

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2506

Project Name	Tertiary Education Project (P148539)
Region	EUROPE AND CENTRAL ASIA
Country	Azerbaijan
Sector(s)	Tertiary education (100%)
Theme(s)	Education for the knowledge economy (100%)
Lending Instrument	Investment Project Financing
Project ID	P148539
Borrower(s)	Government of Azerbaijan/Ministry of Finance
Implementing Agency	Ministry of Education
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	04-Aug-2014
Date PID Approved/ Disclosed	04-Aug-2014
Estimated Date of Appraisal Completion	21-Nov-2014
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Oil wealth has served Azerbaijan well, helping the country achieve high growth rates, significant poverty reduction, accumulation of large foreign exchange reserves and reduction in debt levels. Economic growth averaged 13 percent a year during 2002-12 and Azerbaijan transitioned into a middle-income country. Along with GDP growth, social transfers, especially pensions, played an important role in reducing poverty from 47 percent of the population in 2002 to 6 percent in 2012. The government ran twin surpluses on the fiscal and current account and reduced public debt from 23 percent of GDP in 2002 to around 12 percent in 2012.

While resource dependence in Azerbaijan has increased significantly, it is not a cause for concern. What is of concern, however, is the inadequately diversified asset base of the country. Successful resource dependent countries like Norway and Australia have achieved high-income status through diversification of assets—which includes physical and human capital and institutions that manage resource rents, public service delivery and the business environment—and not through product and

export diversification. In contrast, the output structure, foreign exchange earnings and government revenues in Azerbaijan are significantly dependent on the hydrocarbon sector with little diversification in its asset base. Asset diversification is critical for mitigating potential risks related to the decline in oil production.

The government realizes the need for change and has prioritized diversification of its assets through the adoption of the "Azerbaijan 2020: Vision for Future Concept" in December 2012. The vision statement envisages a doubling of the country's per capita income to USD13,000 by 2020 through an average annual growth of seven percent in the non-oil sector. The objective is to become a diversified and competitive high income country by focusing on the development of assets: human and physical capital and institutions.

Sectoral and Institutional Context

In October 2013, the government adopted the Education Reform Strategy to achieve the goal to strengthen the education sector as a way to build human capital. The most urgent need for higher education is to better align the composition of higher education graduates with the demands of economy, particularly in services and agriculture sectors. As 67 percent of 25-34 year olds with a university degree are concentrated in the public sector, the private sector faces lack of qualified workforce. The Strategy also addresses an urgent need for modernization of tertiary education standards and curricula to better meet the current and future demand of labor market and strengthening linkages between higher education and research. These reforms will require involving all agents of the labor market—both public and private—in reform process.

The Strategy aims to improve admission policies to higher education and to equitable access. Access to tertiary education is relatively low Azerbaijan, and the Strategy points out that the number of higher education students per 100,000 people must be significantly improved. The Strategy also addresses that access to higher education need to be expanded among lower income students and in regions. Indeed, the tertiary education (university and college) enrollment rate is around 20 percent. This is relatively low for an upper-middle income country.

Governance. Despite many references to higher education autonomy in Azerbaijan, there is in reality an extensive role for a wide range of government bodies in regulating and managing higher education institutions (HEIs) centrally. While the government is taking steps towards enhancing HEIs' financial autonomy through the introduction of a per student financing system and the liberalization of wage policies, the new system has brought positive and negative impacts and needs a thorough evaluation and improvement. HEIs yet lack academic and management autonomy. This tight control has prevented institutional agility, quick development of new programs/offers, and is stifling innovation. Many courses are excessively theoretical, outdated, and not responsive to changing labor market needs. The Strategy aims enhanced academic autonomy to improve curriculum. At the same time, HEIs first need to build their institutional capacity to be able to exercise such autonomy. Hence institutional capacity building of HEIs is an utmost reform priority.

