

**The Role of Republican Union of
Employers of Armenia in Promoting Youth
Employment and Strengthening
Professional Education Institutions**

Dr. Joseph Prokopenko,

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1. Background

The common problems of economies in transition are low competitiveness and productivity resulting in high unemployment, particularly among the youth. The typical reasons for that are:

- Undeveloped and unfavourable business environment;
- Slow pace of economic reforms;
- The mismatch between job seekers professional structure provided by VET institutions and labour market demands;
- The lack of well educated and trained job applicants; and
- The outdated VET institutions and governance system.

The time lag between labour market signals and the actual employers' needs requires stronger intervention from different labour market players, particularly, from employers' organisations, and better communications and cooperation among all social partners as well as the government agencies concerned.

After the collapse of the Soviet Union, and during the following transition to the market economy many VET institutions had been liquidated. Unfortunately, most of them have not been replaced by equally effective private education and training providers to fill the gap.

In such conditions the role of employers' organisations has become of critical importance to speed up the process of youth development and linking closely VET institutions outcomes to enterprise needs. These needs are very dynamic and are changing much faster than existing VET system reacts in adjusting their curricula, training facilities and equipment, teaching methods and techniques. The most of the VET institutions are still overcentralized, with poor administration and slowness in management decision making.

The purpose of this research was to identify the status, problems and the needs of RUEA in strengthening its role in advancing the youth employment through partnership and impact on education and training institutions, and contribute to improving the fit between professional qualification demand and supply.

2. Research methods

The main research methods were desk study of publications, official documents, and research papers of various national and international organizations as well as the project documents. But the most revealing were information and opinions obtained from almost thirty top-administrators and managers, officials and experts from international organizations, government agencies and ministries, employers' organizations, educational and training institutions and enterprise owners and managers as well as RUEA professional staffs and a few focus group discussions.

The RUEA has done an excellent job in preparing the visits to the relevant ministries and state agencies concerned with economic and social development as well as youth employment promotion and vocational education and training institutions and SMEs development. The officials from the ILO headquarters (Geneva), the ILO

correspondent in Yerevan provided valuable insights into situation and advices concerning this research

3. The Country Profile

The Armenians first emerged around 800 BC. The first Armenian state was founded in 190 BC. At its zenith, from 95 to 65 BC, the Armenian kingdom extended its rule over the entire Caucasus and the area that is now the Eastern Anatolia region of Turkey, Syria, and Lebanon. The kingdom became part of the Roman Empire in 64 BC. In 301 AD, Armenia is the first nation to adopt Christianity as a state religion, establishing the Armenian Apostolic Church.

The Russian Empire later incorporated Eastern Armenia in 1813 and 1828. In 1915-18 up to 1.5m Armenians (one third of the Armenian population) died of starvation or were systematically killed during the final years of the Ottoman Empire. As a consequence of these events, a large Armenian Diaspora lives outside Armenia, mostly in the USA, in the Middle East and in France.

An independent Armenian state existed from 1918-1920. In late 1920 Armenia was incorporated into the USSR and later on has become a centre of technological and light industry. A national referendum to secede from the USSR took place in September 1991 with more than 99% of voters supported independence. Now, Armenia, with the area of 29,800 sq km and population of about 3 millions, is market-oriented, democratic republic. A new constitution was adopted in July 1995 and revised in November 2005.

Armenia has good relationships with other countries and quite strong cooperation with the most important international organizations, including the UN system, EU and bilateral donors from the USA, UK, Canada, Sweden, Germany, Switzerland, France and others. Armenia joined the Council of Europe in January 2001 and the World Trade Organisation in January 2003. Now Armenia is a member of most of the international organizations and their groups, such as EAPC, EBRD, ECOSOC, ESCAP, FAO, IAEA, IBRD, ICAO, ILO, IMF, ISO, ITU, UN, UNCTAD, UNESCO, UNIDO, WHO, WMO and others.

A Partnership and Cooperation Agreement (PCA) between the EU and Armenia was signed in 1996. In June 2004, Armenia was included in the European Neighbourhood Policy (ENP). Particularly close relations are developed with Armenian Diaspora.

Armenia's closest political and economic relationship is with Russia. Armenia is a member of the CIS and has signed a Friendship Treaty with Russia. Armenian relations with Turkey have a troubled history and continue to be sensitive. The Turks and Armenians work together in the Black Sea Economic Co-operation Organisation. Relations with Georgia are generally good, particularly in economic terms, with many Armenian imports coming through the Georgian border. There are some positive signs in improving the relationships between Armenia and Azerbaijan with the assistance of Russia and negotiations on it is now underway.

These generally positive outlooks on international position of Armenia is an excellent opportunity for Armenian business to look more aggressively in the direction of

export promotion and developing strategy of moving country economic pattern into high tech and high value added services.

The present country political scene remains tense, following the violent crackdown on a post-election opposition demonstration by the police, in which ten people died. With the opposition denouncing the parliamentary commission set up by the government to investigate these events as lacking independence, prospects for an improvement in relations between the two sides seem minimal.

Despite a strong Western criticism of the conduct of the presidential election, Armenia's aid programmes with the US and EU appear only to have been delayed, rather than suspended, as had been threatened. The US had warned that the disbursement of US\$236m from the US Millennium Challenge Account (MCA) could be terminated altogether in the light of the imposition of the state of emergency in March. However, given the political capital already invested in these programmes (in the case of the EU, the European Neighbourhood Policy), it seems likely that Armenia will continue to benefit both financially and from technical assistance through participation in these programmes.

Economic policy under the new President will differ little from that of his predecessor, given that Mr Sarkisian has long been at the heart of the political scene. With a respected former Central Bank governor leading the government, prospects for greater progress in tackling corruption within the tax and customs administrations, strengthening the rule of law, and ensuring fair business competition have improved. However, given the close links between political and business circles in Armenia will still present an obstacle to more open and transparent policies, and could slow the pace of reforms.

Nevertheless, the government has made considerable progress in setting up the basic democratic and market institutions, decentralizing some government decisions, increase emphasis on regional development and strengthening regional and local administration, reducing corruption. The policy decisions have become more transparent with increasing the involvement of social partners and civil institutions. Among the government priorities are a sound foundation for eradicating mass poverty and improving living standards by 2015, laying the foundation for sustainable socially-oriented growth; promoting accountable, transparent and effective governing institutions; and supporting sound management of natural resources.

4. The economic framework and trends

Armenia's economy expanded at a double-digit rate for the sixth consecutive year in 2007, when it posted real GDP growth of 13.7%. In the first half of 2008 the real GDP increased by 10.3% year on year, putting the economy on track to expand at a double-digit rate for the seventh consecutive year.

Booming construction and services such as the financial sector and communications was an important factor behind the rapid expansion. It was expected that investment into these sectors would help to ensure annual average real GDP growth of around 8.5% in 2008-09.

Financial and other services, excluding retail trade, were the fastest-growing sectors of the economy in the first half of 2008, generating almost 25% of GDP and expanding by 23% year on year, as robust demand for consumer credit supports banking sector activity. New investment in the telecoms sector contributed to 6% year-on-year growth in transport and communications in this period.

However, a strong period of accelerated inflation has resulted in a slowdown in year-on-year real GDP growth in the first quarter of 2008 to 8.8%. Year-on-year inflation accelerated to its highest rate in a decade in April 2008, to 10.8%. Strong remittance inflows, along with high food and fuel prices, have added to inflationary pressure, particularly in 2008. The strong base period and real currency appreciation are likely to push growth down to around 7% in 2009.

