

Vocational Education in Context of DCFTA

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Summary

The Deep and Comprehensive Free Trade Area (DCFTA), an agreement signed with the European Union (EU) in 2014, offers Georgia an opportunity to integrate economically with Europe. At the same time, the DCFTA presents Georgian entrepreneurs with the challenging task of conducting their business activities appropriately to compete with increasing imports from the EU. The enhancement of the country's entrepreneurial culture is one of the essential steps toward overcoming such competition. Similarly, the development of appropriate knowledge and skills is one of the main prerequisites for Georgian small and medium-sized enterprises (SMEs) to make effective use of the opportunities offered by the Association Agreement (AA) and its integral component, the DCFTA

Vocational education and training (VET) plays an important role in promoting self-employment and increasing the competitiveness of the entrepreneurship of SMEs. The purpose of this policy brief is to analyze the existing challenges in the vocational education system hampering growth in the competitiveness of SMEs and to develop appropriate recommendations thereon.

In the course of the work undertaken for this policy brief, the following challenges in the VET system hampering growth in the competitiveness of SMEs were identified:

- The level of awareness among students VET institutions providing courses on DCFTA-related issues is low;
- No informational meetings or other events on DCFTA-related matters are being held at VET institutions;
- The compulsory module of entrepreneurship is inadequate for

forming entrepreneurial culture and thinking;

- Study materials are inadequate for learning objectives oriented toward the development of entrepreneurial skills; and
- The strategies and relationships with the private sector are not sufficiently defined in VET institutions in order to establish sustainable and mutually beneficial cooperation between vocational education institutions and enterprises.

The following key recommendations (Category A) have been developed, taking into account the identified needs, the fulfillment of which would greatly contribute to growth in the competitiveness of SMEs in Georgia and allow them to make the effective use of trading freely with EU Member States:

- A1. Integrating information regarding the DCFTA into the compulsory entrepreneurship module; and
- A2. Active involvement of successful exporters and entrepreneurs in the teaching of teaching entrepreneurship.

The following supplementary recommendations that can be implemented within the competences of VET institutions (Category B) would also greatly facilitate the education of VET students as potential entrepreneurs with regard to DCFTA-related issues:

- B1. Organizing information weeks on the DCFTA in VET institutions; and
- B2. Developing a mechanism and a communication tool for working with the private sector.

Civil society plays an important part in the development of vocational education, and should thus take an active role in the introduction of innovations into the system. Below are the supplementary recommendations for civil society

organizations (Category C) that would enhance awareness of DCFTA-related matters among young entrepreneurs:

- C1. Conducting information sessions for students of VET institutions (preferably after the completion of the compulsory entrepreneurship Module); and
- C2. Organizing workshops on the production value chain.

Introduction

In 2014, Georgia signed an Association Agreement, which includes the Deep and Comprehensive Free Trade Area Agreement (DCFTA) with the EU. The deepening of relations between Georgia and the EU has created an opportunity for the private sector in Georgia to strengthen its economic cooperation with Europe and to become an integral part of the global value chain (EU, 2014).

Unlike other free trade agreements signed by Georgia, the DCFTA implies liberalization of trade both in goods and in services. In particular, the DCFTA gives goods and services produced in Georgia access to the world's largest free market, uniting 28 countries and more than 500 million consumers. Access to free movement of goods and services increases Georgia's export potential and enhances the attractiveness of the country from an investment perspective. At the same time, the DCFTA creates serious problems for local companies, which now have to compete against increasing imports from the EU. The issue of competitiveness is more acute for SMEs that do not possess comprehensive information on international markets and the standards set by the DCFTA. In particular, in order to be granted entry to the EU market, Georgian agricultural products will need to make significant improvements to meet the necessary food safety requirements.

On one hand, it is highly desirable to make use of these opportunities, but on the other hand, to deal with the associated challenges, it is necessary to intensify the cooperation between the Government of Georgia and the

private sector in order to increase the competitiveness of Georgian manufacturers.

Enhancing the entrepreneurial culture is one of the essential conditions¹ to increase the competitiveness of SMEs. The entrepreneurial initiative which is related to the formation of a new company, as well as to changes made to an existing one, can increase productivity (EU, 2003). In turn, new companies respond to a new idea with a new initiative, which thus creates a competitive environment and increases effectiveness. As a result, in the market a low-price variety of products emerges. Moreover, increased competition between companies increases the competitiveness of the national economy on the international level.

