



Initial Poverty and Social Analysis

Project Number: 54295-001
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Azerbaijan: Modernizing Vocational Education and Training for Economic Diversification Sector Development Program

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CURRENCY EQUIVALENTS

(as of 4 March 2022)

Currency unit	–	Azerbaijan manat
AZN 1.00	=	\$0.5897
\$1.00	=	AZN 1.6956

ABBREVIATIONS

ADB	–	Asian Development Bank
COE	–	Center of Excellence
GDP	–	gross domestic product
MOE	–	Ministry of Education
PBL	–	policy-based loan
SAVE	–	State Agency for Vocational Education
SDP	–	sector development program
VET	–	vocational education and training

NOTE

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

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Azerbaijan	Project Title:	Modernizing Vocational Education and Training for Economic Diversification Sector Development Program
Lending/Financing Modality:	Sector Development Program	Department/ Division	Central and West Asia Department Social Sector Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Azerbaijan, an oil and gas exporter, is an upper-middle-income country with high human development status. After a major oil price shock in 2014, the government adopted measures to accelerate economic diversification away from oil and gas. About 22% of Azerbaijan's population is youth (i.e., population aged between 15 and 29). Of these, about 13.1% are unemployed, and 28.0% are underemployed. Qualifications of 44% of the employed youth do not match with their job, at some level, the position in which they are employed.

To address the skills mismatch in the non-oil sectors, in December 2016 the government adopted the Strategic Roadmap for Vocational Education and Training (VET) that defines the strategic vision for the VET sector for 2020, and long-term vision for 2025, and inspirational vision post-2025 period.^a As part of the implementation of the roadmap's action plan, the government established the State Agency for Vocational Education (SAVE) under the Ministry of Education (MOE) in 2016 and adopted the country's first-ever Law on VET in 2018. In the same year, the government adopted the Law on Employment and the Employment Strategy, 2019–2030 that both have a clear link and focus on strengthening VET.

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.^b This framework focuses on socially oriented and private sector-led development, stresses the public-private partnership and promotes private investment in non-oil sector. Innovations and competitive human capital, including strengthening of VET are among five priorities outlined in the framework. To implement the national priorities, the government is preparing socioeconomic development strategy 2021–2025 which aligns VET system with the 4th Industrial Revolution (4IR) and labor market requirements and envisages improving access and quality of VET. This objective is expected to be achieved through raising the coverage of VET; application of the content that meets the requirements of the labor market and industry; integrating employers into the VET system; improving VET financing and governance; and building up professional VET cadre.

In response to the government's economic diversification agenda and to strengthen human capital, the 3rd pillar of Asian Development Bank's 2019–2023 country partnership strategy for Azerbaijan will support VET development.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The project will help reduce poverty, as the students who pursue VET tend to be from lower income levels than those who pursue higher education. Improved VET subsector performance, through private sector participation in VET and the creation of modernized VET centers of excellence, will provide trainees with skills that are more relevant to the needs of the labor market, thereby improving their productivity, earnings, and employment prospects.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Driven by hydrocarbon sector, economic growth enabled Azerbaijan to reduce the national poverty rate from 60% in 1995 to 4.8% in 2019. Because of the adverse effects of the COVID-19 pandemic and reduced oil production, in 2020 the economy contracted by 4.3% and the poverty rate rose to 6.2%.^d About 22% of the country's 10.1 million population, which grew annually by about 1% during 2010–2020, is youth (15–29 year old). In 2020, the youth unemployment rate was 11.2% (total unemployment rate was 7.2%), youth labor force participation rate was 61.1% (total rate was 74.1%). Share on young people not in employment, education, or training was 23% in 2017.^e In 2017–2025, about 125,200 people will enter the labor market every year, which is almost 2.5 times higher than the number of jobs created annually.^f Youth unemployment is higher among females than males (14.7% and 11.0%, respectively, in 2018), and young women are more likely than men to be affected by vulnerable and marginal work.

The country has also a high level of self-employment, which has risen noticeably since 2000, reaching 68.3% in 2018. Self-employment has increased across all sectors, particularly in agriculture and construction. In addition, the proportion of informality is high, mainly in agriculture and also in other sectors such as transport, manufacturing, trade and construction. Incidence of vulnerable employment is also high, at 55.2% in 2018, and is one of the highest in the European Union's Eastern Partnership countries.

Most students attending VET institutions are from low-income families, those with low grades and from rural and remote areas. The government has introduced new initiatives to increase access to VET for some vulnerable groups, such as people with disabilities and children without parents. They are admitted to VET institutions without entry competitions and can study free of charge. In end-2021 monthly stipends for VET students were changed to performance-based.

