

VET Policy Documents

Financing – Policy Report

Private Sector Development Program Georgia

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Contents

List of abbreviations	3
1. Introduction	4
2. Research methodology and approach	5
3. Context and present status of VET in Georgia	8
3.1 Government Ministries of Georgia	8
3.2 Social Partners	11
3.3 VET Centres	12
3.4 Contributions from donor organizations	14
3.4.1 European Commission	15
3.4.2 United States Agency for International Development	15
3.4.3 United Nations Development Programme	15
3.4.4 German Technical Cooperation	16
3.4.5 Summary of findings from field visits	16
4. Developmental and incremental advancement approach	18
5. Options for a revised VET financing policy	20
5.1 Typology of basic VET financing models	20
5.2 Basic Model 1: Planned, input-based financing of VET Centres	22
5.3 Basic Model 2: Performance-based financing of VET Centres	23
5.4 Basic Model 3: Purpose-specific purchasing from VET Centres	24
5.5 Basic Model 4: Demand-driven, input-based financing through learners	26
5.6 Comparative discussion of VET financing models	26
5.7 Summary of VET financing models	27
6. Recommendations for the Georgian VET financing policy	28
6.1 The international context	28
6.2 The emerging Georgian financing paradigm	28
7. Fundamental parameters to pilot voucher schemes	32
7.1 Systemic preconditions for setting up of voucher schemes	32
7.2 Operational framework for voucher schemes	33
7.3 Potential implementation problems associated with voucher schemes	37
7.4 Operational planning of pilot voucher schemes	39
7.5 International best practices in voucher schemes	40
8. Vision for a long-term learner-based and market-orientated VET financing system	42
8.1 Options for future VET financing systems development	42
8.1.1 Increasing internal efficiency and cost-effectiveness within the VET system	43
8.1.2 Expansion of workplace-based training components	44
8.1.3 Increasing the share of the private VET training market	44
8.1.4 Increasing income generating activities	46
8.1.5 Direct contributions of enterprises	47
8.1.6 Cost-sharing with learners	49
8.2 Towards a future learner-based and market-orientated VET financing vision	49
8.2.1 Elements of the future vision of VET financing	50
9. Implementation schedule for piloting a learner-based and market-orientated VET financing model	52
10. Risks	54
References	56

List of Abbreviations

AEAG	Adult Education Association of Georgia
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CHIETA	Chemical Industry Education and Training Authority of South Africa
EC	European Commission
ENPI AAP	European Neighborhood and Partnership Instrument Annual Action Plan
ESDS	Employment and Skills Development Services
GEA	Georgian Employers' Association
GEL	Georgian Lari
GTUC	Georgian Trade Unions Confederation
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
IDP	Internally Displaced Person
IGA	Income Generating Activity
ILO	International Labour Organization
MERSETA	Manufacturing, Engineering and Services Education & Training Authority
MoED	Ministry of Economic Development of Georgia
MoES	Ministry of Education and Science of Georgia
MoF	Ministry of Finance of Georgia
NPA	National Professional Agency of Georgia
PPP	Public-Private-Partnership
PSDP	Private Sector Development Program
SDC	Swiss Development Cooperation
SME	Small and Medium size Enterprise
SPSP	Sector Policy Support Program
TESDA	Technical Education and Skills Development Authority of Philippines
UNDP	United Nations Development Program
USAID	United State Agency for International Development
VET	Vocational Education and Training
VTC	Vocational Training Centre

1. Introduction

Vocational Education and Training (VET) in Georgia is increasingly important in the drive to enhance productivity and stimulate economic competitiveness. Generally speaking, the traditional source of financing VET in Georgia – mainly government budget – is constrained by economic decline, structural adjustment, and other competing development priorities. New sources of financing VET are needed to diversify and solidify the base of support for VET. In addition, financing mechanisms themselves can be used to influence the effectiveness and efficiency of the VET system. Functional structures and market-orientated VET programs in Georgia’s VET system have been identified as an important contributor to the country’s economic development. Georgia’s economy faces an increasing lack of qualified workforce both in blue- and white-collar professions, occupations and trades, resulting from a decline in institutionalized vocational education and training since the early 1990ties. This decline has led continuously to a decrease of the VET system’s reputation, particularly among the two mayor stakeholders: employers at one side and potential learner at the other. Consequently, the implementation of a demand-driven and efficient VET system providing sound and useful VET programs seems to be urgent in both economic and socio-demographic dimensions (GTZ-PSDP / PLANCO, 2010).

In this regard, GTZ’s Private Sector Development Program Georgia envisages a rather systemic approach in order to facilitate development processes among stakeholders relevant to Georgia’s VET system. That systemic approach contains interventions at the macroeconomic layer of the current VET policy implementation level. Firstly, recommendations for policy adaptations in order to facilitate a greater market conformity within the Georgian VET system. Secondly, costing structures incurred by the current VET system shall be analyzed and thirdly, budgetary processes shall be analyzed to optimize the budget allocation of public finances towards the VET system. Against this background, the **aim of this policy research study report** is to develop a common approach to VET financing in Georgia, which should promote the introduction of a learner-based and market-orientated VET financing policy.

The VET landscape in Georgia has witnessed remarkable changes since 2004 as part of the overall education reform. Guided by the VET Development Strategy 2009 – 2012, a new reform phase has been kick-started that aims at improving quality and relevance of VET, addressing new, previously neglected target groups, and building effective institutions for governance, quality assurance and support of VET centres. The purpose of the VET system reform is to develop a coherent and comprehensive VET system that allows Georgia to train the middle level workforce it needs to boost the country’s economic growth and competitiveness in global markets. There are general consents that VET financing mechanisms play a fundamental role in achieving five overarching policy objectives (Ziderman, 2002) for VET system development worldwide and particularly in Georgia too:

Effectiveness	Offering meaningful quality VET programs that enhance the employability and work readiness of Georgian people
Efficiency	Maximizing the production of VET programs in Georgia
Competition	Favoring a market-driven VET program approach for Georgia
Flexibility	Changing the scope and direction of VET programs in Georgia, if necessary
Responsiveness	Designing VET programs that meet the changing demands of the Georgian labour market and needs of the economy

One major challenge of the VET reform in Georgia is to develop sustainable mechanisms to guarantee a stable financing of the VET system and its gradual expansion in line with Georgia’s development

needs. Financing is a powerful tool to shape the social and economic impact of the VET system: the way Georgia chooses to finance its VET system has a significant impact on its quality, efficiency and relevance. This will influence the potential of the VET system to foster fair social and economic development. The Georgian VET Development Strategy 2009 – 2012 has suggested that the financing challenge would be addressed by an overall combination of cost saving mechanisms, generation of external resources and diversification of financing resources for public VET programs. The ongoing globalisation and the recent worldwide financial crises have also affected Georgia. It changes the labour market and the related VET requirements deeply. The importance of **knowledge, skills and competence** as a key contributing factor to economic growth in Georgia is increasingly being recognized. Broad based financing of VET is crucial to expand access and participation to VET on a lifelong learning basis in Georgia. For Georgia, the concept of lifelong learning means creating a workforce with adaptable competencies that is in line with the ever changing demands of the labour market, as a critical factor in contributing towards the goal of full employment.

The Ministry of Education and Science (MoES) of Georgia is seeking for support in implementing a **VET Financing Policy Study Project**. The Private Sector Development Program Georgia of German Technical Cooperation (GTZ) approached Mr. Werner Heitmann, Senior Consultant at Employment and Skills Development Services (ESDS), Consulting and Coaching to provide the requested consultancy services to the MoES. In preparation for this study, three short field studies were conducted in Georgia between February and May 2010. The findings of these visits, and lessons learnt, are reported at relevant points throughout the study report. The study report proceeds logically from a context-driven inventory (chapter 3) of the present status of the Georgian VET financing system to a first assessment, on how the VET financing policy implementation process (chapter 4) should be advanced. Chapter 5, mapping out four basic VET financing models, provides a bridge between the inventory and conceptual chapters. Chapters 6 is focussing on recommendations for a new VET financing policy, chapter 7 analyses the issues around the piloting of a learner-based and market-orientated VET financing system and chapter 8 the development of a long-term vision for VET financing policy in Georgia. Finally, chapter 9 and 10, respectively, outlining the implementation schedule and the risks, the implementation process is may be confronted with.

2. Research methodology and approach

The crucial issue of financing VET systems is first of all clarifying the various functions of the VET system. The choice of VET financing mechanisms has leverage on the achievement of national development objectives (**Effectiveness**), on outputs per VET unit costs¹ (**Efficiency**) to which learners from different background have access to good quality VET programs (**Equity**). Typically, a VET system comprises different training types which do not necessarily follow the same logic, because they are designed to address the needs of different target groups. In general there can be the following four VET training types identified:

- *Initial or pre-employment training for school leavers which seek first employment;*
- *Continuous training for already employed persons to enhance productivity at the workplace;*
- *Re-training for retrenched persons who seek new employment;*
- *Training for specific target groups such as IDP's, socially vulnerable persons, etc.;*

¹ At present, the MoEs and GTZ / PLANCO are jointly conducting a research study into the costing of 28 occupations across 15 different VET centers in order to analyze the share of direct and indirect costs per learner and occupation. The study presents ideal-typical costs for the occupation assessed and can thus at a later stage be used as a calculation base for future VET budgeting.

VET always has a multi-purpose to support a number of different end-beneficiaries: the individual learners, the enterprises and employers and the government. Thus, **financing of VET is invariably to be considered within the learner, enterprise/employer and government interest triangle.** For instance, trainees paying training fees, employers paying a VET levy or sponsor training and government financing may be complemented and/or substituted partly through civil society funds, development cooperation projects or self-financing mechanisms within the VET provider community. Each stakeholder in the triangle contributes according to his own vested interest.

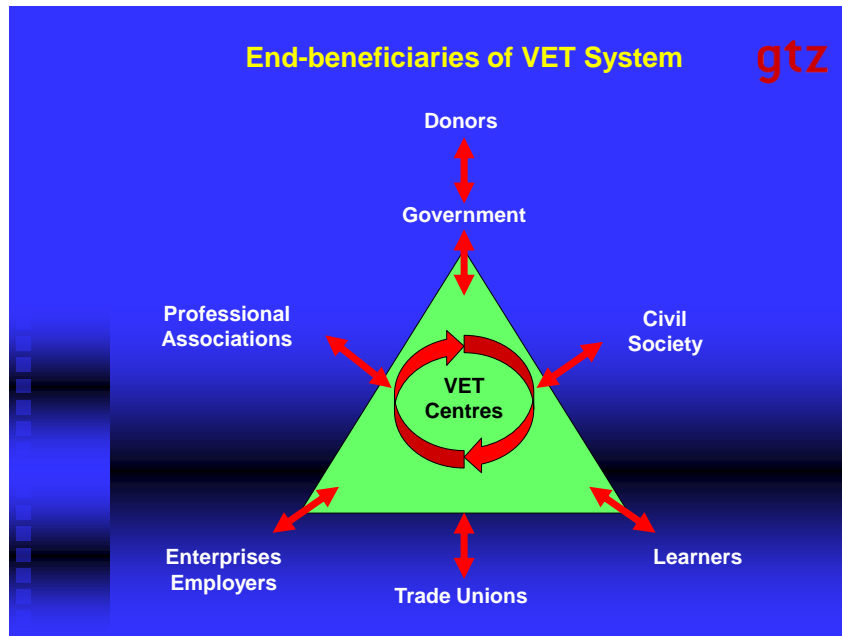


Figure 1: End-beneficiaries in VET system

VET can be financed unilaterally, e.g. exclusively by one stakeholder, be it the government, the enterprises / employers, or the learners themselves. But nowadays, as opposed to unilaterally financing schemes, **VET financing is usually considered from a cost-sharing and co-financing perspective based on strong stakeholder involvement.** There are many different VET financing mechanisms in use worldwide and the outcome in terms of the three E's (effectiveness, efficiency and equity) for VET financing depends on how these four financing components are interlinked and fine-tuned. Each country has to select their own combination of financing mechanisms based on a preferred partnership approach between stakeholders, sometimes on a legal basis or more seldom on individual voluntary agreements.

The level of development and the size of and strength of the private sector determine the respective role of the government and non-government sectors in VET and to what extent a demand-driven approach can be introduced. In low-income countries with a weak private sector, for example, the governments needs to play a strong role in financing and delivering VET programs, until such time as the private sector is in a position to absorb a larger share of the task. **In middle income-countries such as Georgia² with a large industrial sector and widespread basic education, on the other hand, the private sector can assume a more active role.** In rapidly growing economies with a strong private sector, the tendency is to leave the delivery of VET programs largely to the private sector so that business and industry are able to assume and discharge most of the VET training functions. The assumption that the private sector has to assume a more active role in the development of the Georgian VET system led to the conclusion that it is crucial for the VET policy research study to include private sector representatives being interviewed to clarify their current opinions and expectations regarding the future Georgian VET financing policy.

² The World Bank is classifying Georgia as a lower-middle-income country (World Bank, 2010)

Interviews with stakeholders including private sector representatives were conducted in a semi-structured way with a fairly open thematic framework as mentioned above, which allow for focused, conversational, two-way communication. The interviews have been used both to give and receive information. Unlike a narrow questionnaire framework, where detailed questions are formulated ahead of time, semi structured interviews started with the following general questions or topics.

- *What kind of VET training should be financed?*
- *Who should pay for VET training?*
- *How should VET finances be generated?*
- *How should VET finances be spent?*

Relevant topics are initially identified and the possible relationship between these topics and the policy issues such as effectiveness, efficiency, competition, flexibility and responsiveness became the basis for more specific questions which do not need to be prepared in advance. Not all questions have been designed and phrased ahead of time. The majority of questions were created during the interviews, allowing both the interviewer and the person being interviewed the flexibility to probe for details or discuss issues. During the three field visits to Georgia, the stakeholder representatives from the following constituencies have been involved to discuss the future Georgian VET financing policy:

Date	Stakeholder Constituency	Topics
21.02 – 27.02.10	Ministry of Education and Science (MoES) Ministry of Finance (MoF) Ministry of Economic Development (MoED) Georgian Employer’s Association (GEA) Georgian Trade Unions Confederation (GUTC) VET Centers (Ikarus, Spectri & IT) Donor Organizations (EU, GTZ)	Fact finding mission: Semi-structured interviews in order to find out what will be the opinions, expectations, functions and roles of stakeholders regarding a future Georgian VET financing model 2nd VET Financing Policy Workshop: Presentation and discussion of first findings from the stakeholder interviews
04.05. – 08.05.10	Ministry of Education and Science (MoES) Ministry of Economic Development (MoED) Georgian Employer’s Association (GEA) Adult Education Association of Georgia (AEAG) VET Centers (Spectri & IT) Donor Organizations (EU, GTZ, USAID)	3rd VET Financing Policy Workshop: Presentation and discussion of major conclusions to major stakeholders of the Georgian VET system
16.05. – 19.05.10	Ministry of Education and Science (MoES)	Presentation to the MoES: Presentation and discussion of draft VET financing policy recommendations to representatives of the Ministry of Education and Science

3. Context and Present Status of VET in Georgia

In Georgia, it is the government, rather than the direct end-beneficiaries such as learners and enterprises / employers, that bears the major burden in the financing of the VET system, particularly in initial or pre-employment training. Thus, reaching out to new sources of VET finances would usually entail lightening the government's finance burden. Indeed, this is often the motivation for diversifying sources of finance through cost shifting to other actors. Discussion of the appropriate role and level of government intervention in the VET financing system is frequently confounded by the double role assumed by government. It acts both as provider of training and financier of VET programs. The clearest example is government's provision of initial or pre-employment training at public VET centres managed by the Ministry of Education and Science (MoES). But these dual functions are not inextricably linked. The government could finance similar training at private VET centres, or could charge full-cost fees for the VET programs it provides. The following chapters are examining the positions and opinions expressed by the different stakeholders in order to come to first conclusions for a future VET financing policy in Georgia.

3.1 Government Ministries of Georgia

Georgia decided in 2004 to overhaul the entire education system. New legislations have been adopted for the different educational sub-systems and particularly the VET system got a new legal basis with the Georgian Law on Professional Education in March 2007. Subsequently VET provision was rapidly restructured, and the previous double system of non-tertiary VET inherited from the Soviet system has been replaced first of all. VET is now organised in two different pathways, with one vocational education scheme and another professional higher education scheme. The vocational education may be obtained after completion of the basic secondary education level, whereas the professional higher education may be obtained after completion of the entire course of the general secondary education. The professional higher education is regulated by the Georgian Law on Higher Education³.

Furthermore, the new Georgian Law on Professional Education envisages the establishment of a sustainable stakeholder-system with strong linkages to the labour market and employers, the development and enactment of vocational education standards and standard vocational educational programs⁴, and finally the effective provision of modernized VET programs. However, during the VET reform process two central issues emerged that still need to be tackled:

- *Clarification of the linkages between the two VET tracks as well as between general and higher education, in order to avoid "dead-end" traps for VET graduates,*
- *Interaction with an employment policy, which at present is non-existing due to total economic liberation.*

Up to the end of 2008 the MoES worked on capacity-strengthening and the functioning of the National Professional Agency (NPA)⁵ as a result borne by the new Law on Professional Education, but by October 2008 the government decided to dissolve the NPA and to establish a small dedicated vocational education development division⁶ within the MoES instead. This decision has had legal implications, as it does not adhere to the Georgian Law on Professional Education.

³ The professional higher education scheme is financed out of the higher education budget of the MoES and managed by the Universities and therefore won't be considered as part of the GTZ-supported VET Financing Policy research study.

⁴ Professional education is regulated under chapter V – articles 26 – 29 of the Georgian Law on Professional Education.

⁵ The establishment of the National Professional Agency is regulated under articles 19 of the Georgian Law on Professional Education.

⁶ The Vocational Education Development Division was in the beginning on the level of a department and has been downgraded to a division early 2010.

Currently there is a VET Development Strategy 2009 - 2012 waiting for implementation.⁷ This VET strategy gives renewed emphasis to improved infrastructure and equipment for the VET centres noting that, despite significant budgetary-funded expenditure, most VET centres were deficient in this respect. Eleven VET centres out of 38 VET centres have been rehabilitated so far. But unfortunately, the MoES medium-term expenditure framework for 2009 - 2012 shows a declining trend in public spending on VET. The government expects further investment in the rehabilitation and modernization of VET infrastructure to be provided by private investors. In March 2008, a public-private partnership program was announced by the Ministry of Economic Development (MoED) in cooperation with the Ministry of Education and Science (MoES) to privatise public VET centres on the legal basis of a decree. The selection process is still ongoing and has not been finalised yet. During an interview with the Deputy Head of Economic Policy Department at the MoED it was confirmed that the government is still considering of implementing the public-partnership program. However, significant uncertainty hangs over the prospects of recently rehabilitated VET centres, the scale and form of public financing of VET provision and the possibilities of public-private partnerships that have not yet been sufficiently explored. The decision to privatise VET centres was accompanied by a cut in annual government budget allocation for capital expenditure in VET, which was reduced to nothing in 2008 and the following three years. This government measure implies severe disruption of the government process to upgrade VET infrastructure, despite growing need for increased and improved VET programs.

