, reported 31 790 new jobs, of which 29% were permanent. The Ganja-Gazagh region registered 33 247 new jobs, of which half were permanent.

The SSC reports on the distribution of new permanent jobs by types of economic activity in the relevant period. Table 3 shows a slight discrepancy in the total, but it corresponds in full to the data from the SSC report.

Table 3. Distribution of new permanent jobs by economic activity from 1 October 2003 to 1 October 2005

Total of new permanent jobs	155 297	%
Agriculture, hunting and forestry	10 198	6.6
Fisheries and fish farming	751	0.5
Mining	932	0.6
Manufacturing	19 615	12.6
Electricity, gas and water supply	1 485	1.0
Construction	18 913	12.2
Wholesale and retail trade, including car and motorcycle sales and repairs and sales of household goods	15 509	10.0
Hotels and restaurants	946	0.6
Transport, storage and communication	3 104	2.0
Financial intermediation	1 405	0.9
Real estate, rentals and business activities	6 109	3.9
Public administration, defence and social security	5 276	3.4
Education	1 379	0.9
Health and social work	1 647	1.1
Other community, social and personal services	3 356	2.2
Private households that employ persons	20	0.0
Ministries, committees and central organisations	10 177	6.6
Physical persons	54 394	35.0
TOTAL (0.1% discrepancy in the original source)	155,216	99.9

Source: SSC, October 2005

The report on new jobs created in the period from October 2003 to October 2005 raises a number of questions.

- The total number of reported new jobs (more than 310 000) corresponds to over three quarters of the unemployed population as recorded in the LFS 2003. Can it be said that the State Programme for Socio-Economic Development of the Regions of Azerbaijan succeeded in eliminating the majority of unemployment during only two years of implementation?
- The category of physical persons (data not disaggregated by economic activity) emerges as the most important source of job creation in Azerbaijan, accounting for 35%, a very high share. This figure is particularly significant when compared with the two closest results: in manufacturing (12.6%) and trade (10%). One might ask why the data on physical persons is not disaggregated by activity, since data is collected by means of similar administrative forms. Physical persons are, in principle, entrepreneurs without legal entity as corporations. They are usually small individual businesses with simple registration for taxation and with personal assets, and they are fully liable). Their activities are close to informality (but not illegality), these jobs might be categorised as self-employment (own-account workers operating as physical entities).

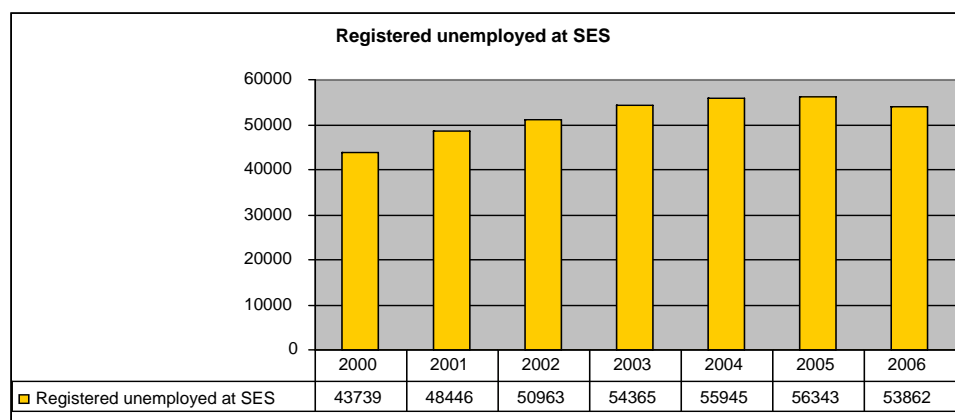
3.2 *Employment and labour market policy*

Major challenges to employment and labour market policy are:

- ensuring successful implementation of the priorities set out in the National Employment Strategy (NES), including mutually beneficial synergy with policies in other sectors such as business development, education and training and poverty reduction;
- preparing better grounds for facing globalisation, in particular, mitigating further depletion of skills and promoting better use of existing skills with the aim of promoting the competitiveness of the labour force through policy and market mechanisms, and avoiding protectionism;
- adapting labour market, taxation and social policy to the realities of the labour market, taking into consideration the fact that part of the working-age population is engaged in informal labour market activities, self-employment and agriculture;
- improving the quality and quantity of, and access to, labour market information and intermediation for job seekers, young entrants, students and employers;
- adopting policy that is increasingly based on evidence by ensuring timely and reliable labour market data and analysis from sources such as more systematic surveys;
- enhancing the institutional capacities of the SES, modernising its services and information base and establishing networking with education and training institutions.

There is a great difference between the total number of unemployed according to the LFS 2003 (404 000) and the total number of registered unemployed (54 500). This shows that the SES is far from effective in fulfilling its function in the labour market, and far from relevant for the unemployed who seek jobs.

Figure 3. Registered unemployed at the SES



Source: NSS, data provided at request of ETF. Graph: ETF

The NES covers the period from 2006 to 2015 and addresses eight priorities⁷.

In the first phase (from 2006 to 2010) the key objectives are a noticeable reduction in unemployment, an improvement in the labour market and social protection of unemployed and vulnerable individuals. The second phase will address the stimulation of labour demand through a better business environment and improved investment and human capital. The sequence of objectives of both phases can be questioned, since better conditions for business growth and expansion (foreseen in the second phase) are in fact premises and bases for job creation and the reduction of unemployment.

The eight priorities are as follows:

1. **macroeconomic policy and development of entrepreneurship**, addressing the factors that hinder generation of new jobs and focusing on the creation of an institutional environment that will facilitate an increase in the level of employment;

⁷ NES, 2005

- 2. improvement of the legislative base and institutional development in the field of employment;**
- 3. development of the labour market, including measures to:**
 - create the necessary environment to ensure a balance between labour supply and existing jobs;
 - improve research and information systems to ensure the employment of unemployed people in relevant jobs within a short period of time;
 - develop labour force potential through improvement of professional training and advancement systems for human resources;
 - direct a certain proportion of oil revenues towards the development of human resources;
 - improve financial and credit policy and increase the weight of long-term loans and or credit in the structure of credit investments to enable the development of small and medium businesses;
 - implement special actions to facilitate social protection for unemployed people and ensure employment for those who have difficulty in finding jobs;
 - meet the demand for workplaces by implementing balanced investment and tax policy;
 - ensure economic stimulation for entrepreneurship, small and medium businesses, and those involved in private labour activities (especially in areas where there is tension in the labour market);
- 4. education policy and the labour market, which is of particular importance and comprises actions to:**
 - identify demand for groups with various specialties by analysing the situation in the labour market and making precise forecasts;
 - improve the professional training system to ensure preparation of competitive groups in the labour market;
 - continue education in workplaces, improve continuous professional training and apply forms of modern education such as distance education and model education;
 - ensure that institutional changes in the education sector conform with the requirements of employers in terms of the knowledge and skills required of the labour force;
 - prepare education curricula that meet modern requirements for vocational training and update professional classification;
 - enhance the application of a new model of professional training and advancement for specialists working in secondary schools;
 - identify opportunities for investments focused on human development;
- 5. development of the regional labour market;**
- 6. stronger social protection for job-seeking and unemployed citizens;**
- 7. development of employment for socially vulnerable groups, and assistance in the employment of young people and adolescents;**
- 8. employment policy and social partnership principles.**

The programme supporting the implementation of the NES was approved in 2007⁸. It presupposes intersector and interministerial cooperation in a large majority of measures and/or actions. Experience shows that this premise may represent a serious challenge, and for this reason adequate leadership and monitoring mechanisms need to be established at early stages of implementation.

The national programme will be financed by the national budget, the State Social Protection Fund and other resources that are not counter to the legislation of Azerbaijan. As in the NES, one chapter is dedicated to education and training, but it is called 'Improvement of the quality of the labour force and development of competitive human resources'. Chapter 4 of this report contains an analysis of this part of the programme.

⁸ State Programme on Implementation of the Employment Strategy of the Republic of Azerbaijan (2007-2010), available at: <http://www.un-az.org/Doc/bmtson.pdf>

3.3 Labour market performance in relationship to education levels

Despite all efforts to obtain data for this update report, no data was available to allow calculation of employment and unemployment rates by education level. Therefore we refer to the analysis in the ETF In-depth study 2006.

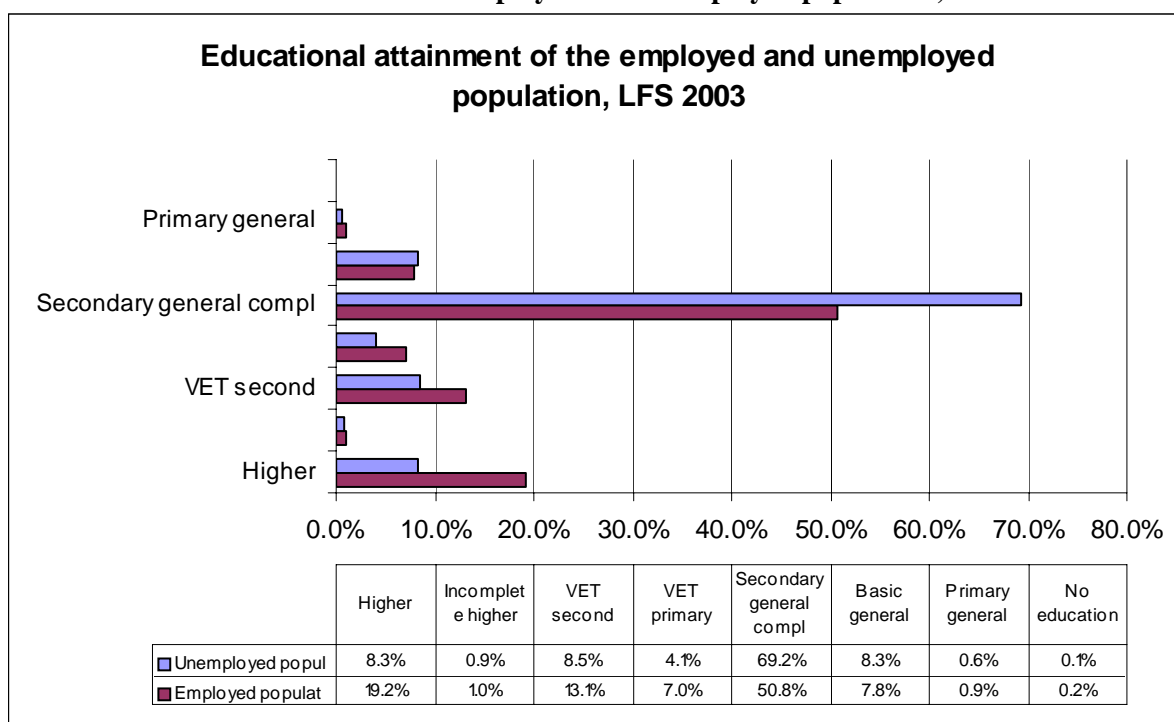
Analysis of the educational attainment levels of the employed population, based on the LFS 2003, produces an interesting picture that contributes to an understanding of the low productivity of the non-oil economy.

The overall educational attainment of the employed population was impressive: 51% had completed secondary general education, 19% completed higher education, 13% completed secondary technical education and 7% completed primary (preliminary) vocational education (see Figure 4).

