

Action Fiche for ARMENIA

1. IDENTIFICATION

Title	Support to Poverty Reduction Strategy through reforms in vocational education and training (VET)		
Total cost	M€ 16.00		
Aid method / management mode	Sector budget support (centralised management);		
DAC-code	11330	Sector	Vocational training

2. RATIONALE AND COUNTRY CONTEXT

2.1 Economic and social situation

Armenia is a resource poor country with a per capita GDP of 1,626 US\$ in 2005, up from a 409 US\$ per capita in 1995. Strong economic growth in recent years was instrumental to reduce poverty down from 50.9% of the population in 2001 to approx. 42.9% in 2003, and 29.5% in 2005.

Drivers of the Armenian growth are debated. Much of the country's recent performance is linked with the significant remittances from migrants, exports of polished diamonds and the construction boom.

Steady and effective market-oriented reforms, assisted by large external inflows on grant and soft terms have contributed to this good macro-economic performance. In 2001 the Government launched a renewed stabilisation and reform effort, with comprehensive reforms introduced in the fiscal, banking and energy sectors. The goals were to boost growth through tax reforms and deregulation, restore confidence in fiscal management and improve expenditure control, restructure the energy sector and clean-up the banking system. The adoption of responsible fiscal and monetary policies in the late 1990s led to the defeat of inflation and to predictability in the stance of financial policies. IDA considers Armenia the highest performing country in the association's portfolio, as measured by the IDA Performance-Based Allocation system.

Unemployment captures over a one fifth of the labour force, and a dual labour market has emerged with large underemployment or low productive employment, shift of large share of active population towards subsistence agriculture, coexisting with a more skilled labour force that has enjoyed real wage gains in expanding sectors of the mixed economy. The causes of this weak response of employment to investment and growth lie in a business climate that has discouraged the flexible use of labour, in inadequate skills among job seekers, as well as in incentives to stay out of the formal labour market and its institutions.

Some groups such as families with many children, long term unemployed, women returning to the labour market, people with disabilities, people leaving in rural remote areas are particularly vulnerable in the labour market. Due to certain statistical disparity, the PRSP progress report recommends further detailed analysis and review of indicators of poverty in

rural and secondary urban areas to take into consideration income inequality and unemployment as a lack of access to adequate provision of education and training.

2.2 Cooperation policy of beneficiary country

(i) Main features of national development policy

The PRSP I, adopted in 2003, recognises the role of VET in poverty reduction and economic development, and indicates that reform of the VET system, including rehabilitation and strengthening of its offer is the principal way to reduce the existing high rate of structural unemployment. PRSP I gave top priority to general education that received considerable allocations, but the revised PRSP II, to be adopted in 2007, raised the importance and priority of VET in the development agenda of the country. This opens new positive perspectives in terms of growth of state budget allocations for VET in 2008 and further, as announced by the sector Ministry and the MFE.

There are two key official documents laying down the sub-sector policy: 1) Strategy of Preliminary and Middle specialised VET, 2) VET Modernisation priorities paper and Action Plan (for period 2005-2008). The former is a general statement on basic objectives for reform, including (i) ensuring preparation of qualified specialists, (ii) ensuring the formation of modern individuals and citizens, (iii) ensuring life-long learning. The latter is a more specific policy document and the closest to a sector programme. The paper prioritizes the introduction of competence-based VET standards, modernisation of quality assurance mechanisms and certification, creation of a state non-commercial technical support and quality assurance institute, improvements in cost-efficiency and educational outcomes, and optimisation of VET financing.

(ii) Comments on credibility and ownership of the policy

The sub-sector of VET is under the policy and legal responsibility of the Ministry of Education and Science (MoES), despite the fragmented administration of around a quarter of public VET establishments by line Ministries (Ministries of Agriculture, Health, Culture, Energy, Sports). There is an inner consistency of the sector policy as expressed by the VET Modernization Priorities Paper (VET MPP) that was revised and updated in line with Condition 2 of the SPSP to VET under AP 2006, alongside with confirmation of MPP status at the highest level.