During an interview with the Deputy Head of the Budget Department at the Ministry of Finance it was confirmed that the overall government allocation to the VET system has been earmarked for around GEL 9.8 million for the school year 2009/2010. From 2006 – 2008, GEL 11, 4 million was spent on rehabilitating the infrastructure of the VET system and 10 VET centres received the bulk of the rehabilitation budget. Since that time, significantly more finances have been given to the ten rehabilitated VET centres than to the remaining ones. Nevertheless, the government is still the absolute main source for financing the Georgian VET system. For instance, during the **school year of 2007/08 a total of 94, 09% of the overall VET budget has been allocated by the government to the VET centres.** The share of employers (0.81%) and learners (0.56%) to finance the VET system are very small. Additional funds are coming in from various donors (3.71%). In essence, the current financing formula for the VET system can be regarded as a traditional supply-driven government budget-dominated and input-orientated financing mechanism, accompanied by a number of disadvantages.

⁷ The MoES informed the 3rd VET financing forum on 7th May 2010 that a 'new VET' development strategy is under preparation. Publication is expected for summer 2010.

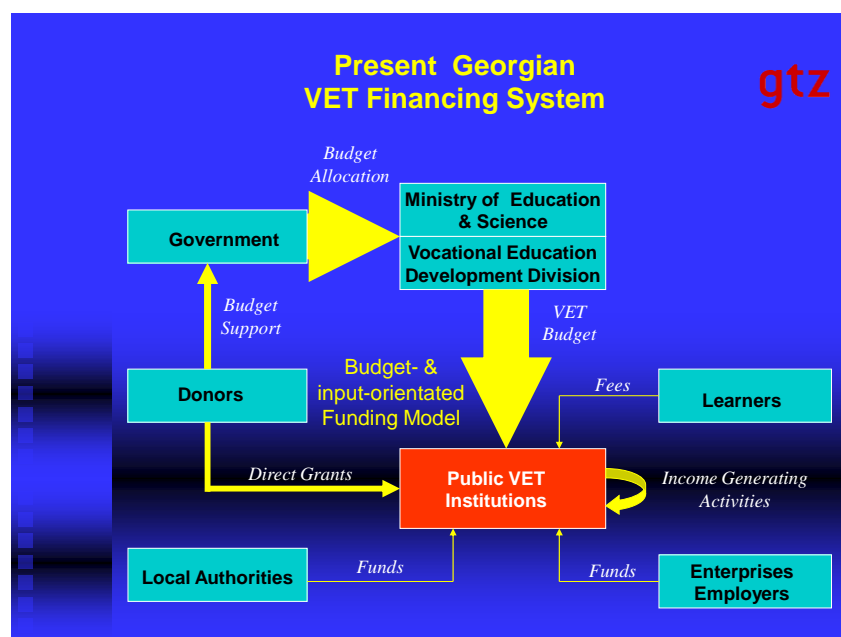


Figure 2: Present Georgian VET financing system

In the Georgian budget- and input-orientated VET financing system, the amount that the government contributes to the VET centres is calculated on the basis of **lined budget items** such as teacher and instructor salary, teaching and training material, administrative and overhead costs and capital costs for facilities and equipment. However, it does not depend on the training services effectively rendered, such as the number of learners successfully trained or placed in employment. The advantages of such an input-orientated system are that it gives financial stability to the VET centres. As government contributions are known beforehand and relatively independent of training demands, one can say that there is no direct correlation between government budget and expected impacts of workplaces within enterprises. The VET centres can easily budget for training programs that need expensive equipment or take a long time to develop.

The disadvantage is the absence of built-in incentives for internal efficiency and external effectiveness due to failing to meet the training demands of workplaces within enterprises. Furthermore, employees within government administrations are not rewarded for achieving savings, but rather recognised by the power and size of the budget they manage. Therefore, they have every incentive to allocate the total budget at their disposal without attaching importance to results and impacts. This may lead to over-equipped workshops and laboratories as well as other unnecessary expenses. As there is no built-in control over the results and impacts achieved from VET programs provided, even a VET program that is of poor quality and/or no longer in demand by the workplaces within the enterprises may remain offered.

Finally, the analysis above underlines governments VET budget policy since 2008. The current government withdrawal from further investment in VET infrastructure is partly justified by their expectations that the private sector will take over and generate necessary and appropriate investments. However, the decision to privatise VET services and possibly limiting the role of government on policy, facilitation and quality assurance may raise questions on the wider issue of VET systems development and the government’s role in governance and financing. Nevertheless, it seems that the government is willing to **kick-start the change of the financing paradigm from a poorly input-orientated financing towards a more market-orientated and learner-based**

approach that would allow the government to finance a student per capita versus financing an education institution. Such an approach could be **voucher-based**⁸.

To this end, the voucher disbursement mechanism has already been introduced to general as well as to higher education during the past years and there is a political will to have similar financing schemes in all education sub-systems. However, the voucher disbursement mechanism has not been introduced to the VET system so far. It seems that the MoES is not sure whether the voucher disbursement mechanism to finance the VET system would be the right one for Georgia. Therefore, the MoES expects more clarity on the voucher issue from the GTZ-funded VET financing policy research study. In-depth-analyses of chapter VIII – financing and property of the Georgian Law on Professional Education reveals that there is currently no policy and conceptual framework legally in place to generate finances for the VET system from the private sector. It seems that the prevailing liberal economic policy of the Georgian government is not in favour of private sector financing contributions to the VET system.

3.2 Social Partners

The benefits that employers and enterprises reap from a better-trained workforce come in the form of higher productivity, better product or service delivery and leads subsequently to higher profits. Such profits can be either short-term or long-term, and employers can view expenses for training as a cost factor, or as an investment. Many traditional artisan apprenticeships such as the German Dual System are a good example of short-term benefits for employers. Enterprises pay the training allowances of apprentice's and for their in-house instruction, but receive value from the apprentice's productive work compared with the training costs⁹. Another typical example for short-term investment in VET-training is enterprise-specific and tailor-made training mostly done as short-term training interventions.

The long-term benefits and profits of employers and enterprises are based on the availability of a well-trained workforce¹⁰. In-house training reduces the costs and risks associated with recruitment of staff from outside. This may explain why huge enterprises train apprentices even if apprenticeship training in the short run is more costly than the value of the learner's productive work. In contrast, smaller enterprises typically cannot afford long-term human resource development planning. Thus, their willingness to pay for VET programs depends largely on what they can expect as the potential short-term-benefit of training. Only bigger enterprises or sector groups of enterprises can perceive training as an investment with long-term benefits.

However, as a worldwide general trend, the motivation of employers and enterprises to participate in workplace-based VET programs and apprenticeship schemes is increasingly difficult to achieve due to uncertainty around the effects of globalisation and the current financial crises. This seems to be also true for Georgian employers and enterprises. During an interview with the Executive Director of the Georgian Employers' Association (GEA) it became quite clear that **pre-employment, initial, and institution-based VET is still considered to be a government responsibility, while financing of enterprise-specific continuing training linked to short-term profit objectives should be the responsibility of employers and enterprises**. In the above context it has become obvious from an employer point of view that the Georgian government still has the responsibility to promote and finance the VET system and this includes creating incentives for employers and for individuals to

⁸ Chapter VIII – article 35 of the Georgian Law on Professional Education authorized state bodies such as the Ministry of Education and Science to finance VET centers by a voucher scheme according to regulations determined by the Georgian government. However, a regulation on voucher schemes has not been developed yet.

⁹ In Germany, it is estimated that average gross costs per apprentice and year (gross costs are the costs actually incurred by the enterprise during the training process) amount to 16.435 €, returns to 7.730 €, hence resulting in average net costs of 8.705 € when calculated by full costing (10.178 € gross and 2.488 € net with direct costing) according to Folkmar Kath, (2007), former Head of the Costs and Financing Department of the German Federal Institute for Vocational Training (BIBB).

¹⁰ Here it is interesting to note that GTZ-PSDP Georgia is currently preparing a research study into the costs and benefits of VET for the private sector. First results are expected during the course of the second half of 2010.

invest more in VET. But given the fact, that government budgets are limited, there is no doubt that employers and individual learners have to contribute increasingly to fund the costs of VET.

The concept of establishing partnerships between government and the world of work illustrates this approach and is considered as a central part of the Georgian VET Development Strategy 2009 – 2012. One of the most important spaces for social partnership is the development of vocational educational (occupational) standards and curricula development that will ensure the link between labour market demands and VET programs at every stage: from developing vocational educational standards to recognizing vocational education qualifications. For instance, the Georgian Employers' Association (GEA is an ILO associate in Georgia) is currently involved in providing support for small and medium sized enterprises, including support for start-ups. Provision of business services as well as offering consultancy and training, including provision of VET services are additional activities. Recently, GEA has been involved in the UNDP-funded project "Support to the modernization of the Vocational Education and Training System" to develop vocational educational standards and curriculum for 26 trades and occupations and wants to be involved in future activities in order to improve the VET provision. GEA has participated in the first meeting of the National VET Council, but mentioned during an interview with the Executive Director of **GEA the fact, that government needs a clear strategy on how to develop social partnership.** Another serious issue relates to the functioning of the stakeholder-driven National VET Council on how the institutional interface for social partner involvement in VET policy should be organized. It seems that there is no conceptual framework under discussion within the various government structures on how to build a strong stakeholder-driven VET system. This critical issue has been confirmed during an interview with the Vice-President of the Georgian Trade Unions Confederation (GTUC).

3.3 VET Centres

Starting at earliest from the basis of obligatory schooling at 9th grade, VET centres provide training programs with a vocational education scheme and another professional higher education scheme to different target groups. The length of the various VET programs depends on the targeted qualification level and/or difficulty of the trade, occupation or profession. During interviews with Directors of Vocational Education and Training (VET) centres in Tbilisi it has been mentioned that the new VET programs established under the Georgian Law on Professional Education contains the threat of dead-end pathways in vocational education (so-called initial VET) for entrants which have not completed secondary education. According to Directors of VET centres, vocational education programs are currently proving attractive to young adults with higher education degrees but poor employment prospects, and secondary school graduates – many of them are barred from higher education where potential demand outstrips university capacity.

The initial VET programs on the secondary level are carried out at 38 VET centres countrywide. These VET centres are operating mainly on the principle of initial pre-employment and continuous VET programs. Apart from the centre-based training part, there is sometimes a six-week workplace-based internship which will be provided by enterprises. This seems to be an **excellent starting point for going into a closer relationship between VET centres and enterprises** in order to enhance the employability of VET graduates. VET programs at the advanced (higher) level are based on completed secondary education and provided by four VET centres structurally tied to relevant university facilities. The regional VET centre at the Gori University is a good example of this new development. These institutions are teaching advanced VET programs aimed at certifying specialists.

The backbone of the Georgian VET system consists mainly of the 38 VTC's. Eleven of them have been partially rehabilitated in recent years under the Professional Education Rehabilitation Programme with infrastructure being now partly in good condition. GEL 11, 4 million has been spent to this end. The remaining 27 VET institutions haven't been rehabilitated yet and show major deficits in terms of infrastructure, teaching staff, training material, etc. Observations at various VET centres during the GTZ-funded costing study report in some cases an extreme rate of absence of learners. As a consequence, public finances basically intended to provide young people with meaningful and

relevant vocational education tend to be spent without achieving the intended target efficiently (PLANCO, 2010). No wonder that the major part of the annual VET budget provided by the MoES goes to the 11 modernized VET centres, enrolling roughly 70% of all VET learners.

In terms of the financing model in existence so far, the VET centres are calculating the overall costs needed to provide VET programs. Subsequently they submit their financial needs in the form of a lump sum to the MoES, where all submitted budgets are scrutinized and often reduced to the budget amount, which is available from the overall government budget provided by the Ministry of Finance. As the government has to decide on the allocation of scarce public funds, so also the **employers and learners as relevant end-beneficiaries of the VET system should contribute finances in one way or another to VET programs**. With the reduced budget allocation at hand, VET centres are normally cut consumables such as teaching material and other expenses in favour of having sufficient finances available for fix costs such as staff salaries.

Chapter VIII (Article 35) of the Georgian Law on Professional Education explicitly encourages public VET centres to increase efforts to generate income apart from tuition fees. To some extent, income generating activities were always practiced in Georgian VET centres. However, public financial management rules were not encouraging until recently. VET centres were not allowed to open own accounts, and all generated income had to be transferred to the national budget. In this regard, the Georgian Law on Professional Education constitutes a substantial improvement in the regulatory environment. The Act grants financial autonomy to institutions and stipulates that every public VET institution shall have the right to utilize the income it generates and to utilize any residue of any such income beyond any budget year. Revenues and expenses of the VET centres should be reflected in its budget; it is allowed to have an independent bank account and the seal. There are no cuts in budgetary allocations when VET centres are successful in generating income.

As a result of this liberalization, VET centres appear to be more pro-active in pursuing income generating activities as compared to some years back. Interviews with director's of VET centres in the Tbilisi region indicated that by and large increased IGA efforts have contributed to stabilizing the financial situation of VET centres and hence easing operations. In this regard, the directors highlighted the supportive role of the Board of Supervisors at each VET centre. These boards comprise representatives of local business, local governance bodies, social organizations, VET-teachers as well as learners parents. Actual IGA's are manifold and depend substantially on the social and economic environment of the VET centres. For instance, IGA's in three of the modernized VET centres in Tbilisi included

- *Evening classes*
- *Continuous training courses for companies*
- *Tailor-made training courses funded by donor organizations*
- *Manufacturing and sales of goods and services*
- *Renting out of VET centres facilities (rooms, equipment, meeting halls, etc)*

Training activities, especially continuous training courses for enterprises, appear to be the most important source of income both in terms of turnover and reliability. Occasionally, income from production work contributes significantly to the overall income. However, proceeds are often less predictable and income varies substantially from year to year. There is no major indication so far that IGA's managed by VET centres have run into conflict with the interest of the business community. From the small sample of VET centres that were visited during the field visits for this research study it can be assumed that the currently generated income hardly exceeds 25% of the overall centres budget. In general, income in rural VET centres might be lower and more unreliable than in VET centres located in the urban areas such as Tbilisi, mainly because the range of potential customers is

smaller. Nevertheless, rural VET centres might be able to develop potential IGA's within the agro-food sector. Overall, the situation in VET centres with respect to IGA's can be characterized as follows:

- *Generated income from additional activities is currently rather small and unstable. As such it does not significantly contribute to the recurrent cost of training. However, it helps to overcome cash flow problems and enables VET centres to undertake smaller investments for which no budget was allocated.*
- *The IGA potential is significantly lower and less reliable in rural VET centres as a result of general market constraints. However, there is a limited IGA potential within the agro-food sector such as production and processing of legumes and meat.*
- *The use of income has to be approved by the external board of supervisors at each VET centre – often after pre-approval by the relevant VET authorities. This approval procedure appears to work more or less smoothly in VET centres visited.*
- *External board of supervisors at each VET centre, supposed to guide and supervise IGA's, are not fully functional in some cases.*
- *Overall, VET centres management lack marketing and business management skills to creatively identify market opportunities and in particular to engage in profit making activities. Generally, costing and profitability analysis skills are underdeveloped.*
- *Some VET centres complain about a lack of guidelines about how to use the income and how to distribute income from production between the VET centres and workers.*

It can be assumed that the proportion of recurrent expenses that can be covered by IGA's may vary considerably from VET centre to VET centre, but while there are some exceptions to the contrary such as may be the three visited VET centres at Tbilisi, the scope for cost recovery seems to be limited, usually accounting for only a few percentage of recurrent expenditure. That also means that awareness of calculation of proper costs of VET training is a fundamental part of a sound financial management within the VET system. In this regard, the development of a suitable calculation model as focal point of the GTZ-funded costing study in order to analyse the share of direct and indirect costs per learner and occupation offers an excellent opportunity to build that kind of capacity within VET centres (GTZ-PSDP / PLANCO).

3.4 Contributions from Donor Organizations

The Georgian VET system has been supported by a number of international donor and/or implementing organizations, most notably the European Commission (EC), the United Nation Development Programme (UNDP), the United States Agency for International Development (USAID), the German Technical Cooperation (GTZ) and some other development partners such as the Government of Estonia, the Czech Government and the Norwegian Refugee Council (NRC) since a couple of years. Donor support to the VET system constitutes an important financing element and is provided in different forms, ranging from non-financial technical assistance via project grants up to direct budget support. According to the GTZ-funded Vocational Education - Labour Market Mismatch Study (GTZ-PSDP, 2010), Directors of VET centres have participated in training and study tours abroad. Faculty and administrative staff have received training in teaching methodologies, career counselling, job placement and outreach to the private sector. Some VET centres have received textbooks or other form of current literature in support of their training courses. Modern equipment, tools, and technical infrastructure have been put in place in several VET centres. As a result, the VET centres have moved at a steady but uneven pace toward modernisation, as some VET centres have benefited more than others from internationally financed capacity building projects.

3.4.1 European Commission

The European Commission supports Georgia in the field of vocational education and training with a substantial € 19 million (€ 17 million of direct budget support and € 2 million of technical assistance) sector budget support program (PSP) under the European Neighbourhood and Partnership Instrument Annual Action Program (ENPI AAP). The disbursement of the first tranche of the VET budget support (€ 6 million) took place in February 2010 after the Georgian government provided evidence that general and specific conditions are met. Sector budget support is a new way of delivering aid to the Georgian government. Each year the EC assesses the progress achieved in compliance with set conditions and releases the amount that corresponds to the level of fulfilment of sector reform conditions. Conditions of the EU-SPSP programme are related to a whole range of issues relevant to vocational education and training.

During an interview with the SPSP Project Manager at the European Delegation to Georgia it was mentioned that the VET reform has been subjected to substantial policy changes recently. This **reflects the need for serious open stakeholder debate on VET system development, including the role and interactions of private and public players and consistency of public VET financing.** The apparent expectation that a significant share of VET provision can be swiftly handed over to the private sector requires more in-depth analysis. Georgia as a whole is currently undergoing a period of change and even unpredictable options, which directly affect the consistency and stability of VET centres. Experience and open stakeholder and user consultation can be put to better use during this time of uncertainty. The current dialogue of EC officials with VET sector authorities repeatedly highlights the need for greater analysis and wider consultation.

3.4.2 United States Agency for International Development

The USAID implements a Vocational Education and Training Program in Georgia. The intervention is geared towards educating internally displaced and unemployed people new skills that are in demand from local businesses and industries. The VET program is focused on improving vocational education and training in construction and tourism, by building direct partnerships between VET centres and employers to help ensure the country's ability to meet workforce needs. The program provides short-term, intensive training to Georgian workers to fill job opportunities created by post-conflict reconstruction projects as well as secondary support industries through rapid, intensive training courses that directly meet the needs of employers. Over 40 construction firms have requested that USAID help VET centres to set up intensive, practical courses in construction trades that train graduates to work according to International Building Code Standards. Training courses have been established in VET centres located in Tbilisi, Khidistavi (near Gori), Kutaissi and Kobuleti.

In October 2009 USAID initiated the Nursing Vocational Education Project. The immediate goal of this project is to improve the competencies of nurses currently practicing in Georgia through an intensive training program. An important segment will be teaching leadership and management skills to key nursing staff, and demonstrating how to provide continuous in-service education in their respective hospitals. A long-term goal is to establish a degree-granting school of nursing in cooperation with the Government of Georgia that will help to improve the nursing profession in Georgia. Another interesting USAID supported project is the Bank Training Centre, which had been opened recently by the Association of Banks of Georgia¹¹.