To better understand these numbers it is important to consider the distribution of students by education subsector in 2003: 90% were general education students, 6.4% were higher education students, 1% were primary (preliminary) VET students and 3% were secondary VET students.

To improve the competitiveness of the economy it is important to motivate the allocation of human resources from lower productive sectors to those which have higher productivity. In Azerbaijan, data in the LFS 2003 show a counterproductive situation: the bulk (70%) of the labour force with higher skills (tertiary education) was employed in the public sector⁹, although salaries were lower than in the private sector (in medium and large enterprises). Given that people generally make well-informed labour decisions, one has to conclude that public employment is competitive and that there are incentives other than mere wages that justify such decisions.

Figure 4. Educational attainment of the employed and unemployed population, LFS 2003



Source: SSC, LFS 2003, report 2004. Graph: ETF

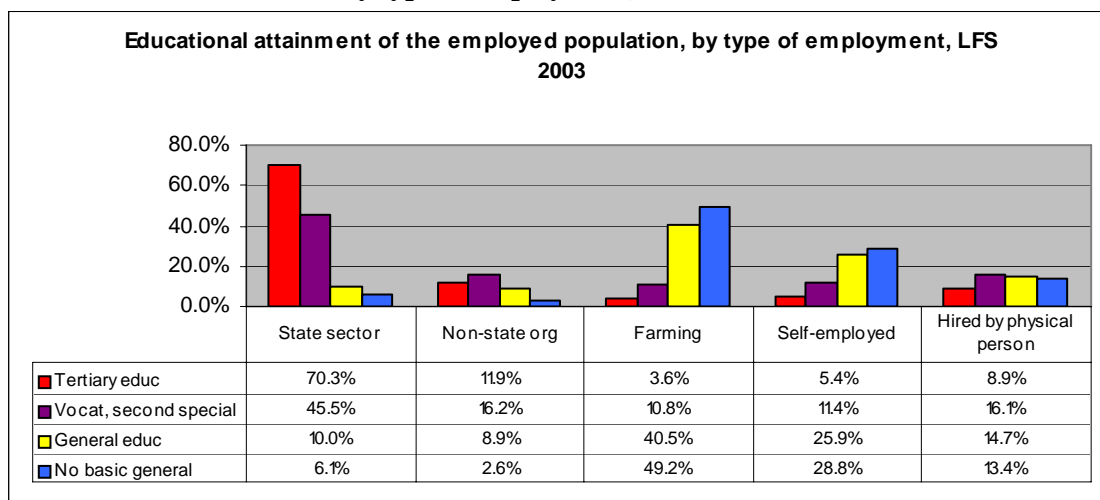
The analysis of educational attainment by type of employment¹⁰ indicates that the public sector was the largest employer of people who had completed higher education. The public sector employed over 70% of the total employed population with this level of education, compared to only 12% employed by private enterprises. Those who had completed secondary general education represented a minority of those employed in the key economic sectors (state and non-state), but they constituted a majority of those

⁹ State structures, ministries and their agencies and services, and enterprises.

¹⁰ Types of employment: state sector, private enterprises, farms, self-employed, people employed by physical persons. Here 'self-employed' refers to entrepreneurs without registration as a legal entity; this is a legitimate form, though it is characterised by more informal organisation and accounting procedures and is usually individual (e.g. a one-person business).

employed in the least productive jobs (in farming, by physical persons, as self-employment). Over 45% of employed people with VET qualifications (primary and secondary) worked in the state sector. See Figure 5.

Figure 5. Educational attainment by type of employment, LFS 2003

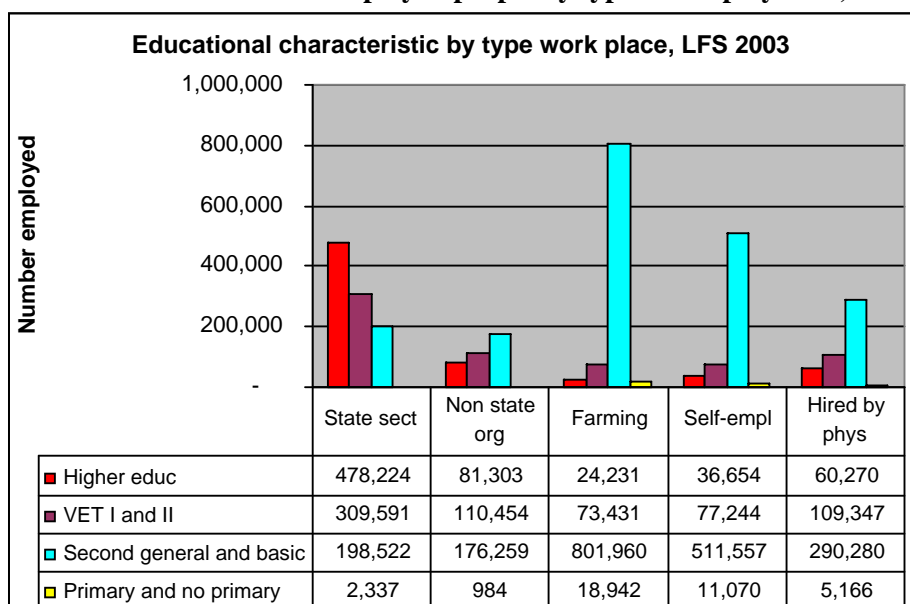


Source: SSC, LFS 2003, report 2004. Graph: ETF

Those employed in the state sector had the best educational profile by far; approximately half had completed higher education and over a third possessed VET qualifications. The proliferation of higher education qualifications in fields that are of low direct relevance for industry (e.g. teaching and law) partly explains the concentration of this part of the labour force in the public sector. Those employed in the private sector (in enterprises)¹¹ were predominantly individuals who had completed general education (47.8%); the next most sizeable group comprised those with VET qualifications (30%). In the private sector only 22% of those employed had completed higher education.

These figures are compatible with the findings of the ETF In-depth study. Medium and large private employers feel a certain mistrust regarding the relevance of higher education diplomas, and there is a tendency to recruit people with middle-level qualifications who are subsequently trained by their employers (see Figure 6).

Figure 6. Educational characteristics of employed people by types of employment, LFS 2003



Source: SSC, LFS 2003, report 2004. Graph: ETF

¹¹ People employed in farming, those who are self-employed and those hired by physical persons are considered in another category.

Among the unemployed population 70% had completed secondary education, 5% had completed preliminary VET, 8.5% had completed secondary vocational schools and an equal percentage had completed higher education, according to the LFS 2003.

Table 4. Unemployment rates by age group and level of education, LFS 2003

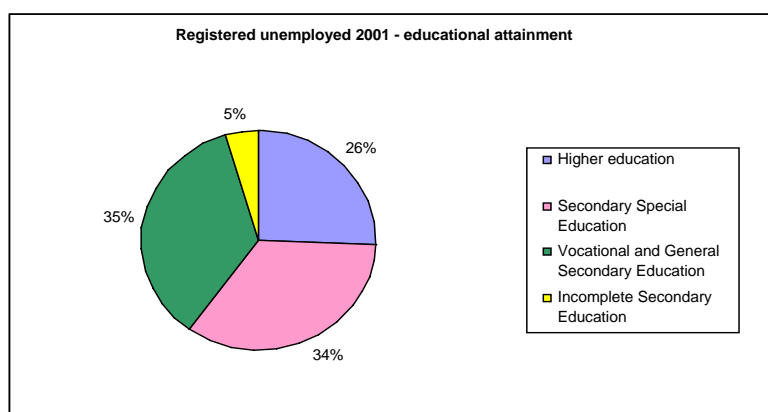
Age group	UNEMPLOYMENT RATE (%)					TOTAL
	Higher (complete and incomplete tertiary)	Vocational, secondary specialised	Specialised education	Secondary general education	No primary, general primary	
15–19	37.50	37.50	26.09	19.88	10.86	18.16
20–24	16.48	23.83	18.30	25.80	22.81	23.97
25–29	10.23	14.17	11.16	17.24	13.45	15.01
30–34	3.50	5.89	6.91	10.88	6.57	8.44
35–39	1.90	5.23	6.42	8.76	5.95	6.70
40–44	1.98	3.21	3.48	7.96	7.37	5.51
45–49	3.21	3.90	4.64	8.68	9.50	6.18
50–54	5.86	7.06	3.14	12.23	9.41	8.38
55–59	2.96	5.00	2.63	5.80	13.33	5.07
60–64	2.21	0.00	5.71	3.07	7.14	2.81
65+	0.00	0.00	0.00	1.92	2.17	0.86
Total	5.21	7.33	6.72	14.06	11.32	10.79

Source: LFS 2003, calculated by ETF

Secondary general education on its own does not guarantee access to employment, or perhaps those satisfied with this level of education do not strive for jobs. This is the only level of education that corresponds to an unemployment rate higher than the national average (14.06% compared to a national average of 10.7%); the unemployment rate for those with higher education was less than half the national average (5.2% compared to 10.7%).

Data from the SES on educational attainment relative to registered unemployment show a different picture. Figures 7 and 8 show that the share of people with higher education was greater in 2006, contrary to the situation in 2001 when the share of those with higher education was 26%¹².

Figure 7. Educational levels of registered unemployed in 2001



Source: SSC, data provided at request of ETF. Graph: ETF

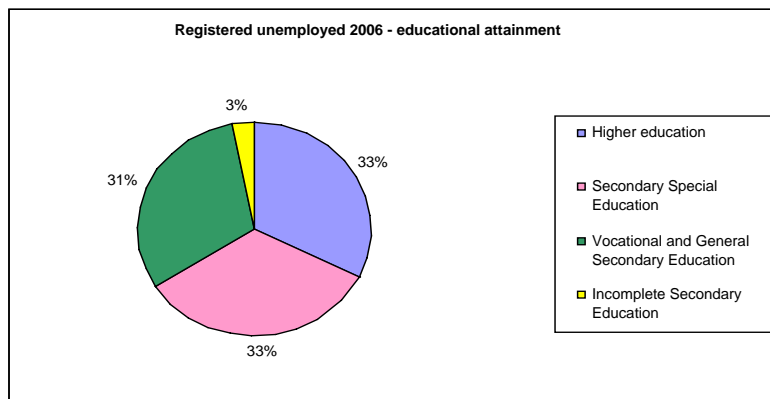
The share of registered unemployed with higher education has increased steadily to become the largest group. This is a signal for policy. It shows that:

- formal education is not necessarily associated with employment skills;

¹² SES, data provided for present ETF update report.

- despite the recognised higher education indicators of the labour force, access to adequate continuing training and retraining is indispensable for maintaining competitiveness;
- accessible and reliable guidance and information for all on skills and education requirements in the current and future economy can help close the gap between educational choices and the real labour market.