Armenia growth prospects will remain closely linked to trends in global metals, food and mineral prices, as well as the performance of Russian economy, which is the country's largest trading partner and is leading investor in such sectors as energy, metals and telecommunications. The global financial crisis has already been influencing negatively the behaviour of main Armenian international partners. The global metal prices fall down and will remain low in 2009.

As a result, the Armenian industrial production is in stagnation remaining the weakest part of the economy. Many parts of the manufacturing sector contracted, including machinery, rubbers and plastics, and tobacco products. This stagnation mainly resulted from a downturn in metallurgy by 7% and the continuing decline in the export-oriented diamond-processing industry by more than 23% year on year in January-June 2008.

The agricultural sector was by far the weakest area of Armenia's economy in the first quarter of 2008, when it expanded by just 0.3% year on year, sharply down from 2007. With favourable fruit and vegetable harvests contributing to positive growth in this sector, it is forecasted the real GDP growth of 10% in 2008. The disparity between incomes in the rural areas and the Yerevan is widening. The government hope to address the problem with US\$ 236.5 millions in economic assistance promised by US as part of its Millennium Challenge Account programme to upgrade the battered irrigation networks and nearly 1,000 km of rural roads. These measures are supposed to support future growth in agricultural sector.

The structure of the economy changed through a visible reduction of the share of industry in GDP from 33% in 1990 to 15.7% in 2007. Export growth was also stagnating: it rose by only 1.5% years on years in the first quarter 2008, underscoring of weakness of manufacturing sector. A widening trade gap will push the current-account deficit up, to between 5% and 7% of GDP.

The Armenian economic structure (main origin of GDP, 2007, % of total)

Agriculture	17.5
Industry	15.7
Trade & catering	17.3
Construction	25.6
Financial services & real estate	5.2

To improve economic performance and business competitiveness, the Armenia needs to speed up the implementation of its economic and social reforms. New President has pledged to strengthen the rule of law, reduce corruption, particularly within the notoriously corrupt tax and custom administrations, and ensure fair competition. Armenia's low tax/GDP ratio is a good indicator of tax fraud. Tax revenue was equivalent to 20.8% of GDP in the first half of 2008, even less than during the same period of 2007 with the continuing trend to decrease again in the second part of 2008.

Therefore, more efficient tax administration is a central element of a new government programme, approved on June 26th, aimed at improving Armenia's business environment. This envisages more than 24 measures relating to tax collection, enterprise registration, contract enforcement, investor protection and other aspects of doing business.

On August 7th, the Cabinet of the new Prime Minister, Tigran Sarkisian approved a three-year programme of more than 100 measures intended to address the tax administration problem. As part of the sweeping tax reform, the government also sent to parliament a package of draft amendments to 12 Armenian laws regulating taxation.

By the end of 2008 the government is due to launch, a new anticorruption strategy that will emphasise the enforcement of laws, legal amendments and government regulations that were adopted between 2003 and 2007 as part of its first anti-graft programme. Meeting with the Prime Minister in late June, a group of businessmen representing the RUEA claimed that tax officials are simply forcing them to contribute more to the state budget without offering any proof of tax evasion or their increased earnings using the severe harassment tactics.

One of anti-fraud initiatives (January 2008) has proved to be highly controversial. The measure has made it much harder for SME to pay the so-called simplified tax and to be exempted from other, larger taxes such as VAT. The government has said that the measure is directed against larger companies that have exploited legal loopholes to qualify for this preferential form of taxation. Nonetheless, it has affected many SME owners. Hundreds of them suspended their operations, unable to pay more taxes or hire accountants to do the cumbersome paperwork.

Urging the government to lower the revenue ceiling for simplified tax, the IMF expressed concern in April at continuing allegations that tax officials are arbitrarily forcing SMEs to pay more taxes, thereby artificially boosting tax revenue. The government crackdown on tax evasion – which has targeted mainly SMEs – should place a greater emphasis on large business, which owners have close personal connections with top politicians and public administrators. The President has promised to embark on second-generation reforms to strengthen the rule of law and ensure fair business competition to move Armenia from 39 ranks in “doing business in Armenia” (WB assessment) up inside first 10 ranks.

After September 2008, the global economy is set to slow significantly and the downside risks to the world economic outlook remain elevated. This reflects not just continued problems in the US and European financial sectors, but also higher global inflationary pressures, which are eroding corporate competitiveness, crimping consumers' spending power and casting a shadow over growth prospects in many

countries. As well as fluctuations in commodity prices, Armenia's growth prospects would be vulnerable to any downturn in its main export partners, such as Germany and Russia. In addition, weaker private transfers, for example, if Russian growth were to slow by more than is currently forecast, thereby affecting migrant workers' earnings would also have an adverse impact on Armenian growth. Heightened tension in Georgia could also damage the Armenian economy, owing to the country's reliance on Georgia for many of its land trade routes.

The Ministry of Economy (MoE) is now working on a strategy to move the country into knowledge-based society, developing innovation chains and techno parks, information technologies. Armenia could also become a transport centre in the Caucasia building the chains of tunnels and high quality roads and railway communications, particularly in the south of the country which would stimulate its regional development and tourism expansion. One of the prospective areas is setting up medical centres to provide health services internationally. Armenia had traditionally ha excellent doctors but poor medical equipment and infrastructure.

Maintaining high growth rates in the long run will require a number of fundamental measures, including economic policy that focuses on ensuring growth of exports, introducing basic structures for the transition to a knowledge-based economy, and ensuring improvements in economic efficiency and competitiveness.

5. The overview of youth labour market

These economic measures could be implemented only with parallel reforms in youth (27% of the population) development, its employment promotion and education. In 2007 an official unemployment rate was 7.2%, and in the first quarter of 2008 it was 6.4%. However, the actual unemployment rate is much higher (exceed 20%). More than 80% of unemployed have been without job more than a year.

Changes in the rates and the structure of employment in the transition period have shown distinct trends: the employment in non-agricultural sector was halted; the economic growth was not accompanied by employment growth; and the formal employment was reduced.

Armenia has a large informal economy, represented about 50 - 60% of GDP and about 30% - 40% of total employment. Too many illegal and legal workers received their salary in the envelopes to avoid social and income taxes. It is one of the major reasons for declining formal incomes. About 80% of employees in services work without labour contracts.

The key issue for youth is obtaining the profession and enter the labour market. Limited opportunities for employment are caused by curtailment of vacancies, non-conformance of vocational education to requirements of labour market. There are 22,000 unemployed youth aged 16 – 30. Low youth competitiveness in relation to older age groups and tendency of employers to hire experienced employees affected employment of junior age categories entering labour market.

Thus, the highest unemployment rates are among the younger groups. About 30% of all unemployed are young people. A survey (2008) conducted by the Ministry of

Sport and Youth (MoSY), indicates among the reasons for not having employment is the absence of job (17% of the surveyed youth).

The youth in Armenia have developed the distorted concept of being employed. In accordance with the survey, 75.5% of youth consider that the state should provide employment to citizens. Only about 18% of them would like to become proprietor having a steady income. 33% would like to work only 3 – 4 days per week and 23% - starting with a high wage in their first job. And only 19% would like to be employed formally in accordance with the law.

Social inequalities, degradation of traditional values and high rate of youth unemployment negatively influence the whole society. About 20% of population emigrated in the transition period. Migrants were firstly urban, skilled people active in industry, services and science. Another significant group of emigrants was young people upon completion of general and tertiary education. The resulting brain drain raises a challenge for future socioeconomic development.