3.4.3 United Nations Development Programme

The UNDP in cooperation with Swiss Development Cooperation (SDC) and European Commission (EC) has supported the modernization of the Georgian VET system since 2006 with a number of projects. The overall objective of the UNDP assistance was to develop a standards-based qualifications and training system that responds to labour market needs and provides a trained

¹¹ According to Black Sea Press; Primary News; 12 December 2007; the Prime-Minister Lado Gurgendzse cited the Bank Training Centre which had been opened with support from USAID and the Association of Banks of Georgia.

workforce to meet skills requirements in the economy. Vocational educational standards and teaching elements have been developed with the assistance from UNDP for more than 30 trades and occupations in the fields of construction, agriculture and the processing industry. The UNDP initiative also envisaged piloting of provision of agricultural extension services through VET centres. The specific objectives were to enable delivery of VET programs in selected subjects and in defined VET centres in a way that learner's skills in these areas could be built so that they can get a job and/or make professional progress. These UNDP initiatives target primarily six VET centres – the VET centres in Ambrolauri, Akhaltsikhe, Kachreti, Kutaisi, Telavi and the VET centre at the Gori University in the conflict affected region of Shida Kartli.

Supporting VET centres in reaching financial sustainability has been one of the objectives of the UNDP coordinated support during 2007-2010. The development of business plans for two VET centres has been seen as a means for contributing to this objective. During the development of business plans, various options have been reviewed with respect to cost benefit analysis have shown that the VET centres cannot become fully financially sustainable without having a sound state budgetary funding base. Other financial sources of income, e.g. small-scale type of income generating activities such as the cooperative kitchen at the Kachreti VET centre, are seen as having a major part to play in terms of financial sustainability. This strategy follows the idea of serving a double purpose – supporting the training process and income generation by the VET centres on one hand, and fostering local economic development on the other. The VET centre in Kachreti seems to be a good example on how four different interventions – formal VET programs (funded by MOES), retraining courses (funded by UNDP/SDC), agricultural extension service (funded by UNDP/SDC) and the cooperative kitchen (funded by UNDP/Government of Romania) – could become the local hub for promoting economic activities, but obviously is depending on the individual strength and drive of local management staff of VET centres.

3.4.4 German Technical Cooperation

German Technical Cooperation (GTZ) supports Georgia on behalf of the Federal Ministry of Economic Cooperation and Development (BMZ) with a bilateral Private Sector Development Program (PSDP) since 2009. The overall objective is focussing on improving the framework conditions for investment, particularly into small and medium enterprises. The PSDP of GTZ contains three major components:

- Supporting the implementation of economy-related aspects of the European Neighbourhood and Partnership Instrument Action Plan through close cooperation with the Ministry of Economic Development.
- Supporting for the implementation of a labour market orientated VET system through close cooperation with the Ministry of Education and Science.
- Boosting regional and local economic development in Gori / Shida Kartli region.

In the VET field GTZ is following a holistic, tailor-made approach to support the Georgian VET system, which connects a multitude of state and private sector actors at all levels with a focus on the macro-level. With it, the partnerships not only identify new resources for VET and efficient labour markets, they also lead to training and human resources placements that are in the best interests of the private sector and society. GTZ has assembled a suitable package of advisory services to MoES in the field of labour market-oriented VET system, national financing concept for VET, results-oriented stakeholder-dialogue and Private-Public-Partnerships.

3.5 Summary of findings from field visits

The different opinions expressed by the various stakeholders will require a re-examination of the current roles of government, enterprises and learners in VET training markets and how these roles will need to change in Georgia. Directions of change will include

- the development of private training markets as part of public-private partnership programs,
- increased competition between public and private VET institutions as a result of market-orientated and learner-based disbursement mechanisms,
- declining roles for the government in the financing and provision of VET programs,
- a greater diversification of financial sources for VET systems (including enhanced cost recovery, cost sharing, and VET levies) as well as
- the encouragement of more and higher quality enterprise training.

All in all what has been learned from the field visits to Georgia is that a number of challenges exist within the Georgian VET system and the way in which the VET system is financed. Clearly, there is a need to adapt the Georgian VET financing system to new realities. What kind of early findings for the VET financing policy of Georgia may be drawn from the expressed opinions of the stakeholders, which by the way differ considerably compared with the vested interests of the respective constituency behind these opinions.

The table is titled "Summary of Stakeholder Opinions" and features the GTZ logo in the top right corner. It is structured as follows:

Stakeholders	Opinions
Georgian Government Ministries	The Georgian Law on Professional Education is considering the voucher financing approach as the major disbursement mechanism for government funds allocated to the VET system. MoED is considering a public-private-partnership program to privatize VET institutions.
Georgian Social Partners	GEA and GTUC are agreeing that partnership among the public sector, the private sector and civil society will be key in achieving a successful VET reform, but there seems to be no conceptual framework under discussion on how to build a strong stakeholder-driven VET system.
VET Institutions	Directors of VET institutions are expecting that teaching facilities and institutional infrastructure to be further developed, VET programs are improved based on an intensified cooperation with enterprises and seeking and attracting of additional financial resources.
Donor Organizations	Representatives of donor organizations are emphasizing the need for a serious open stakeholder debate on VET system development, including the role and interactions of public and private players as well as consistency of public funding.

Figure 3: Summary of stakeholder opinions

Three early findings are relevant here for the further policy discussion: The first is that the appropriate role of government in VET markets is to let private training markets work under the umbrella of public-private-partnerships as mentioned by the Ministry of Economic Development. This might be relevant for VET programs where the private sector shows interest and where they do not, engage the public sector. This definition of government's dual role in financing and providing VET programs requires the Georgian government to determine its own needs for public sector training interventions. It will need to examine the performance of its training markets, the capacity of the private sector to deliver VET programs, and its own preferences towards social policies and equity. On this basis, the Georgian government is likely to maintain a continuing role in the delivery as well as, particularly, in the financing of VET programs.

Secondly, there is probably with 38 VET centres at hand to much public provision of VET programs available than is required by economic rationale alone. The GTZ-funded costing study came to the conclusion that in virtually all (15) VET centres visited the number of students enrolled differed, often substantially, from the numbers of students seen on stage (GTZ-PSDP / PLANCO, 2010). But this may not be suboptimal if public VET programs are efficient, effective, and market-responsive.

Unfortunately, this seems to be not the case in Georgia at the moment¹². An important task of financing disbursement policies, as discussed later in the following chapters of this study, is to provide an appropriate mix of regulation and incentives to ensure public VET programs can hold its own in an environment of competitive training markets. Thirdly, it seems that there is far too much public financing of VET programs wasted. Given the increasing pressure on government budgets, this early conclusion provides an opening for financing diversification – surely a major theme of the following chapters of this study.

All three findings do have major implications for the four components of the future Georgian VET financing policy.

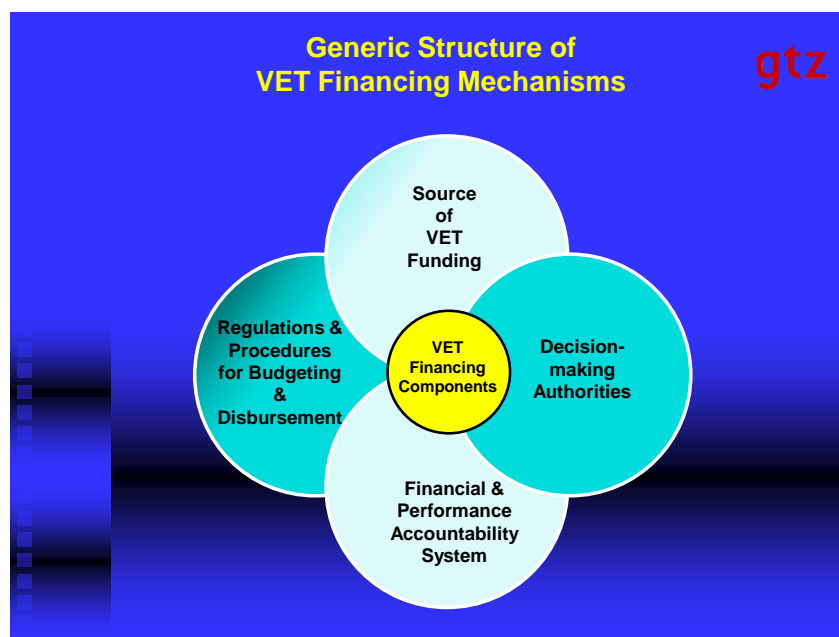


Figure 4: Generic structure of VET financing mechanisms

As can be seen from the figure 4, all components are interlinked. Future interventions into one component has repercussions on the other three as well, e.g. the introduction of voucher disbursement schemes will depend on sufficient financial sources at hand and requires a financial and performance accountability system managed by decision-making and administrative authorities. It is recommended to the MoES that all future interventions should be discussed from a systemic point of view in close consultation with all stakeholders. The National VET Council should be taken as the central hub to drive an overall stakeholder-driven policy development and implementation approach¹³.

4. Developmental and incremental advancement approach

One major challenge of the current VET Reform in Georgia is to develop sustainable financing mechanisms to guarantee a stable financing of the VET system and its gradual expansion in line with

¹² The GTZ-funded study on matching vocational education in Georgia with labour market needs reports that at the end of 2009 approximately 12.000 learners were accepted for VET programs across Georgia. However, this kind of information has been provided in a format that makes it hard to see the overall picture. This could be improved if the VET programs were classified according to skills-based categories and organized according to academic years. As a result, the MoES, or employers, would be able to easily how many learners are being trained in what skills nationwide (GTZ-PSDP, 2010).

¹³ Following reforms in VET policy in 2009 the MoES has set-up sector committees to identify the important professions within each sector and develop vocational educational standards for them. These committees seem to have worked fairly well in achieving that end but they have generally found it hard to secure the participation of business. They are also organized, in some cases, using such broad categories as 'industry' and 'services' which do not allow for very focused discussions (GTZ-PSDP, 2010)

Georgia's development needs. The VET Development Strategy 2009 – 2012 has suggested that access to VET and supporting professional development of individuals be increased, quality and market-relevance of VET be ensured and a model of participatory governance, management and funding in the VET system be established.

VET reform in Georgia faces the triple challenge of quantity, quality and the complexity of the many technical tasks at hand borne by the reform implementation process. Reduction of state budget allocations is certainly not the most appropriate option in Georgia at this stage in time as the private sector is not yet ready to participate full with the necessary level of financial resources. To be honest, the VET reform is still very young and several policies and technical areas are not well enough developed yet as the results from the two GTZ-funded costing study and so-called 'mismatch' study tell us. Given this broad challenge the **Georgian VET system is facing, the planned financing model must be addressed in the long run by a combination of cost saving mechanisms, generation of external resources into the VET system and diversification of financial sources for public VET programs.**

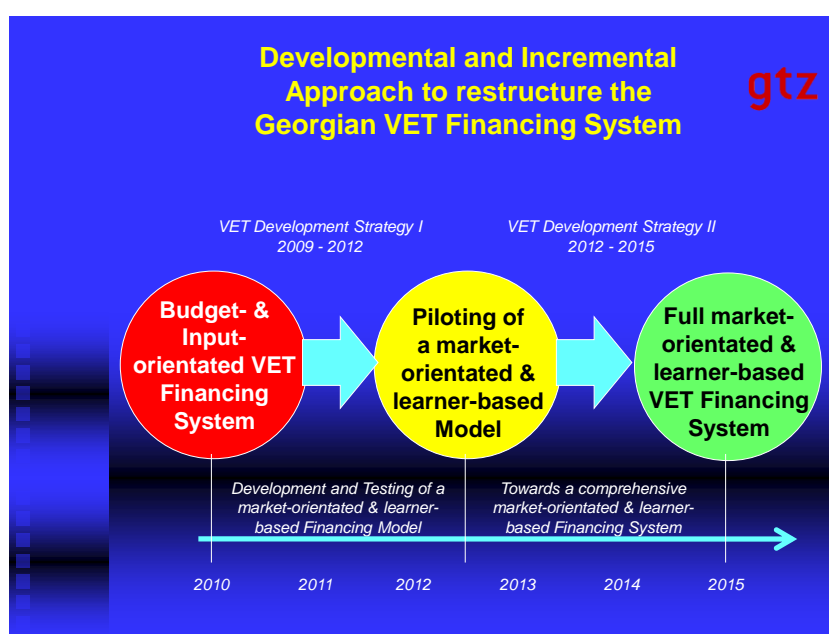


Figure 5: Developmental and incremental implementation strategy

In order to achieve the holistic ideal of a market-orientated and learner-based VET financing system, realistically, the transformation of a traditional budget- and input-orientated financing model towards a modern market-orientated and learner-based financing system needs to take place incrementally. This means focusing on a learner-based model as the main category of desired disbursement mechanism requiring a high degree of flexibility, sensitivity and specialisation while, as far as possible, making use of existing infrastructure and resources under the above mentioned constraints. Revised policies and regulations must be integrated into existing VET systems development processes, structures and projects, but much thought must be given to the development of an information system for learners to enable them to make the right decision on how to use the new learner-based financing mechanisms.

A developmental and incremental approach gives the MoES and the VET centres the space to explore and experiment with implementation of the new financing policy. This supports the need for MoES and VET centres to retain their autonomy to develop implementation plans within the constraints of their organisations while meeting the agreed requirements of the new financing model indicated in the policy. Most importantly, a developmental and incremental approach presupposes implementation plans with sustainability targets against which the new financing system measures its progress towards the objectives of the VET development strategy 2009 - 2012 and the still not existing follow-up VET development strategy 2012 - 2015. The MoES will have an important role to play in

facilitating and monitoring the progress towards full implementation of the market-orientated and learner-based financing model.

According to the Georgian Law on Professional Education the MoES has to develop a rule for financing VET. The current VET Development Strategy 2009 – 2012 outlines under priority area 3.2 that VET financing should be better linked with concrete outcome, such as enrolment rate, completion rate and employment rate for a VET institution. The government will determine the amount and model of financing, based on financing VET by per capita funding. The per capita funding approach must be based on a clear training cost structure as researched by the GTZ-funded costing study. Results from the costing study are expected in May 2010 and should be used as inputs for the piloting of the new learner-based VET financing model. No later than 2011 the new financing formula must be piloted in a number of VET centres still to be selected. In case of its effectiveness, the financing formula will be used for both public and private accredited VET institutions. The new financing formula is aimed at establishment and development of VET centres, as well as fostering their effectiveness. The government wants to abide to the following principles while developing the VET financing model:

- *Freedom of choice for a student;*
- *Difference in the costs of programs;*
- *The needs of socially vulnerable people.*

One particularly positive feature of the ongoing VET systems development process is the national ownership, compared with many other countries in a similar situation. Georgian experts and institutions lead both the conceptual and technical areas of the VET development strategy. Nevertheless, it might be necessary that the senior political level should show leadership in supporting the VET reform process in order to help the Georgian citizens to show work readiness and employability towards future employment. Clearly, there is a need to demonstrate ministerial involvement that VET is a priority area. However, ownership and leadership will need excellent implementation management, debate and consultation as well as sound analysis in order to ensure consistent implementation. The Ministry of Education and Science faces the complex task of leading the modernization of an educational sub-system that has obvious strong links to employment and the labour market, in a context where active labour market programs, employment support policy and institutions are practically non-existent. This serious challenge was prominently confirmed by the Vice-President of the Georgian Trade Unions Confederation. In the light of this institutional capacity challenge, the MoES is facing to plan, implement and monitor an ambitious reform process, particularly in view of the breadth of areas to be covered. Therefore, it makes really sense to develop the new financing model for the VET system with sound proportion step-by-step in order to avoid overstressing the capacity of the implementing agencies.

5. Options for a revised VET financing policy

5.1 Typology of basic VET financing models¹⁴

The current financing formula of the Georgian VET system can be regarded as a government budget- and input-orientated financing mechanism, accompanied by a number of disadvantages. The government provides direct support to VET centres. They do this because VET provides social as well as economic benefits. To be clear here, public financing of VET centres is not just for economic reasons; there is no proven connection between spending on VET centres and economic prosperity of

¹⁴ This chapter has been informed by educational financing research done by Ben Jongbloed and others from the Center for Higher Education Policy Studies at the University of Twente in the Netherlands.

a country. Because of the benefits, public funds are channelled to VET centres on the basis of unique criteria that are defined in political debates, parliament and – to a large extent – dictated by social and economic realities. Where some people would like to achieve a uniform and egalitarian VET system, others would like to see a diverse and market-driven VET system to emerge. In other words, **financing models for VET systems differ across countries and reflect the socio-economic situation of each country.**

The Georgian government has changed the VET budget policy since 2008. The government withdraw, at least for the time being, from further investment in VET infrastructure, based on their expectations that the private sector will take over and generate necessary and appropriate investments. However, the decision to privatise VET services and possibly limiting the role of government on policy, facilitation and quality assurance may raise questions on the wider issue of VET system development and the government role in governance and financing. Nevertheless, it seems that the **government has kick-started the change of the financing paradigm from supply-driven and input-orientated financing towards a market-orientated and learner-orientated voucher disbursement approach** that would allow the government to finance a student per capita versus financing an education institution.

To this end, a voucher disbursement mechanism has already been introduced to general as well as to higher education during the past years. However, a learner-based voucher disbursement mechanism has not been introduced to the VET system so far. During an interview with the Head of the Vocational Education Development Division at the MoES in February 2010 it became quite clear that the voucher approach as the major disbursement mechanism for funds allocated to the VET system is an important option. This opinion has been backed by Chapter VIII (Article 35) of the Georgian Law on Professional Education that the Ministry of Education and Science is authorized to finance VET centres by vouchers, calculated for one learners financial normative.

To clarify the voucher idea of the Georgian Law on Professional Education and to distinguish voucher schemes from other models of VET financing, a typology of basic VET financing models is going to be used which are based on two major dimensions of VET financing models: **centralised (regulated) versus decentralised (market) approaches** as well as **input orientation versus output orientation**. For the identification of VET financing models two research questions may be used:

- *'What is funded by the government?' and*
- *'How is it funded?'*

The first question is linked to the financing base of government allocations to VET centres: *Are the funds tied to educational outputs and performance, or rather to inputs?* The second question is related to the issue of the degree of market orientation within the VET financing model. Whose decisions actually underlie the observed flow of public funds to VET centres, or *'what drives the financing model?'* The answer to this question may be found by paying attention to issues such as: *'To what extent are financing numbers or financed VET programs regulated by government authorities?'* and: *'Do VET centres compete for finances? Do they have the right to determine the level of tuition fees by themselves?'*

The second question is linked to the issue of market orientation of VET financing models. One of the characteristics of market orientation is the degree of competition implied by financing decisions. In other words: *'Are financed learner numbers or financed VET programs regulated by government authorities or are the financing flows driven by the decisions of clients (e.g. learners, enterprises, etc.) themselves?'* The answer to this question may be translated into a measure for the degree of centralisation, from a highly regulated situation in which the government determines the financing centrally to a situation in which consumer sovereignty (individual client decision) drives the system.