Figure 8. Educational levels of registered unemployed in 2006



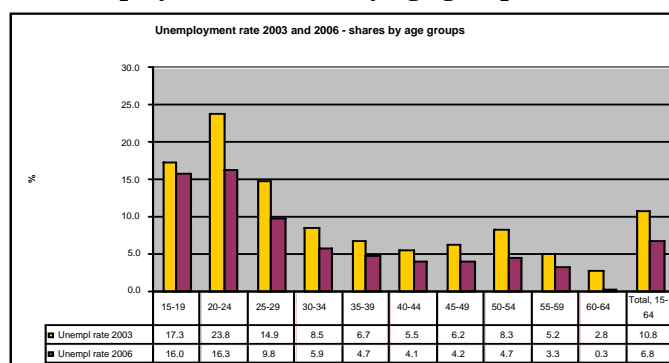
Source: SSC, data provided at request of ETF. Graph: ETF

According to the LFS 2003, some 65% of unemployed people had no work experience. The available report provides no data on this part of the employed population, though it is assumed that it comprises generally younger and new entrants into the labour market.

3.4 Employment and unemployment of youth

As in other transition economies, younger age groups show significantly higher unemployment rates (more than twice the country's average) and lower rates of activity and employment. Although there is a large representation of youth among the labour force, youth's rate of participation in the labour force¹³ is lower than that of adults in their prime. Particularly worrisome is the long-term character of unemployment among youth.

Figure 9. Employment and unemployment – shares by age groups (LFS 2003 and 2006)



Source: SSC, LFS 2003 and 2006. Graph: ETF

¹³ Ratio of economically active youth to total number of youth

4 EDUCATION AND TRAINING

4.1 *Overall national policy objectives*

Education has received consistent attention as a priority area in all strategic development policy documents in Azerbaijan, particularly during the last half-decade. Development of human capital is the main challenge facing Azerbaijan, and meeting this challenge is the solution to the problems of avoiding the threats of the oil curse¹⁴ and repeating yet another failure of a single-resource economy. The GoA is well aware of this challenge.

The recent final report of the 'Black Gold into Human Gold' project¹⁵ emphasises the challenges that need to be faced very early on by the GoA to avoid the oil curse and build a sustainable and equitable future for the country.

It is not enough to be an oil exporter to become integrated into the world economy. Most emerging economies that have performed well in the global economy (e.g. China, the Baltic states, Singapore, Taiwan and Hungary) have not benefited from significant foreign exchange earnings from natural resources in jumpstarting their economies. It is the non-oil economy that has to become a catalyst for integration into the global economy. The vast majority of the Azerbaijani population lives in the parts of the country where oil is not produced, and they work in enterprises and activities outside the oil economy. It is this population and labour force that need to have the skills and dynamism to compete internationally.

Economies that perform well in the global economy have the following characteristics.

- Global competitors have highly skilled workforces with flexible arrangements for lifelong learning.
- Foreign direct investment is not only a source of capital but, more importantly, a means for technology and skills transfer.
- Globalised economies not only produce commodities but also provide value-added goods and services.

A feature that they have in common is that globalised economies have become knowledge-based economies that encourage and facilitate rapid change and adaptation to changing international market conditions and that place high priority on skills formation.

The report of the 'Black Gold to Human Gold' project underscores that significant regulatory and policy change is needed for Azerbaijan to become a knowledge economy and fulfil its vision of becoming the economic crossroads between Europe and Asia.

The following sections highlight the key problems of the education and training system, and underscore the serious gap in capacity to foster the development of flexible and relevant skills among the large category of youth after they complete secondary general education. Under current economic and demographic conditions, this is a strategic problem.

4.2 *Education sector*

Azerbaijan has registered declining enrolment in education, which is particularly and progressively evident at the higher levels of education. This is a signal for education policy, as well as for the overall socioeconomic development strategy of the country.

¹⁴ Signs of the oil curse, or so-called Dutch disease, are already visible in Azerbaijan, according to some analysts.

Table 5: Net enrolment rates by level of education

	1990	2002	2003	2004
Net enrolment rate at primary education level	84.2	85.2	88.3	93.2
Male	84.5	85.9	88.3	93.1
Female	83.8	84.5	88.4	93.3
Net enrolment rate at basic education level	90.2	78.9	79.6	81.1
Male	89.6	79.6	80.2	81.9
Female	90.9	78.1	79.0	80.3
Net enrolment rate at secondary education level, including vocational education	66.7	47.3	51.9	51.1
Male	64.0	47.3	52.4	51.4
Female	69.4	47.3	51.4	50.8
Net enrolment rate at specialised secondary education level	26.6	5.3	5.4	5.8
Male	30.4	5.0	5.0	5.1
Female	22.5	5.5	5.9	6.5
Net enrolment rate at higher education level	19.1	11.1	11.3	9.3
Male	22.6	11.5	11.9	9.7
Female	15.2	10.7	10.6	8.9

Source:

SSC. Extracted from draft SPPRED (2006-2015)

The draft State Program on Poverty Reduction and Sustainable Development (SPPRED) formulates the link between education and poverty reduction as follows:

Low levels of education increase the risk of poverty, limit the choice of employment opportunities, and the poor population's ability to exit from poverty. Access to knowledge and information can have a significant effect on people's ability to find jobs and sources of income. Education is not only fundamental for human development, but it also helps to empower men and women, and increases their ability to participate in and contribute to economical, political and social activities. On the other hand, poverty sometimes forces families to choose between education and satisfying basic needs; i.e. they cannot afford the costs associated with education of their children, or can only afford these by reducing the amount they spend on basic needs (food and shelter).¹⁶

4.3 Outstanding VET reform issues

4.3.1 Basic figures relating to the VET system

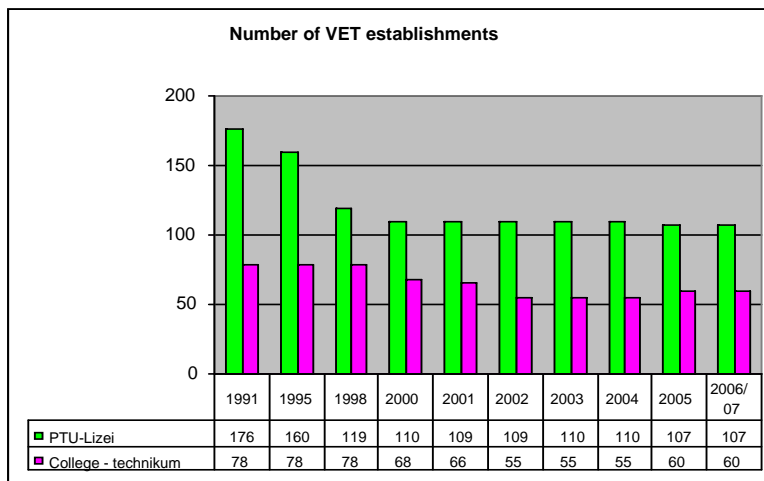
There is a major imbalance in the education mix of the young labour force in Azerbaijan. In 1999 there were 13 secondary VET graduates per 10 000 population, and 19 graduates per 10 000 in 2003. Higher education graduates are much more numerous, with 25 and 35 per 10 000 population in 1999 and 2003 respectively. The young labour force represents a very small proportion of people with medium-level professional qualifications.

An update on the capacity of the VET system is provided below, based on available data from the SSC and the State Student Admission Commission of the Republic of Azerbaijan¹⁷. Gaps represent data not available in the accessible sources.

¹⁶ Draft *State Program on Poverty Reduction and Sustainable Development (2006-2015)*, p. 31

¹⁷ www.tqdk.gov.az

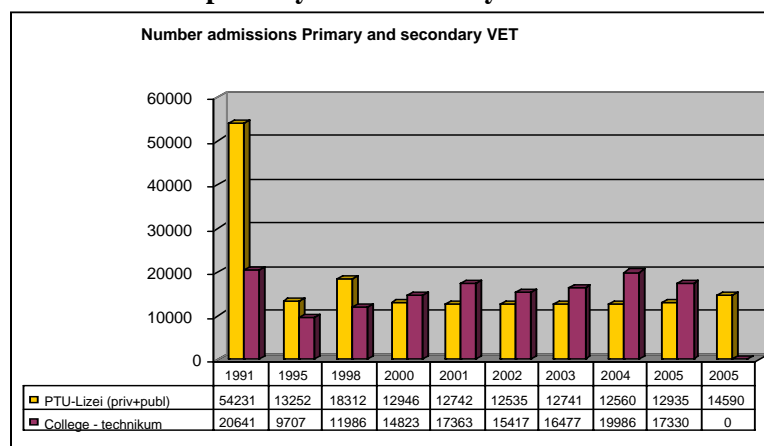
Figure 10. Number of VET schools (public and private)



Source: SSC, 2006. Graph: ETF

The number of schools has stabilised in recent years. The share of private VET schools is minor (there are only 4 out of 60 and only for initial VET with an enrolment of 3,127 students). This situation is different in higher education, in which the share of private schools is high: out of 43, there were 18 and 14 respectively in 2000/01) and 2006/07.

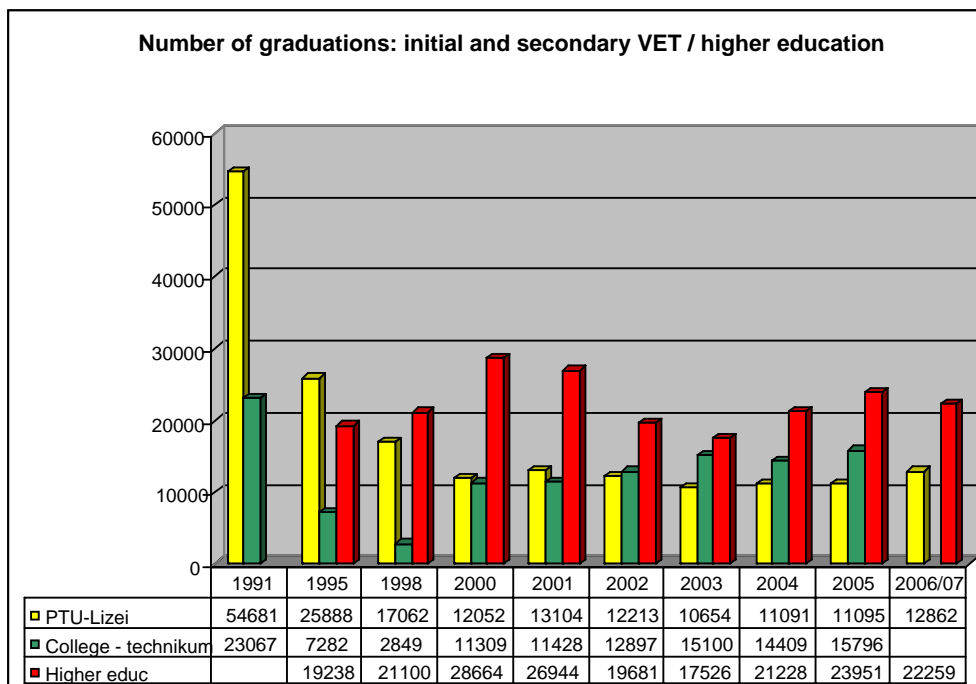
Figure 11. Number of admissions in primary and secondary VET schools¹⁸



Source: SSC, 2006. Graph: ETF. Data on 'colleges' not available for 2006/07 for publication in this update report

¹⁸ PTU-Lizej represent the VET school of the initial level. At present most PTU were liquidated or reorganised into lizej. College-tehnikum are VET schools that provide a qualification of the specialised secondary level, non-tertiary level.

