



Concept Paper

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Proposed Policy-Based Loan and Project Loan Republic of Azerbaijan: Modernizing Vocational Education and Training for Economic Diversification Sector Development Program

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CURRENCY EQUIVALENTS

(as of 29 April 2022)

Currency unit	–	Azerbaijan manat/s
AZN1.00	=	\$0.5899
\$1.00	=	AZN1.69

ABBREVIATIONS

4IR	–	fourth industrial revolution
ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
ICT	–	information and communication technology
MOE	–	Ministry of Education
PBL	–	policy-based loan
PPP	–	public–private partnership
SAVE	–	State Agency on Vocational Education
SDP	–	sector development program
TA	–	technical assistance
VET	–	vocational education and training

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54295-001	
Project Name	Modernizing Vocational Education and Training for Economic Diversification Sector Development Program	Department/Division	CWRD/CWSS
Country Borrower	Azerbaijan Republic of Azerbaijan	Executing Agency	Ministry of Education, Ministry of Finance
Country Economic Indicators Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54295-001-CEI https://www.adb.org/Documents/LinkedDocs/?id=54295-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Education	Education sector development		120.000
	Technical and vocational education and training		30.000
		Total	150.000
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP6: Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.b		Gender Equity (GEN)	✓
SDG 4.3, 4.4, 4.a, 4.c			
SDG 5.c		Poverty Targeting	
SDG 10.4		General Intervention on Poverty	✓
SDG 12.a			
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.000	
Sovereign SDP - Program (Regular Loan): Ordinary capital resources		120.000	
Sovereign SDP - Project (Regular Loan): Ordinary capital resources		30.000	
Cofinancing		0.000	
None		0.000	
Counterpart		10.000	
Government		10.000	
Total		160.000	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The proposed sector development program (SDP) will help transform vocational education and training (VET) in Azerbaijan to develop the human capital needed for economic diversification and the fourth industrial revolution (4IR), and promote gender equality. The SDP is closely aligned with the Government of Azerbaijan's strategic objective of transforming the country's human capital into a driving force to accelerate sustainable, inclusive, private sector-led, and diversified growth.¹ It is also an integral part of the country partnership strategy of the Asian Development Bank (ADB) for Azerbaijan and its strategic pillar of improving infrastructure and strengthening human capital.² In addition, the SDP is aligned with ADB's Strategy 2030 and its operational priorities of addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, and strengthening governance and institutional capacity;³ and with the human development cluster of the Central Asia Regional Economic Cooperation (CAREC) Strategy 2030.⁴

2. Transforming Azerbaijan's VET system requires sector policy reforms to overcome the binding constraints, and modern VET institutions. In this context, the two-tranche, stand-alone policy-based loan (PBL) component will support the government's medium-term reforms to strengthen the financing, quality and relevance, and institutional set-up of VET; while the project component will help modernize the selected VET institutions and bolster the institutional capacity to deliver the reforms.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Socioeconomic and demographic context.** Azerbaijan is an upper-middle-income country with high human development status,⁵ and is a major oil and gas exporter in South Caucasus. The country's gross domestic product (GDP) growth averaged 5.9% during 1993–2019, accompanied by a reduction in the poverty rate from 60% in 1995 to 4.8% in 2019. Because of the adverse effects of the coronavirus disease (COVID-19) pandemic and reduced oil production, the economy contracted by 4.3% in 2020 and the poverty rate rose to 6.2%.⁶ In 2021, GDP grew by 5.6%. About 22% of Azerbaijan's population of 10.1 million is 5–29 years old. In 2020, youth unemployment stood at 11.2% (total unemployment rate: 7.2%); and youth labor force participation stood at 61.1% (overall rate: 74.1%). The share of young people not in employment, education, or training was 23% in 2017.⁷ In 2017–2025, 125,200 people are expected to enter the labor market every year, 2.5 times more than the number of jobs created annually.⁸

¹ [Azerbaijan 2030: National Priorities for Socio-Economic Development](#). Approved by Presidential Order no. 2469 dated 2 February 2021.

² ADB. 2019. [Country Partnership Strategy: Azerbaijan, 2019–2023—Promoting Diversified and Inclusive Growth](#). Manila. The SDP is included in the indicative lending program in 2022. The preliminary design and monitoring framework is in Appendix 1. Transaction technical assistance (TA) will be provided to prepare the program.

³ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

⁴ ADB. 2017. [CAREC 2030: Connecting the Region of Shared and Sustainable Development](#). Manila.

⁵ United Nations Development Programme. 2020. [Human Development Report, 2020](#). New York.

⁶ State Statistical Committee of Azerbaijan. [Budget of Households: Poverty Line and Poverty Level](#).

