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საქართველოში რეფორმების  
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FACILITATION OF PUBLIC - PRIVATE PARTNERSHIPS IN THE GEORGIAN VET SYSTEM  
FOR IMPROVED EFFICIENCY, EFFECTIVENESS AND QUALITY ENHANCEMENT OF VET  
PROVISION

*Feasibility Study - "Workable Solutions for a Developing Georgia"*

# FACILITATION OF PUBLIC - PRIVATE PARTNERSHIPS IN THE GEORGIAN VET SYSTEM FOR IMPROVED EFFICIENCY, EFFECTIVENESS AND QUALITY ENHANCEMENT OF VET PROVISION

*Feasibility Study - "Workable Solutions for a Developing Georgia"*

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## List of Abbreviations

CSR	Corporate Social Responsibility
DBF	Design, Build and Finance
DBFM	Design, Build, Finance and Maintain
DBFOM	Design, Build, Finance, Operate and Maintain
DBOM	Design, Build, Operate and Maintain
EIP	Education-Industry Partnership
EMIS	Education Management Information System
Eoi	Expression of Interest
ESIDA	Educational and Scientific Infrastructure Development Agency of Georgia
FAA	Fiscal Affordability Assessment
GEL	Georgian Lari
Geostat	National Statistics Office of Georgia
GESI	Gender Equality and Social Inclusion
GGF	Good Governance Fund
GoG	Government of Georgia
HP	Hybrid Partnerships
ICT	Information and Communications Technology
IP	Infrastructure Partnership
IPPP	A special purpose vehicle with mixed public and private participation
IVET	Initial Education and Training
LEPL	Legal Entity of Public Law
LLL	Life Long Learning
MoESCS	Ministry of Education, Science, Culture and Sport of Georgia
MoESD	Ministry of Economy and Sustainable Development of Georgia
MoF	Ministry of Finance of Georgia
MSP	Multi-Stakeholder Partnership
N(N)LE	Non-entrepreneurial (Non-commercial) Legal Entity
NVETC	National Vocational Education Council of Georgia
O&M	Operation and Maintenance
PPP	Public-Private Partnership
SDG	Sustainable Development Goals
SPV	Special Purpose Vehicle
STEM	Science, Technology, Engineering and Mathematics
ToR	Terms of Reference
VET	Vocational Education and Training
VfM	Value for Money
WBL	Work Based Learning

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## 1. Executive Summary

The Good Governance Fund Managed Fund (GGF MF) project aims to assess the potential to outsource the management of Operational and Maintenance (O&M) functions of public VET colleges as well as other types of provisions within the Georgian Vocational Education and Training (VET) system through a potential O&M public - private partnership (PPP). This has the following primary goal:

*“To attract additional **private sector interest to the Georgian VET system** in order to address capacity issues within the Ministry of Education, Science, Culture and Sport (MoESCS) of Georgia and increase the quality and efficiency of VET management in Georgia”.*

This objective will be achieved through **piloting a new form of PPP model**, including:

- Analysing good international practices of O&M PPPs in VET systems (**Assessment Report**)
- Conducting a **feasibility study** on implementing a new PPP model that will be specifically tailored to supporting the VET Development Strategy of Georgia 2013-2020<sup>1</sup> and moving towards Sustainable Development Goals by 2030<sup>2</sup>, e.g. Goal 4 (Quality Education) and Goal 17 (Partnerships for the Goals)
- Developing a detailed action plan (roadmap) designed for implementation of the outsourcing management model of PPP in Georgia’s VET system
- Developing tendering procedures / documentation for pilot implementation of the O&M PPP model
- Assisting the MoESCS in pilot implementation of the new model O&M of the PPP (Outputs of Phase 2, i.e. ‘Assistance in Pilot Implementation’ will be agreed after completion of Phase 1 of this Good Governance Fund (GGF) project).

