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## Action Fiche Georgia - ENPI AAP 2009

### 1. Identification

Title/Number	Support for the Vocational Education and Training sector of Georgia (CRIS: ENPI/2009/21067)		
Total cost	€19 million		
Aid method / Method of implementation	Sector Policy Support Programme: - Sector budget support (centralised management) €17 million - Project mode (centralised, complementary TA) €2 million		
DAC-code	11330	Sector	Vocational training

### 2. Rationale and country context

#### 2.1. Country context and rationale for SPSP

##### 2.1.1. *Economic and social situation and poverty analysis*

Georgia has an ageing population. Anticipated changes in the labour force will have a bearing on: i) the economy's capacity for employment generation; ii) the type of adjustments required within the education and training system in order to adapt to productivity growth needs.

In Georgia GDP per capita (PPP) grew significantly in the period 2004-2008 (from USD 3,242 per capita to USD 4,931). Living standards in Georgia have improved in since 2003. Household incomes during 2003–2007 increased, partly due to better targeted social transfers; and non-income indicators of poverty have improved, including access to and quality of education and health care. The poverty headcount rate has declined in Georgia down to 23.6% in 2007<sup>1</sup> (For information on the labour market situation please see the Action Fiche Appendix).

##### 2.1.2. *National development policy*

Since 2004 reforms were started to liberalise the economy and facilitate growth. Reforms embraced deep deregulation in order to limit state intervention; fighting corruption; liberalising labour relations aiming to enhance job creation; reducing taxes and simplifying licensing. Georgia is seeking to position itself as an attractive international business location, and the World Bank has pointed to Georgia as the world's leading economic reformer.

In 2008, following the political events of November 2007 and the electoral cycle, the Government of Georgia began putting more emphasis on social spending, particularly on pensions, salaries and social programmes. The Government Programme for 2008-2012 – *Georgia without poverty* programme subscribes to the idea that growth will be based on macro-economic stability, decreased role of the state in the economy, high foreign investment (FDI) and low inflation. Managing to maintain macroeconomic stability will be a central challenge for the Government of Georgia following the war of August 2008. The Government

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<sup>1</sup> World Bank, Georgia Poverty Assessment, 2008, public presentation in Tbilisi in February 2009

presented its programme “Helping Georgia to get back on its feet” on 22/10/08 in the International Donor Conference.

## 2.2. Sector context: policies and challenges

In 2004 Georgia engaged in determined reforms of its education system, aiming at raising credibility and quality of outcomes, efficiency and international comparability. Major government plans have shifted attention to development of **market-oriented VET**, as an ally of the employment policy. The *50 Day and Near Future Programme* (February 2008) gives specific attention to professional training: establishment of over 30 modern training centres in Tbilisi and the regions; development of private VET provision. In the period 2009-2012 the main medium-term programming document of the government of Georgia – Basic Data and Directions (BDD) – for the first time places VET among the three priority areas of MES.

The MES administers all forms and sub-sectors of education, incl. VET, where the first reform steps started in 2005 with the preparation of the legal basis (“VET Concept”, “VET Law”, adopted in 2007); the optimisation of the network of VET centres (39 centres) and the rehabilitation of 10 public centres. New curricula were introduced, teachers trained, and career guidance consultants established in many centres.

The first public discussion of the draft **VET strategy** was organised mid February with support of ECD in Tbilisi. The current phase of the strategy (2009-2012) is considered a pilot to test various forms and approaches to VET provision, governance and financing. The strategy subscribes to principles that show a clear will for convergence with Europe.

**Sector budget:** public expenditure in education as share of GDP remains lower than the OECD average and EU-19 average, and stood below 3% in the period 2004 to 2008.