⁷ International Monetary Fund. 2021. [Republic of Azerbaijan: 2021 Article IV Consultation—Press Release; and Staff Report](#). Washington, DC; and European Training Foundation (ETF). 2020. [Torino Process 2018–2020 Azerbaijan: National Report](#). Turin, Italy.

⁸ ETF. 2021. [Azerbaijan: Education, Training and Employment Developments 2020](#). Turin, Italy.

4. **Gender inequality.** Women in Azerbaijan benefit less than men from the steadily improving overall human development: in 2010–2020, women's unemployment rate averaged 6.2% against 4.3% for men; and in 2016–2020, women's poverty rate averaged 5.7% against 5.3% for men. Overall, women earn only 48% of what men earn,⁹ and within similar positions, women earn only 73% of what men earn.¹⁰ Youth unemployment in 2018 was higher among females (14.7%) than males (11.0%), and young women are more likely than men to be engaged in vulnerable and marginal work. In the beginning of the 2020/21 school year, only 25% of VET students were females, against 62.9% in the public specialized secondary education institutions and 48.2% in the public higher education institutions.¹¹

5. **Skills gap constraining economic diversification.** Azerbaijan's economy still depends on the oil industry and is vulnerable to volatile oil production and prices. To accelerate economic diversification, the government's focus since 2016 has been on developing agricultural production and processing, heavy industry and mechanism engineering, tourism, logistics and trade, and information and telecommunication technology (ICT). Growth in these non-oil sectors is constrained by a skills shortage. Young workers often lack job-specific technical and soft skills such as problem solving, communication, teamwork, and leadership.¹² The employment rate among information technology graduates from universities and VET institutions is about 43% because of poor quality of education, weak soft skills, and the absence of career coaching services.¹³ The advent of 4IR,¹⁴ also known as Industry 4.0, is rapidly changing the occupations and skills required by the labor market, and means that VET graduates will have to have 4IR-relevant soft skills (e.g., critical thinking, problem solving, adaptive learning, social and interpersonal and communication skills, and creativity) as well as job-specific skills.¹⁵ New skills are also needed to apply low-emission technologies and practices in the transition to a low-carbon economy.¹⁶ Strengthening VET is critical in overcoming the skills gap and enabling economic diversification and sustainability.¹⁷

6. **Inadequate financing of vocational education and training.** While the share of education spending in Azerbaijan's total government budget rose from 8.6% in 2018 to about 11.3% in 2021, the share of VET in government education spending remained at 1.5%. Private financing of VET is also very limited—the country has only one private VET institution and no VET-related public–private partnership (PPP). This is because of the lack of a conducive regulatory environment for private VET providers and the weak capacity of the Ministry of Education (MOE) to promote private participation in VET. The Vocational Education Development Fund, established in August 2020 to help modernize the VET system and ensure better remuneration of VET teachers, and the Unemployment Insurance Fund, set up in 2018, have yet to become viable and complementary funding sources for VET. In June 2021, the government

⁹ For Kazakhstan and Georgia, this indicator is 65%. The gender pay gap in Azerbaijan is the highest in the Europe and Central Asia region of the World Bank. World Bank. 2021. [Removing Barriers and Creating Better Job Opportunities for Women in Azerbaijan](#). Feature Story. 8 March 2021.

¹⁰ ADB. 2019. [Azerbaijan Country Gender Assessment](#). Manila.

¹¹ State Statistical Committee of Azerbaijan. [Gender Statistics](#); Initial Poverty and Social Analysts (accessible from the list of linked documents in Appendix 2).

¹² J. Rutkowski. 2015. *Demand for skills: main results of the Azerbaijan STEP employer survey*. Washington, DC: World Bank. The survey covered 316 firms engaged in trade, manufacturing, ICT, and construction.

¹³ World Bank. 2016. *IT Sector and IT Skills in Azerbaijan: Challenges and Opportunities*. Washington, DC.

¹⁴ 4IR reflects a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres. K. Schwab. 2016. [The Fourth Industrial Revolution: what it means, how to respond](#). Geneva: World Economic Forum.

¹⁵ ADB. Forthcoming. *Assessing Implications of Industry 4.0 on Jobs and Skills in High-Growth Industries in Central Asia: Azerbaijan Report*. Manila.

¹⁶ In its [Nationally Determined Contribution](#), Azerbaijan committed to a 35% reduction in total emissions by 2030.

¹⁷ ADB. 2020. [Country Diagnostic Study: Azerbaijan—Moving Toward More Diversified, Resilient, and Inclusive Development](#). Manila.

created the Student Credit Fund under MOE, which can finance tuition fees for higher vocational education students. Still, the financial support for VET students and trainees remains limited.