Implementation of **Phase 1** of this GGF project involves three Outputs with a decision-making point at the end of Output 1, i.e. by the end of December 2018. As such, the project outputs are:

- **Output 1** - An assessment / feasibility study report developed to identify successful PPP models in VET systems based on international good practices with a focus on **the ‘O&M – Operate and Maintain’** model and analyse its applicability to the Georgian context - identification of workable models for the Georgian context”  
This **FEASIBILITY STUDY** herein represents Output 1
- **Output 2** - A detailed action plan (roadmap) designed for implementation of the outsourcing management model of PPP in Georgia’s VET system
- **Output 3** - Tendering procedures / documentation developed for pilot implementation of the O&M PPP model

Based on the decision of the MoESCS on whether the outsourcing management model of PPP is viable and would like to proceed with its trial, the GGF Project Team will further proceed with the Outputs 2 and 3.

The immediate objective of this Feasibility Study, as part of the GGF MF project, is to provide the MoESCS with the means to increase private-sector involvement in state-provided VET education in Georgia through identification of a workable management outsourcing model(s). As a result, the MoESCS will be able to:

- Secure better value for money for the Government of Georgia (GoG)
- Improve service levels in VET management and delivery
- Reduce financial and operational risks, so both, the GoG and VET providers, can concentrate more on core VET activities while business and management activities are done by an experienced management company; and
- Ultimately, contribute to the improvement of VET in Georgia and a closer alignment between the VET system and labour market demand.

<sup>1</sup> <http://vet.ge/wp-content/uploads/2013/10/VET-Development-Strategy-of-Georgia-2013-2020.pdf>

<sup>2</sup> <http://www.ge.undp.org/content/georgia/en/home/sustainable-development-goals.html>



## 1.1 Increasing Efficiency of VET Education through Viable Public - Private Partnerships

The fate of future generations of Georgians will be decided by their education and skill levels that are needed in the 21<sup>st</sup> century. Work and living will be defined by how well Georgia can become a leading emerging-market economy and middle-class society. The efficiency, effectiveness and quality of education and training will be the main enabler in achieving this goal.

In recent years, the GoG has made significant progress in the field of vocational education. The MoESCS has been implementing the long-term VET Development Strategy 2013-20 and the associated Action Plans, which set out ambitious targets for the modernisation of the VET system in line with good international standards, together with the relevant regulations of vocational education development. Infrastructure improvements have also been carried out with the aim of creating an efficient and affordable vocational education system in line with the European standards. As the country is moving towards the end of 2013-2020 strategy, it must continue to seek new and improved ways of delivering VET. One such way is better cooperation with the private sector.

Public-Private Partnerships are increasingly perceived as an appropriate policy option to provide education for all in many different contexts. Key education stakeholders suggest that, by **partnering with the private sector, governments can expand their education systems in a more efficient and effective way.** For this and other reasons, many governments around the world are establishing PPP frameworks within their education systems. This is happening in both developed and developing countries, and in countries with very different administrative, financial, and political situations, including those affected by financial crisis and conflict.

Nonetheless, in education, PPP frameworks cover many **policy options** and follow very diverse rationales. As such, one of the main **objectives of the feasibility study** is to unpack PPPs' international experiences, as well as experience gained to date in Georgia for determining policy options for the expansion of PPPs in the Georgian VET system.

Besides defining the essence and the main features of PPPs, it is also helpful to clarify what they **are not**. This is useful to help us understand: 1) why the various features of the PPP models - all contribute to generating efficient, affordable, and sustainable projects, and 2) why deviation from the standard PPP model can cause project failure. This does not mean that projects and contracts developed as variants of the PPP model are not useful. On the contrary, they may be very useful in certain circumstances. However, often, when projects and contracts that are structured as a PPP fail, the cause(s) can be tracked to deviations from the defining characteristics of a PPP.