The main reason behind the decision to migrate were connected with employment problems be it the lack of jobs in general (17%), lack of jobs that pay sufficiently for a decent living (22.6%) or absence of profession-specific jobs. Another stimulus for migration by young people, particularly from agricultural regions, is they wish to live in a more cultural and socially vibrant environment in cities. The disturbing sign is that 32.6% of surveyed youth indicated the reason for migration the lack of faith in Armenia's development prospects.

The analyses of the numerous documents, research papers, foreign and local expert opinions and employers' interviews enable to summarize the following reasons for large number of unemployed youth:

- The lack of regularly updated economic strategy which would provide reliable data on the present and future labour market demands as well as efficient state policy and programmes for youth employment promotion and mechanisms for their implementation.
- The conditions for entrepreneurship and SMEs development do not motivate the growth of youth self-employment. Bureaucratic system, lack of financial resources and access to credits create obstacles for youth entrepreneurship development.
- Disproportionate development between cities and regions where the youth faces three most important problems: unemployment, lack of access to cultural facilities and sport and access to good education (85% of surveyed youth stated these problems).
- Mismatch between the VET system supplies and the labour market demands. 56% of the employed youth have jobs that do not match their professional education.
- There is overreliance on the labour market mechanism which functions in Armenia extremely poorly. There is no easily and timely updated accessible data base on labour market needs as well as where to obtain the occupation and skills required.
- The social partnership institutes have just started its development and do not have sufficient influence on youth employment issues.

6. Strategies and institutions for youth employment promotion

Armenia has implemented a structured youth policy since 1998, when government adopted the first document “The State Youth Policy Concept Paper” approved by the law, which became the only legal regulatory documents with provisions guiding the state youth policy in Armenia. The new draft Law on State Youth Policy was approved in 2004. However, this document defining youth strategy and policy too generally could not serve as a base for practical steps.

In 2000 a Youth Affairs Council was set up under the Prime Minister. In 2001 the government created “Pan-Armenian International Youth Centre Foundation” to develop and implement joint projects to foster collaboration between young people, Armenian Diaspora and foreign donors. In 2002 the government created non-profit organization “The Centre for Organizing Youth Activities” to promote the youth policy. In 2004 the office of Youth Affairs Specialist was introduced in each region and the National Youth Council became a full-fledged member of European Steering Committee on Youth of the Council of Europe.

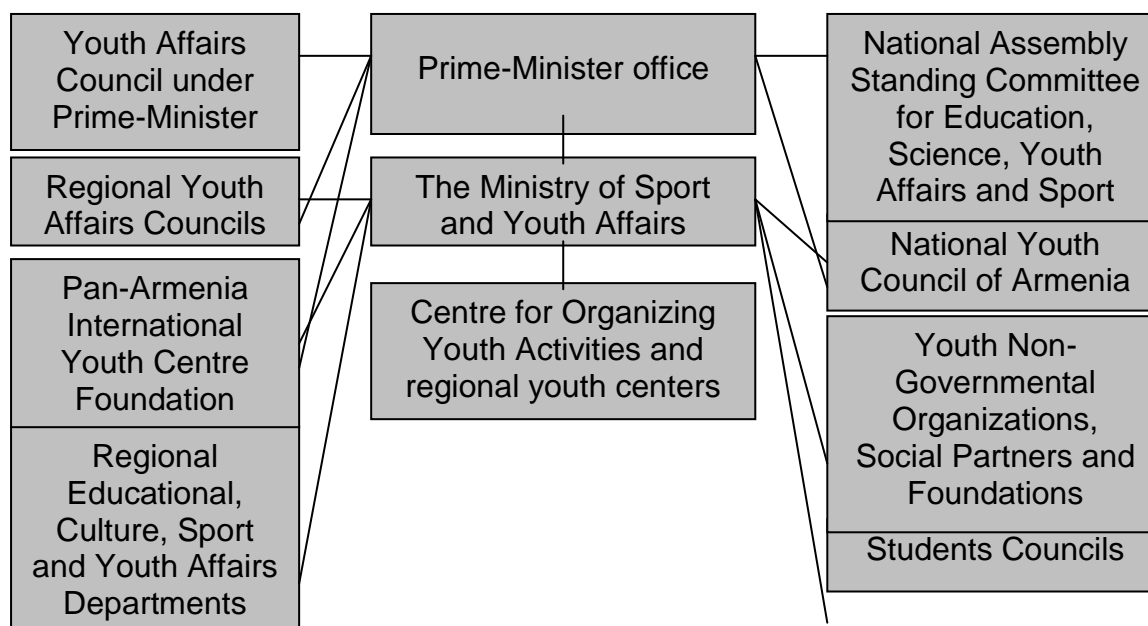
An important building block of the youth policy is “The State Policy Strategy Paper, 2006-2007” approved in 2006. The aim of this strategy is to improve young people living conditions, leisure, and to enhance their participation in social, economic and political processes. The strategy proposes policy for strategic development in the areas of employment, youth problems, mechanisms for realizations of strategic priorities, criteria for assessment of this strategy implementation

This strategy partly based on “The Poverty Reduction Strategy Paper” (PRSP), define the following youth development priorities:

- Increasing the accessibility of services and information;
- Enhancing participation in public and political life;
- Providing employment for youth; and
- Improving the institutional capacity and human potential of the youth and raising its public awareness

The state Budget allocates a separate line of funding for state youth policy projects. From 2000 to 2006 this funding has been increased by almost by three times. In addition to state budget, the Pan-Armenian Youth Foundation was a significant contributor among the alternative sources of funding for youth policy.

The structure for youth policy implementation



Mechanisms for policy and strategy realization are consolidated by a special law (still in draft) which has not been adopted yet. Yet, available laws did not ensure full development and self-realization of youth. In the Labour Code clauses assisting social status of youth were missing. Recently, the Law on Youth has been adopted after the first reading by the Parliament and now the government with social partners is dealing with the comments to finalize it before final approval.

All ministries visited consider youth development issues as a national priority. The following documents on youth development were named as the most important:

- Youth Policy Concept (1998)
- Poverty Reduction Strategy (2003)
- Employment Promotion (Labour Code, 2005)
- Law on Employment (2006)
- Law on Youth (to be adopted)
- State Strategy on Youth Development for 2008-2012 (to be adopted)

Most of the ministries developed their own policies and strategies with little consideration of poor baseline data and budgeted constraints as well as coordination of these scattered ideas and plans between themselves and with the social partners. These remarks have been expressed virtually in all ministries visited by the consultant.

While the Ministry of Labour and Social Affairs (MoLSA) recognizes that youth employment is a core part of labour policy, as well as problems in this area (weak labour market institutions, mismatch between skills supply and demands, huge regional disparities in youth employment, migration), the employment policy is the task of only one department consisting of three (!) officials. That explains the fact that the focus of this ministry is the safety and working conditions, not the employment.

The State Employment Service Agency (SESA) founded in 1992 within the MoLSA to implement the state employment policy, and creation conditions for full and productive employment. It is much more active in youth employment promotion than

any other state agency. Its main functions are registration and counselling of job seekers; putting together job seekers and employers; implementation of state employment programmes, including non-competitive groups at the labour markets; and analyses of the labour market projections.

At present, the working group represented MoLSA, MoES, SESA, MoSY and some other ministries jointly with RUEA is working on action plans for the Youth Development Strategy implementation. This would provide certain useful integration of resources and efforts of different players and provide the national focus in policies for youth development in the future.

The SESA conduct twice a year systematic labour market surveys (the last was in June 2008). Some of its findings are quite revealing: 64% of students do not know why they selected their profession; 66% of graduates joined other professions than specialization by education.