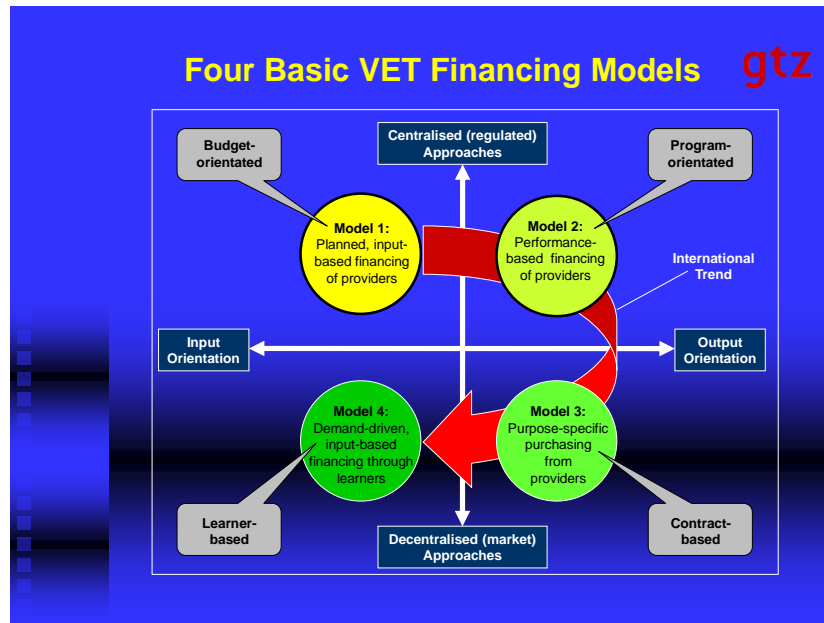


Figure 6: Four basic VET financing models (adapted from Jongbloed & Koelman, 2000)

In the figure above, the vertical axis is used for depicting the degree of (de)centralisation and a horizontal axis for expressing the degree to which government is paying for the outputs instead of the inputs. Based on this research methodology four VET financing models can be identified. Here are more details on how the four VET financing models are working and what kind of advantages and disadvantages can be revealed.

5.2 Basic model 1: Planned, input-based financing of VET Centres

Basic model 1 represents a highly centralised system of VET financing based on budget allocations to VET centres, and therefore is this kind of model labelled a **budget-orientated financing approach**.

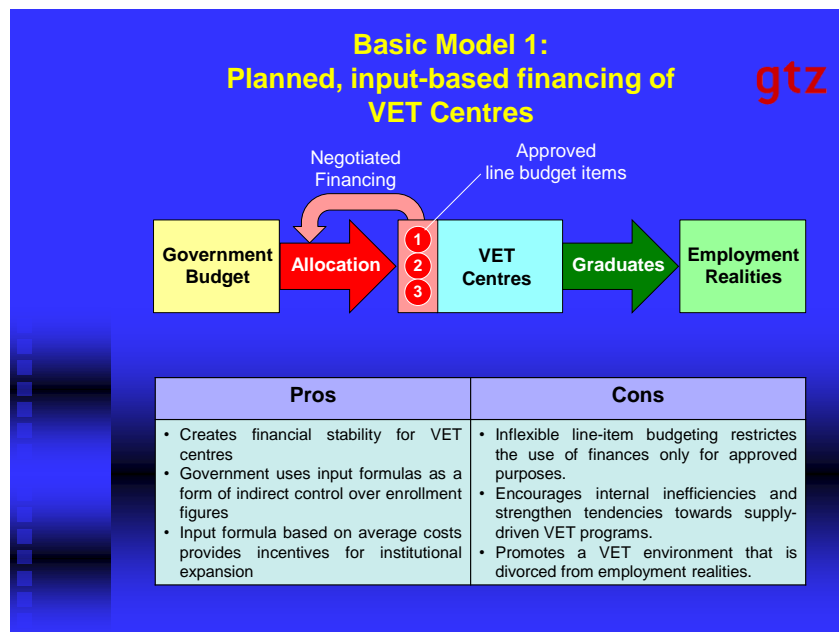


Figure 7: Planned, input-based financing of VET centres

It shows a more traditional type of budgeting, where allocations are based on budget proposals submitted by VET centres to budgetary authorities. These budget proposals are normally based on those of the previous year, often augmented by across-the-board incremental budgetary increases or

perhaps, according to political influence, interest group pressure or the negotiating skills of institutional actors. This is known as **negotiated financing**.

Individual budget items are negotiated between representatives of VET centres and the financing authorities. Annual changes in each budget item are treated individually, with discussions taking place on the basis of cost projections. In this case, budget items are likely to include categories like staff salaries, material requirements, building maintenance costs, and investment. Financing is line item based, and shows the different expenditure items as separate lines of the budget. These line items are determined by referring to norms with respect to indicators such as unit costs or capacity (e.g. financed number of learners).

Input-based systems of allocation, rooted as they are in the status quo of Georgia, are unlikely to facilitate internal efficiency or market-orientated dynamism. Indeed, a **major defect of input-based financing is that it provides no incentive for institutional efficiency**. Clearly, if financing is unrelated to the internal activities of the VET institution, there are no incentives built into the financing mechanism to promote greater efficiency – and generally results in the opposite. The other major shortcoming of input-based financing is that it does **nothing to encourage VET centres to be adaptive to labour market needs**; the provision of VET programs remains static and supply-driven. This type of supply-driven VET financing model is operating in the present VET system of Georgia.

5.3 Basic model 2: Performance-based financing of VET Centres

Basic model 2 represents an output-based system of VET financing based on the concept of rewarding performance of VET centres. A budget provides financial incentives to VET centres by rewarding them for meeting certain predetermined levels of VET program delivery, and therefore this kind of model is labelled a **program-based financing approach**.

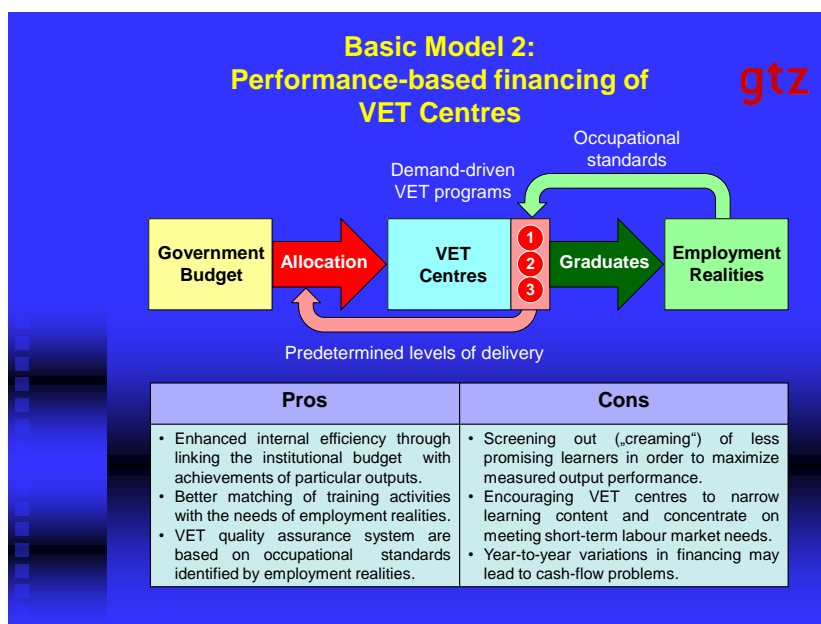


Figure 8: Performance-based financing of VET centres

VET centres not achieving these predefined outputs are penalized under normal circumstances. Outputs are measured in absolute terms and often defined as the number of VET programs completed and the number of learners successfully graduated from these VET programs, but may also be related to the speed with which outputs are produced in order to minimize cost-enhancing repetition. The most important benefit to be gained here from adopting an output-based and program-orientated financing approach is enhanced internal efficiency of the VET delivery process. Since a VET centres budget is linked to the achievement of particular outputs, an incentive is present for VET centres to change and improve various aspects of their policies and practices in order to increase their performance and,

hence, their finances. This type of financing model is operating in Denmark under the name taximeter model, while in Sweden a mix of enrolment numbers and credits determines the finances allocated to VET centres.

Output formula financing as discussed above is surely focusing on addressing the challenge of internal efficiency in VET institutions. However, it is not likely to provide a good example for addressing the labour market prospects of learners alone; nor does it automatically lead to a better matching of VET programs with the needs of the labour markets. In conclusion, it does **not result in a greater demand-driven orientation of VET programs**. In this regard, a distinction between two types of performance-related budgeting should be drawn. The kind of output-based financing considered above relates to the institutional process, to the internal training activities of the VET institution. This should be contrasted with training outcomes, on how well the VET programs impact with the labour market. Outcomes are defined in terms of the success of the VET centre in meeting labour market needs or in other words, whether VET program graduates are showing work readiness or employability. This can be measured by the percentage of the employment placement rate and by the speed with which they are absorbed into employment.

Output / outcomes formula financing may lead to “creaming” (Ziderman, 2002), a process whereby VET centres screen out less promising learners in order to maximize measured output performance. Creaming is likely to exclude certain target groups such as the poor, unemployed youth, ethnic minorities and other disadvantaged groups. This tendency may be countered in a number of ways. A greater weight could be given in the reward structure to outputs drawn from these disadvantaged target groups. Inevitably, the impact of VET programs will be measured in terms of their success at initial placement of graduates after training. This may not correspond to the achievement of sustained employment over the long term, the ultimate objective of VET programs. Indeed, **VET centres may be encouraged to narrow down learning content and concentrate on meeting short-term labour market needs rather than designing more flexible VET programs which are better suited to changing labour market needs**. It is possible to measure these longer term outcomes through well designed graduate tracer studies; however, outcome studies of this kind should constitute an integral part of performance evaluation and feedback in all VET programs.

5.4 Basic model 3: Purpose-specific purchasing from VET Centres

Basic model 3 represents a market-orientated financing system based on competition between VET centres. This model aims at enhancing the VET centre’s responsiveness to the performance criteria against which public finances are to be allocated. Normally three to six pre-qualified and accredited VET centres in the relevant field of competence are requested to submit offers for supplying the requested VET services in order to get a training service contract to be awarded to them, and therefore is this kind of model labelled as a **contract-based financing approach**.

The tenders that are selected by the financing agency for technical and financial evaluation are the most price-competitive ones. Finally, a contract is awarded on the basis of the best bid received. In this tendering process, VET centres are encouraged to compete with one another to provide VET training programs to meet national needs. This financing model will make use of contracts that are signed up between the government agency and VET centres, with the latter agreeing to provide successful learners for targeted labour market needs. **When entering into a contract, the financing agency will make sure it obtains the training services it wants for a reasonable price.**

In this way the cost-effectiveness of the training provision is stressed. In the contract, both parties express that they will obey certain criteria. Only if these criteria are fulfilled, the VET centre will receive core funding. The criteria may concern the types of qualifications of learners admitted to the VET centre, the level of tuition fees charged by the VET centre, and the commitment made by the VET centre towards its learners in the instruction and teaching process. This kind of financing model is quite common in various countries, e.g. South African industrial Sector Education and Training Authorities tender out VET programs to competing private and public VET centres to deliver

workplace-based ‘learnership’ VET programs, and often used as financing mechanism for continuing VET training programmes as part of active labour market strategies.

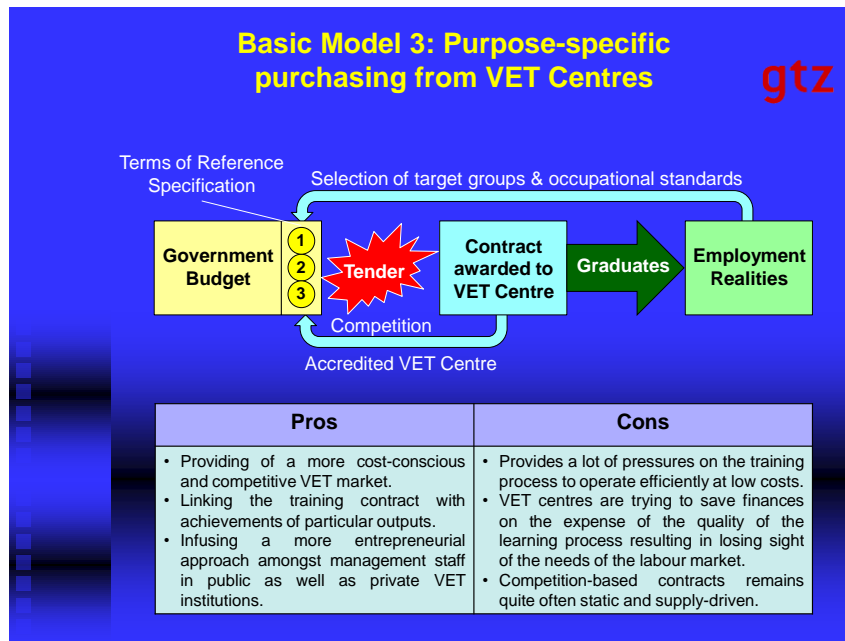


Figure 9: Purpose-specific purchasing from VET Centres

Normally three to six pre-qualified and accredited VET centres in the relevant field of competence are requested to submit offers for supplying the requested VET services in order to get a training service contract to be awarded to them, and therefore is this kind of model labelled as a **contract-based financing approach**.

The tenders that are selected by the financing agency for technical and financial evaluation are the most price-competitive ones. Finally, a contract is awarded on the basis of the best bid received. In this tendering process, VET centres are encouraged to compete with one another to provide VET training programs to meet national needs. This financing model will make use of contracts that are signed up between the government agency and VET centres, with the latter agreeing to provide successful learners for targeted labour market needs. **When entering into a contract, the financing agency will make sure it obtains the training services it wants for a reasonable price.** In this way the cost-effectiveness of the training provision is stressed. In the contract, both parties express that they will obey certain criteria. Only if these criteria are fulfilled, the VET centre will receive core funding. The criteria may concern the types of qualifications of learners admitted to the VET centre, the level of tuition fees charged by the VET centre, and the commitment made by the VET centre towards its learners in the instruction and teaching process. This kind of financing model is quite common in various countries, e.g. South African industrial Sector Education and Training Authorities tender out VET programs to competing private and public VET centres to deliver workplace-based ‘learnership’ VET programs, and often used as financing mechanism for continuing VET training programmes as part of active labour market strategies.

However, this financing model may lead to irregularities in the allocation of contracts. It provides a lot of pressures on the institutional training process to operate efficiently at low costs. VET centres are pressurized to calculate low unit training costs in order to participate successful in the competitive tendering process. There seems to be a clear **tendency that VET centres are trying to save finances on the expense of the quality of the learning process resulting in losing sight of the needs of the labour market.** Therefore, VET programs provided under a competition-based contract remains quite often static and supply-driven.

5.5 Basic model 4: Demand-driven, input-based financing through learners

Basic model 4 represents a market-orientated financing system based on freedom of choice by learners, and therefore this kind of model is labelled a **learner-based financing approach**. While it is current practice in Georgia for the MoES to support VET programs, usually through planned and input-based financing mechanisms, by direct transfer of finances to VET centres; in principle an alternative, indirect way of financing could be available through subsidies to learners. **This model makes use of vouchers.**

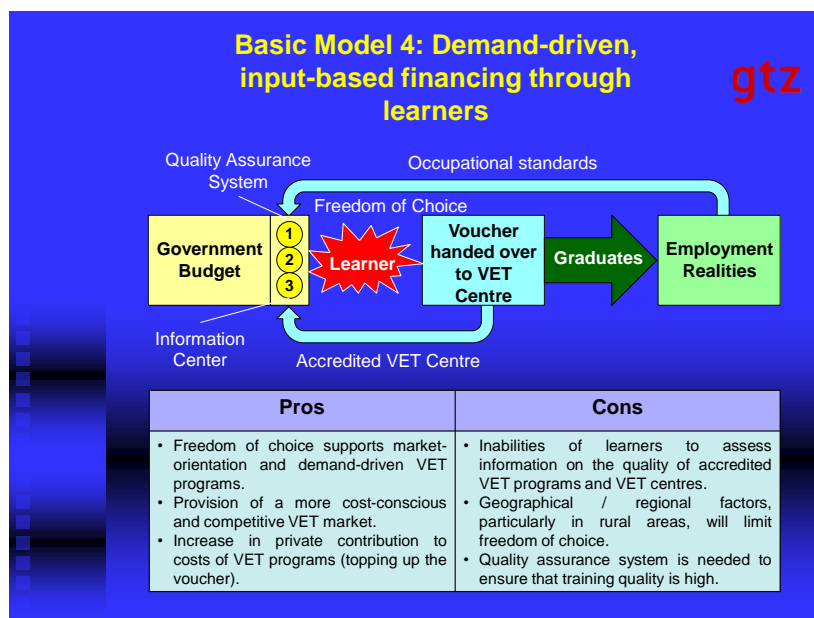


Figure 10: Demand-driven, input-based financing through learners

The core finances of VET centres are supplied through the learners as clients of VET centres. Learners obtain a voucher from a voucher administration, which can be traded for VET training programmes at the VET centre of their own choice. For the VET centre, the vouchers represent a certain value - they can be cashed in at the funding agency, e.g. the Ministry of Education and Science. Each (prospective) learner is given one voucher normally, representing a value which can be used up in a flexible way (during a certain period of time and for programs supplied by a given number of accredited VET centres). **In this financing model it is the learner that drives the system** – the financing model is demand-driven. The learner decides what VET centre to attend and what VET programs to enrol in. The VET centres will have to look after the quality of their teaching and their supply of training courses, because unattractive VET programs will not receive sufficient financing. Unattractive VET programs, if relevant from a social and macro-economic point of view, should get targeted vouchers. **The voucher financing approach can be combined with a system of differentiated tuition fees paid by the learners, e.g. VET programs with high demand should get a higher tuition fee.** The VET centres then will charge the learners with a higher percentage of the training costs. Tuition fees may be regulated to some extent by the government. Charging fees will make learners pay attention to the quality of the training service they get from the VET centre. So, combining vouchers and fees may result in a financing approach which is responsive to individual learners demand. This kind of financing model can be found in a number of countries such as Australia and Philippines and many more.

5.6 Comparative discussion of VET financing models

The advantages and disadvantages of the four basic financing models may be further analyzed and discussed from the perspective of the main stakeholders:

- *Learners,*
- *VET centres,*
- *Government / taxpayer, and*
- *Employers of graduates.*

It would go too far here to discuss all four financing approaches from the perspective of these four stakeholder groups. **It seems that learners would be served best in the learner-based financing approach, where flexibility and opportunities for lifelong learning are the greatest.** VET centres have the most stability in the supply-driven financing approach; they can plan on the basis of a transparent financing system and their own choice of profile and VET programs. However, there is a chance that VET programs are confronted with low demand from the learners. Employers may be worried that due to the battle for learners the VET program coherence gets lost within the learner-based financing approach.

Within the contract-based financing approach VET centres will remain quasi-autonomous and seek may be more co-operations with private business to provide strong workplace-orientated programs and attractive learner aid packages. Governments and taxpayer would like to see a greater supply of graduates in important occupational fields, e.g. health, VET teacher training and other public services guaranteed by means of a planned and accountable system of publicly-supported VET programs.

On the topic of investing more private finances into the VET system **it seems most likely that learners and private business are more determined to spend money to VET centres when they have the feeling that their demands are met more closely.** The chances for this to happen are far greater in a deregulated VET system that allows VET centres, learners and private business to work more closely together and decide on VET program content without strong government interference. In other words, the learner-based and contract-based financing approaches would seem candidates for a VET financing system that generates more financing from the private sector. Within the learner-based financing approach, private contributions can be combined with vouchers to pay for tailor-made VET programs. Within the contract-based financing option, VET centres with strong teaching profile may seek closer collaboration with private business to enhance the quality of VET programs.