In the Georgian context, contracts that fit the scope and purpose of the PPPs, should be regarded as PPPs in full. However, Small PPPs, as per Article 4 and Article 14.5 of the Law of Georgia on PPPs<sup>3</sup>, should be regarded outside the scope of the PPP Agreement<sup>4</sup>. Instead, such agreements (contracts) should be regulated by the Law of Georgia on Public Procurement<sup>5</sup>.

## 1.2 Policy Options for PPP in Georgia

Based on international good practice and experience to date in Georgia, the following policy options are available for implementation to achieve the declared intent of PPPs in VET. These are:

### 1. Infrastructure Partnerships (IP)

Partnerships with the private sector for the construction of school facilities and related infrastructures, generally known as:

- Design, Build, Operate and Maintain (**DBOM**)
- Design, Build, Finance, Operate and Maintain (**DBFOM**)
- Design, Build, Finance and Maintain (**DBFM**)
- Design, Build and Finance (**DBF**)
- Operate and Maintain (**O&M**), which is usually an integral part of the above, but can be a stand-alone PPP.

### 2. Education-Industry Partnerships (EIP)

EIPs can have several types of agreements, but the most common ones are apprenticeship, work-based, dual VET type of agreements.

<sup>3</sup> <https://matsne.gov.ge/en/document/view/4193442?publication=0>

<sup>4</sup> Public-Private Partnership Agreements, Chapter V, Law of Georgia on PPPs

<sup>5</sup> <https://matsne.gov.ge/ka/document/view/31252?publication=68>

### 3. Multi-Stakeholder Partnerships in Education Provision (MSP)

This third typology of PPPs are defined as the pooling and managing of resources, as well as the mobilisation of competencies and commitments by business and civil society partners to contribute to expansion and quality of education and training, which can include international partners.

### 4. Operate and Maintain Partnerships (O&M stand-alone)

The fourth typology of PPP models can be an integral part of DBOM, DBFOM, DBFM or a separate stand-alone PPP. For Operate and Maintain, there are two options for the type of PPP contracts, which depends on the legal framework for the contract:

- One that is within the PPP Law, and
- One that is outside of the PPP Law

Usually under this model, the PPP involves a whole school approach, where the private partners take over the public VET providing institution for a specified period, at least 3 years.

### 5. Hybrid PPPs

In recent years, new combinations of PPPs are emerging - involving the four models selected above. Usually hybrid models encompass 3 clusters of PPPs:

- **The first cluster** focuses on national and/or sectoral policy and strategy development, policy implementation and policy monitoring, reporting and evaluation
- **The second cluster** focuses on PPPs that involve DBOM, or DBFOM, or DBFM, or DBF and/or O&M
- **Third cluster** focuses on different forms of direct provision of core education and training functions.

Inclusive in the five models above are aspects of Gender Equality and Social Inclusion (GESI) based on what is called an embedded approach and is considered cross-cutting all PPP models based on international good practice. However, it has certain risks on its way of implementation. "An embedded approach to equity in VET demands is that all work side by side with those responsible for reform to articulate the 'how' of redesigning the system to meet the diverse needs of learners and stakeholders experiencing disadvantage". The risks get to minimum if the "**system**" is aware of the disability problems, share post-materialist values (trainings of various sorts, i.e. perspective taking) and understand importance of supporting disadvantaged, who are aware of barriers faced by disadvantaged persons. All PPPs will have to take due cognisance of this issue.

## 1.3 Legal Framework

The current PPP legislation gives the following options for PPPs in VET:

1. **PPPs in full compliance** with the Law of Georgia on Public-Private Partnerships
2. **PPPs for Small Projects**<sup>6</sup> subject to compliance with the Law of Georgia on Public Procurement

Regardless of the option in Law, a PPP will need "**Project Concept**", i.e. a general description of a PPP that includes, but is not limited to the fundamental characteristics of the Project as defined in legal acts of the Government of Georgia. The "**Project Concept**" describes the focus of O&M. For Example, the Project Concept for PPPs for Small Projects could be "**Terms of Reference**".