2. **Impact channels and expected systemic changes.** Though increasing from about \$16.3 million in 2018 to about \$36.3 million in 2022, government financing of VET remains insufficient. The poor image of VET inherited from the Soviet time, the poor quality and relevance of VET programs, lack of government attention to the VET sector, and the placement of the internally displaced people from Nagorno-Karabakh conflict in VET schools and dormitories have all led to low level of VET participation. The development of VET centers with modern equipment, facilities, learning content and teachers, along with the use of public-private partnerships and increased involvement of the private sector in the design and delivery of VET programs, will help transform VET's image, with the ultimate result of enabling the young people to be better employable and earn more.
3. **Focus of (and resources allocated in) the transaction technical assistance or due diligence.** The transaction technical assistance (TA) will include gender and social safeguard specialists, as well as technical specialists, who will assist in the design of all aspects of the program. MOE, that oversees VET in Azerbaijan, and SAVE that implements VET policy and administers VET institutions under MOE will provide information and work with TA specialists to design the project.
4. **Specific analysis for policy-based lending.** Not applicable

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Key issues are (i) limited participation of girls and women in the labor market and VET, because of the cultural norms and economic factors;⁹ (ii) gender segregation in VET program selection and in occupational selection (75% of VET students are males and 70% of teachers are females); and (iii) school textbooks and lack of gender sensitivity of teachers often perpetuate gender stereotypes and discriminatory ideas, thus amplifying the effects of cultural and economic barriers to VET enrollment and labor force participation.
2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making? Yes No
The program will improve girls' access to VET, through introduction of gender-responsive budgeting in VET. This may ultimately increase labor force participation for women. During the transaction TA, a gender action plan will be prepared in line with the *gender equity* categorization.
3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No
4. Indicate the intended gender mainstreaming category:
 GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design. The main stakeholders are (i) MOE, Ministry of Finance, SAVE, and other VET-involved government agencies, (ii) VET institutions' students, trainees, and teachers, (iii) employers, and (iv) private sector providers of VET. The program will also give women and those from disadvantaged and vulnerable groups more access to VET, including people with disabilities and internally displaced persons.
2. Who are the key, active, and relevant civil society organizations (CSO) in the project area? An important nongovernmental stakeholder is the Confederation of Employers of Azerbaijan, who has been an active contributor to the discussions on the national qualifications framework and occupations standards. Other important CSOs include the national chambers of commerce and industry, foreign chambers of commerce, and women business associations.
3. Are there issues during project design for which participation of the poor and vulnerable is important?
 Yes No If yes, what are these issues?
4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?
The project stakeholders listed in item 1 above and relevant CSOs will be consulted during program preparation. The transaction TA will provide for a social safeguards and gender specialist to promote the participation of the stakeholders, including the vulnerable groups and girls/women, and CSOs in the design of the program.
5. What level of CSO participation is planned during the project design?
 H Information generation and sharing H Consultation NA Collaboration NA Partnership

IV. SOCIAL SAFEGUARDS

- A. **Involuntary Resettlement Category** A B C FI

<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>The program may involve upgrades of existing VET institutions, but this will not require land acquisition. Only existing VET facilities on plots of government-owned land will be included in the program.</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>V. OTHER SOCIAL ISSUES AND RISKS</p>
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? The government will fully fund the rehabilitation civil works. Due diligence will be conducted during preparation to ensure compliance with the country's labor legislation.</p>
<p>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</p>
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks? Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence? The transaction TA will engage gender and safeguards specialists, and these issues will be examined as part of the sector assessment.</p>

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

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

^c ADB. 2019. [Country Partnership Strategy: Azerbaijan, 2019–2023—Promoting Diversified and Inclusive Growth](#). Manila.

^d Per the World Bank's projections of the poverty rate measured at \$5.5 per day. World Bank. 2020. [Poverty Projections for Armenia, Azerbaijan and Georgia due to the COVID-19 Outbreak](#). Washington, DC.

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

^f ETF. 2021. [Azerbaijan: Education, Training and Employment Developments 2020](#). ETF.

^g This includes the perception of gender roles in a society that downgrades the importance of professional employment for young women and makes them unreliable and 'second-rate' in the eyes of employers. Parents commonly play a strong, decisive role in a girl's choice of vocational or higher education. Girls are sometimes strongly encouraged by parents to select a "suitable" job, which is "appropriate for women" (e.g., "teacher") and allows women to perform a full workload of family responsibilities. ETF. 2020. [Policies for Human Capital Development: Azerbaijan. An ETF Torino Process Assessment](#). ETF.

Source: Asian Development Bank.