Quality Assurance and National Qualifications Framework. In 2010, the MOE created a new Accreditation Unit to streamline accreditation and attestation into a single and more independent accreditation process. The MOE plans to transform this unit into a stronger body with independent decision-making authority. In 2010, the Ministry of Education also initiated the development of an overarching Azerbaijan Qualifications Framework for Life-long Learning (AzQF), covering qualifications for general education, initial vocational education and training, higher education, and

further education and training.

Reform priorities. In sum, the goals of higher education reforms described in the Strategy include aligning the higher education system with the Bologna Process—European-wide higher education area, strengthening the higher education-labor market linkage, ensuring that curricula respond directly to market needs, improving efficiency and transparency in higher financing, strengthening the management capacities of tertiary education institutions, establishing a credible quality assurance system, developing an information management system to manage quality assurance and performance evaluation systems, using information and communication technology for quality and access improvement, and increasing access, among others.

Relationship to CAS

The Country Partnership Strategy (CPS) for FY11-14 addressed the urgent need to improve quality of and access to tertiary education as a reform priority and to develop a highly skilled workforce for Azerbaijan to be competitive internationally. The Bank has been supporting efforts in basic education reforms through the on-going Second Education Sector Development Project (SESDP). To respond to the Government's need to strengthen tertiary education and skills development, the CPS focuses on higher education.

The Bank team has so far aimed to support the achievement of the CPS goals through non-lending activities. While the government was in the process of formulating priorities for tertiary education reforms, the Bank team conducted a thorough analysis of the higher education sector, produced a policy note on human development, focusing on higher education. The findings were presented and discussed as one of the four major reform sectors at the High Level Policy Forum in 2012. The team also continued providing technical advice for the development of the Education Strategy. Following the endorsement of the Education Strategy, the MOE is currently developing a roadmap for the Strategy for an immediate implementation. The proposed tertiary education project will be extremely timely to support the government's efforts to move forward with tertiary education reforms.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The overarching objective of the project is to strengthen the capacity of the higher education system and its education institutions to provide high quality and relevant education to its graduates. Specifically, the proposed Development Objective is:

The Project aims to support creating and strengthening mechanisms that (i) strengthen the capacity of MOE, (ii) enhance a quality culture, (iii) strengthen the capacity of HEIs and higher education-labor market linkages, and (iv) increase access to higher education and graduation with equity; and piloting improvement of tertiary education institutions in a selected region.

Key Results (From PCN)

Objectives / PDO Indicators:

1. Strengthened capacity of MOE
 - A higher education management and information system is established and linked between MOE, other relevant agencies, and HEIs and used for decision-making and monitoring.
2. Enhanced quality culture

- The QA agency becomes eligible to apply for an Associate membership of the European Association for Quality Assurance in Higher Education (ENQA).
- 3. Strengthened capacity of HEIs and HE-labor market linkage
 - xx percentage of HEIs develop and implement a development strategy with clear missions and targets.
 - xx percentage of HEIs utilize a standardized approach to graduate tracing that allows for some cross-institutional or program comparison.
- 4. Equitable access
 - The government develops and pilots funding schemes to increase access to higher education among disadvantaged students (e.g., needs-based scholarships, student loans).
- 5. Piloting improvement of regional tertiary education institutions
 - A new program developed in collaboration with local firms to respond to local labor market needs is accredited according to the newly developed accreditation procedures.

Intermediate Outcomes / Intermediate Outcome Indicators

1. Strengthened capacity of MOE
 - A new higher education legal framework that clearly defines autonomy and accountability of governance, efficient and effective financing mechanisms, and a credible quality assurance system is developed and submitted for parliamentary approval.
2. Enhanced quality culture
 - The QA agency pilots two institutional accreditations and two program accreditations in accordance with the Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG), and finalizes the national QA standards and guidelines.
3. Strengthened capacity of HEIs and HE-labor market linkage
 - xx percentage of HEIs whose top-level management have gone through leadership or management programs
 - xx percentage of HEIs revise curriculum at least for xx percentage of existing programs together with relevant stakeholders to better reflect the labor market demand.
 - xx percentage of HEIs trace graduates' employment records at least for 1 year after graduation.
4. Equitable access
 - The government analyzes equity in access to higher education and develops a roadmap to enhance equity.
5. Piloting improvement of regional tertiary education institutions
 - The selected region develops a comprehensive tertiary education strategy together with local stakeholders.
 - Number of programs designed with involvement from local employers.