The types of services, under the O&M PPP policy options, that could be characterised as Project Concept for O&M PPPs are as below.

<sup>6</sup> Article 14.5, Law of Georgia on Public-Private Partnerships

**Table 1. Suggested Policy Options for O&M PPPs in VET under PPP Law for Large and Small Projects**

Services	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5
Operate and Maintain VET Infrastructure	YES	YES	YES	YES - A separate contract for O&M of VET infrastructure	HYBRID - Design Your Own PPP
Management of Professional Support Services	NO	YES	YES	YES	
Management of Teaching and Learning Processes	NO	NO	YES	YES	

**Table 2. Risk Assessment of Suggested Policy Options**

Policy Option	Risk Rating	Assessment of Risk
<b>Option 1</b> - Operate and Maintain VET Infrastructure	Low	Contracts of this type are technical with clear specifications for specific tasks to be carried out by the Private Partner with detailed financial parameters and are considered low risk
<b>Option 2</b> - Operate and Maintain VET Infrastructure and the Management of Professional Services	Moderate	Under this arrangement, the management of infrastructure and professional services is transferred to the private partner. The main risks are related to the relationships between the VET Institution Director, Teaching and Learning Staff and the Private Partner.
<b>Option 3</b> - The Transfer of the Whole VET Institution to the Private Partner under PPP Contract	High	For this type of PPP to be successful and to attract high level private partners will require substantial increase in funding due to current high wage differentials between the private sector and the public sector (especially in education). The cultural shift from being a Public VET institution to an outsource O&M type VET Institutions can be long and sometimes does not work well.
<b>Option 4</b> - Combining Management of Professional Support Services with the Management of Teaching and Learning and Sub-Contracting out Maintenance of VET Infrastructure	High	Similar risk to that of Option 3 above
<b>Option 5</b> - Hybrid model based on 'Design Your Own PPP' 1. Purely commercial PPP 2. Based on Corporate Social Responsibility (CSR) 3. Based on Philanthropy 4. Based on Multi-stakeholder engagement to include Donors, Civil Society, Non-Government Organisations, etc.	Low	The development of PPP Concept would be based on Policy Dialogue between those stakeholders including the Private Sector.  This would result in a participatory approach with a Win-Win for all <b>moto</b> . Each PPP decision under this model would be based on Fiscal Affordability and Value for Money assessments

**Note:** All of the options should comply with Gender Equality and Social Inclusion (GESI) and Occupations Safety and Health principles and normative Acts.

## 1.4 Fiscal Affordability Assessment

Currently, public VET institutions are financed 100% from the State and the budget is structured in three main parts:

1. **Voucher** for Teaching and Learning
2. **Subsidy** for management and support services
3. **Capital and investment budget**

The voucher and subsidy budgets are regarded as recurrent and consists of on average:

- Notional Voucher funding per student - 1,300 Georgian Lari, based on budgetary data, and
- Notional Subsidy budget per student - 650 Georgian Lari.

For fiscal affordability analysis, the voucher is considered a fixed amount because teacher's salary and teaching and learning materials should not vary from PPP public VET institutions and non-PPP public VET providing institutions. In this scenario, for both cases the average voucher is fixed at 1,300 Georgian Lari per student.

**Table 3. Analysis of the 2016 and 2017 VET Budget in Georgian Lari (GEL) Indicated the Following**

Year	Overall VET budget [per capita]	Surveyed Schools per capita [Total budget] <sup>7</sup>	Overall VET Subsidy O&M [per capita]	Surveyed Schools per capita [Actual Subsidy]	Real Value of Voucher <sup>8</sup>
2016	1,796	1,746	437	427	1,369
2017	2,106	1,780	501	417	1,605

In 2016, the actual value of the voucher at 1,369 GEL was close to the notional value of 1,300. However, this has changed in 2017. The dynamics of the internal budget at VET college level would indicate merging between budget lines voucher and subsidy at school level. The determination of actual O&M costs for voucher and subsidy can only be verified through pricing of actual tasks carried out on both types.