Figure 12. Graduations in primary and secondary VET schools compared with higher education



Source: SSC, 2006. Graph: ETF. Data on ‘colleges’ not available for 2006/07 for this update report

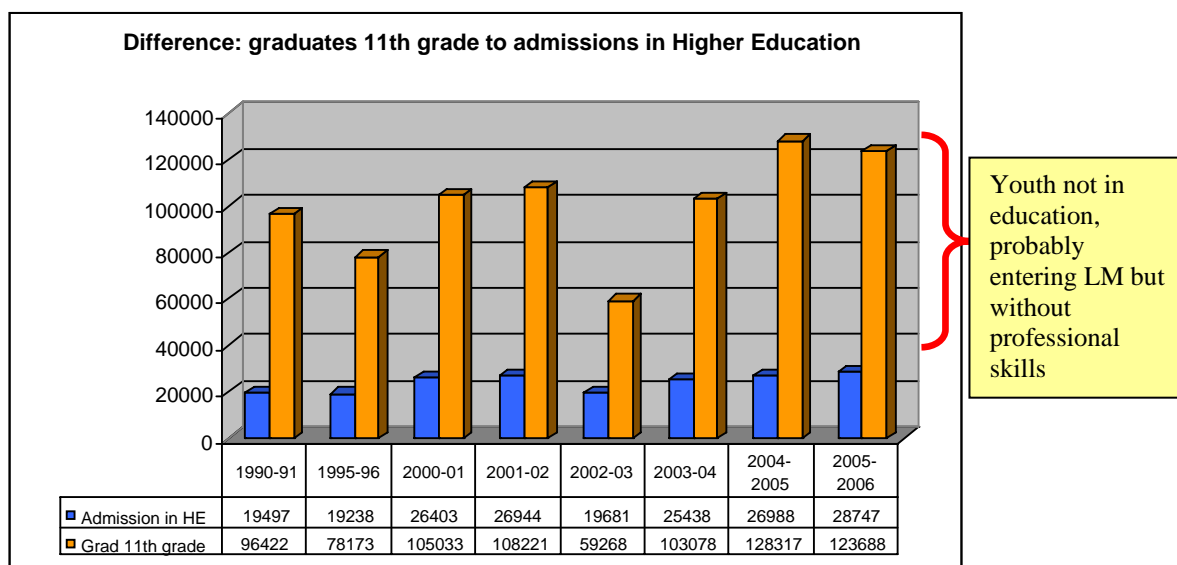
4.3.2 Growing skills inequality and inadequate preparation for entry into the labour market

This section updates the analysis provided in the ETF In-depth study 2006, using available data sources.

One of the most obvious findings of the LFS 2003 was that across all age groups there was an extremely high unemployment rate of active Azerbaijanis with secondary general education (see Chapter 3 and Table 4). Another conclusion was that younger entrants into the labour force are particularly vulnerable in relation to access to jobs. Almost half of all unemployed people belong to the 20–29 age group.

Another set of data indicates that the quantitative capacity of the education system and the policy that has been followed for years are contributing immensely to the flooding of the labour force with young people who have secondary general education and who consequently lack work skills. Analysing the difference between the number of graduations from secondary general education and admissions to higher education and to secondary VET, it can be concluded that the number of young people leaving secondary schools without access to other skills pathways is too high. Despite the increasing number of individuals who submit repeat applications to higher education (one year after secondary school), the difference, as shown in Figure 13, is substantial, and needs closer analysis.

Figure 13. Difference in number between those completing secondary school and those entering higher education



Source: 'Education, science and culture in Azerbaijan, 2006', SSC. Graph: ETF

Figure 13 shows that the difference between those who complete secondary general education and those admitted to higher education has amounted to approximately 75 000 young people per year (about 75% of all graduates) since 2000. In the academic years 2004/05 and 2005/06 this difference increased to about 100 000 and 89 000 young people respectively. Even including the number of students admitted into secondary VET from the completed secondary general level, the difference remains high, at about 94 000 and 82 000 young people respectively, or 73% and 66% respectively of the number of graduates with complete secondary education.

In 2005/06 higher education was able to cater to an average of 23% of the graduates with secondary general education. Although data on admission to secondary VET from 11th grade is missing, we used a figure consistent with the trend of the period (7 000)¹⁹ per year (approximately 5.7%). Consequently, some 66% were outside of recognised education and training for employment or had to wait for another chance to apply for higher education. Primary VET has a very limited number of places for this group because the bulk of primary VET admissions consists of pupils with basic education. And initial VET is not attractive to young people who invested in complete secondary general education, because it cannot match their expectations.

Table 6. Education situation by number of students and percentages of secondary general graduates, 2005-2006

Situation in education, 2005–06	Number of students	As a percentage of graduates from secondary general
Completed secondary general education	123 688	100.0%
Admitted to higher education	28 747	23.2%
Admitted to secondary VET	n.a. (assumption: 7 000 based on data of previous year)	5.7%
Difference (probably entering active life, or submitting another application to higher education in coming year)	81 817	66%

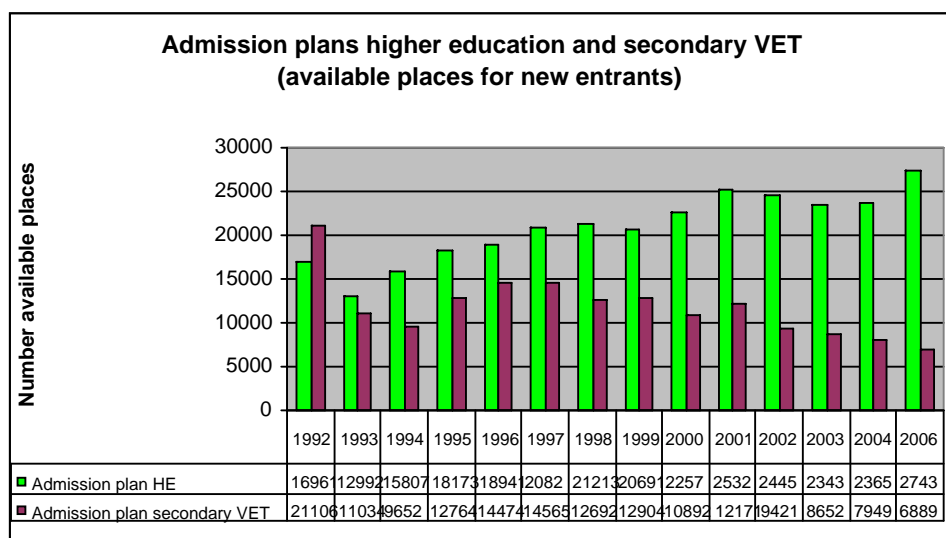
Sources: 'Education in Azerbaijan 2004', SSC; Analyses of Admission Examinations 2004/05 and data on 2005/06, also in, www.tqdk.gov.az

¹⁹ In 2004/05 7 397 students were admitted to secondary VET on the basis of secondary general education. In 2007/08 the figure decreased to 6 124 admissions. Data for 2005/06 not available.

Because secondary general education has no vocationally relevant differentiation of tracks or curricula, the education system should offer young people with secondary general education flexible paths that allow them to acquire skills for an active life and employment. The education system offers only the limited alternative of a VET system (primary and secondary) that does not have the necessary quantitative and qualitative coverage, as demonstrated in the analysis above.

The absorption capacity of public higher education and secondary VET, as expressed in the respective admission plans (both schemes involve payment by the individual and a subsidy from the state), has not increased in recent years on a scale commensurate to the significant increase in the number of graduates with secondary VET, who are potential applicants for continuing their studies in one of these education pathways. Figure 14 illustrates this trend, which represents a serious concern in view of the country’s human capital development priorities and employment strategy.

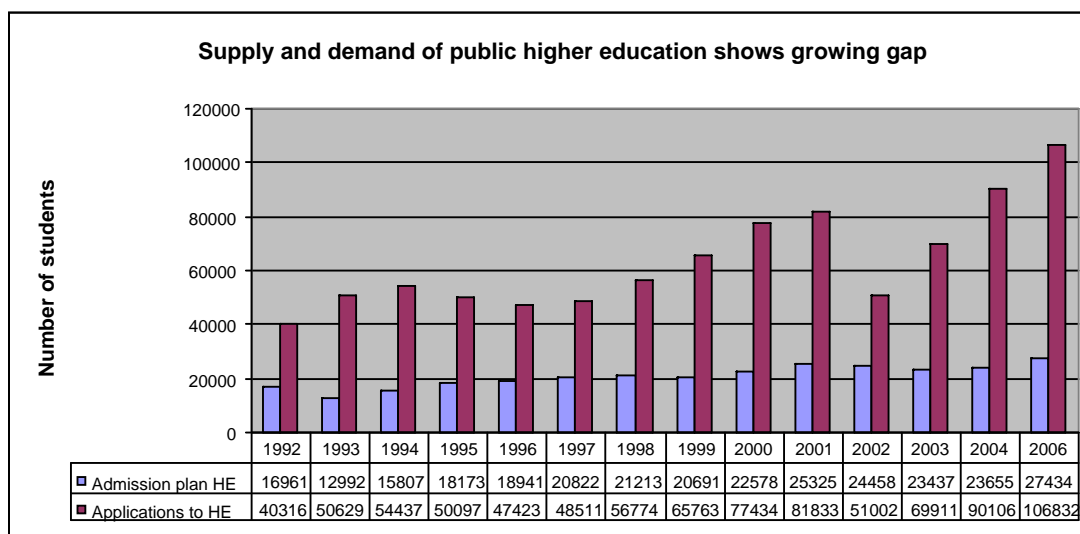
Figure 14. Number of places available for new entrants in higher education and secondary VET



Source: Abbaszadeh, M. et al, ‘Scientific and statistical analyses of admission examinations results for academic years 2004/05’; data on 2006: www.tgdk.gov.az

The static state of the supply of places in post-secondary education is generating considerable uncertainty and pressure among the rapidly increasing numbers of graduates with general secondary education. Figure 15 shows the huge gap between supply and demand in public higher education.

Figure 15. Supply and demand in public higher education: the growing gap



Source: Abbaszadeh M., et al, ‘Scientific and statistical analyses of admission examinations results for academic years 2004/05’; data on 2006: www.tgdk.gov.az

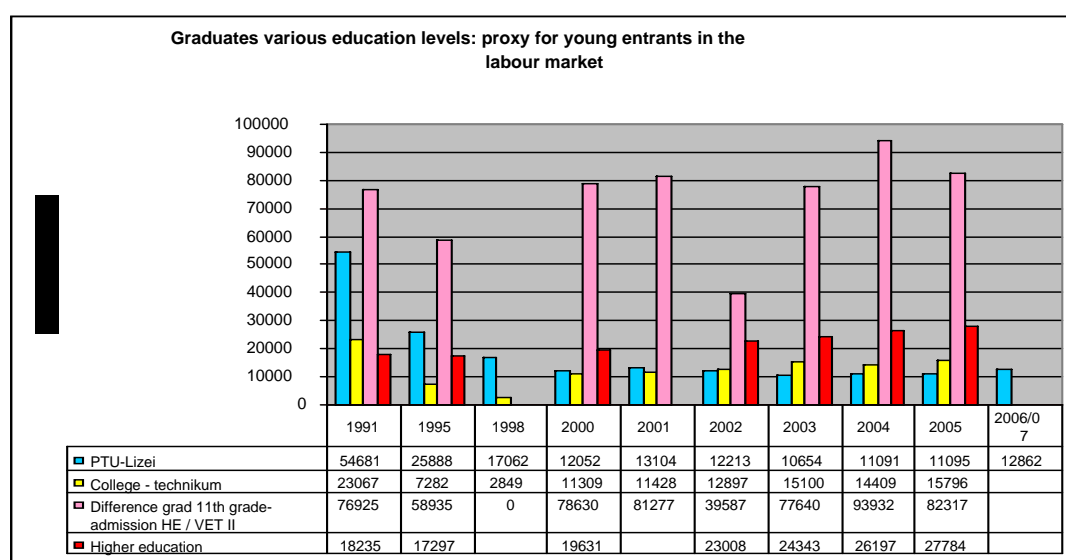
In Azerbaijan there is no other affordable and relevant training for employment that could provide these large numbers of young people with skills, much less with recognised qualifications. There is a steadily growing mass of young people of working age who face a real threat in terms of skills inequality.