III. Preliminary Description

Concept Description

The Project consists of four components: (i) strengthening the higher education system; (ii) building the capacity of higher education institutions; (iii) strengthening quality and access to tertiary education in a selected region; and (iv) project management and monitoring and evaluation.

Component 1: Strengthening the Higher Education System (IBRD: USD 6.6 million)

This component supports the system-level capacity building for the Ministry of Education and other relevant agencies dealing with higher education in improving the governance and regulatory framework, strengthening the quality assurance mechanisms, and strengthening the use of higher

education financing as a policy instrument.

Sub-component 1.1: Improving Higher Education System Governance

Vision: The capacity of the Ministry of Education and other relevant agencies dealing with higher education is strengthened, in which autonomy and accountability are well-balanced and in alignment with the Bologna Declaration and international practices.

This sub-component will support strengthening the capacities of the MOE and other agencies dealing with higher education in improving the higher education governance framework to create an enabling environment for higher education institutions (HEIs). Activities include:

- Strengthening the capacity of MOE and other agencies dealing with higher education in setting up the areas and levels of autonomy and the rules for accountability requirements;
- Strengthening the MOE's capacity in monitoring and evaluation of HEIs' performance, including data collection, analysis, reporting and dissemination;
 - Developing an Education Management Information System (EMIS) for higher education;
- Developing policies and regulations to increase access, including admission policies, distance education;
- Participating in U-Multirank (a multi-dimensional, user-driven approach to international ranking of higher education institutions); and
- Conducting studies as needed by the MOE or other relevant agencies.

Sub-component 1.2: Enhancing the External Quality Assurance Mechanisms

Vision: The higher education degrees and diplomas issued by Azerbaijani institutions are locally and internationally recognized and credible, and offer valid representation of skills and competence.

This sub-component supports the establishment of a national quality assurance (QA) body that will exercise the independent decision-making authority for quality assurance for higher education.

It is assumed that the MOE establishes a Quality Assurance unit under the MOE by the end of 2014 and the EU-funded twinning program will commence in early 2015 and start supporting the development of contents of QA (e.g. Azerbaijan's National Qualifications Framework (AzQF) for initial and secondary vocational education and training and higher education, QA standards) during 2015. This sub-component is designed to build on these initial activities, focusing on the development and implementation of detailed procedures and the provision of training. Activities to be supported include:

- Building the capacity of the newly established QA unit in the MOE;
- Developing mechanisms and procedures for external and internal quality assurance, including guidelines for institutional and program accreditation;
- Supporting the QA unit in piloting the accreditation of HEIs for both institutional and program accreditation; and
- Supporting the QA unit in being transformed into an independent agency outside the MOE and obtaining a candidate status for the European Association for Quality Assurance in Higher Education (ENQA) membership.

Sub-component 1.3: Reforming Higher Education Financing

Vision: The higher education system is financed at an adequate level through an appropriate mix of public and private funds, in which public funding is utilized, to the extent possible, as a policy instrument to support the Ministry's strategic and policy objectives, including such things as enhancing equity, improving quality, and enhancing efficiency.

The government introduced a per student financing system in 2010 to enhance the quality of higher education. This sub-component supports the MOE in developing and implementing a comprehensive short-term and medium-term higher education financing reform strategy. A reformed financing model will be 1) aligned with the strategic and policy objectives of the MOE, 2) consistent with good international practice, and 3) informed by stakeholders in Azerbaijan's higher education system. The reform strategy would address the following four elements:

- Instruments of public funding for higher education institutions (allocation of state budget, research funding, cost-sharing, etc.);
- Diversification of financial sources for higher education institutions (tuition fees, market revenues, external research income, transfer activities, etc.) and the rules and regulations related to all these sources;
- Financial autonomy and accountability of higher education institutions (lump sum vs. line-item allocations, freedom to spend money flexibly and build financial reserves, financial regulations, discretion to set salaries, etc.); and
- Student funding and support (the individual financial situation of the student, loans, scholarships, etc.).