Professional orientation in secondary and higher education is still very poor. Jointly with WB programme SESA is going to open Youth Centres (the first one in October) which would be dealing with youth professional orientation and development. The SESA take part in implementation of the ILO Decent Work Project dealing also with youth employment.

The SESA finding reveals also the lack of practical skills of VET graduates. As a result, SESA started youth training programmes with the emphasis on practical activities jointly with companies, though some employers refused to cooperate. The SESA also organized some training for unemployed youth in colleges, after which between 90-100% of trainees get jobs, though the scope of this activity was quite small.

In May 2008 SESA has opened Internet page with the barometer for professions and information for vacancies and with the data base of 14,000 companies. Now they are working on opening the model centre of employment. That is very important since the labour market institutions and their information system and its links with VET system are extremely poor. The last year survey of RUEA/CIAPC indicates that 60% of employers if they need new personnel first apply to relatives and friends, and then 39% involve their own employees, and only after 30% turn to media through advertising. Only 7% of employers apply to private employment agencies, only 1.6% - turn to state employment service. And only 5% (!) turned for the help to VET institutions.

Despite of evident achievements, SESA activities need to be improved. The survey of the MoSY (2008) indicates that about 90% surveyed young people do not possess sufficient information about SESA offices and its services; 62.6% had not heard of the SESA at all. About 27% of those who new about SESA believe that its functions are only to register unemployed and pay benefits. Youth has no information about SESA professional guidance, counseling and training services. About 70% of youth proposed for jobs by SESA agencies has been refused by employers because their skills had not been matching demands.

Another important institution to promote youth development and employment is the Ministry of Sport and Youth (MoSY). It identifies youth development problems and brings them to government with proposals on how to solve them. They also took part

jointly with MoLSA and SESA in creating the State Centre for Youth Professional Orientation, which has been in operation from 2007.

MoYS has created 10 similar Youth Centres in regions which operations are financed by the government. The Centres provides their equipment and premises for developing youth entrepreneurship and training. They also develop computer data bases on available jobs and working conditions making them accessible to the youth. They have conducted several successful seminars on professional orientation and now they are planning to do it again in schools jointly with the MoES.

The youth also need a better access to legal information on their constitutional rights and the mechanisms of their protection. 73.2% of surveyed youth are not aware or only partially aware of their constitutional and other rights. When asked about the most important question that a Law on the Youth should regulate, the respondents mentioned employment (39.6%) and education (34.6%) as the most important among eleven issues (in total – 74.2%).

7. Youth oriented SME and entrepreneurship development

The most fundamental measure in youth employment promotion is creating new jobs through upgrading the quality of business environment for SME development. The Ministry of Economy consider following three pillars as the most important for youth employment:

- Favorable business environment for SME development
- Development of entrepreneurship knowledge and skills
- Well designed and implemented national strategy for youth employment involving all social partners, particularly RUEA.

Indeed, taking into account that in Armenia as of January 2008, the number of SME units was 97.8% of all registered entities (99.3% in trade, 92.8% - in food processing, and 90.1% - in industry and construction, 89.6% - in services and 87.0% - in transport and communications) the potential of SME in job creation is really significant.

The share of SME sector in GDP in 2007 was 41.0%, increased from 2006 by 0.7%. The share of SME employees in economically active population in 2007 was 40.7%, up by almost 5% from 2006. The share of obligatory social payment by SMEs in 2007 was 45.7%. These facts reveal the important role of SMEs in economic and social development as well as in youth employment promotion.

At the same time, the barriers to SME development in Armenia are quite serious. Among them are:

- Distorted and unfair competition: the business conditions are not equal for all SMEs. Those who have connections with the authorities get advantage.
- The level of monopolization is excessively high (the last rank of 131 countries, WEF, 2008)
- High level of corruption among authorities related to SME registration, taxation, sanitation, cadastre, customs and other controlling bodies. From 1.01.2009 the new tax law will create more complicated process of tax payment for SME, which would demand a serious training and possibly result in even more corruption among tax collectors. The SME owner spend between

40-70% of his or her time on different contacts with the local bureaucracy (survey, 2008)

- The information about new changes in regulations and rules are often hidden by public officers intentionally to take advantage of this lack of knowledge.
- There are too many controllers too often visiting companies, though the law has limited such visits, but nobody pays serious attention to it.
- Extremely poor roads and transport networks, railways transport does not operate in some regions making difficult for SME value chains and clusters operations.
- It is extremely difficult to get bank credits: high interest rates (between 14 - 16% if they know you well, and 16 -18%, if not) and too complicated procedures, particularly in regions. There is no stock exchange where SMEs could raise investment.

The state is trying to ease the business environment for SME and provide some assistance to its development. Among its strategy in SME development there are encouraging innovations, financing the R&D in campuses and business incubators; developing medical centres attracting the foreign clients as well specializing in nuclear medical technologies, cardio-vascular, dentist and other important medical areas for which Armenia has good conditions (both human and natural), promote tourism, and improving youth education and training. Creation of regional techno parks, support of tourisms, including agricultural one, and craftsmanship to keep young people in the regions – all these are planning by the Ministry of economy.

Besides different international projects with SME development components, in Armenia there are two major active institutions to promote SME and entrepreneurship development. The first one is SME Development Centre (SMEDC), private NGO, and the second is the Fund “Small and Medium Entrepreneurship Development National Centre (SME DNC), closely working with the Ministry of Economy.

The SMEDC is a project assisted by Canada (CESO), has 100 member-companies. Its objectives are to lobby for appropriate business environment for SME, identify specific gaps and needs which could be addressed through short-term targeted assistance so that SMEDC can better serve their clients after the completion of the project. The main its activities are analyses of existing financial alternatives for SME to access credits; identifying ways to influence and strengthen the financial income sources of SME; providing information, legal and other services.

The SME DNC was established by government in 2002 to implement state SME development programmes and ensure a dialogue between SME entities and government structures. Its branches are established in all regions. The major SME DNC objectives are to:

- provide support to start up and operating SMEs
- increase the efficiency and competitiveness of SMEs
- ensure the availability of business services to SMEs
- expand the financial opportunities for SMEs
- promote innovations and support to new technology introduction
- expand the opportunities for doing business in Armenia

The main activities are in the areas of financial, informational, consulting and training assistance to SMEs. The SME DNC has its own 3 – 4 months programmes to train

youth on the requests from employers (40-50 people per programme). They teach how to design business plan, to pay taxes, labour legislation, provide key entrepreneurship skills, help in obtaining bank credits for 12% interest (instead of 14 – 20%) etc.

Starting from 2008 “Enterprise Europe Network” Contact Centre has been launched by SME DNC and it became a member of EEN with the aim to improve its international experience exchange and as well as make it easier for Armenian and foreign SME to set up business networks.

The SME DNC has close cooperation with the RUEA, and prepared to provide employers with personnel to fill vacancies. They have facilities to train young people for certain occupations on the request from employers. Unfortunately, there is no cooperation between SMEDNC and SMEDC and one could even feel some kind of jealousy from SME DNC.

8. Vocational education: system, problems and challenges

The competitiveness of Armenian economy will depend on continuing availability of personnel with modern technical skills and core competencies; with sound industry-relevant qualifications; with business management competence; and effective innovation and research linkages between business and education and training institutions. This requires VET modernization reforms which success would depend on the consistency of its financial, institutional and human resources capacities; the contribution of social partners, particularly employers; and donor community readiness to provide technical assistance.