The starkness of these figures is surprising, and the situation should awaken the concern of those who are in charge of education, employment and socioeconomic policy in the country.

These numbers are not reflected in policy and strategy documents. But they do offer policymakers a positive, significant and real opportunity to move education and training policy towards new, flexible forms, and they acknowledge the need to involve social partners and economic sector players in measures to enhance the training environment and develop the provision of training that is flexible and recognised by both students and employers throughout the country.

Figure 16 shows that the number of young entrants into the labour market has increased rapidly every year²⁰. Only a small proportion of them have qualifications for employment that have been acquired in VET (primary and secondary) or in higher education. Some graduates with general education who were not admitted to higher education or secondary VET in a new academic year could apply again the following year. But the fact that the places available in the two education pathways are very limited reduces the likelihood of such students being able to gain admission to education in future academic years. Therefore, the majority of those students who are not admitted to post-secondary pathways in the same year as their graduation are likely to enter the labour market.

Figure 16: Graduates of different education levels – a proxy for young entrants into the labour market



Gaps represent missing data in the available sources.

Source: 'Education, science and culture in Azerbaijan, 2006', SSC. Graph: ETF.

4.3.3 Transition from VET to work: ETF tracer study of VET graduates (2004)

At the end of 2004 the ETF carried out a tracer study to identify and analyse employability and paths to and within employment for VET students who graduated from 2000 to 2002 in Azerbaijan. Official administrative records from the education sector tended to overrate the level of employment of VET graduates, and survey-based studies simply did not exist.

The sample of 1 100 graduates from initial and post-secondary (non-tertiary) public VET for the years 2000, 2001 and 2002 represented 1.4% of the total number graduating from these types of education in Azerbaijan²¹. Recognising the relatively high concentration of population, economic activity and VET schools in Baku and Sumgait, the survey focused on those two neighbouring urban areas. Focusing on rural

²⁰ In Figure 18 the line 'Difference' indicates the difference between the number of graduates with secondary general education (total) and the proportion admitted in the new academic year to VET (secondary) and higher education.

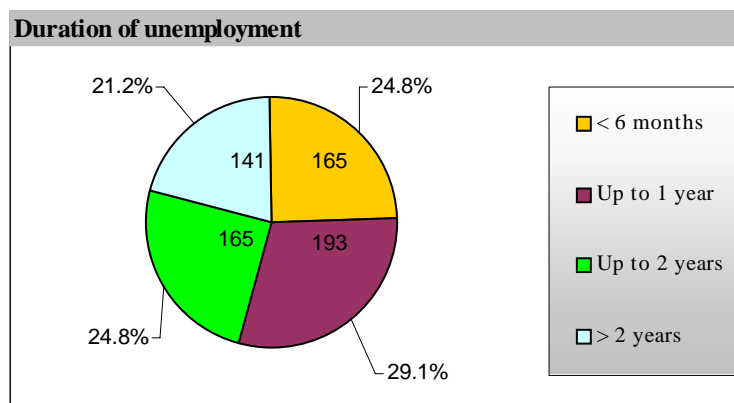
²¹ In the years 2000–2002 there were 38 400 graduates from public initial VET and 40 900 graduates from public post-secondary VET, accordingly to official statistical data.

areas and distant cities would have raised additional logistic and organisational problems, which this first-time study understandably avoided.

The study showed that at the time of the survey VET graduates were not well positioned in the labour market: 65% of the respondents declared that they were not employed, only 6% said they were undertaking further studies, and only 28% said they had a job.

Less than a third of the respondents considered themselves employed. Of those who were not employed, 29% had been unemployed for less than a year and 46% for more than a year, which shows a long-term pattern of unemployment in this category of youth with professional qualifications. Approximately 48% of respondents declared that they had never worked, although the survey related only to those who had graduated from VET two to four years previously.

Figure 17: Duration of unemployment, ETF tracer study 2004



Source: ETF Tracer Study 2004

The distribution of the sample across occupational groups varied from a high of 35.2% for the technical, mechanical and construction sectors, followed by 31.2% for economics, administration and law and 24.4% for culture and education. Interestingly, two of these groups registered the highest unemployment rate in our survey. The chemical and technological group and the care services, catering, tourism and sports group had the lowest proportion of respondents (4% and 5% respectively).

Employability varied across professional groups²². The highest rates of unemployment were registered among graduates with diplomas from the culture and education group (designated as such for the purpose of this survey) (72.1%), followed by those from the chemical and technological group (69.8%) and the economics, administration and law group (68.7%).

The highest employment rates were among graduates in the care services, catering, tourism and sports group (42.9%) and in the technical, mechanical and construction group (33.6%).

Table 7 summarises the distribution of respondents in terms of their status (employed, unemployed, student, other) and their vocational group at graduation.

Table 7. Activity by vocational group, ETF tracer study 2004²³

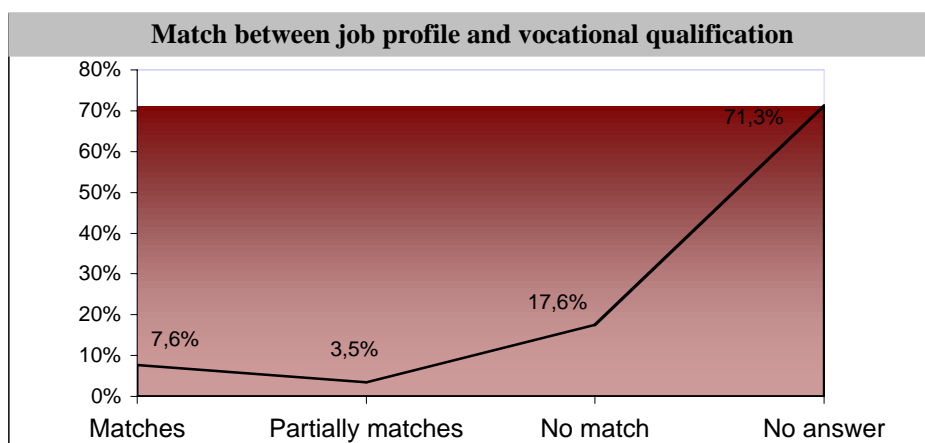
Vocational group	Employed	Unemployed	Student	Other	Total
Group 1 – Technical, mechanical, construction	130	223	26	8	387
	33.6%	57.6%	6.7%	2.1%	100.0%
Group 2 – Economics, administration, law	83	237	23	2	345
	24.1%	68.7%	6.7%	0.6%	100.0%
Group 3 – Chemical, technological	11	30	2		43
	25.6%	69.8%	4.7%		100.0%
Group 4 – Culture, education	60	194	14	1	269
	22.3%	72.1%	5.2%	0.4%	100.0%
Group 5 – Care services, catering, tourism, sports	24	30	2		56
	42.9%	53.6%	3.6%		100.0%
Total	308	714	67	11	1,100
	28.0%	64.9%	6.1%	1.0%	100.0%

Source: ETF tracer study 2004

Small business endeavours were rare among the respondents; only about 9% had tried this pathway to an active working life, and about two thirds of them considered themselves successful.

Another relevant aspect is the match between the VET qualification of respondents and the profile of their jobs. A large majority (59.4%) of the employed respondents were working in functions or jobs that were completely unrelated to their vocational qualification; 28.5% recognised a direct match between the job profile and their VET qualification; and 12.2% recognised only a partial match.

Figure 18. Match between job profile and vocational qualification, ETF tracer study 2004²⁴



Source: ETF tracer study 2004

Respondents confirmed that formal qualification was generally of little benefit in obtaining their first job: 34% of the respondents indicated that it was not useful, while 6% declared that it was a great help, and another 6% said it helped, but only partly.

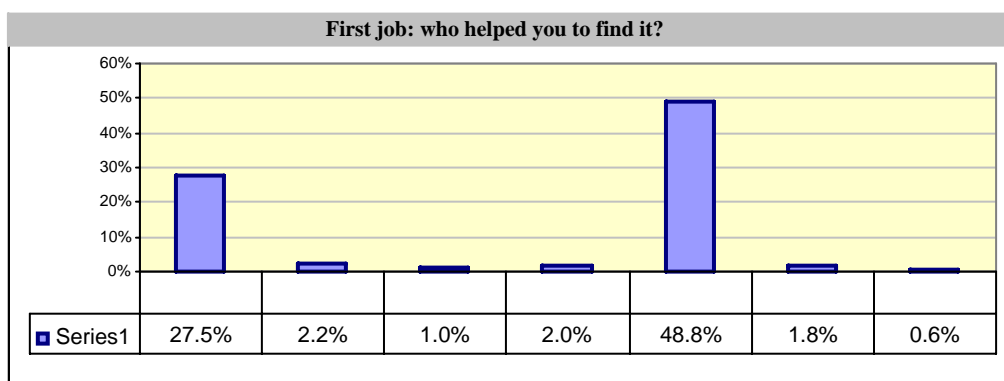
²³ These vocational groups do not correspond to those in the official classification system for initial VET (dated 2002), since they were developed for the purpose of this study, and bring together occupations from both VET levels – initial (lizei and PTU) and specialised secondary (college and tehnikum).

²⁴ The graph includes ‘no answer’ results, which explains the difference in the results indicated in the text.

The usefulness of the diploma in the job markets of different sectors varies greatly. Employers in the education sector, registered companies, workshops and factories tended to focus on formal qualifications (diplomas) in the recruitment of the respondents. In contrast, employers in the construction and retail sectors had tended to apply rather informal labour recruitment practices.

According to the ETF tracer study, the SES played a very minor role as a job-seeking channel, as only approximately 2% of respondents used this option successfully. Informal channels such as friends and relatives served as the most often used and successful intermediaries in job-seeking. They were also a source of information on available opportunities, and a source of guidance on careers and professions. Figure 19 clearly illustrates this situation.

Figure 19. Channels used by VET graduates to search for jobs, ETF tracer study 2004



Source: ETF tracer study 2004

Interestingly, the survey concluded that only a very small proportion of VET graduates effectively engaged in further education and training (6%), although a significant number were interested in either learning a new profession or upgrading their present professional profile.