Component 2: Building the Capacity of HEIs (IBRD: USD 16.5 million)

This component supports the capacity building activities at institutional level.

Sub-component 2.1: Supporting HEIs in Strengthening Internal Quality Management Mechanisms

Vision: Higher education institutions establish institutional leadership and management structures and internal quality assurance mechanisms that assure the quality and credibility of their degrees internationally and domestically.

This sub-component supports the MOE in procuring training programs for HEIs in institutional leadership and management capacity and internal quality management (IQM) mechanisms.

Activities to be supported include training for HEIs in:

- Leadership, managerial and strategic planning to develop a comprehensive strategic plan;
- Internal quality management mechanisms;
- Institutional research, planning and assessment capacities to make necessary improvements;
- Academic and management processes (e.g. designing new short-cycle or other higher education programs, professional development for staff, etc.);
- Financial management (incl. budgeting, reporting, fee policies, etc.);
- Human resource management (incl. recruitment, wage policies, professional development, etc.);
- Information system (incl. using management software); and

- Public relations and communications.

Sub-component 2.2: Supporting Development Initiatives to Improve Quality and Relevance

Vision: The government provides funding for higher education institutions to improve the quality and relevance of their programs.

This sub-component supports the MOE and Ministry of Finance in developing and implementing transparent and efficient funding mechanisms to finance HEIs' development initiatives to improve the quality and relevance of study programs. Initiatives to be funded include:

- Curriculum improvement for national priority programs through partnering with employers, foreign institutions, including short-cycle programs;
- Professional development of teaching staff; and
- Improvement of learning resources, electronic library resources and student support centers.

Component 3: Strengthening quality and access to tertiary education in a selected region (IBRD: USD 5 million)

Vision: A group of regional tertiary education institutions offer increased and diversified tertiary education for rural students to better meet the local labor market demand.

This sub-component supports the MOE's efforts to increase and diversify access to tertiary education (university and college) in one selected region, based on agreed objective criteria. This activity also serves as a pilot sub-project to apply and implement new policies and regulations developed at the system level. Activities to be supported include:

- Assessing labor market demands for tertiary education in the selected region;
- Designing a master plan for regional tertiary education institutions that offers education and training programs to develop a diversified set of skills catered to the local labor market, covering infrastructure and equipment, human resources, content development, and financing needs;
- Improving and/or extending campus infrastructure (to be financed by the government);
- Procuring equipment and facilities for improved campus and classrooms;
- Developing university and college programs and curriculum contents – to be aligned with qualifications standards wherever applicable – which are inter-linked to each other;
- Applying for institutional and program accreditations according to the newly developed accreditation standards and guidelines, as they become available; and
- Evaluating the outcomes the regional tertiary education network and developing an umbrella policy on the development of a regional tertiary education network linked to the local labor market demand that would offer diversified and increased pathways to tertiary education and life-long learning.

Component 4: Project Management and Monitoring and Evaluation (IBRD: USD 1.9 million)

The MOE, supported by the Project Coordination Unit (PCU), will ensure efficient and effective implementation of the project to achieve project objectives, including monitoring and evaluation of the impact of the investment.

Component 3 may include physical investments in the selected region to be financed by the government, including campus rehabilitation or extension g and newly developing campus infrastructure. No land acquisition or physical displacement of residents caused by this activity is expected. Institutions for which the proposed Project will provide capacity building support will verify that there is no dispute prior to the project implementation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01			x
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	40.50	Total Bank Financing:	33.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			7.50
International Bank for Reconstruction and Development			33.00
Total			40.50

VI. Contact point

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