There are now 82 state colleges, 30 private colleges, 29 state VET schools. By 2010 from 82 colleges only 50 would survive. The structure of educational programmes is as follows:

- Basic Professional (craft);
- Secondary professional;
- Higher Professional;
- Post graduate professional.

The need for VET modernization and its new institutions is conditioned by several factors:

- Growing demand for specialists in areas of construction, metallurgy, agriculture, food processing, tourism and recreation management, light industry, commerce and services;
- The post-school professional education in colleges and universities is not available for all school graduates: more than 40% of them (especially in the small towns and villages) enter the life without any profession; and
- Substantive programmes and support for the development of craft education system which have been suggested by foreign donors.

International donors have already provided significant support for the professional education reforms. Some of them are:

- The European Educational Funds has established the Armenian National Observatory (1998) to support professional education reforms, providing consulting in education policy, training services, and labour market needs assessment;

- VET Development EU programme (2004-2006). The Armenia have received EUR15 millions from EU and US\$300 thousands from Diaspora for VET modernization
- “The Trans-Regional Cooperation for Professional Education” supported by GTZ (2001) to promote international cooperation in the areas vocational training and education;
- “Support for development of an integrated system for professional education and training” (2004) funded by TACIS to support government in developing the professional education system in accordance with labour market demands
- Support for setting up “The National Centre for Development of Professional Education and Training” (2006-2007)
- The “Education for Armenia’s Future” programme of UNDP is in action starting from 2006 to support reforms in of VET system.

The PRSP among its objectives gives top priority to secondary vocational and higher education indicating following aims: (1) compatibility with rules of market economy; (2) enhanced quality and compliance with international standards; and (3) improved accessibility and equality.

In 2004, with the TACIS assistance, the MoES adopted the VET Reform Strategy, which identified the following problem areas: (1) inadequate opportunities for young people and adults in lifelong professional education and training; (2) low quality of VET provision; (3) weak organizational structures and partnership; and (4) inefficient resource mobilization, distribution and utilization. The Strategy prioritized the introduction of competency-based VET standards; the modernization of quality assurance mechanisms and certification; the creation of a state non-commercial technical support and quality assurance institute; the improvement of cost efficiency and educational outcomes; and the optimization of VET financing.

The new VET law was adopted in 2005. However, financial and human resource limitations reduce capacity of the government to implement key measures of the VET modernization. International assistance available covers only part of the important and urgent aspects. The VET human and material resources for strategic and development activities are very limited: only 45% of total VET expenditure is funded by the state; the rest is funded by students’ fee and other sources, including by the VET revenues. Institutional capacity to deal with the reform issues (qualification and qualification frameworks, standards, curriculum, quality assurance, development of teachers, innovative learning methods) requires serious investments.

The reform of vocational education is focused on decentralizing governance and increasing the autonomy of education institutions, improving the management skills of schools directors, and raising the efficiency of these institutions. In 2008 it is expected to approve the new credit system for VET institutions within the frame of the Action Plan for 2005-2008 and the priorities for modernization of the professional education and training. The priorities and objectives of VET strategy is presented below in the box.

The most important objectives of the VET strategy are to achieve:

- An open and democratic educational system;
- Continuity and quality in education, accreditation;
- Responsiveness to labour market trends and demands;
- Efficiency of expenditures and education outcomes;
- Rationalization of management of VET institutions;
- Social partnership;
- Integration with international developments in education;

The VET reform is focused on introducing the competency based VET standards and quality monitoring mechanisms; technical support and quality assurance infrastructure; optimization of VET financing, and building up the national capacity for VET reform implementation and monitoring. A special attention is given to developing qualification standards and new qualification framework and setting up the National Centre for VET Development (See the box below).

The National Centre for Vocational Training and Education

This centre has been established in 2008 with the aims of:

- Retraining and advance training of VET teachers
- Developing occupational standards and training curricula, methods and techniques, equipment and teaching materials
- Spreading the best international VET experience
- Setting up the 12 excellence centres in education
- Raising and distribution of credits among VET schools
- Developing classification of occupations and skills
- Developing of qualification standards
- Introducing the modular approach to VET system

However, despite some positive changes in the VET system development, there are a lot of complaints from the employers, almost all ministries and government agencies, international donors as well as from students themselves about the low quality of professional education and its governance. Liquidation of more than 60 professional – technical schools during transition period has not been accompanied with proper transfer of initial (craftsmanship) training to secondary schools and colleges or enterprises. As a result, a vacuum was created in training for workers professional qualifications.

The most typical problems of the VET system are as follows:

- Mismatch between occupations and qualifications provided and the labour market demands. The educational institutions “produce” graduates of different fashionable professions (teachers, doctors, lawyers, economists, etc) without taking into account the labour market needs, thus producing educated

unemployed. The educational system satisfies the labor market needs only by 10 %.

- Professional experienced workers and specialists retire and there are not enough young professionals to fill in the gap. There is lack of specialists in metal processing, machine operators, construction workers, engineers, car drivers and maintenance technicians. The need for specialists is high in the new technology sectors. Primary (crafts) vocational education is provided by 27 craft schools and 82 secondary vocational education institutions (colleges). Almost 62% of them provide education in health and sports, economics, and pedagogy, but in transport and communication – only 10.5%, industry and construction – 5.2% and agriculture – only 1.5% of all graduates. According TACIS, only 25 % of young people in Armenia possess the computer skills and only 10 % speak English.
- Theoretical teaching still prevails; practices and internships are either formal or incomplete, due to the lack of cooperation with employers. Active learning and focus on critical thinking, problem solving and creativity, are still foreign concepts and the system value theoretical knowledge above all. Analytical and innovation skills are deemphasized. The employers do not want to employ youth with lack of practical skills, experience, and initiative.
- There is a gap between the university systems outcomes and the market demands. As a result, unemployment rate among youth with higher education is 18%. The culturally imbedded appeal to higher education, irrespective of the area of choice, still remains the key criterion for students' choices. Youth is looking for “life standards”, diplomas, cars... rather than for real education and professions. There is a great pressure from parents on kids to have only university education. Therefore, the education sector produce graduates from universities much more than labour market requires. While 40 - 45 thousands students study in universities, only 8 thousands – in VET schools. In Armenia there are more than 100 universities and most of them prepare jurists, economists, managers, while this country needs just 10-12 strong and well equipped universities. Most of new universities are just selling diploma. The quality of higher education is low in most of them.
- Despite of the on-going VET reform, the system does not have mechanisms to monitor quality of outcomes, the transition of VET graduates into the labour market. Coherent policies on VET provision, norms and measures for quality assurance are not developed yet. National qualification framework has not been established; of 400 occupations standards only 50 have been developed. Many VET institutions do not have relevant licenses to teach certain professions. The youth ability to use IT and foreign languages is very poor. The quality level of education in Armenia has been assessed as average and poor (54.4%).
- The difficulties of young people in integration into labour market added by lack of information on employers' demands, knowledge of enterprise working environment and conditions, labour code and work safety. Employment agencies do not cooperate sufficiently with VET institutions and do not share information with them. Vocational guidance and professional orientation of

youth are not developed well. Today there is only one professional orientation centre in operation for youth. Poor quality of professional education in regions leads to unnecessary internal migration. Large number of university graduates migrates abroad. Starting from 1992, almost all graduates from the American University in Yerevan have left the country.