Because of the low status of VET in the government policy, the prevailing culture of reform is donors-led: a policy is endorsed if necessary financial resources are available. However, the drive for reforms, and the awareness that urgent changes are called for is well embedded at every decision-making level.

2.3. Government Sector Programme

(1) Assessment of sector policy

The key policy paper under consideration is the VET MPP and AP. It includes some but not all features of a sector programme, namely:

(i) Setting of key priorities for the sector and detailed activities annexed to each of them.

(ii) Participatory way in which it has been prepared, since all main stakeholders were present in the preparation.

(iii) Presence of an action plan with objectives, actors involved, expected results, time frame and indicators.

(iv) The document is officially endorsed by the Ministry of Education.

(v) This document (neither any other) does not refer to the needs of the labour market, or to any analysis of economic nature.

However, important weaknesses remain in the sector policy, namely:

(i) Despite innovations introduced by the VET Law (quality assurance, school management, assessment and social partnership) there is no unifying vision underlying the policy.

(ii) The identification of a sector leader is missing; likewise, the policy does not address the fragmentation of the sector among several line ministries.

(iii) There is no costing of the action plan.

The sector policy is typical of a donors-led process, where the institutional basis (ownership) is weak. That is why under Condition 1 of SPSP to VET under 2006 it has been required from the Government to establish a task force, including relevant ministries involved in VET as well as social partners' institutions that would review and update the action plan by the end of 2007. The Armenian authorities have agreed to undertake this review.

(2) Assessment of institutional capacity

National institutional capacity to effectively manage the issues opened by the reform (governance, competence based learning, student-centred learning, qualifications frameworks, quality assurance, teachers development, social partnership) will require further investment, including a revisited set of functions and tasks for the VET Department. This department responsible for the overall policy and administration of VET does not have enough resources for the wide set of tasks under its responsibility and has no monitoring policy and capacity. Although the department was upgraded to the level of Directorate of VET in 2005, it did not benefit from any correspondent institutional strengthening.

The National Institute of Education supports the MoES through technical assessments in matters of education methods, curricula, textbooks. However its unit specialised in the VET sub-sector recognises insufficient capacity to respond to the large needs of sub-sector development.

(3) Framework for monitoring the implementation of policy

The MoES is one the pilot ministries introducing programme budgeting, with a system of financial and non-financial indicators. This pilot experience has been applied to the whole sector of education. The MTEF process for 2008-2010 was seen as an opportunity to start a more strategic expenditures planning for the VET sub-sector.

A starting basis for performance measurement is offered in the VET MPP and AP (updated in 2007) in form of outputs presented on an annual perspective. These outputs are instrumental for the formulation of performance indicators, whose selection will depend on the availability of reliable, adequate and updated national statistical data.

(4) Assessment of PFM system

The main directions of Armenia's PFM reforms involve complex technical issues such as the: introduction of a government financial management information system (GFMIS), public sector accounting reform, introduction of internal audit and, a commitment to introduce performance into the budget.

The last WB study confirms earlier reports (PER, CPAR and CFAA) general assessments that Armenia has already now a solid overall public finance system with reliable and consistent budget process, a modern treasury system, as well as an adequate public procurement system. Armenia has all the basics in place and is in a position to move to more sophisticated reforms in PFM.

Perhaps the most important systemic weakness is the absence of a functional external and internal auditing system. The challenge lies with the lack of proper understanding of the nature and value of having an auditing system, which stems from a narrow interpretation of auditing as an investigative and repressive mechanism, rather than to the lack of systems per se. However, the Government is committed to rectify this expeditiously and it has secured international expertise from US Treasury to that effect. The World Bank and IMF have added external/internal auditing and control as part of their requirements.