7. **Poor quality and relevance of vocational education and training.** In 2015–2019, only about 14% of secondary education students enrolled in VET. The number of VET students declined from 29,234 in 2014 to 22,012 in 2021.¹⁸ Almost one in two companies surveyed (45%) deem the prevailing vocational training unsatisfactory, and the most frequently cited concerns are the lack of practical and modern methods and the low level of digitalization in the training system.¹⁹ Training equipment in VET institutions is either scarce or outdated. In line with the direction of the 2016 Strategic Roadmap for VET (footnote 21) on the optimization of the network of VET institutions, the number of public VET institutions was reduced from 114 in 2016 to 72 in 2022, often by merging several VET institutions into VET centers. However, many of the newly emerged VET centers remain in outdated facilities and need modernizing, not least by factoring in the needs of 4IR and mainstreaming ICT in teaching methods and learning contents.

8. **Weak institutional framework.** Some government agencies and state-owned companies also provide formal and nonformal VET relevant of their sectors of operations. The coordination with industry is ineffective, and the system to assess the demand for labor skills to inform VET planning has yet to become operational.²⁰ The State Agency on Vocational Education (SAVE) focuses on the administration of VET institutions, while MOE leads policy development, quality assurance, and budgeting of VET. The government's capacity for both systemwide and institution-specific VET management and financing, 4IR, quality assurance, and new VET methods and tools is weak.

B. The Sector Development Program, ADB's Value Addition, and Sustainability

9. **Government reform program.** To address the skills mismatch in the industries expected to drive the economic diversification (agriculture, manufacturing, tourism, and ICT), the government in 2016 adopted the Strategic Roadmap for VET²¹ and, as part of its implementation, set up SAVE under MOE; it also adopted the Law on Vocational Education in 2018.²² In February 2021, the President of Azerbaijan adopted a new 10-year strategic development framework for the country in the post-COVID-19 and post-conflict phase (footnote 1).²³ To implement it, the government is developing a strategy of socioeconomic development for 2022–2025. The strategy seeks to modernize the VET system in accordance with 4IR and labor market requirements, and increase the scope and quality of VET by (i) expanding its coverage, (ii) applying content that meets market demand, (iii) integrating employers into the VET system, (iv) improving the

¹⁸ A more detailed description of Azerbaijan's VET system is in the Summary Sector Assessment (accessible from the list of linked documents in Appendix 2).

¹⁹ ETF. 2020. [Policies for Human Capital Development: Azerbaijan. An ETF Torino Process Assessment](#).

²⁰ In March 2020 the government adopted the charter of the National Observatory on Labor Market and Social Protection to conduct the supply–demand analysis for occupations and skills, support evidence-based policymaking, and contribute to adapting education and training provision to the needs of the labor market.

²¹ Strategic Roadmap for Vocational Education and Training in Azerbaijan Republic. Adopted by Presidential Decree no. 1138 dated 6 December 2016.

²² Also in 2018, the government adopted the Law on Employment and the Employment Strategy, 2019–2030. Both legislations clearly aim to strengthen VET.

²³ This framework focuses on socially oriented and private sector-led development, stresses the public-private cooperation and increased private investment in non-oil industries, and includes innovations and competitive human capital as one of five priorities, with VET strengthening as an integral part of this priority.

financing and management of VET, and (v) strengthening the professionalism of VET educators and management staff.²⁴

10. The proposed program will help the government modernize VET through three outputs. The PBL will support reforms under all outputs, and the project loan will support outputs 2 and 3.

11. **Output 1: Financing of vocational education and training improved.** This output will help improve government financing and private participation in VET through the PBL component. Under tranche 1, the government will (i) approve updates to the education sector's medium-term expenditure framework to ascertain funding for the targeted outcomes of VET,²⁵ (ii) approve action plans for the introduction of per-capita (performance-based) funding and gender-responsive budgeting in VET, (iii) establish the Vocational Education Development Fund to finance VET institutions, and the Student Credit Fund to provide loans to VET students, and (iv) adopt regulation of performance-based student stipends, including for VET students. Under tranche 2, the government will (i) adopt and implement per-capita (performance-based) funding and gender-responsive budgeting in selected VET institutions, (ii) approve regulations to ascertain VET funding from the Unemployment Insurance Fund, and (iii) approve one project involving private participation in VET and conduct accreditation of one private VET provider.