5.7 Summary of VET financing models

The first **budget-orientated model** is the traditional highly centralised and input-driven financing model. A major defect of centralised input-based financing is that it provides no incentive for institutional efficiency. The other major shortcoming of input-based financing is that it does nothing to encourage VET centres to be adaptive to labour market needs; the provision of VET programs remains static and supply-driven. The second **program-orientated model** is the degree of planning of government the largest. On the basis of economic and social reasons (e.g. rate of return, labour market needs, cultural / regional diversify) the government decides about the number of learning places to finance. In the third **contract-based model** is the strategy of the VET centre of utmost importance. VET centres try to get their training programs accredited in order to qualify for public financing and try to distinguish themselves from other providers by means of their training supply. The VET centre generates more resources when it is more successful in delivering graduates and setting its fees at levels that are acceptable for learners. The fourth **learner-based model** is in fact the most **demand-driven** financing model. Learners choose which VET centre receives public money. Any differences in costs across programs are expressed through differential tuition fees. VET centres are competing for customers, for instance by delivering tailor-made programs. **Flexibility is the key feature of this financing option.**

Overlooking the financing mechanisms in place across the world, one can observe that governments in a number of countries have started attempts to **move away from negotiated line item budget-orientated funding (basic model 1) towards a more transparent performance-based and**

program-orientated funding mechanism (basic model 2) and in a few cases further on to contract-based purpose-specific purchasing of training (basic model 3) and finally to a learner-based and market-orientated training (basic model 4). The extent to which this has been achieved varies across countries and remains to be seen in the future. In some countries, VET centres have access to additional financing for specific initiatives such as increasing the participation of certain target groups for initial training, targeting specific skills areas through continuing training and training for the unemployed to name a few. In all cases, the allocation of block grants as well as targeted funds is tied to specific conditions in terms of quality and accountability requirements.

6. Recommendations for the Georgian VET financing policy

6.1 The international context

The international debate of VET financing is dominated by seeking answers to the question: *‘How to strike the ‘right’ balance between centralised and decentralised approaches?’* For many, this debate is about the balance between public and private investments in the VET system. However, this debate is broader and includes the questions to *‘what extent VET financing would have to be supply-driven versus demand-driven and whether it should be input-orientated or performance-based’*. **The answers to these questions are highly ideological and political, depending as they do on ‘what is right’ and ‘what works’.** VET financing has to achieve a number of goals. At the same time the VET financing mechanism would have to be flexible enough to accommodate important global trends, such as individualisation, globalisation and the injection of information and communication technologies.

Demand-driven VET financing is often promoted as a means to introduce more incentives towards increasing responsiveness and efficiency into the VET system. It permits learner choice to drive the financing of VET centres. **The crucial aspect of the learner-based voucher idea is freedom of choice and this would require that VET programs are not just provided by public VET centres but also – or at least in part – by private VET centres.** So, learners would be allowed to hand over their vouchers to private VET centres that – just like the public ones – comply with minimum quality standards. Thus learner choice becomes the key element in a VET financing system where learners vote with their feet and the outcome of their search for the highest value for money determines which VET centres receive public finances for training.

Nevertheless, voucher schemes are only one of the financial instruments that can be brought forward for the financing of VET centres in Georgia. The best option will depend on the kind of goals to be achieved and the question how the VET system that is in place is actually working towards goals outlined by the respective Georgian Law on Professional Education and the VET Development Strategy 2009 – 2012. During the clarification process of the VET financing model, four basic models for a VET financing methodology have been identified. **An ideal VET financing system does not exist. It all depends on goals that policy-makers would like to achieve on behalf of learners and society in general.** The four basic financing models mentioned above score all differently on the various conditions specified by policymakers. On top of that, the success of any VET system will also depend heavily on the amount of finances invested in it from public and private resources. It will be clear **that it is possible to make a mix of elements from all four financing models in order to meet the particular set of Georgian priority goals and conditions.**

6.2 The emerging Georgian VET financing paradigm

The starting point for outlining a recommendation for a future Georgian VET financing policy is the current debate in Georgia. Policy documents and Georgian experience such as the

- Georgian Law on Professional Education and the current VET Development Strategy 2009 – 2012 are calling for a move towards a market-orientated VET financing system with strong

- involvement from the private sector;
- Ministry of Economic Development in collaboration with the Ministry of Education and Science are in the process of preparing a major public-private-partnership program to allow the private sector to invest in private VET centres and finally
 - Introduction of learner-based disbursement mechanisms some years ago into the general education and higher education sub-systems are fundamental arguments that the emerging Georgian VET financing policy should be based on these three pillars.

On this basis, the Georgian government is likely to maintain a major continuing role in the delivery as well as, particularly, in the financing of VET programs, at least for the immediate future.

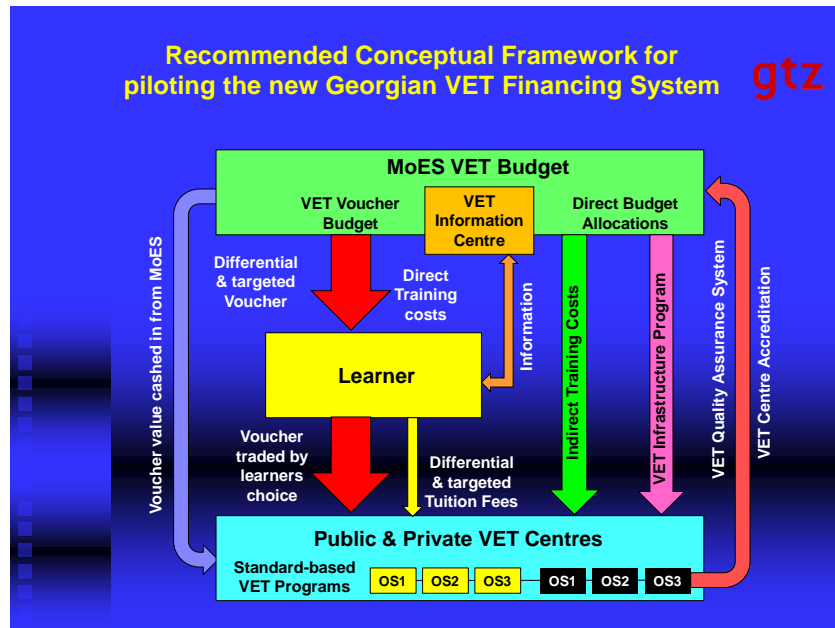


Figure 11: Recommended conceptual framework for piloting the new Georgian VET financing system

In principle, it is possible to achieve many of the benefits of a market-orientated and learner-based financing approach without moving strongly away from government subsidies and towards greater cost recovery. **Institutional training subsidies could be maintained at present levels, but mainly channelled through the learners in terms of VET vouchers.** Infrastructure investment and indirect training costs could be paid directly to the VET centres themselves, as is current practice in Georgia, and combined with a learner-based voucher disbursement scheme. **In some respects, learner-based financing will appear similar to a planned, input-based financing based on the number of students enrolled. From a purely accounting point of view there may be little difference between whether finances are transferred directly to VET centres or via a voucher mechanism. However, a vital distinction should be made between the two, in terms of the context within which learners and VET centres make their decisions.**

A general market-orientated and learner-based financing approach operates within an environment that offers real choices to learners in type, quality, and price of VET programs and, in parallel, where competition between VET centres is the norm. Direct financing functions within an environment that is more limited, in which VET centres have less scope to differentiate their offerings and to use resources as they see fit, and learners have far more limited choices. As these restrictions are loosened, the financing system moves from direct to, essentially, indirect financing. What is called market-orientated and learner-based financing, in effect, represents a suitably reformed input-based financing system, in which competition and learner choice become the pivotal point of the financing system. Another important point to be mentioned here is that the voucher mechanism has been introduced some years ago to the Georgian general education as well as to the higher education sub-systems. As a result, implementing capacity

seems to be available at the Ministry of Education and Science. Based on the fact that voucher schemes are called for by the Georgian Law on Professional Education it is fully understood that the Georgian government is considering the implementation of a learner-based VET voucher scheme as the disbursement mechanism for the VET system.

Voucher-with-information financing systems, hereafter referred to as voucher programs, are a tool for building stronger training markets within VET systems. The case for vouchers in VET programs is similar to the case for vouchers in general and higher education. Economists tend to favour vouchers over direct provision of training because vouchers maximize consumer (learner) choice. If learners can select the VET program they value most, it will generally maximize the learners benefit. Another potential advantage of vouchers is that they simplify the training process. Instead of a government agency trying to determine the most appropriate VET program for a learner and arranging for the training, in the extreme case all the agency needs to do is provide the learner with a voucher and perhaps a list of acceptable VET programs. Vouchers may also improve the performance of VET centres to compete for learners. **Inefficient VET centres should be driven from the market, resulting in survival of the fittest.** Nevertheless, VET programs which are not demanded by learners, but important from a socio-economic point of view, should be supported from the MoES with targeted vouchers.

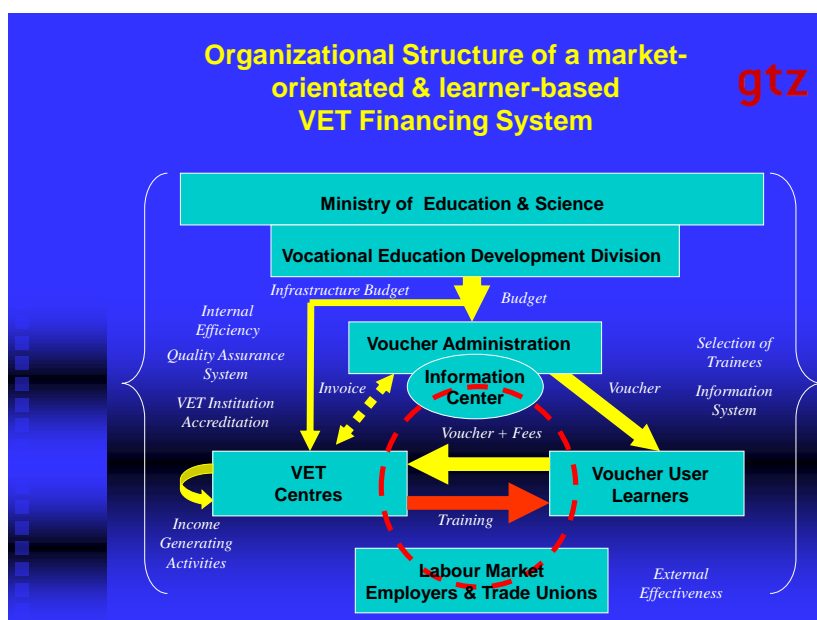


Figure 12: Organizational structure of a market-orientated & learner-based VET financing system

The voucher concept – issuance of a coupon that can be redeemed by learners for VET programs, than redeemed by the VET institution for cash – was in the early days designed as a wealth-transfer mechanism. Vouchers have been used for provision of food (in the form of food stamps), for public housing, for business development services and, more recently with an increasing tendency, for basic education, higher education and VET programs. It is only in the past decade, however, that voucher schemes have been used more often in the VET field with the dual objective of training delivery and training market development. Vouchers have been used in many countries, most notably Chile and Colombia, as a tool to privatize and upgrade both primary and secondary education. Examples from the VET world are the TESDA/PESFA voucher program of the Philippines; the Australian skills voucher program and the South African MERSETA voucher programs.

The introduction of vouchers in VET systems is not a transfer of wealth but a redistribution of public finances whose purpose is much like that of the voucher programs designed to promote training markets: empowering learners and stimulating competition between VET centres. But there are also arguments against vouchers for VET programs as well. **A major problem with consumer choice is**

that learners in VET programs lack information about the labour market prospects for particular occupations or the success of specific VET centres with learners with their vocational characteristics. Note that there are three potential information failures here: Learners may lack labour market information about professions, occupations and trades in demand and wages that are paid; they may lack information about how successful various VET centres are in placing their graduates in employment, or they may misperceive their capabilities for various professions, occupations and trades as well as VET programs. The first two information failures can be dealt with by providing information to the learners, but the third requires normally a personal assessment of aptitudes and interests as well as guidance to the learners.

Advantages	Dis-Advantages
<ul style="list-style-type: none"> • Strengthening of learners choice • Strengthening of responsiveness to customers • Increase in diversity of VET services (both in delivery methods and range of programs) • Strengthening of flexibility in learning pathways • Increase in efficiency of provision • Increase in quality of provision • Increase in private contribution to cost of VET programs (topping up the voucher) • Greater opportunities for lower income families and minorities 	<ul style="list-style-type: none"> • Inabilities of learners to assess information on the quality of VET • Geographical / regional factors will limit choice • Over-subscription will require rationing and selection of learners and will favor high-income families • High administrative complexity and costs • Need for government regulations to protect subjects, individuals, quality and equity • Large variations in enrolment and funding may lead to under-utilization of capital and insecure jobs for teachers and instructors • Programs with high social value but with small enrolments will be forced to close • If used to the full, vouchers lead to additional government expenditure

Figure 13: Pros and cons of voucher schemes

It seems that information to the learners is a critical element of successful voucher implementation. In this sense, the voucher is as much about aligning supply and demand as it is about stimulating supply. The voucher alone does little to stimulate demand if voucher recipients cannot locate an appropriate VET centre, particularly in sparsely populated regions or rural areas where a critical mass of learners or a VET centre within reachable distance is not available. Competition for learners is what stimulates VET centres to create new VET programs, identify niche markets, and see new emerging training markets. **It is the absence of competition that has doomed so many supply-side training initiatives to failure: VET centres see the financing agent, for example the Ministry of Education and Science, rather than the recipients of the training, as their customers.** With information about VET centres readily available, learners are free to choose from a variety of VET programs. VET centres need to seek and satisfy learners in order to create and maintain their market share. Information about those learners, in turn, helps VET centres to cultivate the training market. The information mechanism, whether formal or informal, should be sustainable.

Interestingly, vouchers have not generated as much spirited debate for VET programs as they have for general and higher education. In reviewing the theory and evidence for vouchers, the picture is mixed, with arguments for and against vouchers. According to Barnow (2009) from the Johns Hopkins University at Baltimore, a number of conclusions can be drawn from research literature. Participants in VET programs may lack appropriate information about their own skills and aptitudes as well as the characteristics of VET institutions. Providing of information about placement rates in employment of VET centres will help to eliminate this problem. Furthermore, a VET program should include personal assessment and counselling to determine what training is appropriate for the participants and screening of VET centres for quality of training and appropriate placement rates in employment. All of

the voucher schemes in U.S. vocational training programs reviewed by Barnow (2009) that have positive impacts include personal assessment, counselling, and screening of VET centres.

7. Fundamental parameters to pilot voucher schemes

According to the explanations in chapter 6 piloting of a market-orientated and learner-based voucher disbursement mechanism makes sense under the current conditions and needs in Georgia. The piloting of voucher schemes has clearly to be discussed in terms of the interrelationship between systemic preconditions needed to set up an operational framework in the light of potential problems associated with voucher schemes. There are a number of inter-related fundamental parameters of voucher schemes that are important to their implementation. These key parameters form the operational framework for voucher schemes. The relationship between them is depending on the priority and objectives set by policymakers.

7.1 Systemic preconditions for setting up of Voucher Schemes

The development and implementation of a VET voucher scheme requires a number of preconditions which have to be considered from a systemic point of view. There are a number of systemic implications, which must be considered when it comes to the implementation of the voucher scheme.

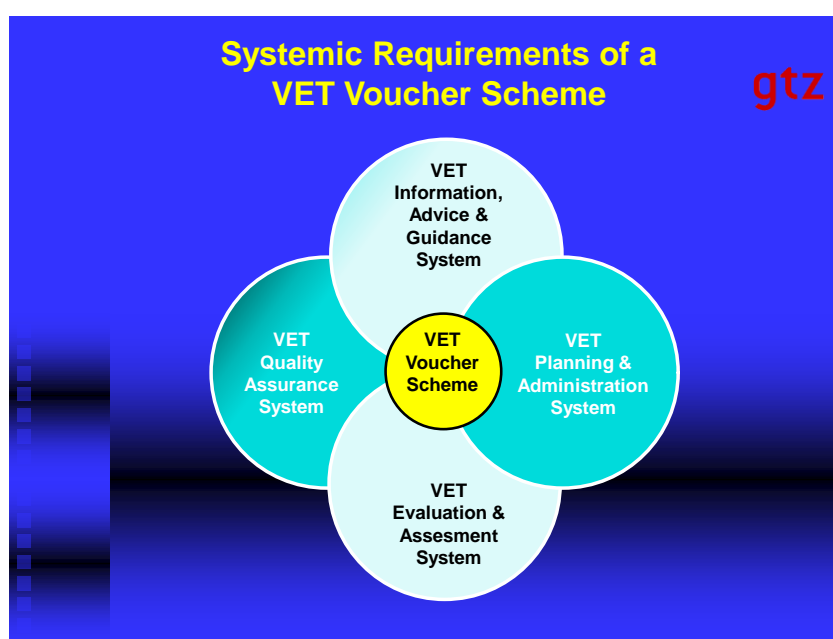


Figure 14: Systemic requirements of a VET voucher scheme

A) VET Information, Advice & Guidance system

A major problem with consumer choice is that learners in VET programs lack information about the labour market prospects for particular occupations or the success of specific VET centres with learners with that kind of characteristics. Note that there are three potential information failures here:

- *Learners may lack labour market information about occupations in demand and wages that are paid;*
- *they may lack information about how successful various VET centres are in placing their graduates in employment, or*
- *they may misperceive their capabilities for various occupations and VET programs.*

The first two information failures can be dealt with by providing information to the learners, but the third requires a personal assessment of aptitudes and interests as well as guidance to the learners. It seems that information to the learners is a critical element of successful voucher scheme implementation. In this sense, the voucher is as much about aligning supply and demand as it is about stimulating supply. The voucher alone does little to stimulate demand if voucher recipients cannot locate an appropriate VET centre, particularly in sparsely populated regions or rural areas where a critical mass of learners or a VET centre within reachable distance is not available. Competition for learners is what stimulates VET centres to create new VET programs, identify niche markets, and see new emerging training markets.

It is the absence of competition that has doomed so many supply-side training initiatives to failure: VET centres see the financing agent, for example the Ministry of Education and Science, rather than the recipients of the training, as their customers. With information about VET institutions readily available, learners are free to choose from a variety of VET training programs. VET centres need to seek and satisfy learners in order to create and maintain their market share. Information about those learners, in turn, helps VET centres to cultivate the training market. The information mechanism, whether formal or informal, should be sustainable.

B) VET Quality Assurance System

The introduction of market principles as the core feature of the voucher schemes is likely to require a VET quality assurance system in order to guarantee that vouchers are spent in an efficient and effective way. This is important for accountability purposes, particularly in relation to the use of public finances. Voucher schemes will provide considerable flexibility for individual learners. This means that the MoES as the government financing agency needs administrative systems in place to track the learners and their VET program choices.

Furthermore, with a wide range of choices in terms of VET programs and VET centres, the quality of VET outcomes may have to be closely linked to the voucher finances spent for the VET programs. The VET quality assurance system must be applied at both VET system and VET centre levels and can therefore be used to assess the effectiveness of VET. It particularly emphasizes improving and evaluating the ‘*outputs*’ and ‘*outcomes*’ of VET programs in terms of increasing employability, improving the match between demand and supply, and promoting better access to lifelong learning, in particular for disadvantaged people such as IDP’s. As quality assurance and development are a continuous process, the quality assurance system must be regularly reviewed by assessing the voucher scheme undertaken in different settings, while keeping its ‘*context independence*’.

The Georgian VET quality assurance system must comprise of a:

- *model to simplify planning, implementation, evaluation and review of systems at appropriate levels in the VET system;*
- *methodology for assessing and reviewing systems: with emphasis on self-assessment, combined with external evaluation;*
- *monitoring system: to be identified as appropriate at national or regional levels, and possibly combined with voluntary peer review at European level;*
- *measurement tool: a set of reference indicators aimed at helping the MoES to monitor and evaluate their own systems at national or regional levels.*

The Georgian VET quality assurance system model ¹⁵ must perform the following functions: planning, implementation, evaluation and assessment as well as review.