Table 1: Public expenditure on education, by main sub-sector<sup>2</sup>

	2003	2004	2005	2006	2007	2008	2009
Budget of Ministry of Education (Thousands GEL)	14,966.7	67,676.7	80,941.1	358,165.1	410,828.8	458,177.5	537,967.7
<b>Expenditure on VET (Thousands GEL)</b>	2,778.1	7,152.5	3,699.7	7,779.1	12,960.0	10,058.0	9,800.0
In % of total	18.6%	10.6%	4.6%	2.2%	3.2%	2.2%	1.8%

Source: MES, 2009

Analysing the different budget lines that concern VET, we verify that the level of public expenditure programmed in MES MTEF for 2009 for VET, which is fully dedicated to recurrent expenditure (non capital), is by approx. 65% higher than the level budgeted in 2007 for the same kind of expenditure. In 2010 and 2011 recurrent expenditure for VET is programmed to grow to respectively 10 and 10.5 million GEL<sup>3</sup>. The size of the proposed BSB (€16 million for 3 years) roughly corresponds to approx. 100% of total amount of the planned state budget for VET in 2009-2011 at the current exchange rate.

**Institutional capacity:** the leading VET policy institution is the Ministry of Education and Science, but all main technical tasks are allocated to four agencies, each with the statute of legal entity of public law, hence acting with individual charters and powers. These agencies deliver their specific inputs to development of the system, hence the importance of an effective co-ordination of their activities in regard to VET: National Curriculum and

<sup>2</sup> The largest part (up to 79%) of MES financing is absorbed by the most important segment of education: basic and secondary education. Before 2006 this segment was funded through budgets of territorial units (regions). So, from 2006 the MES budget shows a huge increase linked, amongst others, with this change.

<sup>3</sup> Detailed MTEF MES for 2008-2011, revised version non-available, information provided by MES in February 2009.

Assessment Centre; National Accreditation Centre; Teachers Professional Development Centre. By end of 2008 the National Professional Agency (NPA) was liquidated and merged with MES. A new VET department took over most of the functions of the NPA, but currently there are signs that the new department has low decision making capacity.

MES is committed to involve other relevant Ministries (such as Economic Development, Regional Development and Labour) and non-state organisations in VET policy. In February 2009 MES leadership made reference to setting a mixed inter-ministerial commission with the purpose to supervise the implementation of VET policy. Operations and interactions with social partners are yet to be defined.

**Sector performance monitoring:** In 2008 MES organised comprehensive data collection on the VET system to inform the VET strategy. The new important step for sector performance monitoring is set by the draft VET Strategy, which proposes a detailed list of key indicators addressing learning outcomes and labour market; VET providers; participation in VET; demand for VET programmes; costs and funding of VET; quality of VET institutions.

**Macro-economic trends and situation:** between 2004 and 2008 Georgia implemented macroeconomic reforms that have begun to yield satisfactory results in terms of economic growth (12.5% in 2007), improvements in the overall business and investment environment, growth of foreign capital inflows, and progress in poverty reduction. After a period of four years (2004-2008) of consistent high economic growth rates Georgia saw its good macro-economic performance affected in the aftermath of the conflict of 2008. The large current account deficit is one the major risks. Through a Stand-by Arrangement (SBA) signed in October 2008, the IMF will finance, over 2008-2009 a large part of the balance of payments financing gap, followed by contributions from other donors.

**Budget revenues** have increased significantly since 2004, particularly the share of tax revenues thanks to reforms in taxation and tax administration. Growth of total revenues against GDP persisted (15% in the period 2000–04, against 30% in 2007 and 2008).

The reform of **public finance management (PFM)** system has been a priority for the government in the last 5 years. The new Budget System Law approved early 2004 set in place the principles of comprehensiveness, transparency and accountability for the budget system. There are areas in the existing internal and external control system, personnel and payroll; public procurement, and reporting of high quality consolidated financial statements that are in need of continued reform to further enhance the effectiveness of PFM. The EC supports the PFM reform of Georgia through a SPSP under the first ENP Annual Action Plan (2007).

### **2.3. Eligibility for budget support**

- (1) The Strategy for development of VET in Georgia (2009-2012) is currently a draft document that underwent a first round of public discussion. The revised draft will be presented publicly in April, and the adoption process will then start. The document is comprehensive, although it lacks an Action Plan with timeline and responsibilities. (For detailed assessment see section 2.2).
- (2) The most recent IMF country report (N° 09/01), of January 2009 that provides the results of the first review under the Stand-By Arrangement (SBA) confirms that all end-September performance criteria have been observed, and underlines that the authorities have decided not to draw the SBA purchase that is available after the first review. (For detailed assessment see section 2.2).