12. **Output 2: Quality and relevance of vocational education and training strengthened.** This output will help modernize VET content, human resources, and institutions, and promote closer links with industry. Under the PBL component's tranche 1, the government will (i) adopt 30 new VET curricula and programs to include soft skills and other 4IR-relevant skills; (ii) approve a resolution to add new occupations in agriculture, tourism, and ICT to the VET classification system to better meet the needs of these sectors; (iii) set up a transparent and competitive recruitment process for VET teachers and coaches; (iv) adopt an action plan to strengthen career counseling in VET; (v) establish a pathway from VET to higher education by introducing the credit system;²⁶ and (vi) adopt rules for recognizing prior learning to help economically active persons obtain formal qualification. Under tranche 2, the government will (i) adopt a new VET classification in line with labor market and 4IR requirements; (ii) adopt 30 new VET programs to also cover occupations relevant to green energy and 4IR; (iii) adopt a new incentive mechanism to better attract and retain human resources in VET; (iv) adopt and implement the national VET teacher training framework; (v) revise the design standards of VET institutions to meet the requirements of 4IR, energy efficiency, and gender equality; and (vi) approve a 5-year plan for the modernization of vocational education infrastructure that includes private participation projects. The project component will serve to (i) upgrade and equip about five VET institutions to labor market and 4IR standards, giving consideration to gender equality; and (ii) build the capacity of VET institutions to deliver the updated curriculum and training programs, including 4IR skills, and provide career guidance.

13. **Output 3: Institutional framework of the vocational education and training system strengthened.** This output will support better coordination and synergies between government agencies and between the government and industry in the design and implementation of VET policies and content. Under tranche 1 of the PBL component, the government will (i) establish the VET advisory board with representatives of industry and other stakeholders to improve the

²⁴ In January 2021, the government established the Center for Analysis and Coordination of 4IR under the Ministry of Economy as the Azerbaijan Affiliate of the Center for 4IR Network of the World Economic Forum. The center is tasked to coordinate government policy and promote readiness for 4IR in the public corporate and private sectors.

²⁵ This includes allocation of adequate funding in 2022–2024 for four VET centers of excellence, and budget in 2023–2025 for upgrading and equipping VET institutions, with a focus on occupations relevant to 4IR and green energy.

²⁶ The system allows academic credits obtained in VET to be considered (accepted) in higher education.

responsiveness of VET to the requirements of industry, and (ii) expand the vocational education information system to enable employment tracking of VET graduates. Under tranche 2, the government will (i) adopt a government-wide framework for VET system oversight, (ii) further expand the vocational education information system to include financial and educational dimensions and link it with policymaking, and (iii) adopt and implement rules for the quality assurance of VET institutions. The project component will serve to (i) build the capacity of staff at MOE, SAVE, and other government agencies, as well as staff of VET institutions (about 100 staff, at least 50% women) for per capita (performance-based) funding, gender-responsive budgeting, quality assurance, environmental and social safeguards, and 4IR; and (ii) foster 4IR-relevant twinning partnerships between SAVE and its peers in Asia and the Pacific, and skills development cooperation under the CAREC Program.²⁷

14. **ADB value addition and sustainability.** The program builds on ADB-led policy dialogue and TA that started in 2019, including expert advice on VET and youth employment policies, assessment of the impact of 4IR on Azerbaijan's sectors with high-growth potential, and the ongoing support for public sector management and PPPs.²⁸ ADB will leverage its knowledge and long experience in VET reforms and projects in Central and West Asia, and the skills development cooperation under the CAREC Program. Through its network with the Asian VET centers of excellence and high-tech corporations, ADB will promote knowledge transfer on modern learning approaches, equipment, and 4IR. Drawing on the successful experience with tranche-based PBL in the transport sector (railways),²⁹ this program's tranche-based PBL is expected to ascertain the timely accomplishment of the priority VET reforms envisaged under the government's medium-term development strategy. The post-program partnership framework will promote the sustainability of the reforms, and the VET financing reforms will promote the sustainability of the project investment beyond the program period.

C. Expected Outcome of the Reform

15. The expected impact is the modernization of Azerbaijan's human capital into a driving force for accelerating sustainable, inclusive, private sector-led, and diversified economic growth. The expected outcome will be the improved responsiveness of the VET system to the needs of the labor market and 4IR.

D. Development Financing Needs and Budget Support, and Proposed Financing Plan

16. The program is estimated to cost \$150 million and comprises (i) a two-tranche, stand-alone PBL of \$120 million (each tranche of \$60 million); and (ii) a project loan of \$30 million.³⁰ The PBL's size is based on the financing needs of Azerbaijan and the development impact of the

²⁷ The program will synergize with ADB. 2021. [Strengthening Regional Cooperation on Skills Development under the CAREC Program](#). Manila (TA 6809-REG).

²⁸ Public sector management: (i) \$0.25 million in transaction TA for [Supporting the COVID-19 Active Response and Expenditure Support Program](#), and (ii) \$1.1 million in transaction TA on [Supporting Public Sector Governance Reform](#). PPPs: (i) \$1.5 million in project preparation support for Piloting Delivery of University Students' Accommodation and Services in Baku through PPP; and (ii) \$1.2 million in capacity building assistance for Supporting Azerbaijan' PPP Development Center and Project Development Facility (both are supported under the Asia-Pacific Project Preparation Facility).