C) VET Planning & Administration System

The planning and administrative functions relate to the setting up of clear and measurable goals regarding policies, procedures, tasks, and human resources. It also relates to defining input and output standards linked with goals to support the design and implementation of quality assurance, as well as providing reference points for certification of individuals or accreditation of VET centres and/or programs.

Goals and objectives should be clearly understandable, and as far as possible they should be combined with definitions of measurable indicators as this allows for checking achievement of planned objectives, in later stages. Quality in VET is not primarily a technical issue. It is always linked to specific policy, institutional or individual goals and objectives to be achieved, according to different time frames. Therefore, **it is crucial that relevant national, regional and local stakeholders take part in the decision-making process on goals and objectives for quality of VET.** It is essential to establish key, coherent principles that underpin implementation of the planned actions to ensure effectiveness in achieving the set goals and objectives. Such coherence can be achieved in many ways, for example through regulations, funding incentives, providing guidelines on how to proceed at local level, building capacity of key actors on quality issues through training, combining internal quality systems at provider level with external inspections, etc. The accreditation of VET institutions is one example of a necessary regulation. Others might include the provision of VET programs, standardizing VET program curricula, etc. Whichever approach is chosen by the MoES, expectations must be transparent and the procedural steps including time spans and tasks to be fulfilled must be clear for all actors involved. Developing ownership and personal motivation among staff, trainers and trainees, are preconditions for achieving coherence between goals, objectives and implementation.

D) VET Evaluation & Assessment System

The evaluation and assessment function covers continuous evaluation of VET program provision by objectives (including learner data) and assessment of outcomes achieved at system and individual levels. It implies designing evaluation mechanisms according to context, **defining the evaluation's frequency and scope, and providing evidence to those concerned of the evaluation's findings, including strengths, areas for improvement and recommendations for action.** In general, the assessment and evaluation phase consists of two parts, data collection and processing, and discussions on results achieved. An important challenge is to avoid collecting useless data. Effectiveness of assessment depends largely on clear definition of the methodology and frequency of data collection and coherence between data collection and predefined indicators, considering the goals and objectives to be achieved. Current and former trainees, staff, employers and trade union representatives should be involved in discussions arising from evaluation results. Quality assurance and development is a continuous and systematic process. It must undergo constant review combining self-assessment with evaluation by an external body, processing feedback and organizing procedures for change. Despite other elements of the quality cycle being valuable only when conclusions are drawn and lessons are learned and put into practice, analysis of quality management systems reviewed so far shows that this last phase of the cycle is often the weakest: revising planning, fine-tuning quality objectives and quality management activities. Results of quality assessment should be made available, and open debate with relevant stakeholders encouraged on the factors which influenced results. Further, organizing

¹⁵ The MoES and the European Training Foundation are currently working together to implement a quality assurance system for the Georgian VET system (ETF, 2010). The potential for synergy between the VET financing policy project and the quality assurance projects seems to be great and should be utilized by the MoES.

benchmarking for comparison can help common learning, especially when combined with incentives for good practices and further improvement.

7.2 Operational framework for voucher schemes

A) Target Groups

In general there can be a number of target groups for 'voucher'-funded VET programs identified, for instance:

- *Young school / university leavers for initial or pre-employment training, who which seek first employment;*
- *Employees of large enterprises in urban areas for continuing VET programs in specific skills areas to enhance productivity at the workplace;*
- *Employees of small and medium size enterprises (SME's) in urban and rural areas for continuing VET programs to enhance productivity and/or to kick-start new micro enterprises;*
- *Retrenched adults for re-training VET programs, who seek new employment;*
- *Unemployed persons, who seek employment;*
- *Training for specific target groups such as internally displaced persons (IDP's), socially vulnerable persons, etc., who seek employment.*

B) Voucher Form

In theory, voucher schemes can be used as financing mechanism for all above mentioned VET programs, but given the huge demand for training from the various target groups it seems to be unrealistic, that all target groups can participate in voucher-financed VET programs. In practice, different voucher schemes are used in an effort to promote the learners choice for VET programs:

- **Universal voucher** – *all VET learners receive a voucher worth the same amount of money,*
- **Differential voucher** – *all VET learners receive a voucher, for example adjusted either for the income level of the family or the costs of VET programs for special need (e.g. learners with disabilities, geographically isolated learners, etc.)*
- **Targeted voucher** – *only certain VET learners receive a voucher. For example, vouchers could be confined to low income households, internally displaced persons (IDPs), etc.*

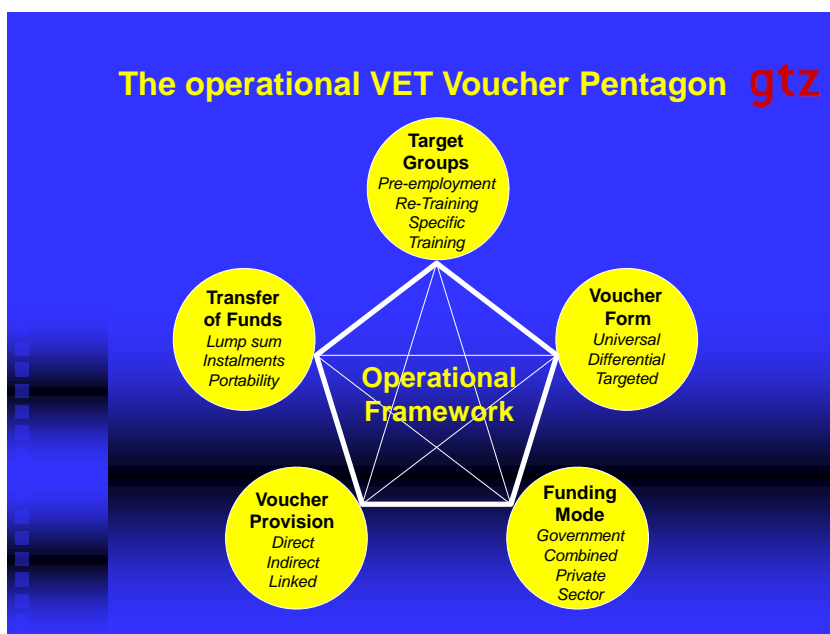


Figure 15: The operational VET voucher pentagon

It depends on the Georgian government in consultation with stakeholders to set the policy for who should be eligible for voucher-funded VET programs. Clearly, a negotiation process will need to be conducted by the Georgian government if a VET voucher scheme is to become reality.

C) Funding Mode

From a general perspective, finances for voucher schemes can be mobilized either from government or from private households and business. Furthermore, vouchers can be fully financed or only partly-financed by government or private business. There are a number of approaches in place, which aim to achieve a number of different objectives:

- *Government guarantee for fully funded VET programs,*
- *Government part-funding and supplemented funding from other sources for VET programs,*
- *Privately funded vouchers for VET programs*

For publicly fully financed VET programs, the main objectives are to distribute financing in a way which stimulates demand through empowering individual learners to make their own VET choices and enabling VET centres to respond to learner's preferences. For publicly part-financed VET programs, the main objectives include a fiscal stimulus to increase the demand for VET programs generally, for certain types of VET programs and/or target groups finally with the idea to encourage co-investment from other sources. For privately financed VET programs, the objectives are quite diverse due to the specific intention of the funder, be it a private household or business. In some cases vouchers have been used in combination with other financing instruments such as loans and grants.

D) Voucher Provision

A voucher could either be provided directly to VET learners to spend on the VET programs or the voucher entitlement could be sent directly to the VET centre of the learner's choice upon enrolment of the learner. The voucher may be provided in the form of a specified monetary value, e.g. number of training hours / weeks, or to enable the learner to achieve a certain occupational level or qualification. A voucher that has a higher value for those from disadvantaged target groups may act as an incentive for the VET centre to accept such a learner onto a VET program.

A voucher that includes costs, such as transport and living costs¹⁶ may be more equitable and may encourage more mobility and therefore allow for wider consumer choice. Furthermore, the voucher mechanism may not necessarily be used solely for the provision of VET programs, but may be used for a service related to the VET program, e.g. vocational guidance for the individual learner concerned.

E) Transfer of Funds

A voucher may be a coupon or a quasi-voucher such as a smart card, or it may be involve a system for the electronic transfer of funds from the purchaser of the VET program, e.g. government agency or enterprise. The trigger for finances to be transferred to the VET centre from the purchaser of the VET program can vary e.g. once the learner has enrolled or has attended a specified program phase or has successfully completed the VET program. The transfer of funds may be in instalments or in the form of a lump sum to the VET centre. The voucher may be used in only one region of the country or portable to other regions in the same country. In theory, the voucher could be portable across national boundaries. Portability can also apply to the ability of dis-satisfied learners to move with their voucher to a different VET centre.

7.3 Potential implementation problems associated with voucher schemes

Whilst vouchers have been advocated as a valid mechanism to improve equity, efficiency and transparency, there are a number of problems associated with voucher schemes. **It should be noted that these are potential problems not just with voucher schemes but with both demand-driven as well as supply-driven financing models in general and depend on the specific design of the voucher schemes.**

A) Administrative costs

Administrative costs for voucher schemes may be higher compared with traditional not demand-driven financing mechanisms. This is because the voucher idea is based on the use of a physical object, the voucher, which must be passed around the whole VET system changing hands between the issuer of the voucher, the learner, the VET institution and the body administering payments to the VET institutions. Therefore, the tracking of the voucher might be complex. Furthermore, as voucher schemes highlight the issue of individual choice, there may be a greater number of VET institutions and more tailor-made VET programs that need to be taken into account in administering the payment procedure

¹⁶ This argument will become relevant, if the MoES wants to reduce the number of VET centres as part of the planned public-private-partnership program. Certainly, a voucher bonus for those learners, which have to travel and may be forced to live in a boardinghouse near the chosen VET centre, seems to be necessary.

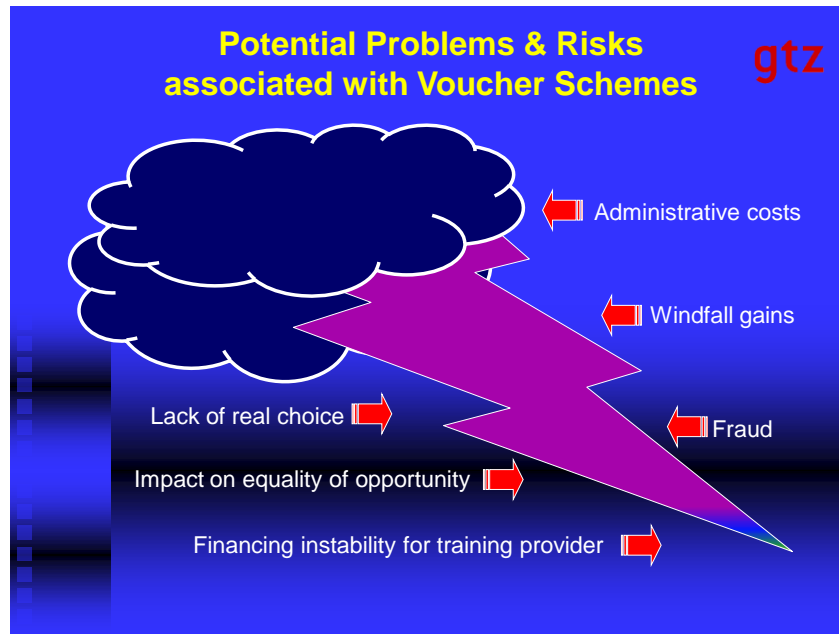


Figure 16: Potential problems and risks associated with voucher schemes

B) Windfall gains

Voucher schemes may result in that private expenditure on VET being substituted with public funds. In general, it is unlikely to be an issue where VET is already guaranteed to be fully funded – although an exemption is where VET is already paid for by learners in the case of private VET institutions. However, where there is no guarantee, windfall gains is likely to be an issue – a learner may wish to use the purchasing power of the voucher to undertake VET that he/she may have taken anyway. A similar situation may occur when public funds are used to support target groups already employed.

C) Fraud

A single voucher goes through many hands, thus creating the opportunity to build up a ‘*shadow market*’ in vouchers. For instance, learners might sell their voucher to someone else or to the VET centre. **To avoid such a criminal behaviour it is recommended that a voucher has to be topped up with tuition fees paid by the learner.** In this case, the learner is may be losing his own contribution if he sells the voucher.

D) Lack of real choice

The objective of voucher schemes to increase choice may be thwarted when it comes to implementation in regions where may be little real choice available, particularly for those living in regions and areas of low population density, or if the voucher scheme is set up to include a limited range of VET centres or VET programs.

E) Impact on equality of opportunity

The benefits of voucher schemes may accrue to learners of middle and higher income families. This is particularly true in cases where learners are allowed to supplement vouchers with their own funds. Even in employer-financed VET programs, equality of opportunity is an important issue as, in general, those who are less qualified stand to benefit more from VET programs than those who are more highly qualified. The targeting of vouchers on the less qualified is thus likely to be more equitable and more efficient. A related issue in terms of equality of opportunity is that of ‘*creaming*’ whereby the VET centre selects and chooses learners who cost less to train, so resulting in specific target groups being disadvantaged in the VET training market. This is an important issue where principles of equity are important, e.g. VET programs for young school leavers. Such

challenges can be rectified to some extent by the design of the voucher scheme – giving the voucher a higher value for certain categories of learners such as learners with physical or learning disabilities.

F) Financing instability of VET centres

VET centres, which are financed by their ability to attract learners and their vouchers could face an uncertain budgetary situation and will affect their ability to plan and execute provision of VET programs. As VET centres would be in competition, some may not be able to compete and will be forced to improve or to close. It can be argued that VET centres faced with lower budgets may find it difficult to improve the quality of VET programs. Furthermore, VET centres offering specific kinds of training with an uncertain level of demand may be forced to alter their VET programs towards more ‘popular’ VET programs. It might happen that VET centres may reduce the types of VET programs available leading to more standardised, rather than individualised VET programs. However, the just mentioned effects will be dependent on many other factors such as existing levels of regulation regarding quality assurance.

7.4 Operational planning of pilot voucher schemes

The piloting of voucher schemes requires the definition of voucher values and related financial revenues based on proper cost calculation. The cost analysis done by the GTZ-funded costing study (GTZ-PSDP / PLANCO) for 28 occupations will serve as a base for decision-making about proper voucher calculations. In any case the piloted occupations have to be selected. Another crucial point is the selection of participating VET centres for piloting voucher schemes. According to the costing study in 15 VET centres, the current situation at a large number of VET centres appears, at a first glance, dichotomised: the rehabilitated VET centres, at one side, are able to offer a selection of VET programs which are demanded by learners and enterprises whereas the majority of the non-rehabilitated VET centres face often merely basic problems such as completely outdated equipment, inexperienced instructors, insufficient training material, etc. In this regard, the calculation of the voucher’s financial value for both rehabilitated and non-rehabilitated VET centres based exclusively on costs incurred by the actual VET system and thus analysed throughout the costing study seems to be problematic. It would severely discriminate those VET centres having not undergone renovation and investment in both technical equipment and building infrastructure. As soon as the MoES has decided to pilot voucher schemes, all relevant stakeholders should be called to embark on a joint planning process. Furthermore, it is obvious, that **further research and in-depth analysis is needed to do the operational planning of the pilot voucher schemes**. The following guiding questions should be answered when it comes to the operational planning and implementation:

- *What kind of VET program, e.g. initial pre-employment training, continuous training, re-training or training for specific target groups, will be catered for in the voucher system?*
- *What does the demand for labour market orientated VET programs look like?*
- *What segment of the population, e.g. urban, rural, unemployed, retrenched, secondary school graduates, university graduates, etc. is the VET program attempting to reach?*
- *What types of VET program, e.g. short-term programs or long-term programs, are allowed under the voucher system?*
- *What kind of financial assistance, e.g. fixed price or a percentage price for the voucher, does the voucher system provide?*
- *To who is the voucher system open?*
- *What kind of general procedures and guidelines must be strictly followed by the voucher user / learner?*
- *What are the obligations of the voucher user?*
- *What are the grounds for outright disqualification in the availment of the vouchers?*
- *What is the most appropriate governance structure for the voucher administration?*
- *What are the roles of the VET institutions?*

- *How is the mode of payments?*
- *What are the reporting requirements?*

7.5 International Best Practices in Voucher Schemes

The following three case studies are offering some insight view into successful voucher schemes and could be used as reference material for the planning of the Georgian voucher schemes.

The Filipino Private Education Student Fund Assistance (PESFA) Voucher Program

The PESFA voucher program is one form of assistance to students in private education under the Republic Act No. 8545 of 1998. The PESFA program seeks to extend financial assistance to marginalize but deserving students in post secondary non-degree TVET courses; to promote technical vocational education and training (TVET) and contribute to the development of a competent skilled workforce. The program will cater to relevant trade areas and/or technology-based VET programs registered and accredited under the Technical Education and Skills Development Agency (TESDA). There are three types of VET programs for private post-secondary non-degree courses, to wit:

- One-year programs (operators),
- Two-year programs (craftsman),
- Three-year programs (technician).

The program provides the following vouchers to each grantee for two semesters per school year

- Tuition fees not exceeding 4.500 Peso (76,8 €) per semester,
- Monthly student stipend not to exceed 2.500 Peso (42,6 €) per semester,
- Student book allowance of 250 Peso (4, 26 €) per semester.

The PESFA voucher program is open to all Filipino high school graduates. The following are the general procedures and guidelines to be strictly followed by a student/applicant:

- must pass the pre-screening process by TESDA Regional/Provincial/District offices;
- Application with complete requirements will be scheduled for qualifying examination; and
- must pass the qualifying examination.

Those who passed the examination shall be included in the list of potential grantees. A student / applicant who will be accommodated as grantee within the given slot allocation will be given a notice of award and shall be required to sign a contract with TESDA. The grantee shall then be allowed to enroll only in school within the province of his/her residence. In cases where there are no accredited programs/schools within the province, the grantee can enroll in any school within the region subject to the recommendation and approval of the TESDA Provincial and Regional Director, respectively.

As a grantee, he/she is expected to:

- must belong to a family whose annual gross income is not more than P120,000.00 (2.048 €);
- must be a secondary school graduate without any post-secondary or higher education unit taken after high school graduation and with a general high school grade average of 80% or above;
- must be physically and mentally fit to undergo training/education;
- must not have any pending administrative or criminal charges,
- must be a good moral character certified by the school principal, and
- must not be a recipient of any government scholarship grant of similar nature.
- Participating schools are expected to:
 - offer programs which are registered with TESDA are consistent with identified skills priorities in their respective areas;
 - provide adequate and qualified faculty to handle the VET course;
 - evaluate and submit to TESDA-Provincial Office scholastic ratings of grantees not later than two weeks after the close of every school semester;
 - extend guidance, counseling, placement, job assistance and other similar services to grantees;
 - submit promptly and punctually financial and other reports that may be required by TESDA-Regional Office through TESDA-Provincial Office;
 - maintain separate accounting records subject to periodic inspectional visits by TESDA-representatives and other TESDA officials.

The TESDA Regional Office shall pay the TVET schools through the voucher system. Under this system, a grantee is issued a PESFA Voucher Form bearing the specified amount of financial assistance and the approved course and duration, which is then presented to the school where he/she intends to enroll. The school shall then submit to TESDA the voucher, together with the billing and the prescribed reports indicating

the actual payments to be made for tuition and other fees. The school must show proof that the fees charged for PESFA grantees is the same as those for non-PESFA grantees enrolled in the same course.

Source: www.tesda.gov.ph

The Australian Skills Voucher Program

The Australian Skills Voucher Program is an Australian Government initiative. There are two types of vouchers – Work Skills Voucher and Business Skills Vouchers. These vouchers will improve the basic skills of Australians currently in the workforce or looking for work that have no formal qualification.