The European Commission defines “entrepreneurship” as “the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization.”² In other words, entrepreneurship is the ability of man to turn an idea into action.

A strong and well-developed SME sector contributes significantly to growth in exports, and enhances competitiveness and innovations³. SMEs in the EU make significant contributions to the sustainable and inclusive growth of the economy⁴. SMEs play an important role in the economy of Georgia, constituting 94% of the total number of active enterprises in the country. However, the share of value added by SMEs in the overall economy is quite low, which can be explained by the concentration of SMEs on low value-added creation activities (OECD, 2016). Low productivity and a low level of competitiveness in this sector are also attributable to a lack of

¹Recommendations for Georgia's SME Development Strategy 2016-2020.

² European Commission, Entrepreneurship in Europe, Green Paper, Brussels, 21.01.2003

³http://www.economy.ge/uploads/files/2017/ek_politika/eng_sme_development_strategy.pdf

⁴ The share of SMEs in the total number of active enterprises constitutes 94% (medium – 9% and small – 85%), SME Development Strategy of Georgia 2016-2020, Government of Georgia

business and entrepreneurial skills⁵. According to a report from the OECD's Small and Medium Enterprises Policy Index, in terms of entrepreneurship education and women's entrepreneurship development Georgia is a leader among Eastern Partnership countries but still lags behind EU Member States⁶.

Consequently, the development of SMEs is one of the main components Georgia must realize in order to make effective use of the opportunities offered by the AA and the DCFTA.

Vocational education plays an important role in growing the competitiveness of the SME sector. This was determined during a workshop organized as part of the "SME Development and DCFTA in Georgia"⁷ project, financed by the EU. Participants of the workshop, mainly representatives of ministries and international organizations, defined such skills as essential for the effective exploitation of the DCFTA. Consequently, the development of vocational education is one of the most important steps toward increasing the competitiveness of the country's economy.

The purpose of this policy brief is to analyze the existing challenges in the VET system hampering growth in the competitiveness of SMEs and to develop appropriate recommendations.

Methodology

The present policy brief relies on interviews with representatives of VET institutions and other stakeholders, as well as legislative acts, resolutions, and research reports prepared by international and local research organizations. Semi-structured individual interviews were conducted with stakeholders where questions covered the following main issues: the level of awareness among students regarding the DCFTA and the activities needing to be carried out to enhance their awareness; the main challenges in teaching entrepreneurship; teaching methods and materials; qualifications and experience of teachers; and forms of, and challenges in, relations with the private sector.

Overview of the Current Situation

Vocational education in Georgia faces multiple challenges including inadequacy of educational programs in relation to current and future labor market requirements, a lack of teacher training and a professional development system in vocational education, a low level of participation of social partners and civil society⁸, and an inadequate level of private sector involvement. The existing challenges make vocational education less attractive, especially to young people. All of these factors hamper growth in the self-employment of graduates of VET institutions, which in turn impedes the development of SMEs and entrepreneurial culture as a whole in the country. According to the graduate tracer study, only 5% of graduates are self-employed, and 51.6% do not practice the vocation obtained at a VET institution⁹ at all. Low attractiveness of VET institutions results in a

⁵ SME Development Strategy of Georgia 2016-2020, Government of Georgia

⁶ SME Policy Index: Eastern Partner Countries 2016, OECD

⁷ The project is developed by *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ)

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⁸ Vocational Education and Training Development Strategy for 2013-2020.

⁹ 2015 VET Graduate Tracer Study Report, Vocational Education Development Department, Ministry of Education and Science of Georgia.

lack of skills among the country's workforce, which in turn hinders the development of SMEs and the effective use of free trade with Europe.

Important steps have been taken to introduce entrepreneurship training in VET institutions in recent years. In 2015, entrepreneurship became a mandatory module for students at the third, fourth and fifth stages of VET institutions. The module has six components: business planning; registration of business; business management; sales of products and services; financial accounting simplified; and HR management. The purpose of the module is to develop entrepreneurial vision and motivation in students that will become the basis for starting their own businesses in the future. In addition, the teaching of entrepreneurship is aimed at developing knowledge and skills that will help students to start their own small businesses or expand their family businesses. Students of the module are evaluated according to a business plan developed individually by each of them. According to the recommendation of the module, it is desirable for the subject of the business plan to be closely related to the desired profession of the student.