²⁹ ADB. 2017. [Azerbaijan Railway Sector Development Program](#). Manila.

³⁰ Following initial discussions with the government, the OPEC Fund for International Development expressed interest in cofinancing the policy-based and project loans, and the provision of attached TA to be administered by ADB. The size of the fund's cofinancing and TA support is yet to be determined.

reform package.³¹ During the program period, the state budget deficit is estimated to be \$1.8 billion in 2022, \$1.4 billion in 2023, and \$1.1 billion in 2024. Government plans to borrow \$2.3 billion from external and domestic sources to finance the deficit during 2022–2024, and the proposed PBL will help cover the financing gap.³² The project component, financed through the ADB loan of \$30 million and government counterpart funding of about \$10 million, will support the procurement of modern, 4IR-relevant equipment in the selected VET institutions.³³ It will also help build the capacity of staff in government and VET institutions.

E. Implementation Arrangements

17. A steering committee chaired by MOE, with the Ministry of Finance, SAVE, and the Ministry of Labour and Social Protection of Population as members, will oversee the program's implementation. The Ministry of Finance will be the executing agency, and MOE and SAVE will be the implementing agencies for the PBL. The period of the PBL's tranche 1 is June 2020–September 2022, and the period of tranche 2 will be October 2022–September 2024. The PBL tranches will be disbursed upon fulfillment of the policy measures of the respective tranche.

18. MOE will be the executing agency for the project component with the implementation period from September 2022 to December 2025. A program implementation unit will be established at MOE to support the execution of the PBL and the project components. The government will provide in-kind support, including office accommodation, for the unit. Disbursements under the PBL and project components will follow ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Under the project component, procurement will follow ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

III. DUE DILIGENCE REQUIRED

19. Due diligence includes the following assessments: (i) financial management and procurement;³⁴ (ii) economic and financial analysis; (iii) program impact; (iv) governance; (v) social and environmental safeguards (including a safeguards matrix for the PBL); (vi) poverty, social, and gender analyses; (vii) coordination with development partners; and (viii) risks.³⁵

IV. PROCESSING PLAN

A. Risk Categorization and Project Procurement Classification

³¹ The general direction of macroeconomic conditions and policies in Azerbaijan are deemed satisfactory. ADB. 2021. [Report and Recommendation of the President to the Board of Directors on a Proposed Countercyclical Support Facility Loan and Technical Assistance Grant to the Republic of Azerbaijan for the COVID-19 Active Response and Expenditure Support Program](#). Manila.

³² External borrowing is estimated at \$0.5 billion in 2022, and at \$0.3 billion each in 2023 and 2024. The remaining part of the budget deficit will be financed from privatization proceeds and the residuals on the single treasury account.

³³ The long list of the proposed VET institutions is accessible from the list of linked documents in Appendix 2. Further prioritization of the VET institutions will be done during the implementation of the transaction TA. The government will fully fund the required civil works for the VET institutions that will receive the modern equipment under the project component. The Construction Department of MOE will arrange for the detailed designs and cost estimates for the required government-funded civil works at the selected VET institutions.

³⁴ Strategic procurement planning will be conducted to define the optimum number of contracts, consider lease option for equipment, and ways to include small rehabilitation works to ensure that the equipment fits in VET buildings.

³⁵ Options to mainstream climate-resilient skills in VET will be considered during the preparation of the program.

20. The program is categorized as *complex* because the PBL amount exceeds \$50 million. The program is classified *category B* for environment and involuntary resettlement, and *category C* for indigenous peoples.³⁶ The program's gender mainstreaming category is *gender equity theme*, and the climate risk category is *low*. The project's procurement classification, pre-mitigation, is assessed to be *moderate*.³⁷

B. Resource Requirements

21. About 9 person-months of international and national ADB staff inputs are required to process the program. Transaction TA of \$750,000 from ADB's Technical Assistance Special Fund (TASF-other sources), to be approved simultaneously with the concept clearance and implemented during May 2022–September 2023, is proposed to help prepare the program, support the completion of the policy actions under the PBL component's first tranche, and ensure procurement readiness of the project component; the TA will also enable a smooth start to the program's implementation.³⁸ The TA will support the provision of about 21 person-months of international and 35 person-months of national consultant inputs.

C. Processing Schedule

22. The milestones and their expected completion date are summarized in the table.

Proposed Processing Schedule

Milestones	Expected Completion Date
Concept clearance	May 2022
Project due diligence	July 2022
Informal Board seminar	July 2022
Fact-finding mission	August 2022
Management review meeting	September 2022
Loan negotiations	October 2022
ADB Board of Directors consideration	November/December 2022
Loan signing and effectiveness	December 2022

Source: Asian Development Bank.