- (3) The PFM reform started in 2004 is under-way. The recently published PEFA report<sup>4</sup> provides an updated and systematic diagnostic of the PFM system in Georgia that serves as a baseline for complementing the government efforts to monitor progress in the reforms going forward. (for detailed assessment see section 2.2).

#### **2.4. Lessons learnt**

The lessons learned from the previous Budget Support Programmes (EC FSP 1996-2006; PFM SPSP ENP AP 2007) have shown that Georgia qualifies for budget support and that the system is understood by the Government. However experience shows that conditionality needs to be well negotiated, to ensure not only relevance, but also ownership by the programme recipients - this is a premise for successful implementation and impact on the sector development.

#### **2.5. Complementary actions**

In the aftermath of the military conflict the EC will support in 2009-2010 a new project to assist recovery of Shida Kartli. One of the components is dedicated to establishment and development of VET capacity within the University of Gori.

A few donors have been involved directly in projects targeted to a) VET centres development (USAID, UNDP, Greece, Estonia, the UK); b) elaboration and review of legal basis, policy and strategy (European Commission, UNDP); c) and technical areas, such as occupational standards and curriculum, qualifications framework, teachers development, vocational and career guidance and information (USAID, UNDP, ETF, IOM, bilateral co-operation of Poland, Czech Republic and Estonia) and labour market and skills studies.

#### **2.6. Donor coordination**

The main donors are associated with Government discussions in the framework of the implementation of the MTEF process.

In 2008 MES started a donors' mapping exercise, lead by its dedicated department of Higher Education and European Integration. In practice the new VET department is the direct interface with all donors that carry out VET related projects. MES and NPA have been very co-operative and open to donors' proposals, but a clear strategic leadership has largely been missing so far. This raises the expectation that the future VET strategy will improve this situation by setting a transparent map for donors' mutual information, as well as co-ordination of their specific thematic areas and modalities of intervention.

### **3. Description**

#### **3.1. Objectives**

The goal of the VET strategy (2009-2012) as stated in the draft version publicly discussed in February 2008 is: *prepare competitive work force for domestic and international markets, and pursue with the convergence of Georgian VET system with EU common area*. This strategy is said to have a pilot character to test and monitor various forms and approaches to VET provision and governance. A long term strategy will build on findings of this pilot period.

The VET strategy is structured along three main areas / objectives:

1. Occupational standards and quality assurance
2. VET accessibility and flexibility
3. Participatory governance, management and efficient funding model in VET

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<sup>4</sup> Georgia Public Expenditure and Financial Accountability (PEFA), Joint World Bank – EU report, 11/2008

The SPSP will assist MES (and the mixed commission that will be established to supervise and monitor the strategy) along the three areas of the national “VET Strategy”. The SPSP will also assist MES fine-tuning and consolidating the Action Plan underlying the VET strategy, and developing specific technical areas (such as qualifications system).

### **3.2. Expected results and main activities**

The draft VET strategy proposes a detailed formulation of expected outcomes for 2012 (see full set of outcomes in appendix to this Action Fiche). The key outcomes are:

- Private or state national colleges and/or VET centres function in every regional centre;
- Adequate modern professional qualification system is established;
- Providers/associations working on the design and use of new textbooks;
- The management staff of big VET providers received adequate professional training;
- Self-assessment and accreditation of VET institutions has been launched;
- Several employment centres functioning; career services in VET centres are established;
- A system for the recognition of prior learning and foreign qualification is developed;
- Public financing of VET organised on per capita basis (voucher) and programme funding (to serve social and regional needs)
- Supervisory boards are functioning in VET centres and colleges;
- Professional associations are involved in qualifications system and VET management

The *SPSP* will focus particularly on processes to enhance dialogue and co-operation among key stakeholders, and on the VET strategy outcomes that address:

- increased access to VET by youth and adults
- relevance and quality of qualifications to better respond to demands of various sectors of the economy, incl. formal and informal, and to local / regional development needs
- quality and management of VET institutions, incl. strengthening of partnerships at regional level, enhanced quality management, introduction of self-assessment practise
- effective and participative governance of the system, in particular to ensure coherence and efficiency within a setting with growing private sector participation in provision;
- informed decision making, namely development of performance monitoring system.