The first MTEF was drafted for years 2004-2006 in parallel with the development of the PRSP. This is a significant step and provides a good overall framework for budget support operations. Substantial work remains to be done to raise capacity in budgeting and planning, to improve efficiency in resource allocation and introduce some form of results-based programming.

Since 2005-2006 Armenia, supported by DFID, started introduction of programme budgeting in four pilot Ministries, including the MoES (introduction of strategic budgeting, performance monitoring and application of indicators). More work is necessary throughout the PFM system in the country, thus, it is pertinent to focus the PFM-related assistance on areas such as linking policy objectives with the budget, improving budget structure/format, budget planning and preparation as well as the introduction of performance measurement in the sectors and line ministries supported.

(5) Eligibility for budget support

(5a) the sector policy is in place but needs significant improvement, especially in the action plan (indicators, outcomes, time frame, costing) which does not presently qualify as a realistic and credible action plan

(5b) the MoES is one of the pilot ministries introducing performance-based budgeting, with a system of financial and non-financial indicators. This pilot experience has been applied to the whole sector of education. The MTEF process for 2008-2010 is considered as an opportunity to start a more strategic expenditures planning for the VET sub-sector.

2.4 Lessons learnt

The reform and modernisation of VET started in Armenia in 2003 with the EC support provided under the Tacis programme. Many actions have been implemented within this programme to promote reform, namely policy and strategy development, teachers and

managers training, skills needs analysis, revision and implementation of new curricula and of occupational standards.

Social partners' organisations and other public institutions have actively participated in the implementation of all activities of TACIS programme and all of them provide a very positive assessment of the programme, which is considered a "milestone" in the process of reform of VET system in order to make it more attractive and relevant to labour market needs.

Various monitoring reports have been produced during the implementation of the programme, which are in general quite positive.

2.5 Complementary actions

A project financed by the UNDP for a total amount of 1.200.000 US\$ is under implementation in 4 Marzs (provinces) for the revision of curricula and renovation/rehabilitation of buildings and refurbishment of 4 colleges in the agriculture, industrial and tourism sector.

The World Bank has provided support for the training of 7.000 subject specialists, coming from 55 craftsmanship colleges. GTZ funded a regional programme and a teachers' training project, oriented to introduction of participative methods. Other international NGOs develop studies and debate in the area of adult education (IIZ-DVV, Germany) and lobby for the elaboration of a high level framework for lifelong learning. However, so far, these interventions haven't had a systemic impact.

2.6 Donors coordination

The PRSP is the major forum for dialogue and co-ordination of donors around the overarching socio-economic development programmes of Armenia. After the adoption of the PRSP several donors, in particular UN organisations, DFID, USAID have aligned their country strategies within close co-ordination with the government.

A PRSP II is under preparation and it should be ready in May 2007. The document outline gives an analysis of achievements during the period 2003-2006 and the objectives for the next period (2007-2015); it includes a chapter on human resources development and a sub-chapter on education system and services. It identifies benchmarks (including financing ceilings) and many policy directions and measures to achieve the benchmarks.

The Ministry of Finance and Economy (MFE) is the leading institution coordinating donors' financial support (grants and loans) and the National Co-ordinating Unit reports to this ministry. The MFE introduced a unified information system covering donors' strategies and projects. However, leadership and ownership of the government in effective co-ordination of donor strategies around the adopted state VET strategy and policy priorities was still in early development during the implementation of the EC budget support programme under AP 2006, and will need to be further assessed.

However the "coordination" ensured by the MFE does not qualify for real donor coordination, in the required sense. The line ministry in charge of the sector and specially the VET department is not involved in the process, due to its institutional weakness. There is however regular information exchanges among donors, but real donor coordination still stands in need of implementation at sectoral level.