Despite the implemented changes, the VET system faces the following challenges:

First of all, the teaching materials are not suitable for a module oriented toward the development of entrepreneurial skills. Although the teachers of entrepreneurship are not limited in their choice of materials, most VET institutions use the textbook "Entrepreneurship¹⁰". This textbook is designed to teach the mandatory entrepreneurship module in VET institutions is aimed at boosting students' entrepreneurial vision and motivation. However, the textbook consists only of theoretical and practical topics

related to the technical aspects of starting up a business and managing an enterprise.

To be specific, the textbook covers subjects such as business planning, business registration, business management, HR management, marketing, sales, and accounting. Each topic in the textbook is followed by exercises that can be answered using the text, and therefore do not require critical thinking and analysis. Moreover, the textbook does not address DCFTA-related issues. For example, one chapter is devoted to licenses, permits and certificates (Chapter 1.5, page 75), which includes certificates used in foreign trade (Veterinary Certificate, Phytosanitary Certificate, Certificate of Origin), but the textbook does not mention the DCFTA and the requirements that it imposes on Georgia in this regard.

In addition, the real examples of successful entrepreneurs provided in the textbook are incompatible with the Georgian reality (ISET, 2016). Although the teachers of entrepreneurship are free to choose their training material and have been instructed to actively use online resources, most of the respondents named the "Entrepreneurship" textbook as the main (often the only) study material used in the teaching of entrepreneurship.

The main method of teaching is through theoretical lectures which is ineffective for the development of students' practical skills. Thus, the entrepreneurship module, which is largely theoretical, cannot properly address the challenges and opportunities regarding the country's economy, such as free trade with Europe and increased competition.

During the interviews conducted throughout the survey, it was identified that a lack of cooperation with the private sector is an

¹⁰ Prepared by LELP – National Center for Educational Quality Enhancement

obstacle to establishing entrepreneurial thinking and culture among students of VET institutions. Relationships between VET institutions and the business sector are limited to the extent of students' internships under the Dual (Work-Based) Education Program. The Survey of Employers' Attitudes towards Vocational Education¹¹ showed that only 21% of the organizations surveyed were well informed about VET institutions. The diagram shows the forms of cooperation between VET institutions and employers. Overall, 43% of employers named the absence of information as the reason for passive cooperation with VET institutions, while 16% cited insufficient competence of graduates, 11% stated unnecessary expenses related to cooperation with VET institutions, and another 11% of employers cited the inefficiency of such cooperation.

VET institutions lack clear strategies and forms of cooperation with the private sector in order to establish a sustainable and mutually beneficial institutional cooperation between institutions and enterprises. This problem is especially acute in connection with small and medium-sized businesses, which are not in the practice of communicating with VET institutions due to a lack of time and resources.

The level of awareness among students of VET institutions is low in terms of the DCFTA-related capabilities, requirements and standards, which local entrepreneurs should be able to meet for their products to be granted the entry to the EU markets. Most of the respondents stated that there were no activities available in their institutions aimed at enhancing students' awareness with respect to the DCFTA.

Recommendations

During the development of the policy brief, certain factors were identified that would increase productivity and motivation regarding entrepreneurship among graduates of VET institutions, which, in turn, would improve the competitiveness of SMEs on both domestic and international markets. Entrepreneurship teaching should focus on developing skills that will enable students to explore opportunities, transform ideas into products, build connections, and perceive their activities in broad contexts. This would increase the motivation of students and encourage them to start their own businesses, choose the right type of activity, product or service, properly plan their development strategy, study the markets, and assess their capabilities. Doing so would contribute to more effective exploitation of the opportunities presented by the DCFTA.

The following key recommendations have been developed taking into account the identified needs:

A. Key Recommendations

A1. Integrating Information on the DCFTA into the Entrepreneurship Module

In order to make effective use of the potential of the DCFTA, students of VET institutions, as potential entrepreneurs, should possess comprehensive information about its requirements in relation to free trade with Europe. Various studies have shown that, despite the interest of Georgian companies to export, **their level of knowledge about export requirements for the EU market is low. The level of knowledge with respect to the DCFTA among students of VET institutions is even lower.**

¹¹ Survey of Employers' Attitudes towards Vocational Education, Dec., 2015, ACT

To inform students, this campaign should include the introduction of the following topics:

- General information on the DCFTA's content and its objectives;
- EU regulations and technical standards, especially in the agricultural food processing industry; and
- Marketing and communication,
- Negotiations with international business partners and
- A search for information about potential markets.