These results are clear signals for policy, indicating that:

- guidance and information needs to be established and made accessible for youth and young adults;
- the VET reform cannot be separated from reforms in other relevant sectors, and from employment and economic policies;
- 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.

4.4 Policy framework of the VET reform

The quality, equity and relevance of education are the subjects of a great deal of intensive debate in Azerbaijani society and in government circles.

Azerbaijan participates in important international education sector programmes. On 19 May 2005 the Fourth Ministerial Conference of the Bologna Process accepted the applications of Armenia, Azerbaijan, Georgia, Moldova and Ukraine to participate in the Bologna Process.

Education and employment are key items on the development agenda of the Government of Azerbaijan. Both the poverty reduction strategy and the employment strategy of Azerbaijan recognise that the reform of the education system is vital for achievement of their respective objectives.

The SPPRED²⁵ adopted in 2003 acknowledged that the reduction of poverty depends on the country's investment in human capital.

Approval of the NES in October 2005 gave a fresh impetus to the reform of education. This impetus and a demand for reform came from the wider users of education and training, rather than from the education sector itself. This feature is likely to enhance sector and institutional cooperation and coordination in the reform, as well as higher public accountability.

²⁵ Covering the period up to 2005.

The approved NES for Azerbaijan states that the reform of the VET system is among its eight priorities, which are listed in section 3.2 of this report. Important aspects of this part of the NES relate to recognition of the need to:

- improve the vocational education system, to train competitive human resources for the labour market;
- update training programmes for vocational education and update job classification;
- study and forecast demand for 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 resources development.

Another initiative closely linked with the human resources development strategy of Azerbaijan was developed within the ‘Black Gold into Human Gold’ project. This project was supported by the United Nations Development Programme (UNDP) and conducted under the auspices of the SPRRED. The final report of the project (2007) makes a number of proposals concerning what is called the ‘accelerated skill development strategy’. The proposed approach is mainly directed towards offshore use of oil receipts to develop skills, because onshore use would contribute to increased inflation linked with the oil curse. The approach risks having little impact on the domestic VET and education system. Basically, the strategy proposes:

- scholarships for higher education, technical training (short and longer term);
- private skills training, private-public partnerships;
- an education park to attract foreign education institutions to Azerbaijan;
- ICT online skills training;
- community colleges based on strong community commitment (which could represent an innovative form of multilevel open educational institution focusing on the large segment of youth who have had a secondary education but have no access to further training).

The various initiatives directly or indirectly relating to human resources development are evidence that the relevant players are concerned with the passivity of the education system. But the variously relevant streams of thought and policy initiative lack convergence and interaction; each tends to remain close to its supporting ministry. It is not only the lack of synergy that affects their effectiveness. Dissemination of the good aspects and products of these projects and/or initiatives is not effected and will be lost without proper mainstreaming.

4.5 VET reforms

During the transition period Azerbaijan has produced a legislative framework and several strategies and development programmes with direct and indirect impact on education. Since 1996 the government has taken some steps to modernise the VET system. In 1996 it approved a decree on Measures to Improve the System of Professional Education, and in 1999 it approved the Programme of Reform of Education.

High-level commissions were created to support the implementation of the education sector reform: the State Reform Commission was created in 1998, and the Commission on Education under the President of Azerbaijan was created in May 2005. The newer commission was set up with the aim of bringing the different levels of education in Azerbaijan’s education system in line with modern standards, monitoring the quality of education within institutions and taking appropriate measures on the basis of periodic analysis of current problems in the education system. However, the commission is comprised mainly of representatives of higher education.

A proposed law on education that was drafted several years ago was discussed in Parliament in 2005, but was not adopted. As yet no proposal of a law on VET has been discussed.

The SPPRED stresses the following highly relevant overall strategic objectives for policy measures in the education sector:

- equity in access to good-quality education;
- the revision of contents and modernisation of teaching methods;
- improvement of teachers' motivation;
- assurance that VET provides skills that are appropriate to the market economy and particularly to private sector enterprises.

But the Ministry of Education, as lead institution, has been unable to open up to a consideration of the labour market, and reform measures remain mainly inward-looking.

Key steps that have been implemented effectively include:

- partial rationalisation of the VET school networks, resulting in a reduction of the number of such schools (through mergers or closing);
- the launch of a new form of VET curriculum and establishment, VET lizei, offering a dual certification including vocational and complete secondary general education;
- adoption in 2002 of a new “classifier” for primary VET, built basically on the old classifier with the addition of some 30 new occupations and the elimination of outdated occupations;
- after 2002, preparation of a large number of new training plans for the occupations that are in the new classifier but are based on the old methodology and include practically no involvement of social partners (key innovative elements are a slight reduction of weekly workload of hours in classes, and some rationalisation of class scheduling over the year)
- the merging of all key fragmented methodological bodies into the Institute of Problems of Education, which was established in 2000 and charged with the task of supporting the reform and modernisation of the education system;
- some developments in teacher training (both pre- and in-service training) based on the activities of the Institute of Teachers.

However, in practice many of the planned elements of reform were simply not implemented. One such failure concerns learning materials and textbooks: not a single new textbook for primary VET was prepared or printed during the transition period. VET schools use old textbooks in Russian or the Azeri language (the old alphabet) and self-made texts and photocopies. Investments in the modernisation of the learning infrastructure (premises, equipment, materials, computers, heating) have been practically nil. During the mid 1990s and later, several VET schools were moved from their original premises to other buildings in inappropriate condition, which exacerbated the degradation of learning potential.

In summary, in 2007 the reform of education needs to be revisited and carried out with greater commitment and with new strategic vision and an intersector policy dialogue.

4.6 The new phase: 2006–2007

The State Programme on Implementation of the Employment Strategy of the Republic of Azerbaijan (2007-2010) prepared by the Ministry of Labour includes a matrix of activities per priority area and indicates responsible institutions as well as period of implementation. The activities respond mainly to the measures foreseen in the NES. Among the most relevant for achieving needed change and reform of the VET system are:

- intersector coordination for monitoring education policy (leading institutions in employment and education sectors);
- development of a methodology for forecasting skills needs;
- the matching of outcomes of education (in particular admission to higher education) with skills / labour force needs;

- proposal for a system of vocational standards and qualifications;
- introduction of modern learning technologies, modular training, and corresponding training of teachers;
- proposals for development of continuous training;
- optimisation of the VET schools network and rehabilitation of their capabilities;
- learning from international practice and expertise;
- enhancement of cooperation on human resources development among employment services, employers and VET institutions;
- introduction of new forms of education financing.

Development of new VET curricula and institutional changes in the education sector are two measures of the NES that are not explicitly addressed in the implementation programme.

In 2007 the President of Azerbaijan approved the Programme on Development of Vocational Education and Training in the Azerbaijan Republic (2007-2012) proposed by the Ministry of Education. The term 'reform' is not used explicitly. The section 'Goals and objectives' indicates that the main goal of the programme is to train highly qualified workers in the fields of high technology production and in the fields of services for all areas of the economy in the new reality.

The section 'Main focal points in development of VET' refers to modernisation of the VET system in line with contemporary requirements. These focal points are:

- optimisation of the 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 the VET school staff development policy;
- improvement of management in the field of VET;
- a rise in the social status of VET.

Using a schematic approach based on VET policy building blocks²⁶ we attempted to make a rough assessment of the comprehensiveness of the draft revised Action Plan for VET Modernisation. This preliminary analysis is not exhaustive and is based solely on the existing draft text. The building blocks proposed below are extracted from a presentation by Dr Olaf McDaniel.

²⁶ McDaniel O., 'The concept of policy learning: a solution or the newest problem?' (2007). Presentation at ETF event of the Policy Learning project, September 2007.

Table 8. Analysis of comprehensiveness of draft revised Action Plan for VET Modernisation - by building blocks

Building block	VET Programme development	NES	NES Programme implementation
Professional ministries			
Reliable labour market information	Addressed as mirror: new standards / curricula will comply with labour market requirements. But not clear how this matching will be done, what information sources will be used	High priority: linkage with education sector outcomes, standards, curricula	High priority. Methodology for skills needs forecast. Linkage with education sector outcomes, standards and curricula. Tasks 5.3, 5.4, 5.6
Professional teachers	Addressed as comprehensive VET school staff development policy, including teachers' training, welfare and motivation / salaries, retention of good teachers		Training of teachers in new teaching technologies and methods, modular learning. Task 5.7
Adequate funding	High priority: diversification of sources of funding, transparency and efficiency of financial management at school level; create favourable environment to attract investments in VET. Invite international donors to participate in VET development	Diversification of financing of education	Diversification of financing of education. Task 5.15
Open educational system with pathways			
Social partners involved	Addressed as an objective of the programme: coordination council of social partnership in VET. Also as activity in the Action Plan: develop a charter that regulates the activities of employers with VET schools		Cooperation of employers with employment services and VET schools. Task 5.14
Good curricula and textbooks	High priority	High priority	
Motivated students			
Professional school management	Main focal point of the programme: modern management, transparent governance, diversification of funding at school level. Autonomy of VET schools		
Modern infrastructure	Another focal point in Action Plan. In addition to rehabilitation of existing VET schools, construction of new state-of-the-art regional training centres, as well as training centres specialised in sector skills. ICT		Addressed as part of rehabilitation of school capacity, but not a focal point of the programme. Task 5.12
Qualification structure			Standards, certification of qualified labour. Task 5.6
Trustworthy examinations			Methodology to assess the quality of labour force. Task 5.4

Permanent monitoring	High priority. Addressed as activity in the Action Plan: monitoring of VET and improvement of statistical data. Exclusive monitoring and evaluation system for VET. State monitoring of quality in VET schools		High priority. Intersector cooperation for monitoring of education sector policy
New legislation	Cross-cutting. VET law; new model for school management; coordination council of social partnership with VET		
General vs specialised VET	Both are considered. Sector- specialised VET for high profile and advanced technologies and production		
Accreditation of institutions			
Social protection of students			As part of other sections, in particular those dealing with youth employment
Response to regional needs	Addressed: construction of new state-of-the-art regional training centres focusing on local needs		

Interestingly, the programme tackled a number of relevant issues that are not explicit in the above frame of building blocks and in particular:

- the low status and/or image of VET, which deserves focal attention in the program;
- school autonomy;
- national strategy on development of VET;
- dissemination of good practice in VET;
- a modern information platform, with a web portal as a central source of information and analytical data about the whole VET system.

A number of important building blocks are not addressed in the above documents. In particular, they are:

- education sector institutional capacity ('professional ministries'), an issue that is essential for reform planning, implementation and monitoring, as evident in the recent past in Azerbaijan and other CIS countries;
- open pathways;
- accreditation of institutions;
- social protection of students (there is no attention to students in these documents).

Other major challenges for an effective VET sector in Azerbaijan include:

- building institutional capacity to address the new challenges and innovations with professionalism, and matching institutional capacity with the reform agenda, which is crucial for success of reforms, in order to avoid that implementation loses effectiveness and focus;
- clarifying roles and functions of the various institutions involved, as new agencies specialised in certain topics and/or policy issues need to be well accepted by the overarching institutions and well equipped in terms of organisation and expertise;
- adapting structures to a lifelong learning frame.