Australian citizens or permanent residents aged 25 years and over who do not have a Year 12 or equivalent qualification are eligible to apply for a work Skills Voucher valued of up to \$ 3.000 (2.085 €). This will assist learners with the costs of studying Vocational Certificate II qualifications. Priority will be given to applicants in the following order:

- unskilled workers wishing to acquire qualifications;
- income support recipients who will face active job search requirements in the next two years. This includes parents on parenting payment whose youngest child has turned 4 and who, if still receiving income support, will be required to look for work when their youngest child turns six years; and participants in the Australian Government's Disability Employment Network, Personal Support Program or Vocational Rehabilitation Service;
- activity tested unemployed job seekers in receipt of income support and participating in the Job Network (provided they continue to meet their activity test requirements); and
- people not in the labour force, either voluntarily or because of career responsibilities, who intend to seek work after achieving their qualification (including people who are voluntarily participating in employment services).

The voucher may be used for

- Year 12 (basic education course);
- Vocational Certificate II course; and
- Accredited literacy / numeracy courses.

People who have already completed Year 12 or a Certificate II or higher qualification will not be eligible for a Work Skills Voucher. The Australian Skills Voucher Program has been replaced in 2008 by the Productivity Places Program.

Source: www.skillsvouchers.dest.gov.au

The South African MERSETA SME Voucher Project

The MERSETA SME voucher project was launched in October 2007 to assist small companies employing less than 50 staff members and has been extended to medium sized companies with a workforce of 150 or less in 2008. Qualifying companies can receive up to a limit of ZAR100 000 (10.000 €) per financial year to train its staff.

Each SME are entitled to access vouchers to the value of ZAR5.000 (500 €) per employee. The intention of the SME voucher project is to support small organisations in skills development and to promote a culture of long-life learning in small companies. Each SME employee can apply for two vouchers at a time, subject to the company limit and the availability of funds. The voucher can be traded for selected courses with approved accredited training providers. These training vouchers are valid for a period of 6 months during which all training, assessment and internal moderation must be completed. SME's that do not complete training may not have further access to the voucher project and will be required to pay the training providers themselves.

The MERSETA Training Voucher Project will be open to all SMEs in the manufacturing, engineering and related services industry with between 1 and 149 full-time employees. Participation for SMEs who are exempt from paying the skills development levy will require submission of a valid tax clearance certificate and registration with the MERSETA for exemption. Participation for levy paying SMEs is subject to the Skills Development Levy payments being up to date, proof of which may be requested if the levies have not yet been received by the MERSETA. On-line SME applications must be made prior to commencement of training and will be approved by the MERSETA within 5 working days. Training vouchers will be emailed to the recipients. These must be presented to the training provider when registering for the course.

Source: www.merseta.org.za

8. Long-term Georgian VET Financing Vision¹⁷

8.1 Elements of future VET financing systems development

The Georgian VET Development Strategy 2009 - 2012 states that resource constraints in the VET system will be addressed by an ideal combination of cost saving mechanism (without compromising training quality), generation of external resources and diversification of funding sources for public VET programs. The introduction of financing diversification in VET has successfully started in 2007 resulting from the new Georgian Law on Professional Education with the approval to generate additional revenues from income generating activities organized and managed by the VET centres.

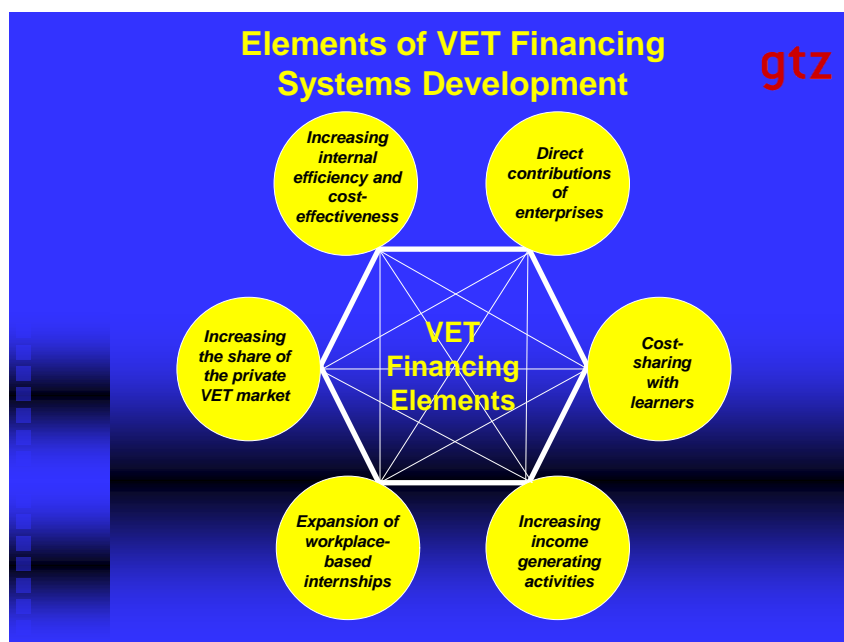


Figure 17: Elements of VET financing systems development

The following discussion will therefore concentrate on deepening and consolidating already existing efforts to diversify financing rather than comprehensively re-considering a complete new VET financing vision. The policy research on mid-term and long-term options should be aimed to develop a vision for a comprehensive funding approach able to address financial needs of different segments of the VET system and designed to stimulate and encourage an efficient and effective use and flow of funds. May be for analytical and decision-making purposes, however, a number of financing elements and mechanism should be researched. The identification of elements for further policy research must be based on the following principles:

Principles for a full learner-based and market-orientated VET financing system	
1	Cost of VET should be borne, as far as feasible and socially as well as politically acceptable, by the end-beneficiaries of VET. Apart from the society at large, beneficiaries include enterprises and households / individual trainees. Cost may be distributed among these groups in different proportions based on their benefits from VET training. Cost sharing

¹⁷ The writing of this chapter has been informed by Franz, J., König, A., Schmidt, J. (2007): Proceedings: International Symposium on implementation issues of diversified financing strategies for TVET. November 20 – 21, 2006, Addis Ababa, Ethiopia.

	may vary by type of training and who the recipients are.
2	Financing mechanisms should deepen the public-private partnership in the VET system. In this context the private sector is expected to increase its responsibility for VET delivery, while Government needs to ensure that market mechanisms are conducive for private VET investment. Where necessary private sector VET delivery may be encouraged by financial and other incentives.
3	Government should concentrate its VET investment in strategic areas, i.e. in regulation, quality assurance and support services to enhance quality (i.e. technical teachers / instructor training), and training delivery where.
4	The VET financing framework should be guided and stimulated by an effective and efficient use of scarce resources.
5	To increase efficiency, financing mechanisms, where appropriate, should strengthen the performance and responsibility of individual VET centres.

8.1.1 Increasing internal efficiency and cost effectiveness within the VET system

The restructuring of the Georgian VET system since 2004 was accompanied by substantial inefficiencies within the VET system resulting in uneven developments of VET centres, e.g. eleven VET centres have been rehabilitated so far, the remaining 27 VET centres seems to be underfunded. Inefficiencies occur mainly as a result of low capacity utilization, in particular in rural VET centres, unbalanced budgetary allocations unrelated to enrolment, and deficient management capabilities to name a few, causing sub-optimal staff utilization and finally not achieving the quality of training needed by the learners to show work-readiness and employability. Overall, the impression prevails that the management of VET centres have not been able to significantly gain from increased financial management autonomy granted by the Georgian Law on Professional Education.

Another efficiency issue relates to the prevailing budget- and input-orientated mode of training delivery within the VET centres. More flexibility in the delivery of VET programs, as provided for in the Georgian VET Development Strategy 2009-2012, may be instrumental to stimulate more cost-effective modes of training delivery. As a matter of priority, substantial strategic initiatives should be undertaken to improve internal management, capacity and resource utilization within the VET system with a focus on matching resources with needs and creating incentives for management of VET centres to improve performance in terms of capacity utilization as well as quality of training. Options to this effect, to be implemented in parallel, include:

- *Substantial and comprehensive efforts to improve management capabilities in VET centres, which include financial management, procurement, staff planning and human resource development. Capacity building should include the board of supervisors at each VET centre to enable them to proactively perform their guidance and supervisory function.*
- *Assessment of the organizational and management structures of VET centres including the development of recommendations for improved institutional capacity in order to adjust and optimize staffing levels and quality management procedures.*
- *Efforts to improve demand-orientation in the planning of VET programs in order to enhance capacity utilization.*
- *Effectively increase VET program development and enrolment planning autonomy including decentralized marketing and recruitment procedures.*
- *The MoES should furthermore explore opportunities to develop and introduce on a pilot basis a*

performance-based budget allocation mechanism to allow the VET centres to cover the institutional fixed costs in combination with the voucher financing mechanism for the training delivery. Such a financing mechanism to cover fixed cost should incorporate a number of diversified performance criteria like success of graduates in final trade tests, success in generating additional income and other quality and relevance indicators.

Furthermore, significant cost savings can be expected if VET centres are given more flexibility to design VET programs in accordance with the local environment and special requirements of target groups.

8.1.2 Expansion of workplace-based training components

VET qualifications contain three learning components:

- Knowledge and theory component;
- Practical skills component;
- Work experience component.

Knowledge and theory represents not only the knowledge of the practicalities of professions, occupations and trades but also the disciplinary knowledge relevant to them. The knowledge and theory component is clearly the domain of the VET centres, but enterprises could play a crucial role in terms of the practical skills and the work experience component. With respect to efficiency increases in the delivery of VET programs, the six-week workplace-based internship deserves special attention.

The internship will be provided by enterprises apart from the institution-based training part. This kind of cooperative training seems to be an excellent starting point for going into a closer relationship between VET centres and enterprises in order to enhance the employability of VET program graduates. A longer internship period will reduce the average training time spent in the VET centre. As a consequence, recurrent cost per student borne by government will decrease and facilities can be made available for new learners, reducing the need for new investments in VET centres.

However, prolonged internship periods at a larger scale will require substantially higher training capacities among employers and an increased commitment and VET ownership of the private and public enterprises. In particular, small and medium size enterprises (SME's) may need support and incentives to get involved. The MoES may therefore consider offering financial incentives to participating enterprises, e.g. a contribution to training allowances in the form of vouchers to be paid to learners, which would, however, partly or wholly offset the financial gains.

8.1.3 Increasing the share of the private VET training market

International experience shows that private investment in VET can be instrumental in easing the financial burden of the Government for financing VET, both in terms of capital investment and recurrent expenditure. Apart from the financial impact, the emergence of private VET centres as considered under the planned public-private-partnership program can help to increase quality, efficiency and cost-effectiveness in the entire VET system, as private VET centres have to act much more market-orientated than public VET centres. Some countries, e.g. Chile and Czech Republic, have been very successful in stimulating the emergence of VET programs provided by private commercial VET centres. The key to successfully encouraging private VET-investment is the creation of a conducive investment environment.

Strengthening the effective and equitable financing of the VET system is defined as a key element in the Georgian VET Development Strategy 2009-2012. The strategy identifies a number of activities, which would improve the VET market environment and thus the growth potential of private VET institutions. Most importantly, the Georgian Law on Professional Education envisages the establishment of an accreditation system aimed at

- *Creating a level playing field among public and private VET centres by applying the same accreditation criteria and financing formula;*
- *Establishing professional and vocational standards as well as standard VET programs intended to support VET centres to improve quality; and*
- *Involving private VET centres to take shared responsibility over the development of VET in Georgia.*

Options for the MoES to strengthen supply and demand in the private VET market include¹⁸:

- *Consequent reform of the accreditation and licensing system envisaged in the Law on Professional Education and the VET Development Strategy 2009-2012, to ease market access of private VET centres.*
- *Implementation of the professional and vocational standards-based system as well as standard VET programs to reduce training costs and increase market transparency in VET market.*
- *Consequent implementation of incentive schemes for educational investment in the VET system, e.g. free land allocation.*
- *Awareness creation campaigns among VET administrators about public-private-partnerships.*
- *Involvement of private VET centres associations, if available; in all aspects of VET policy development and implementation that affects private VET program delivery.*
- *Implementation of all other interventions and activities to strengthen private VET centres as envisaged in the Law on Professional Education and the VET Development Strategy 2009 - 2012.*

Interventions to strengthen the demand for the provision of VET programs by private VET centres¹⁹:

- *Limit public VET program delivery to niches and strategic training areas that cannot be provided by the private VET market. Joint public-private VET planning panels at the state or local levels may facilitate a better coordination of public and private VET supply, with the aim of public VET centres concentrating on those fields that are not provided by the private VET centres.*
- *Support to learners enrolled in private VET centres preferably through voucher schemes or fee-subsidization or provision of loans to cover tuition fees. Such a demand-subsidization may become essential as a specific scheme to mitigate social consequences if the MoES decide to move out of vocational fields that can be provided by the private VET centres. A subsidization scheme may cover full tuition fees or part of it. It may be given as a grant to needy learners in the form of a voucher or as a loan to be repaid after graduation in the form of a graduate tax fund scheme. The subsidization scheme may be targeted to special target groups in need such as IDP's, women, rural learners or to priority vocational fields.*
- *Outsourcing of publicly financed VET provision to private VET centres through public tender processes. The countries Chile, Ivory Coast and South Africa are examples where publicly financed VET provision is out sourced to private VET centres through open tender process in which public and private VET centres compete. Such interventions would limit the cost-saving potential to the cost differential between public and private provision. However, it would relieve the MoES from immediate investment costs, and would act to stimulate completion and market*

¹⁸ The MoES and GTZ are jointly conducting a research study on how to match VET provision with labour market needs in Georgia (GTZ-PSDP, 2010)

¹⁹ Private VET centres may be established in the near future under the planned public-private-partnership program.

development in the private VET market.

8.1.4 Increasing income generating activities

In many VET programs, income is generated from the sale of production and service activities. Such income generation may take many forms. This could be in the form of the provision of services (such as car repair or hairdressing services), which also offers learners valuable practical experiences gained from working with real clients. Following the international experience, income generating activities (IGAs) have been increasingly strengthened and accepted as a complementary revenue source for public VET centres.

Nevertheless, there are no clear international trends about the proportion to be recovered through IGAs. Empirical data vary significantly from case to case. Ziderman (2002) comes to the conclusion that while there are some exceptions to the contrary, the scope for cost recovery is limited, usually accounting for only a small percentage of recurrent expenditure. VET centres may generate income from the sale of services, including the renting out of underused facilities and providing consultancy services to local enterprises. The liberalization of use of income by VET centres introduced in Georgia through the Law on Professional Education has created incentives and contributed to the stabilisation of the resource base of the VET centres, at least for a few of them. Experience in non-rehabilitated VET centres in Georgia shows, that actual income is still very limited.

While the regulatory environment has improved substantially, the further expansion and systematisation of IGAs appears to be mainly hampered by lack of management skills and creativity of management of VET centres. Also, there appears to be a rather unequal income potential between urban and rural VET centres, although rural VET centres might be able to develop potential IGAs within the agro-food sector. In order to further strengthen the income potential of VET centres, the following initiatives are recommended:

- *Encouragement of public VET centres to offer more pro-actively evening classes, summer courses and tailor-made continuous VET programs for enterprises.*
- *Encouragement of VET centres to diversify products and services offered, including consultancy services.*
- *Streamlining of policies and guidelines about management of IGAs and use of income.*
- *Development and implementation of targeted IGA management training for staff in public VET centres, including market analysis, marketing, costing and pricing.*
- *Development of model guidelines for IGAs in public VET centres to be adapted by the MoES. These would include rules for product development in order to prevent VET centres to create unfair competition in local markets.*
- *Strengthen the role of the board of supervisors in each VET centre in the guidance and supervision of IGAs. This includes firstly introduction of clear rules for approval of IGAs and use of income, and procedures for monitoring of boards involvement in IGA policies and decisions. Secondly, international experience has shown that supervisory boards often lack awareness, expertise and interest in the field of IGAs. Therefore, awareness campaigns and workshops for board members are necessary.*
- *Organisation of workshop where experience can be changed between VET centres management staff.*
- *Development of award schemes for VET centres with successful IGA initiatives.*

Apart from capacity building activities, the following financial & budgetary instruments may provide further incentives to VET centres to increase IGA efforts:

- *The assumed share of the overall budget to be covered by IGAs may be deducted up-front from Governments budget allocation. In order to take market differences across VET centres into consideration, such a lump sum deduction may be negotiated with each VET centre. VET centres, which do not manage to generate the expected income, would be forced to find alternative strategies to cope with the budget shortfall. Such an instrument may work best, if VET centres have far reaching autonomy in financial and VET program planning, including the right to raise tuition fees.*
- *Creation of incentives for increased income generating activities by honouring IGA success through increased budgetary allocation, e.g. awarding of matching grants for investment projects that are partly financed through external income.*

International experience seems to suggest that in the short run the potential of IGAs to contribute in a sustainable way to the cost of VET training should not be over-estimated. In particular, the volume of income tends to be unpredictable, which would make it difficult to factor in this income into the normal recurrent budget.

8.1.5 Direct contributions of enterprises

Enterprises are the ultimate end-beneficiaries of the VET system and therefore be expected to contribute to the financing of the VET system above their normal tax contributions to the Governments budget. VET taxes, usually levied as a percentage of wage payrolls, are now the most pervasive mechanism employed for financing VET systems throughout the world. A variety of methods to enforce or encourage enterprises to contribute to the cost of VET programs can be found in many countries ranging from incentives to invest in VET centres up to compulsory contributions. In the Georgian case, so-called sector committees have been established to develop occupational standards. Other contributions of employers may include

- *Financial contributions in the form of VET levy;*
- *Voluntary contributions to individual VET centres as part of partnerships;*
- *Strengthening of VET provision through enterprise-owned and financed VET centres.*

In order to increase employer's investment into the VET system, in particular of private enterprises, four basic options may be explored further in the Georgian context:

A) VET levy and VET levy-grant-system

VET levies or training taxes constitute a compulsory investment in VET systems. In most countries, VET levies are introduced at a national scale and across all economic sectors. Enterprises are obliged to pay a defined contribution, usually around 1% to 2% of the wage bill, into a National VET Fund, used to finance or supplement public spending for the VET system. In many countries, so-called VET levy-grant-systems have been introduced, in particular if the active involvement of enterprises in the VET system is explicitly desired. Such a funding mechanism has been introduced by the South African Government in 2000. In the South African levy-grant-system, employers who have paid the skills levy are entitled to claim back parts of it for their own training activities, approved and monitored by a stakeholder-driven Sector Education and Training Authorities (SETA's). A levy-grant-system ensures that mainly those enterprises that do not invest in training activities become net payers to the levy-grant-system providing therefore incentives for enterprises who embark on VET programs themselves.

In many countries, VET levies have become a secure and stable income source for VET systems. However, international experience also points to a number of preconditions that must be fulfilled in order to make the levy systems a success, among others:

- *Enterprises must see the benefit of paying the VET levy, e.g. VET programs must enable*

learners to show work-readiness and employability.