For students of VET institutions to develop into entrepreneurs, in addition to studying the basics of business administration, it is important to learn about the opportunities and challenges in the local and international markets for the private sector. To this end, it is important that the entrepreneurship module covers topics related to the export of products and services, including DCFTA-related issues, such as product and service standards, licensing, packaging, food safety certification, environmental protection, and occupational safety. It is necessary to determine the desired learning outcomes and make appropriate changes to the module in cooperation with the private sector, government agencies and international organizations working on DCFTA-related issues.

It would be advisable to prepare an informational textbook on the DCFTA, which would become mandatory learning material for students of the compulsory entrepreneurship module. It is also important to enhance the knowledge of entrepreneurship teachers with respect to the above-mentioned issues.

The changes required to implement this recommendation:

¹² <http://ege.ge/geo/static/341/vocational-education/gare-initsireba>

In order to implement the recommendation it is necessary to make changes to the following general modules: Entrepreneurship 1, Entrepreneurship 2, and Entrepreneurship 3. In addition, DCFTA-related topics should be included in the module's standard notes (Part 2), particularly in the learning outcome of business planning and registration.

Note: Changes in professional standards are carried out in accordance with Order N733 of the Director of the National Center for Educational Quality Enhancement, and this covers the external and internal initiatives of the professional standard/module. Besides the National Center for Educational Quality Enhancement (Internal Initiative), changes can be initiated by any interested natural person and legal entity. The rule of external initiation is determined by the National Center for Educational Quality Enhancement¹².

A2. Active engagement of successful exporters and entrepreneurs in the process of teaching entrepreneurship

It is necessary that one of the main components of the entrepreneurship module is an overview of successful real-world examples. To this end, the VET institutions should regularly invite successful entrepreneurs to deliver public lectures and discussions. **It would be desirable to invite successful exporters to VET institutions, who have already taken advantage of the opportunities offered by the DCFTA and acquired valuable experience in this regard.** As international best practice shows, this makes the actualization of students' ideas more realistic.

It is important for regional VET institutions to arrange live webinars with successful exporters and entrepreneurs in order to save time and resources.

The changes required to implement the recommendation:

In order to implement this recommendation it is necessary to make changes to the following general modules: Entrepreneurship 1, Entrepreneurship 2, and Entrepreneurship 3. In the supplementary notes of the module (part 3), particularly in the recommendations on training and evaluation, one of the methods here should be inviting real entrepreneurs and exporters and conducting discussions in the learning process. Moreover, VET institutions should be advised to constantly identify such individuals and involve them in the learning process.

B. Supplementary Recommendations for VET Institutions

B1. Organizing information weeks in VET institutions with respect to the DCFTA

It is important that VET institutions, in cooperation with local civil society organizations, organize information weeks twice a year with respect to the DCFTA, during which intensive informational campaigns for students will be carried out. In addition, it would be recommended to organize an information corner about the DCFTA, where students could receive desired information at any time. It is also necessary to inform students about resource desks in CSOs, where they will be able to get more comprehensive and detailed information on the issues in which they are interested.

B2. Development of a communication mechanism and tools to cooperate with the private sector

For productive cooperation with the private sector, it is important to develop an effective tool that will help students to gain skills that are practical. To this end, each VET institution should identify a person responsible for communication with the private sector (such as the teacher of entrepreneurship), who would: communicate with the private sector on a regular basis; identify successful and interesting entrepreneurs and arrange for their invitation to the institution; and search for internship opportunities for students (in order to develop entrepreneurial thinking, it is especially important to do internships in SMEs so that the student himself/herself becomes part of a business's development).

Due to the limited resources available, it is often difficult for VET institutions to identify successful entrepreneurs for further cooperation, and it would, therefore, be desirable to create a mechanism for sharing such information among institutions, saving them considerable time and resources.