### **3.3. Risks and assumptions**

The effectiveness of the programme will depend on: a) consistency of policy options backed by analysis of their implications; this is important for the option to progressively privatise VET; b) financing of the system development in the reform period 2009-2012; c) capacity of the key institutions to manage and monitor the implementation of the VET strategy; d) adequate involvement of key stakeholders in VET governance, and in policy and technical developments.

The institutional setting of the VET system shows signs of poor decision making capacity by the VET department that was just formed in January 2009.

The other risk is imbedded in the current deregulation of employment and labour market policy. To counter this risk, the VET strategy intends to promote more systematic links of VET institutions and employers through job matching centres / portal.

### **3.4. Stakeholders**

The set of stakeholders in the VET sector includes social partners (employers and trade unions), providers (state and non-state) and the sector state technical agencies (see 2.2). Increased participation of professional associations in such key activities as occupational standards is considered essential by the government, as it seeks to shift a share of

responsibilities to the social partners. This shift raises a challenge linked with building technical and institutional capacity of these associations.

In February 2009 the leadership of MES referred to starting preparation of a new inter-ministerial commission to supervise the VET strategy and key sector policies. This body could start as a stakeholders' task force and evolve into a National VET Council or similar.

### **3.5. Crosscutting Issues**

The programme will have direct benefits on youth, young unemployed adults, and vulnerable categories of the population who is not participating in the workforce but has potential to return to activity if equipped with skills and self-confidence. Women, young and adult, demonstrate particular commitment to training and will represent a substantial share of beneficiaries, as trainees and as teachers. Good governance has a central role in the programme, since it is one of the three main objectives of the VET strategy, which subscribes to the idea that governance of the VET system will be organised on the basis of broad participation of key stakeholders, inter-ministerial policy co-ordination and sound dialogue with well-informed social partners. Finally the programme will have a sound regional development dimension.

## **4. Implementation issues**

### **4.1. Method of implementation**

Direct Centralised Management .

### **4.2. Procurement and grant award procedures**

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

### **4.3. Budget and calendar**

The programme has a budget of €19 million, out of which €17 million will be used for budget support and €2 million for technical assistance.

The €17 million component of budget support will be disbursed through 3 instalments. The first instalment of €6 million will be payable at the signature of the Financing Agreement to the Georgian State budget, subject to pre-conditions. The balance of €11 million will be paid in 2 instalments, indicatively in two equal tranches in 2010 and 2011, against successful achievement of policy conditions to be further identified in areas such as listed under section 3.2.

A TA provision is included in the programme to finance (a) evaluation, audit, and visibility actions (indicatively €0.50 million), (b) independent expertise to assess the fulfilment by the GoA of the conditions for disbursements (indicatively €0.2 million) and (c) capacity building to the Recipient Institutions (indicatively €1.3 million). Indicative areas for TA (capacity building) under this programme: 1) qualifications system; 2) sector performance monitoring system; 3) quality management in VET; 4) competence-based curriculum; 5) costing of VET programmes and VET policies.

The operational duration of the programme is set at 48 months as from signature of the Financing Agreement.

#### **4.4. Performance monitoring and criteria for disbursement**

The proposed budget support programme will be subject to a number of agreed conditions and benchmarks all of which will be based on the agreed Government VET strategy priorities out of the EU/Georgia ENP Action Plan, linked to results in the areas listed under 3.2. Conditions under the SPSP will be a sound mix of process oriented conditions and tangible outcomes, which act as incentives to consistent sector reforms.

#### **4.5. Evaluation and audit**

Evaluation of the programme as well as external audits may be carried out if so decided by the Commission. In such a case, they may be entrusted to independent consultants.

#### **4.6. Communication and visibility**

Communication and visibility will be organised in close cooperation with the Ministry of Education and Science and in accordance with the orientations of the Manual on Visibility of External Actions (e.g., press release at the signature of the FA, visibility for reports and studies, etc).