V. KEY ISSUES

23. The government has requested approval and disbursement of tranche 1 of the PBL by the end of 2022. Coordination with the Ministry of Finance and MOE on fast-tracking the government reviews and approvals will be required. To ensure synchronized signing and effectiveness of the PBL and project loan agreements during program preparation, the advice of the Office of the General Counsel will be sought on incorporation of cross-referencing provisions in the PBL and project loan agreements.

³⁶ No environmental impact or physical or economic displacement is anticipated from the proposed policy actions. The government will fully fund the civil works (rehabilitation or upgrade) in the selected VET institutions, which are all located on government-owned land. Environmental and involuntary resettlement safeguards may be re-categorized as C after due diligence and once the scope of the contract packages under the project component becomes clear.

³⁷ Project Procurement Risk Classification (accessible from the list of linked documents in Appendix 2).

³⁸ Transaction Technical Assistance (accessible from the list of linked documents in Appendix 2). The TA will promote implementation readiness by helping MOE with the advance actions, such as recruitment of key staff for the program implementation unit, initiation of the bidding for the first equipment contracts, and selection of the implementation support consultants, after the fact-finding mission.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Modernized human capital as a driving force for accelerating sustainable, inclusive, private sector-level, and diversified economic growth. ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome</p> <p>Responsiveness of the VET system to the needs of the labor market and 4IR improved^b</p>	<p>By December 2025:</p> <p>a. Number of students at vocational education and training institutions (VETIs) increased to 33,000 (at least 30% of them female), including students acquiring skills that are relevant to sectors deemed key to economic diversification (2021 baseline: 22,012, of which 5,583 are female students)^c (OP 1.1.1; OP 2.1)</p> <p>b. Rate of employment within 6 months of graduation from VETIs increased to 60%, segregated by sex (2020 baseline: 50%)^d (OP 1.1; OP 2.1)</p> <p>c. Value of the quality of vocational training of the skills component of Azerbaijan's ranking in the Global Competitive Index increased (2019 baseline: 4.5 out of 7.0) (OP 1.1.1)</p>	<p>a. Government reports on the implementation of the Employment Strategy 2019–2030</p> <p>b. Reports by SAVE</p> <p>c. World Economic Forum's Global Competitiveness Reports</p>	<p>Assumption</p> <p>Continuity of the government's policy focus on human capital modernization.</p> <p>Risk</p> <p>External shocks undermine economic growth and job creation.</p>
<p>Outputs</p> <p>1. Financing of VET improved</p>	<p>Program</p> <p>By December 2024:</p> <p>1a. Per capita (performance-based) funding used in at least three VETIs (2021 baseline: NA) (OP 6.2.1)</p> <p>1b. Gender-responsive budgeting in VET adopted and implementation started (2021 baseline: NA) (OP 2.1; OP 6.2.1)</p> <p>1c. Regulations adopted and implementation initiated on enhancing the roles of the Vocational Education Development Fund and the Unemployment Insurance Fund in financing of VET (2021 baseline: NA) (OP 6.1.2)</p> <p>1d. Institutional arrangements and guidelines for private participation in VET adopted and implemented (2021 baseline: 0) (OP 1.2.2; OP 6.2.1)</p> <p>1e. Incentive system for establishing private VET providers adopted, including promotion of female enrollers (2021 baseline: 0) (OP 1.2.2; OP 2.1; OP 6.2.1)</p> <p>1f. Accreditation and quality assurance framework for private VETIs and programs approved and implemented (2021 baseline: 0) (OP 1.2.3; OP 6.2.1)</p> <p>1g. Regulation of Student Credit Fund updated to provide financial support to students of private VETIs (including</p>	<p>1a–1g. MOF's, MOE's and SAVE's reports and websites;^e MOE's program quarterly progress reports; Ministry of Justice's Unified Database of Legal Acts</p>	<p>Assumptions</p> <p>Continued government commitment to public expenditure and financial management reforms, increases in the education budget, promotion of public–private partnerships for VET, and private provision of VET.</p> <p>Risks</p> <p>An economic or financial crisis affects the private sector's interest in participating in VET.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	incentives for female students) (2021 baseline: 0) (OP 1.2.2; OP 2.1)		
2. Quality and relevance of VET strengthened	<p>Program By December 2024:</p> <p>2a. Action plan on introducing 4IR in VET adopted and implementation initiated (2021 baseline: NA) (OP 6.1.2)</p> <p>2b. Vocational education curricula and training programs revised to reflect 4IR requirements (2020 baseline: 0) (OP 6.2.1)</p> <p>2c. Regulation of pre-service preparation and in-service professional development of vocational education teachers and training masters adopted, including promotion of female teachers (2021 baseline: NA) (OP 2.1; OP 6.2.1)</p> <p>2d. Regulation of career counseling at VETIs adopted, including promotion of non-discrimination by gender (2020 baseline: 0) (OP 2.1; OP 6.2.1)</p> <p>2e. Regulation of mandatory requirements for a professional diploma (including one based on recognition of prior learning) for at least 10 occupations adopted (2021 baseline: 0) (OP 6.2.1)</p> <p>2f. Mechanism for monitoring employment among graduates of VETIs implemented, with sex-disaggregation (2021 baseline: 0) (OP 1.2.3; OP 2.1; OP 6.2.1)</p> <p>2g. Regulation of workplace-based learning models adopted and implementation initiated (2021 baseline: NA) (OP 6.2.1)</p> <p>2h. Internal quality assurance system of VET sector established (2021 baseline: NA) (OP 6.2.1)</p> <p>2i. Standards for VETI design updated (also to reflect 4IR and gender equality elements) (2021 baseline: NA) (OP 1.2.3; OP 2.1; OP 6.2.1)</p> <p>Project By December 2025:</p> <p>2j. About 5 VET institutions upgraded with consideration of gender equality and equipped with industry- and 4IR-relevant equipment (2021 baseline: not applicable) (OP 2.1; OP 6.2)</p> <p>2k. At least 100 (70% women) teachers and management staff of modernized VET institutions trained in new education curricula and training programs that also meet 4IR requirements, and in career counseling (2021 baseline: NA) (OP 2.1; OP 6.1.1)</p>	<p>2a–2i. MOE’s and SAVE’s reports and websites;^e MOE’s program quarterly progress reports; Ministry of Justice’s Unified Database of Legal Acts</p> <p>2j–2k. MOE’s and SAVE’s reports; MOE’s program quarterly progress reports</p>	<p>Assumption</p> <p>Sufficient demand for VET from students and for VET graduates from employers.</p> <p>Sufficient and timely state budget funding for capital expenditures in vocational education.</p> <p>Risk</p> <p>Persistency of the parents’ view of vocational education as inferior level of education.</p> <p>Delays because of lengthy coordination in the government during procurement, and weak capacity of suppliers.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. Institutional frameworks of VET system strengthened	<p>Program By December 2024:</p> <p>3a. Framework for government-wide oversight of VET adopted and reports submitted to government (2021 baseline: NA) (OP 6.1)</p> <p>3b. Regulation of VETI accreditation revised and applied, including reflection of performance indicators relevant to the requirements of 4IR (2021 baseline: NA) (OP 6.2.1)</p> <p>Project: By December 2025</p> <p>3c. 4IR-relevant cooperation (twinning partnership) between SAVE and a peer in an ADB member country established and implementation started (2021 baseline: 0) (OP 6.2.1)</p> <p>3d. 100 staff (at least 50% women) of MOE, MOF, SAVE, and VETIs completed capacity building on performance-based per capita funding, and internal and external quality assurance (2021 baseline: NA) (OP 2.1; OP 6.1.1)</p>	<p>3a–3b. MOE's and SAVE's reports and websites; ° MOE's program quarterly progress reports; Ministry of Justice's Unified Database of Legal Acts</p> <p>3c–3d. MOE's and SAVE's reports and websites; ° program quarterly progress reports</p>	<p>Assumption</p> <p>Sustained legal framework in VET.</p> <p>Adequacy of human resources for the government-wide oversight function of VET.</p> <p>Risk</p> <p>Pace of reform slows because of institutional vested interest, weak capacity, and resistance to reforms.</p>