- The quality of teachers and trainers in VET system is low; they do not have sufficient experience in teaching, particularly, in occupational areas. Many of them worked at the enterprise 30-40 years ago and are not aware of modern reality. Most of them prefer lecturing, not practical drillings. Their average age is about 57 year, most of them – older than 60. The salary of VET teachers is very low and young talented specialists do not want to work in these positions, many of them have second job. The majority of the surveyed youth believed that the VET institutions did not have an adequate number of properly qualified teaching staff. The teacher training is very sporadic.
- The VET material base (equipment and facilities, laboratories and libraries, textbooks and methodological materials), teaching methods, and curricula are extremely poor. Some of the textbooks used by students are about 17 years behind the international level. The conditions in the VET premises are bad: at winter is too cold, and at summer – too hot; the furniture in the classrooms is old. About 74% of youth reported that libraries and internet facilities are not accessible to them.
- The VET poor management and governance might be among the main reasons for the above problems. Responsibilities for managing VET are scattered among different ministries and agencies. Functions on policy and strategy development, approval and implementation, monitoring the outcomes, quality assurance and technical support services are not clearly identified. The autonomy and corporate management bodies in the VET system are currently weak despite the Law on Education which stipulate the autonomy and academic freedom. The VET managers are passive in raising funds and most of schools exist on small state budget. They do not have necessary management skills to design VET strategy and business plans. There is no competition between VET institutions.
- The reduction of real public spending in education is also the reason for deterioration of the quality of VET services. Most of such reduction has been absorbed through cuts in the real value of teachers' salaries, modernization equipment and facilities, textbooks and other learning materials. The government funding system does not provide incentives to educational institutions to improve their performance. For example, if the sponsor presented the VET school with the equipment for training, the school have to pay 10% tax of its costs. There are no incentives for training institutions to organize short-term training or other non-educational services as a source of additional income for further development.
- Though importance of partnerships of VET institutions and employers is widely recognized, practical examples of such effective collaboration are very rare. The educational institutions have only a few cooperating enterprises, so not all of them have opportunities to involve more companies in education or to build up a cooperation network. As a result, students do not have sufficient

opportunities to get more and better practical experience. Unfortunately, the business is not prepared yet to invest into youth development and prefers to compete for staff at the labour market.

9. The RUEA role in the youth employment promotion

The role and authority of RUEA in promoting youth employment and strengthening the vocational education has been increased during the last several years. The Ministry of Economy, the Ministry of Education and Science and the Ministry of Labour and Social Affairs as well as the Ministry of Youth and Sport regularly consult the RUEA on the most important economic and social decisions. For example, jointly with the relevant ministries, the RUEA is now working on the Strategy on Youth Development to be finalized by the end of 2008.

RUEA is quite active in the area of analyses of youth employment and business competitiveness. The employers also see their role in the upgrading government institutions with more modern concept of management and organization. They take part in assisting government in economic policy development to raise business competitiveness and reduce unemployment, contribute to implementation of education reforms, youth career counselling. Providing stimulus to employers to invest into professional training directly and through improving legislation are also an important concerns of the RUEA.

Recently it prepared and sent their policy proposals on youth employment strategy to the MoLS. These proposals emphasised the needs for better cooperation between education and labour market institutions, rational allocation VET institutions in regions to promote their development and reducing youth migration. The RUEA is prepared to take an active part in the Qualification Councils of education institutions (to be established in 2008) to improve the quality of VET management.

The RUEA proposals also focus on improving youth professional orientation as well as existing information system, better adaptation to changes and promoting legalisation removing barriers to youth employment and strengthening the potential of private employment agencies. The RUEA intends also to set up the association of private employment agencies and involve them in the labour market analyses in their respective sectors.

In its activities the RUEA pay serious attention to new job creation, lobbying tax advantage for employers who hire young graduates as well as for SME development, youth self-employment through consulting, training, easing the access to credits and improving state support to new businesses. It actively participate in the ILO programme Improve Your Business.

RUEA promoted collaboration with professional education institutions through the series of events, round tables, training programmes and conferences. In 2005 it jointly with the Foundation of French University of Armenia launched a new Master Course on “Entrepreneurship, SME Management”. In 2006 in cooperation with German company FESTO and Engineering University, the RUEA started a new “Training and Teaching Centre”. The same year RUEA became the member of UN Global COMPACT programme. Within its frame the employers shared experience with the members of this programme, conducted a Career Day, and provided opportunity for

several months' internship in RUEA or in of the Union organizations. The most successful staggers were employed by those organizations; some of them joined the RUEA staff.

For example, an interesting round table on institution-enterprise cooperation took place in March 2008, organized within the framework of Youth Employment Programme. As one of the project outcomes, the Council of Enterprise / Educational Institution Cooperation was set up. It includes enterprises, educational institutions and RUEA representatives. Council promotes the dialogue between the two parties in order to support youth employment. Besides it, the main outcome of this project were meetings, visits and discussions, involving social partners to sit on management boards of educational institutions of 82 colleges and 27 professional school. And starting from 1st of July 2008 management boards were formed to promote new VET structure and approaches.

The RUEA organized a number of meetings between businessmen, students and VET management to exchange opinions and provide a feedback concerning the qualifications provided by VET institutions. It also organized short-term trainings for students of different VET schools and young employees on How to start and improve your business, HR Management, Sales Management, Customer Relations Management, Communication Skills, Quality and Productivity Management, Occupational health and safety, Labour Code and labour relations and Employees Rights. The REUA helped students to have their education practice (1-3 months) in the partner organizations; many students have got employment in those companies.

The RUEA has conducted a seminar for colleges staff on social partnership, published the book on Productivity promotion as one of the result of the ILO/ RUEA project on productivity and competitiveness development in Armenia. The recent RUEA publication "Advices for Choice of Proper Education and for Promotion in the Labour Market" is particularly important taking into account the lack of information on career orientation in this country. It covers such important for youth issues as description of employers' requirements, training opportunities in the country, as well as labour legislation issues.

The RUEA took active part in almost all international projects initiated in the country by different multilateral and bilateral organizations. It was involved in implementation of the ILO Decent Work programme for Armenia, 2007-2011, which emphasizes the development of youth skills for decent employment. It participated in the survey Situational Analyses of Youth Employment followed by a seminar on Youth employment.

In 2008, among the RUEA important activities there were issues on good governance of the labour market institutions and youth employment promotion; setting up the professional orientation centre jointly with other social partners, conducting a series of seminars on increasing employability and improving working conditions, developing of youth employment strategy and promoting conducive policies for SME development, pushing for developing of training curricula using the ILO modular methodology.

Particular attention the RUEA paid to amendments to the labour code, to the draft of law on employment and social protection. It has organized a seminar on application of

labour code for social partners, policy makers and other interested parties. Some efforts has been devoted to strengthening the partnership between public and private employment agencies and conducting the Survey on Labour Administration and Social Partnership, followed by tripartite review (2008)

Despite the above impressive list of RUEA achievements in its impact on youth employment promotion and VET system development, there is a room for improvement of RUEA impact in these areas.

The feedback from the most resent survey of employers and graduates shows that both of them agree that the Armenian education system fails to provide the graduates with necessary skills to enter the labour market successfully. The key issues pointed out by them were: no sufficient focus on practical skills, which results that new labour market entrants not being capable to perform even basic job-related tasks without additional training; outdated teaching materials and methods; and too general curricula that do not allow specialization

The most common comments were: *“too much theory, old books, and old methods”*. Young specialists in the IT sector, for example, complained that *“they had to study software languages that have not been used for many years already”*. Graduates of economic faculties claimed that they have to study from old books and had no idea about the current trends in the international markets. They further argued that they studied *“a little bit of finance, a little bit of marketing, a little bit of management, and therefore did not become good specialists in anything”*. Many construction specialists asserted that *“it is virtually impossible for them to engage in any professional activity, unless additional on-the-job training is provided by the employer”*.