C. Supplementary Recommendations for Civil Society Organizations

Civil society plays an important role in the development of vocational education (Vocational Education and Training Development Strategy 2013-2020), therefore their active participation in the process of introducing innovations into the VET system is important. Below are the supplementary recommendations for civil society organizations to enhance awareness of young entrepreneurs with respect to the DCFTA:

C1. Organizing information sessions for VET students (preferably after the completion of the entrepreneurship module)

It would be effective to include the regional civil society organizations (CSOs) and local action groups (LAGs) in this process, which have been trained on various DCFTA-related topics within the EU-supported project "Regional Civil Society Organizations Supporting Free Trade with European Union." These organizations have been trained to ensure that they could later consult entrepreneurs in all regions of Georgia on DCFTA-related matters. It would be desirable for organizations participating in the project to also actively engage themselves in information campaigns of VET students. In particular, in the regions in which they operate, they should organize information sessions for VET students interested in entrepreneurship and exports. The participation of CSOs in the development of vocational education is one of the key objectives of the Vocational Education and Training Development Strategy.

C2. Organizing seminars on the production value chain

To increase export potential, the entrepreneur needs to comprehend the overall process of the product value chain and understand the challenges associated with each of its rings. It would be desirable to develop a short information seminar for students of VET institutions, addressing all issues related to the manufacturing and sale of products. The

course would allow students interested in exporting to correctly determine the export potential of a product and plan their entrepreneurial activities accordingly. It would be advisable to include in the course existing examples of value chain analyses. In addition, it would be effective to include in the process the CSOs participating in the "Regional Civil Society Organizations Supporting Free Trade with European Union" project, who have received theoretical training on the value chain, and to subsequently prepare analyses on selected products.

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Annex: List of Interviewees

Name	Position		
Mamuka Matiashvili	Advisor to Vocational Education and Training at UNDP Georgia, UNDP	Teona Gelbakhiani	Entrepreneurship Teacher, LEPL “Community College Information Technology Academy”
Tamar Kitiashvili	Advisor to Vocational Education and Training at UNDP Georgia, UNDP		
Marika Zakareishvili	Head of Partnership Development Division, Vocational Education Development Department, Ministry of Education and Science of Georgia		
Ilia Oshkhereli	Deputy Director, Vocational College “Erqvani” (Ambrolauri)		
Bela Avalishvili	Director, Vocational College “Opizari” (Akhaltzikhe)		
Malxaz Aslamazishvili	Director, Vocational College “Aisi” (Kachreti)		
Otar Dabrundashvili	Deputy Director, Ilya Tsinamdzghvrishvili Community College (Tsinamdzghvriantkari)		
Tea Liluashvili	Quality Manager, Ilya Tsinamdzghvrishvili Community College (Tsinamdzghvriantkari)		

Annex: Workshop Results

PMC Research Center organized workshops in Samtskhe-Javakheti and Adjara regions and in Tbilisi, where CSOs from Kvemo Kartli, Mtskheta-Mtianeti and Kakheti were invited. Workshops were also attended by non-governmental sector representatives, entrepreneurs and VET institutions. Attendees were given a presentation about the main findings, problems and recommendations presented in the report. Workshop participants agreed with the presented content, however, a few additional factors were outlined during the discussion.

Raising Awareness about the DCFTA

Workshop participants mentioned that it would be advisable to place information about the DCFTA in places where it can be easily accessed by entrepreneurs and vocational students. Such a place could be resource desks in VET colleges and the regional offices of the Ministry of Environmental Protection and Agriculture of Georgia. It was also mentioned that due to a low level of awareness, most farmers and entrepreneurs in the targeted regions consider EU market requirements for their products as being almost unachievable and are therefore not even considering this possibility.

Raising Awareness about VET in Schools

Vocational and public college representatives mentioned that the average age of a vocational student is quite high. Workshop representatives underlined the necessity of promoting VET in schools as employment means of improving one's employability. This would contribute to increasing the VET student population and lowering the average age.

Collaboration between CSOs and VET Colleges

During the workshops, CSO representatives as well as VET/public college representatives expressed a will to establish cooperation. VET college representatives mentioned that in the event of a proper proposal from CSOs, it would be possible to place DCFTA resource desks in the college buildings. They would also be

willing to organize meetings between students and CSO representatives. In turn, CSO representatives appeared to be ready for collaboration.

Language Barriers among Local Entrepreneurs

As workshop participants mentioned, one of the factors hindering the spreading of awareness is a language barrier. Most of the DCFTA requirements materials are in English and only brief parts are translated into Georgian. Therefore, local farmers and entrepreneurs cannot familiarize themselves with detailed requirements and then apply them to their production processes. Hence, it would be advisable to translate all relevant materials into Georgian and place them on the corresponding web-page