3. DESCRIPTION

3.1. Objectives

Key elements of the government sector programme (2005-2008) are the following: (i) introduction of competency based vocational education, (ii) modernisation of quality monitoring mechanisms, (iii) creation of technical support and quality assurance infrastructure, (iv) improvement of cost efficiency and educational outcomes, (v) optimisation of VET financing, (vi) building of national capacity for VET modernisation, implementation and monitoring. This programme has been endorsed by the MoES, but its enforcement is still pending.

The overall objective of this programme is to support the Government's Poverty Reduction Strategy through increasing the quality of VET sector in order to make it more relevant to the needs of the labour market and of the individuals.

3.2. Expected results and main activities

Sector Policy

(i) Governance and empowerment

- Development and adoption of a single statutory framework for the whole VET system, as mentioned in the strategy of Preliminary and Middle Professional Education and Training (approved by the Government of Armenia in 2004 but not enforced). The strategy stipulates the role of the MoES, Ministry of Labour and Social Affairs and other line ministries in charge of VET as key stakeholders and recommends the introduction of a transparent and open system of collegial governance.

- Rationalization of the governance and management of VET institutions: empowerment of local and regional players (schools, local authorities, civil organisations) in all issues related to skills development strategy and implementation in order to achieve better responsiveness to local socio-economies. Restructuring and rehabilitation of the existent VET institutions as well as exploring the need for establishment of new ones.

- The establishment of continuous and stable social partnership needs to be institutionalized (in line with the above-mentioned strategy) through a VET council which should comprise representatives of employer's organization, trade unions and interested ministries under the auspices of the MoES.

(ii) Quality of the system

- Funding of the sub-sector: as mentioned in the Strategy, the paucity of financial resources of VET institutions does not allow implementation of reforms. The funding of the VET sector needs to be diversified mainly through public-private partnership, and new funding mechanisms need to be implemented.

- Establishment of the National Centre for VET Development outlined in the VET Modernization Priorities Paper, with a technical support and quality assurance function.

(iii) Unification and harmonization of employment and education sectors

- Elaboration and adoption of the National Classifier of Occupations by the Ministry of Labour and Social Affairs (MoLSA) in line with ISO system. Introduction of the revision

mechanism of the national classifier and its implementation in accordance with current changes in socio-economic environment

- Elaboration and adoption of the tariff-qualification information bulletin (occupational standards) by each economic sector by the MoLSA

- Elaboration and implementation of system of thorough labour market analysis by MoLSA

Above mentioned documents will become the basis for unified qualifications framework connecting employment and education sectors (e.g. national classifier as well as occupational standards will become the basis for elaboration of educational standards)

(iv) Improvement in the business climate for boosting job-creation and flexible use of labour through creation of tax benefits incentives and approximation of legislative framework on taxation to the European standards

- Job-creation for young workforce (graduates of VET institutions in particular) should be encouraged through the introduction of appropriate incentives. Employers do spend some of their resources to offer on-job re/trainings, thus undertaking a Life Long Learning process within their companies. There should be legal basis for promotion of this practice as education is a process and educational activities are becoming a part of corporate social benefits structure.

- Another possibility of improvement of the legislative framework would be introduction of a concept of “new” tax. The idea would be to set aside some percentage of the overall income tax (e.g. 2% out of 20% income tax) for reforms and maintenance of education system. Thus, there will be a separate budget line in the state budget dedicated specifically to this special educational fund to which all the employers will have to contribute and the proceeds will be targeted at achieving concrete results in the area of education.

(v) Performance monitoring and accountability

- Capacity building in information and analysis of education and training system outcomes, particularly the transition from school to work

- Capacity building in improvement of thorough scientific research and analysis skills in the sector of labour and employment for better demand formulation, implementation of system of labour market analysis as well as elaboration of National classifier of occupations and occupational standards.