Key Activities with Milestones

1. Financing of VET improved

- 1.1. Conduct assessments and prepare action plans for the introduction of policy measures under output 1 (Q2–Q4 2022)
- 1.2. Conduct consultations with government and other stakeholders on the policy measures under output 1 (Q2 2022–Q1 2024)
- 1.3. Prepare and submit for approval of the relevant government authority the regulations and other acts related to the accomplishment of the policy measures under output 1 (Q2 2022–Q3 2024)

2. Quality and relevance of VET programs strengthened

- 2.1. Conduct assessments and prepare action plans for the introduction of policy measures under output 2 (Q2–Q4 2022)
- 2.2. Conduct consultations with government and other stakeholders on the policy measures under output 2 (Q2 2022–Q1 2024)
- 2.3. Prepare and submit for approval of the relevant government authority the regulations and other acts related to the accomplishment of the policy measures under output 2 (Q2 2022–Q3 2024)
- 2.4. Select the VET institutions for modernization and capacity building under the project, based on agreed selection criteria and results of labor market surveys done under the projects supported by the World Bank and the European Union (Q2 2022)
- 2.5. Define technical specifications of the equipment and the procurement strategy (Q2 2022)
- 2.6. Secure government counterpart funding for the equipment contracts (Q3 2022)
- 2.7. Define government staff and VETI personnel (50% women) to be included in the project's capacity building (Q3 2022)
- 2.8. Procure and install the equipment, and conduct training for VETI personnel on the use of equipment (Q2 2023–Q2 2025)
- 2.9. Build the capacity of government staff and VETI personnel for new education curriculum and training programs (including in 4IR), and carry out the satisfaction survey and effectiveness evaluation (Q3 2023–Q3 2025)