All that illustrates that links between employers and education system are not satisfactory. There were proposals to involve employers into education quality assessment as well as to take part in teaching process as lecturers. There were also proposals to improve the training and retraining of the teaching staff of the VET system. Employers also should invest more in vocational education for both internal and external staff development.

There is still the need for better social dialogue: there is no clear territory for that and no good general agreement between social partners yet. It is still under development. Different kinds of working groups are temporary and very few top government bureaucrats take them seriously. The Labour Ministry claimed that they are trying to discuss each “relevant question” with social partners, but... who decide what is relevant?

In Armenia there is no National Social-Economic Council with equal representation from the state, employers and unions reporting to the President or Prime Minister. Its aim is to discuss all important issues dealing with economic and social development, including economic and social development strategies and their components and making policy recommendation to the government and President. In many countries NSEC is an important mechanism for social dialogue and partnership.

There are some views among employers and government officials that top state administration could resist in providing more roles to social partners in decision making, particularly in setting up the permanent mechanisms for that, like for

example NSEC. The issues on social partnership and social dialogue are mentioned only in the Labour Code. There is no special legislation on this matter yet.

The RUEA should be more insistent and convincing in promotion social dialogue and its mechanisms. It should focus its activities on increasing co-operation between business community, enterprises, education sector (VET, Higher Education) and government agencies.

10. The problems summary

The general economic situation in Armenia is worsening. Inflation is accelerated to its highest rate in 2008 resulted in a slowdown in real GDP growth. The industrial production is in stagnation remaining the weakest part of the economy. The agricultural sector has been also sharply down from 2007 growth rate of almost 10%. Export growth was stagnating underscoring of manufacturing weakness.

There are huge disparities between cities and regions where the youth faces unemployment, lack of access to cultural facilities and sport as well as good professional education. Extremely poor roads and transport networks; railways transport does not operate in some regions.

These widening disparities lead to high internal and external migration of mostly skilled youth upon completion of general, vocational and tertiary education. The resulting brain drain raises a challenge for future socioeconomic development.

The level of SMEs development does not insure the self-employment and high level of entrepreneurship among youth. Bureaucratic systems, lack of financial resources and access to credits create obstacles for entrepreneurship development. There is no stock exchange where SMEs could raise investment. Another barrier is distorted and unfair competition: the business conditions are not equal for all SMEs. Those who have connections with the authorities get advantage. There is still high level of corruption among authorities related to registration, taxation, sanitation, cadastre, customs and other controlling bodies.

The new tax law will create more complicated process of tax payment for SME. It would demand a serious training of entrepreneurs, but also would result in more corruption among tax collectors. The information about new changes in regulations and rules are often hidden by public officers intentionally to take advantage of this lack of knowledge.

Because of lack of professional knowledge and experience possibilities of youth employment are limited. The highest unemployment rates are concentrated among the younger groups. The labour market mechanism is functioning in Armenia extremely poorly. There is no computerised and timely updated data base and IT system on labour market needs as well as where to obtain the occupation and skills demands which would be accessible to all and everywhere. The lack of systematically updated economic strategy development trends prevents developing reliable data and forecasts on the labour market demands.

There is a serious mismatch between occupations and qualifications provided and the labour market demands. The educational institutions do not consider the labor market requirements. The VET system satisfies the needs of the labor market only by 10 %.

Employment agencies do not cooperate intensively with VET institutions and do not share information with them. Vocational guidance and professional orientation of youth are still poor. There is only one professional orientation centre in operation for youth. There is no open, on-line functioning system of vocational and career guidance to assist young people with reliable advice and information. SESA activities need to be improved. Youth has poor information about SESA professional guidance, counseling and training services.

There are views from many sources that some of top-level public administrators are not qualified for the positions they are occupying as a result of excessive politicization of professional bodies in state administration. The politicians, not professionals in certain areas are promoted for important top professional positions in the government and in their turn –replaced professional staff vertically by those who are loyal to them and share their political views. This practice leads to even more bureaucracy and corruption; many of them consider the public position as temporary ones. As a result, the renewal of the personnel in public offices by young and well trained professionals is very poor. This reduces the professionalism and sustainability of the government apparatus.

The MoLSA employment policy is delegated to just only one department with three (!) officials. That explains the fact that the focus of this ministry activity is reduced mainly to safety and working conditions.

The VET human and material resources for strategic and development activities are very limited: only 45% of total VET expenditure is funded by the state; the rest is funded by students' fee and other sources, including VET institutions external revenues. Opportunities to learn from the international practice are still few, and institutional capacity to deal with the issues presented by reform (qualification and qualification frameworks, standards, curriculum, quality assurance, development of teachers, innovative learning methods) requires serious investments. The VET material base, teaching methods, and curricula are extremely poor. About 74% of youth reported that libraries and internet facilities are not accessible to them.

Theoretical teaching still prevails; practices and internships are incomplete due to the lack of cooperation with employers. Active learning and focus on critical thinking, problem solving and creativity, are still foreign concepts and the system value theoretical knowledge above all. Analytical and innovation competencies are deemphasized.

There is a gap between the university systems outcomes and the market demands. The education sector produce graduates from universities in much more quantities than labour market requires, contributing to youth unemployment with higher education. In Armenia there are more than 100 universities and it needs just 10-12 strong universities to meet the country needs

The quality of VET education in Armenia is low. The system does not have mechanisms to monitor outcomes, the transition of VET graduates into the labour

market. Coherent policies on VET provision and necessary norms and regulations as well as measures for quality assurance are not developed. A proper National Qualification Framework has not been established yet.

The teachers and trainers in VET system do not have sufficient experience in teaching, particularly, in occupational areas. Many of them worked at the enterprise about 30 years ago and do not understand the modern reality which result in low quality of practical skills. Most of them prefer lecturing, not practical drillings. The salary of VET teachers is extremely low, many of them have second job, and young and good specialists do not want to take these positions,

Responsibilities for managing VET are scattered among different ministries and agencies. Functions on policy and strategy development, approval and implementation, monitoring the outcomes, quality assurance and technical support services are not clearly identified and distributed between relevant government and NGOs sub-structures. The VET managers do not have necessary management skills to design VET strategy and business plans as well as planning their schools development. There is no competition between VET institutions; most of them exist on a small state budget.

The role of the RUEA in influencing youth employment promotion and VET modernization could still be improved. Unfortunately, the Armenian business is not prepared yet to invest into youth development and prefers to compete for the personnel at the labour market. Though importance of partnerships of VET institutions and employers is widely recognized, practical examples of such effective collaboration at the enterprise-VET school are still rare. As a result, VET and students have insufficient opportunities to get practical experience communicate with employers.

There is still the need for better social dialogue: there is no clear territory for that and no good general agreement between social partners yet. Different kinds of working groups are temporary and very few top government bureaucrats not take them seriously. One of the serious problems in institutional mechanisms for social dialogue and partnership development is that in Armenia there is no National Social-Economic Council (NSEC) with equal representation from the state, employers and unions, reporting to the President or Prime Minister. This is one of the reasons for scattered efforts and fragmentation in solving many important economic and social issues, undeveloped social dialogue and low impact of social partners on major government decisions.

11. Policy proposals

The most important factor of youth employment promotion is the speed and quality of economic reforms and creation of favorable conditions for doing business, economic growth and new job creation, fostering the development of the private sector, promoting business-mindedness and entrepreneurial initiatives of the youth.