4.6.1 VET reform steps in 2008

In 2008 the newly appointed Head of VET department at Ministry of Education started a number of actions to attract to the department as well as to VET schools younger staff with good knowledge of modern management methods, responsive partnerships with employers, study of training needs, modern teaching and training methods, as well as ability to learn from international experience.

This process has not been easy: from one side younger competent staff is attracted by higher remuneration in the private sector of the economy, hence public jobs often get the less competitive human resources. From the other point of view, the system of VET schools touches vested interests and privileges that it is complex to break. Hence, the approach has been so far, subtle and very progressive.

To deal with a key element of the system modernisation – standards and curricula – some of the relevant decision makers consider it necessary to start a new structure specialised in VET (curriculum and methodology centre). This idea stems from the evidence that current capacity of the dedicated body (Institute of Problems of Education) is not able to cope with the challenge. In the country's institutional culture it appears more complicated to reform an existing body, than starting a new one and equipping it with the right human resources and management.

At the same time budget allocation to support modernisation of VET school network was increased, and the preparation of projects for school revamping and refurbishing started. The idea is to focus resources on a limited number of VET centres with a regional importance (approx. 10), which can play a dissemination and support role towards the remaining VET schools. The other aspect of this progressive selection process points out to reduction of state support to VET schools that demonstrate low commitment to change and modernisation of their approaches.

International co-operation has not been interested in supporting the reform of VET for many years, as the VET department offered little interface for change and modernisation. One of the initiatives of the new leadership of the department was to establish and develop exchanges and concrete co-operation programmes with various international partners. Another challenge handled as a priority by the new leadership concerns improvement of the image of the VET department within the Ministry and among key Ministries, in particular, Ministry of Finance.

Tacis supports VET for the first time, through a project starting in the second half 2008. The project encompasses a pilot component, and a policy formulation component. The former will focus on developing a modern VET centre and approach specialised in tourism related qualifications. The selected centre is located in a region outside the capital, Baku.

4.7 The Medium-Term Expenditure Framework

In line with the draft SPPRS (2006-2015), for the first time the Ministry of Education has introduced a system of programme-based financing. At the moment, six programmes are in the process of implementation, three programmes are yet to be approved and six programmes are being designed. The education budget was increased by 28.7% in 2005 in comparison with 2004, and the education expenditure represented 17.2% of state expenditure in 2005. In 2006 the share of education expenditure was 13% of total state expenditure, and in 2007 it increased slightly to 14%.

State expenditure on education as a share of GDP remained almost unchanged in recent years, at 3.2%. This figure is relatively small, especially compared with 7.5% in 1990. The problem is not simply to increase expenditure, but to rationalize existing expenditure. The existing mechanism for financing educational institutions is not efficient, and there is a real need for improvement. Educational institutions have almost no financial autonomy. To improve the distribution and use of funds, there is a need to introduce per capita financing rather than financing based on norms. Per capita financing has been introduced on an experimental basis as part of the reform programme; 59 pilot schools were granted financial autonomy and they are testing the per capita financing mechanism. The results of the experiment will be used to evaluate the impact of financial reforms on the quality of education. If the pilot produces positive results, the practice will be introduced on a more extensive basis, and in a third phase the reforms will cover the entire country.

The Medium-Term Expenditure Framework (MTEF) not available in accessible sources, therefore we use only data from the annual national budget.

Since 1 January 2006 a new unit of currency has been in use in Azerbaijan: 1 new manat (AZN) equals 5 000 old manat (AZM). The AZN exchange rate is approximately 1 AZN = 1 USD.

Table 9. National Bank of Azerbaijan Republic: Exchange rate of AZM at year's end, to 2004

	2000	2001	2002	2003	2004
1 USD = indicated figure in AZM (old manat)	4 565	4 774	4 893	4 923	4 903

Source: SSC, 2005

Public financing of education decreased as a proportion of total budget expenditure in the period from 2002 to 2005, though absolute numbers show stable annual growth of approximately 25%. In 2002 education accounted for 20.5% of total budget; its share dropped to 17.2% in 2005 and further to 13.3% in 2006. This indicates that total budget expenditure is growing more rapidly than the share allocated to education.

Table 10. National budget expenditure 2002–2006²⁷

	2002 (AZM million)	2003 (AZM million)	2004 (AZM million)	2005 (AZM million)	2006 (AZM million)
Total expenditure	4 658 823.7	6 423 000.0	7 833 400.0	11 016 000.0	17 971 576.0
Expenditure on education	956 194.9	1 216 265.8	1 541 249.6	1 893 086.0	2 383 520.9
Expenditure on education (USD approx.)	195 420 989	247 057 851	314 348 277	394 392 917	496 566 854
Expenditure on education as a proportion of total	20.5%	18.9%	19.7%	17.2%	13.3%

The breakdown of planned budget expenditure for education in 2006 shows that primary VET, with only approximately 1% of all students, will receive a 5% share of the education budget. Secondary VET reports to the Department of Higher Education, which will receive 8% of the total education budget.

Table 11. National budget expenditure (2006) for education by education subsectors (Law on State Budget 2006)

Subsectors	AZN	% of total
Pre-school and primary education	36 398 666	8
Basic and secondary education	277 357 540	58
Boarding and special schools	18 288 151	4
Vocational schools and lyzei (lyceums) – initial VET	22 920 316	5
Higher education	35 790 258	8
Applied research in education	2 101 166	0
Other services in education sector	83 848 078	18
Total expenditure for education	476 704 175	

²⁷ 2006

Table 12. National expenditure (2007) on education (Law on State Budget 2007)

Subsectors	AZN	% of total
Pre-school and primary education	53 003 310	
Basic and secondary education	438 236 022	60
Boarding and special schools	28 726 591	
Vocational schools and lyceums (primary VET)	34 631 598	5
Higher education	57 953 599	8
Applied research in education	3 141 617	
Other services in education sector	117 497 698	
Total expenditure for education	733 190 435	

The total budget for education increased significantly by 53.8% in 2007, compared with 2006. General education's share of expenditure increased from 58% to 60%, while the shares of VET and higher education remained stable.

Education is the third-largest sector in public expenditure, after the sizeable sector of industry, construction and minerals, and the defence sector.

As in other countries in the CIS, the bulk of national budget funding for schools is spent on salaries, while investment in repairs, renovations and equipment is minimal. The consequences of insufficient maintenance funding are substantial; they include poor learning conditions (materials and premises), and short-sighted strategies on the part of school managers who try to generate additional revenues through commercial services that have no connection with education and training.

Primary VET schools provide education that is practically free of charge to students admitted after 9th grade, while students admitted after secondary general (11th grade) for one-year courses pay a fee. A large majority of students are in the former category.

Secondary VET schools have a growing number of students who pay tuition fees. The percentage of fee paying students has increased from 4.6% in 1995/96 to 36.7% in 2003/04.

In the mid 1990s a decree of the Cabinet of Ministries encouraged primary VET schools to sell services with the aim of generating extra-budget revenues for the school. Although this decision was justified by the scarcity of state funding during that period, it could also have become an incentive for schools to diversify their training services and broaden their customer base to include young and mature adults, enterprises and international projects, and others. But the VET schools that undertook business activities completely ignored the potential of their core business, which is education and training. Instead, they opted for the production of goods and services in competition with existing private enterprises because it seemed easier to make money by providing repair services and producing furniture and clothes than by providing training. Such services often have little or no connection with the school's fields of study.

One of the major changes relative to access to education was the introduction of tuition fees in public VET and higher education. State regulation of access to student subsidised places was maintained ('state order', or 'gos zakaz'), but the number of such subsidised places is greatly exceeded by the demand. This has exacerbated equity issues.

5 CONCLUSIONS AND RECOMMENDATIONS

1. As a whole, the conclusions and recommendations proposed in the ETF In-depth study²⁸ remain broadly valid.

Azerbaijan will need strong drivers for reform to succeed and take advantage of the ongoing impetus for reform following adoption in 2007 of such key strategies and programmes as the Programme on Implementation of the Employment Strategy (which includes an important chapter dedicated to strengthening human resources development) and the Programme on VET Development.

The current momentum for VET reform and the recent change in leadership in the key ministerial department are opportunities for embracing actions that will further drive the change process. Such actions include fighting rampant corruption, building an evidence-based policy implementation process, and establishing early and effective coordination and sharing of responsibilities with the leading employment institution. The 'Programme on development of vocational education and training in the Republic of Azerbaijan (2007-2012), the most recent VET sector reform document, has a strong focus on changes in school governance in the direction of greater transparency, autonomy and market orientation. This may be a very appropriate driver as well; it also has the potential for tackling the serious problem of corruption.

The weaker aspect of the new programme on VET development is that it does not foresee any forms of integration with the secondary specialised level of VET. Each level has a different channel of institutional reporting, and cooperation between both levels is poor. For this reason, integration needs to be built progressively on concrete matters. Integration efforts might include joint coordination of implementation, sharing views and expertise on key common technical matters (e.g. qualifications structure, VET profiles and the monitoring system) or a move towards provision of multilevel VET by educational establishments. Because the new programme was adopted only recently and there is room for improvement, weaknesses can be addressed further. The Action Plan foresees the elaboration of a national strategy for VET development and a VET law, as well as a coordination council.

2. It is not enough to be an oil exporter to become integrated into the world economy. Most emerging economies that have performed well in the global economy, such as China, the Baltic states, Singapore, Taiwan and Hungary, have not had the benefit of significant foreign exchange earnings from natural resources in jumpstarting their economies. It is the non-oil economy that has to become a catalyst for integration into the global economy. The vast majority of the Azerbaijani labour force works in enterprises and activities outside the oil economy. It is this part of the population and labour force that needs to have the skills and dynamism to compete internationally.

A common characteristic of globalised economies is that they have become knowledge-based economies that encourage and facilitate rapid change and adaptation to changing international market conditions and place high priority on skills formation.

Recent analysis of strategies to avoid the oil curse underscores the fact that significant regulatory and policy change is needed if Azerbaijan is to become a knowledge economy and fulfil its vision of becoming the economic crossroads between Europe and Asia.

3. Government development policy documents question the quality of VET and emphasise the urgency of adequate measures to modernise the VET system and increase its attractiveness to young people and its relevance to employers. In a country with a growing oil sector and increasing industrial production, flexible schemes for skills development are indispensable for maintaining the competitiveness of the labour force. The reforms started in the 1990s had a very limited impact and were only partially implemented.

As a result, VET provision that is now available is still characterised by narrow specialisation and rigid pathways. Intensive planning of new curricula (training plans and programmes) for primary VET took place from 2002 to 2004, but purpose and content did not change. The new curricula are based on tradition, and they leave no room for life skills and key competencies.

There is a wide imbalance in the education mix of the young labour force in Azerbaijan. In 1999 there were 13 secondary VET graduates per 10 000 people, and in 2003 there were 19 graduates per 10 000 people. The proportion of higher education graduates is much larger, with 25 and 35 per 10 000 people respectively in

²⁸ www.etf.europa.eu

1999 and 2003. The young labour force consists of a very small proportion of people with medium-level professional qualification.