- Institutional capacity building in policy formulation, performance monitoring and organisation. Integrated financial and non-financial performance monitoring function established and staffed

3.3. Stakeholders

Supply side

The key functions of the MoES as the main body responsible for the development and administration of education are:

- managing the system;
- formulating the unified state education policy and its supervision;

- formulating the national programme of education development and controlling its implementation;
- controlling the implementation of state educational standards;
- carrying out licensing and accreditation of education establishments (public, and private of all legal forms), except those providing medical studies;
- preparing model charters for education establishments;
- preparing classifiers of qualifications;
- developing and adopting rules and principles for admission to public schools.

However, the Ministry of Health, Agriculture, Youth and Culture and Energy are also responsible for managing vocational schools in the related field of specialisation. MoLSA organises training for the unemployed through the selection on competitive basis of local training providers. They are working very closely with the MoES in the framework of the development of a methodology and strategy for a National Qualification Framework.

Demand side

Social partners' institutions are very committed to reform the VET system as they recognise the importance of human resources as a contribution to the competitiveness of the enterprises and, consequently, the country's economic growth. During this transition period, sectors with highest demand for qualification and skills have been identified, namely: constructions, tourism, transport, IT, light industry.

The Union of Manufacturers and Businessmen (Employers) of Armenia was established in 2001 and is the most important union representing large and medium sized enterprises. It contributed to the preparation of the VET Modernisation Priorities Paper and other strategic documents, but the capacity to provide detailed information on skill needs is still at a preliminary stage of development.

The Chamber of Commerce and Industry was established in 2002 and it pursues, among other objectives, "the enhancement of the system of training and up-grading of the business personnel".

3.4. Risks and assumptions

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|-------------|---|
| Risks: | <ul style="list-style-type: none"> • The review and update of the VET Modernization Priorities Paper has not been completed • The difficulty to identify relevant and reliable data allowing performance monitoring of the sector programme. • Weak participation of representatives of the private sector. • Risks related to geopolitical situation in the Caucasus region. |
| Assumptions | <ul style="list-style-type: none"> • Institutional capacity to revise, implement and monitor the VET reform will be reinforced with support of this programme (particularly by a part of the TA component). • Present political stability and economic growth remain the same |

3.5. Crosscutting Issues

There is a problem in Armenia related to environmental protection, which does not receive at the moment enough attention. Given that the main objective of vocational education is to provide a qualified labour force capable of working in a competitive environment, subjects like health, environmental protection and safety at work will need to be introduced in the

curricula in order to raise understanding and awareness on the issue. A clear gender imbalance currently characterises enrolment in secondary VET establishments (colleges), where girls largely predominate. Boys tend to aspire to higher education. The labour market also reflects traditional gender segregation where women are more present in fields such as education, health, social services and public administration.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management

4.2. Procurement and grant award procedures [/programme estimates]

All contracts implementing the TA component of the programme 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 budget of this sector programme is of 16 M€, indicatively broken down as follows:

- sector policy support 15.00 M€
- technical assistance/evaluation, audit, visibility 1.00 M€

Indicative disbursement calendar will be as follows:

Planned date	December 2007	June 2008	June 2009
Amount	5.00 M€ (fixed tranche)	5.00 M€ (variable tranche) ⁶	5.00 M€ (variable tranche) ¹

Signature of Financing Agreement: December 2007/January 2008

Operational duration, from the signature of the Financing Agreement: 24 months

4.4. Performance monitoring and criteria for disbursement

A starting basis for performance measurement is included in the revised VET MPP and Action Plan (updated within the SPSP 2006) in form of outcomes presented on an annual perspective. The review identifies achievements and overall objectives of the VET reform for the period 2008-2010, including relevant activities, institutional responsibilities and resources needed.

4.5. Evaluation and audit

Standard evaluation and audit arrangements will be applied.

4.6. Communication and visibility

Communication and visibility will be organised in conjunction with the MoES and other relevant Ministries, in accordance with the EuropeAid visibility guidelines. In this context,

⁶ A part of the tranche should be fixed and another part variable

appropriate public relation activities may be considered so as to keep the general public informed of progress in the VET reform.