The existing strategy for economic and social development (second phase of PRSP) should be adapted to the priority of moving the Armenia's economy into knowledge-based innovation pattern. That is the best approach for the country with traditionally good university education, small population and lack of natural resources. This

strategy would provide decent jobs for highly educated young people who otherwise migrate abroad.

The government should promote SME development as main sources of youth employment and country economic development; create SME clusters, and incubators, technological parks to facilitate the innovative entrepreneurship and decent job creation. The idea of the Ministry of Economy on developing the medical excellence centres in Armenia providing high quality services to local and foreign clients is very promising within the frame of this strategy. The tourism development is also has huge potential taking into account the Armenian ancient history and the natural environment. The existing barriers to SMEs development should be eliminated and the legal system should protect small entrepreneurs from corruption and excessive administrative control

The appointment of politicians to top professional positions without strong and proved professional background, education and experience in relevant areas, particularly concerned with SME development and youth employment promotion, should be avoided.

There should be well developed state policy to mitigate further depletion of skills from brain-drain, attract migrant potential into growth industries and new technological sectors and regions, and create conditions for better labour mobility horizontally and vertically.

The labour market mechanisms and its institutions should be upgraded. The state employment programmes should be directed to reducing the misbalance in socio-economic development between regions, providing strong stimulus for youth employment particularly in agricultural regions.

Introduce an effective and nationally integrated system for providing timely and high quality information to employers and job seekers, their professional orientation, and accessibility to such services to all. There is an urgent need in integration of available labour market information on the employers needs in specialists on-line through internet.

The state and private employment agencies should provide transparent and effective services. The capacities of the SESA regional offices should be enlarged to provide timely information on employment opportunities and conditions, improve the effectiveness of the active labour market policies and introduce new and creative forms of cooperation with education and training institutions as well as with the social partners. There should be more career counselling centres, particularly in regions.

The Armenian VET system is in urgent need in speeding up the reform process. It should be more deregulated and decentralized to move educational and training institutions to closer to their markets – regions, sectors, employers and students. The raising VET system quality and effectiveness should remain the main strategic objectives of VET modernisation with the following priorities: introduction of competency - based standards; modernizing the quality monitoring mechanisms; creating technical support and quality assurance infrastructure; improving cost efficiency and educational outcome; optimizing VET financing; and building up the national capacity for VET modernisation and monitoring.

The number of universities in Armenia should be reduced from more than 100 to only 10-12 with strong material base, high level professors and modern facilities. For example, the Ministry of Economy rightly believes that this country needs only one strong economic university which would focus on preparing top level economists, business leaders, managers and public administrators. The best experienced cadres of economic and management faculties of other universities should be concentrated in one.

Within the framework of VET modernisation it would be necessary to improve educational curriculum, introduce more short-term training programmes for skills upgrading on the demands from employers, allocate more time for developing practical skills, using modern teaching methods and techniques including the ILO modular approach.

The occupations and qualification systems should be revised and update, the quality assessment of VET institutions should be done by the body independent from training providers with solid representation from the funding agencies and clients. There is an urgent need for updating National Qualification Framework (NQF). The development of occupation classification and description of occupations should be an important part of the VET reform. The qualification standards should be harmonised with the international ones.

The overall management of VET system should be upgraded. The VET institutions strategic management and business planning with the strong orientation on the clients markets should be introduced. The management and governing bodies (counsels) of VET schools should include all social partners and be active in VET institutions strategy development. The VET managers require extensive training in business and management skills, including the fund raising, recourse allocation and effective spending. More specialists from business and best companies should be invited as part time professors to teach students. The material base, including facilities and equipment, teaching materials and textbooks, etc, should be upgraded using own VET institutions revenues, government funds and employers contributions. For all these the necessary legal provisions should be adopted, including taxation. There should be more autonomy and competitions between VET institutions.

For the RUEA it is important to develop concrete measures to support partnership with education and training institutions aimed at providing labour market information and vocational and career guidance as well as institutional and inter-sectoral dialogue. The RUEA should develop an action plan on improving its role in influencing the state agencies in promoting youth employment and vocational education and its reform at the national level, take the lead in improving cooperation with SESA and relevant ministries dealing with this issue, conduct more active policy in this regards. RUEA should capitalize on its decentralization drive and use it as an instrument to strengthen the capacities its sectoral employers associations and local offices in their impact on youth employment promotion and reforms of VET system, improving cooperation with social partners both at the central and local levels.

The role of enterprises in assisting to VET institutions in financing, providing facilities for apprentices and students practice, developing occupational and qualifications standards, curriculum and programmes design, the quality monitoring

and control should be dramatically improved. For this the RUEA needs to strengthen the enterprise-VET institution cooperation, increasing RUEA memberships, raising its status and authority among employers. This could be done through expansion of its direct services to companies making the membership in RUEA more attractive. It would be also important to push through a new Law on Employers' organizations.

The RUEA should be more insistent and convincing in promotion social dialogue and upgrading its mechanisms, including pushing through the legislation on social dialogue and setting up its main mechanisms – the tripartite National Social-Economic Council (NSEC) with equal representation from the state, employers and unions, reporting to the President or Prime Minister existing in many countries.

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Interviewed persons

1. Arsen Ghazaryan – President, The Republican Union of Employers of Armenia (RUEA)
2. Gagik Makaryan – Executive Director, RUEA
3. Haik Petrossian – GTZ, sponsored by German government, attached to RUEA as an advisor.
4. Shushanik Barseghan – expert on social partnership, RUEA
5. Karen Kosemyan – expert on management, RUEA
6. Edwards Kurakosyan – an Executive Director of Taxi Service Association, principal consultant, RUEA
7. Nane Vasilyan – specialist on UN Global Compact programme, working temporarily for RUEA
8. Armine Gukasyan – specialist on COMPACT programme, working temporarily for RUEA on employment policy

9. Liana Kamalian – staff, RUEA, former UN Global Compact programme participant
10. Nune Hovhannisyan – ILO, National Correspondent in Armenia
11. Nver Sargsyan – Programme officer, ILO Anti-trafficking and Labour Migration Management Programme
12. Vahe Danielyan – Deputy Minister, Ministry of Economy
13. Gegham Petrosyan – Deputy Executive Director, SME Development National Centre (SME DNC); Enterprise Europe network Coordinator in Armenia
14. Knarik Malkhasyan – President, SME Development Centre NGO
15. Arsen Soghomonyan – Head of Youth Policy Department, Ministry of Sport and Youth Affairs
16. Artak Aghbalyan – Head of Middle and Primary Professional Education Department, Ministry of Education and Science
17. Ara Petrossian – First Deputy Minister, Ministry of Labour and Social Policy
18. Sona Harutinyan – Head, State Employment Service Agency, Ministry of Labour and Social Policy
19. Garik Sahakyan – Deputy Head, State Employment Service Agency, Ministry of Labour and Social Policy
20. Armen Manvelyan – Managing Director, Compass (Computers)
21. Krist Pilosyan – General Director, Plastic
22. Robert Minasyan, President – The Union of Incoming Tour Operation of Armenia (UITO), Armenian Institute of Tourism
23. Andranik Aleksanyan – General Director, Arminco Global Communications
24. Suren Chibukhchyan – President, Armenplack Association
25. Lean Bardajian, Executive Director, Telebroadcasting, Board Member of RUEA
26. Tygran Sahakyan – Director, Franco-Armenian Centre for Professional Education
27. Samvel Pypoyan – Director, National Centre for Vocational Education Training and Development
28. Garegin Aslanyan – Manager, Coca-Cola HBC Armenia