3. Institutional and financing frameworks of VET system strengthened

- 3.1. Conduct assessments and prepare action plans for the introduction of policy measures under output 3 (Q2–Q4 2022)
- 3.2. Conduct consultations with government and other stakeholders on the policy measures under output 3 (Q2 2022–Q1 2024)

- 3.3 Prepare and submit for approval of the relevant government authority the regulations and other acts related to the accomplishment of the policy measures under output 3 (Q2 2022–Q3 2024)
- 3.4 Define the potential twinning partner and set up a partnership framework between SAVE and its partner (Q2 2023)
- 3.5 Implement the twinning partnership by sending SAVE and VETI staff to internships and inviting twinning partner's staff to SAVE and VETIs for knowledge sharing and training delivery (Q3 2023–Q3 2025)
- 3.6 Build the capacity of government staff and VETI personnel for performance-based per capita funding, and internal and external quality assurance, and carry out the satisfaction survey and effectiveness evaluation (Q3 2023–Q3 2025)

Project Management Activities

MOF and MOE to set up the program steering committee comprising senior-level government staff to oversee the program's reform areas (Q3 2022)

With support from TRTA consultants, MOE to recruit program implementation unit staff (program manager, procurement specialist, financial management specialist, social safeguards specialist, environment safeguard specialist, education sector specialist) (Q3 2022)

With support from TRTA consultants, MOE to recruit program management implementation support consulting firm to support with policy reforms and technical aspects of the project (VET specialist and team leader, public–private partnership specialist, education quality assurance specialist, public financial management, civil engineer, VET equipment specialist, gender specialist, lawyer) (Q4 2022)

With support from TRTA consultants, MOE to advertise procurement contracts in Q3 2022 and supervise suppliers' implementation of the contracts (Q2 2025)

With support from TRTA consultants, MOE to establish a program performance management system (Q4 2022)

MOE and ADB to implement periodic action plans, update indicators, and monitor compliance with loan covenants (Q1 2023–Q2 2025)

MOE to arrange for audit of project financial statements and submit audit reports to ADB (30 June 2023)

MOE and SAVE to submit quarterly progress reports (Q1 2023–Q4 2025)

MOE and SAVE to support ADB's semiannual review missions (Q1 2023–Q4 2025)

MOF and MOE to submit program completion report to ADB (Q2 2026)

Inputs

ADB: \$120 million policy-based loan and \$30 million project loan; \$750,000 TASF-other sources

Government: \$10 million (project)

4IR = fourth industrial revolution, A = assumption, ADB = Asian Development Bank, MOE = Ministry of Education, MOF = Ministry of Finance, NA = not applicable, OP = operational priority, R = risk, SAVE = State Agency on Vocational Education, TRTA = transaction technical assistance, VET = vocational education and training, VETI = vocational education and training institution.

^a [Azerbaijan 2030: National Priorities for Socio-Economic Development](#). Approved by the Order of the President of Azerbaijan no. 2469 dated 2 February 2021.

^b The 4IR is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres. The breadth and depth of the changes associated with the 4IR, which disrupts almost every industry in every country, herald the transformation of entire systems of production, management, and governance. The 4IR builds on (i) the unlimited possibilities arising from the billions of people connected by mobile devices, with unprecedented processing power, storage capacity, and access to knowledge; and (ii) the emerging technology breakthroughs in fields such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing. Source: K. Schwab. 2016. [The Fourth Industrial Revolution: what it means, how to respond](#). Geneva: World Economic Forum.

^c Source: State Statistical Committee of Azerbaijan. 2021. [Women and Men in Azerbaijan 2021](#). Baku.

^d Definition of the employed person is as per Article 4 of the Law on Employment of the Republic of Azerbaijan.

^e Website of the Ministry of Education: <https://edu.gov.az/en>. Website of SAVE: <https://vet.edu.gov.az/en>

Contribution to Strategy 2030 Operational Priorities:

In the report and recommendation of the President, the expected values and methodological details for all operational priorities' indicators to which this operation will contribute results will be detailed in a linked document: Contribution to Strategy 2030 Operational Priorities.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=54295-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): Education (Vocational Education and Training)
3. Technical Assistance for Program Preparation
4. Project Procurement Risk Classification
5. Long List of Proposed Vocational Education and Training Institutions