In Azerbaijan the fate of graduates with a secondary general education (11th grade)²⁹ is an important issue; it involves a large proportion of graduates and is critical for the formation of a qualified labour force. It concerns equity as well. Annually about 65% to 70% of graduates from public general secondary schools move away from education (higher education and VET) to face the world of labour, equipped only with the purely academic and general knowledge provided by the typical public general education curriculum. This is a consequence of the fact that only a small number of graduates with secondary general education (23 000 to 25 000 per year) are admitted to higher education; another small group is admitted to vocational education (professional lizei and colleges/technikum) for vocational courses lasting from one to two years. This problem reflects the inadequate capacity (in terms of physical resources, quality and image) of the VET system for absorbing young people for initial training for work, and it reflects the absence of policy and programmes dealing with the important and urgent questions of the transition from school to work. In the medium term this situation will affect the aggregate skill mix and the competitiveness of the emerging labour force. And it will further increase segmentation based on a skills bias.

4. Unlike the populations of neighbouring Armenia and Georgia, Azerbaijan's population shows a steady increase, though growth has slowed down over the past decade. The population of Azerbaijan was estimated to be 8.34 million in 2005, and was projected to reach 10.22 million by 2025. With a growing population, education remains strategically important in the decades ahead.

The quality and credibility of formal education are a matter of debate. The general public, employers and the Government of Azerbaijan all discuss the problems of corruption, youth's uninformed choice of education, degradation of the value of diplomas and low competencies of graduates facing the reality of work. The reforms initiated in the 1990s have had limited impact on improved relevance for the economy and the employability of youth with professional qualifications.

The employability of youth with higher education has decreased, according to unemployment data and anecdotal information on low performance in various recruitment tests. The level of knowledge and skills acquired at various stages of education is considered unsatisfactory, according to all recent reports. As many as 40% of applicants for higher education courses performed at an unacceptably low level in the centralised exams in 2004/2005. In recruitment tests administered by several ministries in 2005, less than 0.5% of the total number of applicants were successful.

As a group, registered unemployed people with higher education have increased steadily in number, becoming a prominent group. This represents a signal for policy, showing that:

- formal education is not necessarily associated with credible skills;
- despite acknowledged high education indicators in the labour force, access to adequate continuing training and retraining is indispensable for maintaining competitiveness;
- accessible and reliable guidance and information for all on the skills and education requirements of the current and future economy can help close the gap between a choice of education and the real labour market.

5. Reliable information on the education and training system, performance indicators and analysis of the current problems are priorities in Azerbaijan. But access to reliable information and analysis is difficult for reasons relating to the institutional setting, reluctance towards intersector cooperation and poor coordination of activities on the two vocational education levels.

The newly adopted programme on VET development gives high priority to the issues of monitoring of the sector, improvement of statistics and data analysis and establishment of an exclusive system for monitoring and evaluation of VET. While it is important to build an institutional culture based on evidence, oriented towards performance and compatible with evaluation, achieving this is not a simple and straightforward task.

²⁹ The Constitution of Azerbaijan guarantees the right to free compulsory general secondary education. The Ministry of Education stipulates that full secondary education (11 grades) is compulsory, although this question is the subject of debate. In practice, 11 grades of education are compulsory. Grades 10 and 11 can be attended in general education schools or in vocational establishments.

The criteria for assessing the outcome of education reforms based on indicators elaborated by the Organisation for Economic Co-operation and Development (OECD) are useful in establishing a sector monitoring system. The criteria are:

- quality of education and science;
- accessibility of education;
- student achievements in international assessment systems;
- funding per student and funding for scientists, researchers and teachers;
- approximation of material and technical standards to international standards;
- up-to-date information technologies (a coefficient of one computer per student);
- international recognition of higher education, science and research;
- inflows of foreign students;
- compatibility of student achievements with educational programme benchmarks;
- numbers of children and adolescents left out of the educational system;
- enrolment ratio of students at vocational institutions;
- the brain drain in science and research;
- average age of scientific personnel;
- employability of graduates.

6. VET policy needs to recognise that the VET reform cannot be separated from reforms in the overall education system and in other relevant sectors such as employment and economic policies; and that the value and credibility of formal education needs to be restored, but this will depend on the credibility of reform measures and proper participation of the civil society and employers in policy development and follow-up.

Major challenges for an effective VET sector include:

- effective social and institutional dialogue and public-private partnerships;
- relevance and attractiveness of VET for youth;
- structural adaptation to a lifelong learning frame;
- evidence-based policy implementation based on reliable analytical information, particularly on labour market trends and the transition from school to work, and on the performance of the sector policy.

Pressure for the reform of VET originated within the institutional setting of employment and labour. Two strategic documents, the NES (2005) and the Programme on Implementation of the NES, prioritise the reform of education, particularly of VET, among the medium-term priorities for employment:

In 2007 authorities in the education sector presented the 'Programme on development of vocational education and training in the Republic of Azerbaijan (2007-2012)' (unpublished). Among the strengths of the proposed measures are:

- a focus on a new management model for VET schools based on higher autonomy, better governance, public accountability, diversified funding, modern management methods, consideration of market needs and capacity building of staff;
- extended opportunities for private VET;
- improvement of the status and image of VET;
- a VET teachers' development policy;
- establishment of a coordination council to organise relations with social partners;

- an upgrading of the content of VET.

A rough assessment of the comprehensiveness of the draft revised Action Plan, using a scheme of key VET policy building blocks (see Table 8), leads to the conclusion that the plan covers only some of the specified building blocks. A number of important building blocks are not addressed, in particular:

- institutional capacity in the education sector, under the ‘professional ministries’ building block (this issue is an essential one in planning, implementation and monitoring of reform, as is evident in the recent past in Azerbaijan and other countries in the CIS);
- open pathways;
- accreditation of institutions;
- social protection of students (there is no attention to students in these documents).

The programme addressed a number of relevant issues that are not an explicit part of the building blocks scheme. They are:

- the low status and/or image of VET, which deserves focal attention in the programme;
- national strategy on development of VET;
- dissemination of good practice in VET;
- a modern information platform with a web portal as a central source of information and analytical data relative to the whole VET system.

There are other major challenges in achieving an effective VET sector in Azerbaijan.

- There is a need for capacity building to enable institutions to address the new challenges and innovations with professionalism. Matching institutional capacity with the reform agenda is crucial for success of the reforms, and to ensure that implementation does not lose effectiveness and credibility.
- Aside from improved school management, the programme does not address the reform of institutions responsible for sector policy or its various thematic and technical aspects. The VET department in the Ministry of Education has shown a lack of human, technical and organisational capacity to handle the reform agenda. A similar observation applies to the Institute of Problems of Education. It could be useful to learn from the experience of the education reform in Georgia, which established agencies to lead and coordinate the deciding elements of the new education policy (assessment and examinations, curriculum and evaluation, accreditation, and teachers’ development) and plans to establish a National Professional Agency. Although the new leadership of the VET department started initiatives to change and modernise the staffing and management methods in the VET institutions, and is open to international experience and to wider decentralisation of the system, a number of barriers to change are still strong within the system.
- Roles and functions of the various institutions involved need to be clarified. New agencies specialised in certain topics and/or policy issues need to be well accepted by the overarching institutions and need to be well equipped in terms of organisation, finance and expertise. This applies for example to the planned Agency on Qualifications, which needs early on to achieve coordination and sharing of responsibilities with the relevant key ministries and social partners’ organisations.
- Under the auspices of the Programme on Implementation of the Employment Strategy, a new agency specialised in the broad area of qualifications framework (including standards and certification) is under preparation. The agency’s mandate is of paramount importance for education and for VET in particular. Recent practice in EU countries shows that such national agencies for qualifications are strategically placed for sharing the policy and technical efforts of ministries of education and labour with representatives of the employers sector. Acquaintance with such practice can be beneficial for current development in Azerbaijan.
- Integration with other VET levels and flexible pathways across the whole education system are needed.

7. Implementation of reforms in VET in Azerbaijan has been difficult in the past. Lessons learned need to be used in this new phase of VET development. As in other countries in the region, there is no room for error now. As noted in Section 1 of these conclusions and recommendations, the reform needs strong drivers, such as evidence, sharing and coordination, particularly with employment authorities. It is not enough to dictate the start-up of a reform by means of a decree. It must be a recognised need, it must be oriented towards clearly formulated and measurable results and wider objectives, and it must have the benefit of professional and recognised leadership.

The reform will hurt vested interests and will affect some matters of a social nature. The good news is that one of the focal outcomes of the adopted programme on VET development is school governance. School autonomy, transparency and public accountability, monitoring, modern management and market orientation are all aspects that are emphasised in the programme. This set of tasks will certainly require strong political will and leadership, as well as new and younger staff in the leading department.

8. One of the most complex issues will be the formation of an operational coordination council of social partners (as specified in the programme on VET development). Centralisation and the traditionally strong hand of government bodies, associated with their relative aversion to cooperation with others (institutions and enterprises) may be an initial barrier to effective dialogue. Employers are not yet organised in sector associations with high-level social responsibility, and this affects their capacity and readiness to participate. In this sensitive context, there is likely to be some doubt about the feasibility of dialogue in the council. This will certainly be a major difficulty of the process ahead, and leadership will be required to create a sense of common good and common targets. But there are no alternatives to learning how to work together. The VET reform is much too complex to be effected as a sole ministry's process, or it will be void of future impact.

9. Another initiative with direct impact on human resources development was the 'Black Gold into Human Gold' project, under the auspices of the SPRRED. The programme proposed an 'accelerated skill development strategy'. The various initiatives that relate directly or indirectly to human resources development are evidence that the relevant players are concerned with the passivity of the education system, and that some good expertise is being deployed in various key ministries to reflect the human development strategy and meet the challenges to the country.

One of the interesting elements of this project was the establishment of a cross-sectoral 'Black Gold into Human Gold' Advisory Board, responding to the call for greater integration in the area of human resource development.

The not-so-good news is that the various relevant streams of thought and policy initiative lack convergence and interaction, and each tends to remain close to its supporting ministry. It is not only lack of synergy that affects their effectiveness. There is no dissemination of the good aspects and products of these projects and initiatives, and without proper mainstreaming they will be lost.

The Ministry of Education needs to be involved and to be aware of these initiatives and proposals. Sharing and coordination are fundamental for increasing the quality of the reform strategy, for widening its scope to avoid fragmentation and isolation within departmental boundaries and for enriching the conceptual basis of reform proposals.

10. Regional cooperation is the principle underlying the new Black Sea Synergy of the European Union, which concerns the three Southern Caucasus countries. A European Commission Communication of April 2007 states that cooperation at the regional level on issues such as employment could provide added value, particularly in terms of the exchange of information and best practices, as well as awareness-raising initiatives, including training programmes for relevant officials, social partners and civil society organisations. Employment and Research and Education networks are among the priority areas mentioned explicitly in the Communication. Beyond the national dimension, regional cross-fertilisation in education sector strategy can be stimulated. Azerbaijan has a particular interest in this supranational cooperation as a result of the country's pressing targets of integration into the world economy and development of a knowledge-based economy.

ACRONYMS

CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EITI	Extractive Industry Transparency Initiative
ENP	European Neighbourhood Policy
EU	European Union
GoA	Government of Azerbaijan
LFS	Labour Force Survey
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
SES	State Employment Service
SPPRED	State Programme on Poverty Reduction and Sustainable Development
SSC	State Statistical Committee
UNDP	United Nations Development Programme
VET	Vocational education and training

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