- *The decision to introduce a VET levy and the specific regulations and conditions are made in consultation with the relevant stakeholders, e.g. representatives of employers and trade unions.*
- *Enterprises which pay the VET levy are involved in the governance of the levy system and the decision on how the levy income is used, e.g. through stakeholder-driven industry boards.*
- *The rate of the VET levy must be reviewed periodically and adjusted if conditions have changed.*
- *The collection mechanism of the VET levy must be designed in an effective and transparent manner.*
- *Mechanisms are in place to safeguard VET levy revenues from misuse and diversion, e.g. through the establishment of specifically earmarked accounts.*

There are some arguments against the introduction of a VET levy system in Georgia. Firstly, another tax burden on enterprises is not in line with the government's current economic policy thinking. Secondly, and most importantly, the majority of employers in Georgia still lack awareness and appreciation of the benefits of VET programs and the positive impact of a comprehensively skilled workforce for the level of productivity within enterprises. Under this condition, the VET levy would run the risk of being perceived as yet another tax for which no return is offered. It may provoke negative attitudes against VET programs, and as such may hinder the development of VET ownership within enterprises.

Considering these arguments, it can be concluded that a VET levy would not be appropriate at the moment in Georgia. However, a VET levy should be contemplated in future times only after appropriate ownership of the VET system has been developed among employers and trade unions. The situation may be different with respect to industry-specific VET levies. In some countries, VET levies have been introduced first of all on the basis of an industry-sector, e.g. the tourism, construction or fishery industry. Despite the above mentioned risks, sector-specific VET levies, in particular if the initiative comes from the industry sector itself, may provide a good starting point of getting enterprises more systematically committed to the financing of VET programs in Georgia.

B) Voluntary employer contributions to individual VET centres

In the absence of schemes for voluntary contributions of enterprises to individual VET centres at the moment in Georgia, it makes sense to encourage enterprises to contribute voluntarily to VET centres. In fact, there are already examples in Georgia, where enterprises have supported VET centres, for instance through maintenance work. Voluntary contributions may also include scholarships, sponsorships of VET centres, donations of equipment and machinery, seconding of staff up to opening workshops for practical training modules to name a few. Such contributions are not explicitly encouraged or stimulated in Georgia yet. The Georgian Employers' Association (GEA) has shown interest and preparedness for sponsorships if tax incentives would be in place. Appropriate incentive mechanisms should therefore be introduced to stimulate the preparedness of enterprises to voluntarily contribute to the VET system, notably

- *Allowing the tax deductibility of donations to VET centres.*
- *Strengthening the public recognition of contributing enterprises, e.g. recognition in the media, certificates of honour, advertising and promotion in VET centres.*
- *Creation of transparent and accountable channels for contributions in cash.*

It should be emphasized that the preparedness of enterprises to contribute voluntarily to VET institutions is dependent on the reputation of the VET system and the perceived return of the investment. Surely, it will increase if and when the quality of VET programs is improving and

enterprises can exert an increasing influence on the VET system. As long as the VET reform has not fully yielded results in terms of quality and relevant improvements, the potential volume of enterprise voluntary contributions should not be over-estimated at a national scale, although it may be substantial in case of individual VET centres.

C) Strengthening of VET provision through enterprise-owned VET centres

Enterprises, in most cases the 'big corporate ones', are arranging skills training in enterprise-owned VET centres for their own employees in order to enhance the productivity of their staff. Such short-term training arrangements are generally directly linked to the immediate interest of the enterprise, e.g. introducing new machinery or procedures, adapting to organisational changes, preparing staff for promotions into new jobs, etc. Costs of VET programs in enterprise-owned VET centres are in most cases entirely borne by the enterprise. Employees (learners) usually receive either a salary or in-cash support to their living expenses. Enterprise-owned VET centres in Georgia, if available, may be integrated into the existing internship program of public VET centres.

8.1.6 Cost sharing with learners

In principle, cost sharing aims at reducing the size of allocations to individual VET centres. A common approach is that of matching finances from end-beneficiaries. However, the best known and most widely used approach so far, is the imposition, or raising the amount, of tuition fees to learners enrolled in VET programs. It is legitimate to require learners to bear at least a part of the training costs when acquisition of knowledge, skills and competence is seen as an investment in human capital, with the promise of higher labour market earnings and a greater probability of sustained employment.

The efficacy of cost-recovery through tuition fees will depend to no small extent on the overall training fee policy. Internationally, there are two different contexts in which tuition fee policies are discussed. In Georgia, the government determines the level of tuition fees according to Chapter 35 – Point 6 of the Law on Professional Education. VET centres are not allowed to determine tuition fees higher than what has been determined by the government. Alternatively, VET centres may be granted the freedom to introduce, and fix the level of, tuition fees for VET programs provided. It is interesting to note here that Georgian universities are enjoying the freedom to set the tuition fee level out of their own training cost calculations.

While both approaches produce the desired effect of greater cost recovery and lowering pressures on public budgets, they carry very different implications for the management and functioning of VET systems (Ziderman, 2002). Standard, nationally set compulsory tuition fees are unlikely to reflect local market realities. They obviate the use, by individual VET centres, of tuition fee policy as a management device, especially in terms of marketing various available courses to target groups of differing needs. Centralized fixing of tuition fees is also an inflexible financing instrument; it does not allow the local VET centre to vary tuition fees to reflect changing local market conditions.

In cases where tuition fees are voluntary and left to the initiative of the local VET centre, they may encourage VET centres to develop a more dynamic, even aggressive, approach to exploiting the potential of the local market environment. In this way the decentralised tuition fee policy become more than a device for cost recovery and cost sharing: in providing a mechanism for varying tuition fee levels across VET programs and target groups. Clearly, the voluntary approach serves as an instrument for moving the VET system towards an open and demand-orientated provision of VET programs. However, there is an important proviso here: VET centres should be free to retain tuition fee income and the sums collected should not be deducted from institutional infrastructure budgetary allocations.

8.2 Towards a future Georgian VET financing vision

Complying with the Georgian VET Development Strategy 2009 – 2012 it is recommended that the MoES works towards a diversified and multi-pillared financial base for the VET system in the medium and long-term run. In view of the many uncertainties of each of the discussed financing instruments a

future learner-based and market-orientated VET financing vision provides the best chances to build a balanced and sustainable structure, stable enough not to become shaky if any of the instruments and points is not yielding the expected results.

The recommended VET financing vision is firstly focusing on resolving the resource challenge in the VET system, which is expected and intended to rapidly expand in the years to come as a result of rising numbers of secondary school leavers and university graduates looking for VET programs to become employable and show work readiness. Without a politically achievable, socially acceptable and effective vision to solve the resource challenge in the VET system, Georgia will not manage to channel additional resources into regulatory and supportive functions, quality improvement and assurance, and the extension of VET programs to target end-beneficiaries other than school leavers and university graduates.

8.2.1 Corner points of the future vision of VET financing

The recommended VET financing vision is comprised of the following twelve corner points based on literature research, analysis and discussions in the previous chapters:

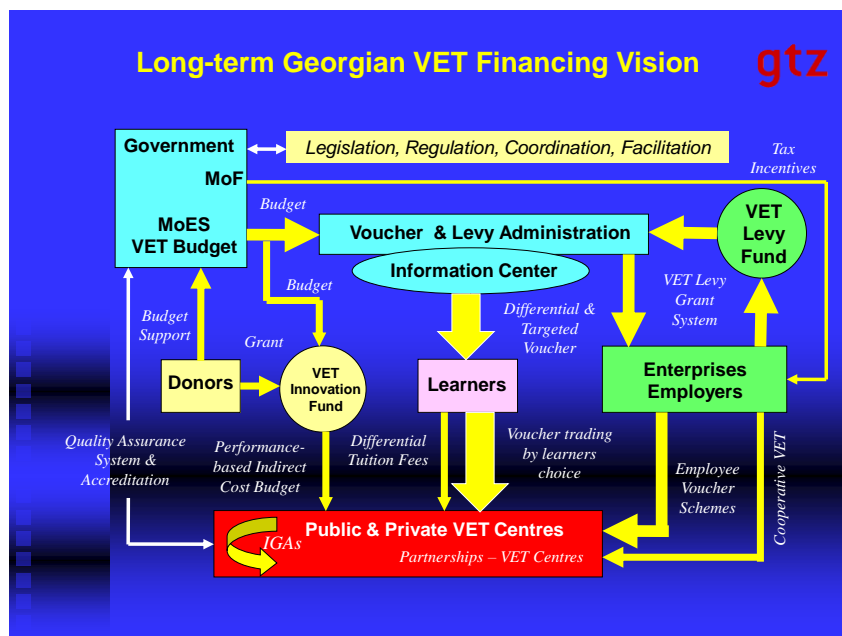


Figure 18: Long-term Georgian VET financing vision

1. The Georgian MoES will carry the responsibility for financing the increased functions in legislation, regulation and coordination of the VET system, and support and facilitation of further VET system development.
2. Different methods of cost-saving, efficiency increases and cost-sharing will lower the relative burden for MoES's recurrent financing for public VET provision. However, the Georgian government will need to continue financing VET provision at a high level, if access and equity targets are to be achieved as well as quality in the public VET centres improves.
3. The Georgian MoES will prioritize the implementation of learner-based and market-orientated voucher schemes as the major disbursement mechanism for the VET system. Voucher financing systems are a tool for building stronger training markets within VET systems. While systematically using alternative private financing options where possible, the Georgian MoES should focus its spending decisions on strategic differential and targeted voucher schemes, especially in areas where private financing will continue to be insufficient. This applies in particular to VET programs for IDP's and rural areas.

4. Systematic efforts to strengthen efficiency in the management of public VET centres are necessary including the introduction of performance-based budgeting elements. This must include increased capacity building efforts of management staff in VET centres and mechanisms to strengthen functions and capacities of boards of supervisors at each VET centre, ultimately aiming at more management and financial autonomy. Funds to be allocated to VET centres from the VET innovation fund could be distributed in accordance with defined performance indicators.
5. A substantial increase of enrolment in private VET centres is envisaged. Whether this is achievable depends on the investment climate for public-private-partnerships in VET, based on dialogue and coherent and transparent rules and regulations. The recommended public withdrawal from low cost VET programs in regions where private VET centres are active, mainly in urban areas, will be an important step towards strengthening the private VET market, but will need to be backed with targeted vouchers to those learners who cannot afford the upfront tuition fees payable in the private market.
6. An increase of enterprises' involvement in VET programs should be aimed at. In the short to medium term, the involvement of enterprises in the (expanded) internship scheme needs to be strengthened. One option to be considered is to provide a grant out of the recommended VET levy-grant-system for each internship place provided. Such a cash grant would be more than offset by cost-saving effects through the expansion of the internship period up to six month per year. Enterprises are furthermore expected to substantially invest in human resource development and upgrading of their workers, to be supported by the Georgian Ministry of Finance (MoF) through appropriate income tax provisions (tax deductibility of VET program costs and possibly tax credits).
7. Establishment of sector VET levy funds may be one short-term option for Georgia that needs to be further discussed as a VET financing instrument as long as the country is not considering the introduction of a countrywide VET levy scheme. It may be desirable if selected strong and well-organized economic sectors, led by their professional sector organizations, would establish coordinated sector-wide approaches to investment into VET programs through the introduction of sector VET levy funds. Such funds could be used to finance cooperative VET programs through employee voucher schemes in close collaboration with sector-specific VET centres of excellence. The Georgian MoES and the social partners, such as the Georgian Employers Association and the Georgian Trade Unions Confederation, are required to encourage, assist and, where necessary, facilitate such cooperative initiatives.
8. The introduction of tuition fees as a topping-up of the differential voucher schemes imposed on learners may be considered as a tool to increase cost-sharing. The relatively high private return on VET programs that can be expected appears to justify a certain level of cost-sharing. Tuition fees at a cost-sharing level as suggested in the different voucher scenarios would probably by far exceed what might be considered acceptable by learners and their families.
9. A further increase of income generating activities (IGAs) such as
 - Evening classes,
 - Continuous training courses for companies,
 - Tailor-made training courses funded by donor organizations,
 - Manufacturing and sales of goods and services,
 - Renting out of VET centre facilities (rooms, equipment, meeting halls, etc)

is expected. While the regulatory and financial management framework for IGAs has been remarkably improved as a result of the implementation of the Georgian Law on Professional Education, the actually IGA practice needs substantial further strengthening, in particular through management capacity building initiatives, awareness creation and strengthening of facilitating and

supervising functions of board of supervisors at each VET centre. VET centres have to be motivated to creatively look for market niches and activities that are beneficial to both, the VET centre and the surrounding economy, instead of distorting local market sales below market prizes.

However, the IGA potential varies substantially, and is particularly low in rural environments. At the moment, the external income from IGA-activities to be used to subsidize VET programs is too unpredictable and unstable to factor IGAs as fixed asset into the recurrent budget. It is rather suggested to build on what is already exercised in VET centres, e.g. the use of external IGA-income for financing of smaller capital investments. VET centres may be expected to cover needed investments such as replacement of training equipment, computers and office equipment, new buildings and maintenance of buildings, vehicles, etc. from their own generated income and may be supported by funds to be allocated from the VET innovation fund in accordance with defined performance indicators.

10. A VET innovation fund is suggested as an instrument to support innovation and initiatives to strengthen the VET centres. The innovation fund would be accessible to public and private VET centres on the basis of competitive application. It would finance the development of new VET programs, new modes of delivery and financing, new forms of cooperation between VET centres and the world of work, support programs for traditional apprenticeships, pilots for business incubators attached to VET centres, etc., and other innovation that may help the VET centres to develop and grow out of its current infant stage. The VET innovation fund would be initially sourced through public budget allocation. If properly and transparently designed, donor organizations may also find such a VET innovation fund an attractive pathway for supporting the Georgian VET reform. It should be emphasized, however, that a VET innovation fund can stimulate and help develop, but not permanently finance the VET needs in Georgia.
11. Capital costs borne by the Georgian MoES can expected to be lower, if all above mentioned financial instruments are going to be used. The demand for new VET centres and equipment will be reduced as a result of higher capacity utilization, relatively lower enrolment in relation to the overall VET enrolment and lower per learner utilization of public institutional facilities through expanded internship periods.
12. Donor organizations are expected to continue assisting the Georgian MoES in particular in meeting its investment requirements as well as capacity building initiatives.

These twelve corner points of the recommended vision for VET financing need to be operationalized further once a decision on the basic principles of the VET financing vision has been made.

9. Implementation schedule for piloting a learner-based and market-orientated VET financing model

Lessons learnt from international VET systems development programs have shown that the efficiency and effectiveness of interventions into complex systems need a systemic management approach. It is recommended that the piloting and testing of a learner-based and market-orientated VET financing model should be based on five success factors in line with the European Foundation for Quality Management Model (EFQM). To be successful, each intervention needs to focus on the following success factors:

1. Strategy	Development of a clear and plausible implementation strategy
2. Cooperation	Distinctiveness about who and how stakeholders are involved
3. Steering Structure	Setting-up of a functioning and operational management structure

4. Process	Clarity of strategic implementation processes
5. Learning & Innovation	Measures to build capacity and competence in executing agencies

The following steps are recommended to be carried out by a project management team established at the MoES in close cooperation with the National VET Council:

Main Activities	Time Frame
Establishment of a stakeholder-driven working group for VET financing policy under the National VET Council	June 2010
Discussion and agreement on a conceptual framework for a revised VET financing policy	June – August 2010
National VET Council recommends the revised VET financing policy to Georgian government	September 2010
Publication of an executive order (decree) by the Georgian government on the new VET financing policy to be used for the piloting phase.	October 2010
Development of regulations for VET budget disbursement including VET voucher schemes	November 2010 – April 2011
Development of allocation guidelines for VET infrastructure budget	November 2010 – April 2011
Identification and selection of outcomes (competency)-based VET programs linked to International Standard Code of Occupations (ISCO) skills levels 1 – 5 including workplace experience in enterprises	November 2010
Development of differential VET vouchers per standard VET program and regions (urban & rural) based on results from GTZ funded VET costing study	November 2010 – April 2011
Occupational standards jointly developed with industry experts and assessed through an independent final trade test	November 2010 – April 2011
Development of regulations for an outcomes-based quality assurance system including accreditation of VET centres	November 2010 – April 2011
Development of guidelines for workplace-based experience in enterprises	November 2010 – April 2011
Curriculum development & teacher training informed by outcomes (competency)-based approach	November 2010 – April 2011
Development of information material for learners for all voucher related VET programs	November 2010 – April 2011
Piloting and testing of revised VET financing model	May 2011 – April 2012

Monitoring and evaluation of pilot phase and development of recommendations for modifications of the VET financing policy, if necessary	May 2011 – April 2012
National VET Council recommends the revised VET financing policy to Georgian government	May 2012
Capacity building programs for management and administrative staff of all public VET centres	May 2012
Publication of an executive order (decree) by the Georgian government on the new VET financing policy to be used VET system-wide.	June 2012
Start of application of the revised VET financing policy in all public VET centres	Up from July 2012

10. Risks

1. The recommended restructuring process of the Georgian VET financing system is not without any risks. First of all a clear and plausible strategic direction has to be negotiated and accepted between government and involved stakeholders. If the various stakeholder organisations are not willing to co-operate with government, than the change process from the old budget-orientated and input-driven financing model towards a learner-based and market-orientated financing model is severely hampered. To avoid such a false start into the restructuring process, the collaboration between government and stakeholders has to be initiated, negotiated, coordinated and well-kept. An optimal steering structure of the restructuring process has to be established, which allows government to manage the expectations of the involved stakeholder organisations. It is the complex nature of stakeholder involvement that leads very often to a standstill of the change process and must be seen as a fundamental risk.
2. Stakeholders expect from the restructuring process that the quality and relevance of VET programs are enhanced. If this positive outcome is not going to be achieved due to failed stakeholder collaboration than the restructuring process will not produce the positive results as anticipated. Without a visible and substantial improvement in the quality, relevance and thus legitimacy of the VET system, the stakeholders may not be willing to share government's burden in the further development of the VET system. On the other hand, government should be prepared to share responsibility for VET policy making as well as evaluating and monitoring the performance of the VET system. The stakeholder-driven National VET Council should be the place where VET financing related decisions should be negotiated and agreed on.
3. A substantial employer presence on the National VET Council and subordinated working groups may be desirable in order to forge links with employers generally, and as part of the process of fostering demand-driven VET programs. Employer members of the National VET Council and related working groups may be seen as representing the ultimate consumers of the outputs of the VET system and, as such, may have relevant inputs to make in decisions related to financing issues. This will decisively influence the private sector's willingness to share financial responsibility. The status of the current government spending for VET programs clearly shows that there is a need to increase the VET budget, even if new financing instruments are introduced. A risk for the VET financing system therefore is that government will not be able to raise sufficient resources for financing an increased access to VET programs. Subsequently there is may be the

risk that in case of budgetary constraints preference is given to meeting input-orientated enrolment figures rather than to quality targets. International experience suggests that constrained national VET budgets have exerted their toll on the quality and effectiveness of public VET provision.

4. Another kind of risk to stem from is the level of capacity required by the implementing authorities. To manage change processes on the political-strategic level as well as on the level of VET institutions it is vital to promote the management capacity of the executing agencies. In the light of this institutional capacity challenge, the government is facing to plan, implement and monitor an ambitious reform process, particularly in view of the breadth of areas to be covered. Therefore, in order to minimize the risk of failing to implement the new financing model, it makes really sense to develop the financing model for the VET system step-by-step in order to avoid overstressing the capacity of the implementing institutions. To make it clear, the new financing model cannot be implemented without a major capacity building program for staff members of the executing agencies.
5. Finally, risks are also deriving from an incomplete conceptual framework for a new financing model, particularly when the restructuring process is not guided by a systemic implementation approach. The introduction of a learner-based and market-orientated VET financing model requires simultaneously the development of a quality assurance system as well as an information system for learners. If the restructuring process is focusing alone on the implementation of voucher schemes than the expected quality of VET programs cannot be achieved, which in turn has consequences for the long-term reputation of the VET system as well.

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