Based on the policy options chosen by the MoESCS for the piloting of PPP in VET, a detailed costing exercise would have to be completed to determine budget ceilings as part of determinants for PPP procurement in accordance with Georgian law on State procurement. The pricing of the PPP for procurement would have to take into consideration the cost categories, such as teacher's salary and planned increases in teacher's salary going forward, as well as inflation over life cycle of the PPP. Usually, baseline data is used for Year 1 of the PPP and for subsequent years, the PPP is subject to service level agreement with annual budgets over the life cycle of the PPP.

Currently, in business sector of the Georgian economy, there is a wide wage differential (see Annex 17 for scatter diagram on wage differentials in Georgia) for the category of staff (professional, scientific and technical), that would be needed for an O&M PPP in VET. According to the National Statistics Office of Georgia (Geostat) data, monthly wages in the business sector is about 100% more than in the non-business sector. The analysis further indicates that those working in the education sectors are at the lower end of the scale of those working in the non-business sectors<sup>9</sup>.

Based on international good practice on costs indicate that the O&M PPP are 15% more expensive than non-PPP projects in education. However, evidence suggest that this increase is justified in Value for Money (VfM) terms, where the quality of the teaching and learning environment is better in PPP schools. Although, disputed by many commentators based on literature reviews.

## 1.5 Conclusions

1. As of December 31, 2018, the PPP Agency is not yet established and operational and therefore, it is not possible to implement PPPs under the Law of Georgia on PPPs due to a non – functioning PPP Agency. The likely timeframe for a functioning PPP Agency is the second half of 2019. (Opinion of GGF Team)

However, the first step in establishing PPPs is developing a **PPP Project Concept** by the initiator Ministry or other entity specified in the PPP Law. Therefore, the delay in establishment of the PPP Agency<sup>10</sup> should not prevent the

<sup>7</sup> Names of VET colleges surveyed under this GGF project: LEPL Community College "Mermisi", LEPL Vocational College "Phazisi", N(N)LE Vocational College "Ikarosi"

<sup>8</sup> The real value of voucher = Overall VET budget per capita – Overall VET Subsidy O&M per capita

<sup>9</sup> Average monthly nominal earnings of employees by economic activity, 2014-2017

<sup>10</sup> Article 9, Law of Georgia on Public-Private Partnerships

MoESCS from initiating PPP Project Concepts such as, for example, the development of VET institutions in new locations in Georgia, which could well be implemented under PPP arrangements.

2. As the previous report<sup>11</sup> of Millennium Challenge Account – Georgia (MCA Georgia) and the Assessment Report on International Good Practice<sup>12</sup> (as a precursor to this feasibility study), clearly state that PPPs in any sector to include education are complex in nature and require specialised competency on the side of the public partner. The same is true for Small Project PPPs that fall outside of the current Law of Georgia on PPPs and can be implemented under the Law of Georgia on Public Procurement.
3. The demand for VET provision, which is delivered by the public and private sectors, depends on many factors, but demographics and enrolment trends give good signals of future demand and merit consideration for PPPs.

In the population cohort 15-29 years is the most likely age group to be interested in enrolling in VET. The table 4 below shows the percentage of overall population (in age group 15-29) by region and enrolment in public VET provision in 2018. That is % of total VET enrolment by region when compared to % of total population by regions. It is interesting to note that Adjara A.R has the highest % of enrolment when compared to the other regions.

**Table 4. % of Total Population by Regions and % of Total VET Enrolment by Regions in 2018**

Most Populous Regions [Age Group 15-29]	% of Total Population in Region [Age Group 15-29]	% of Total VET Enrolment in 2018 [Spring/Autumn]
Tbilisi	33	37.1
Imereti	13	10.5
Kvemo Kartli	12	7.7
Adjara A.R.	10	<b>19.6</b>
Kakheti	8	8.1
Shida Karti	7	5.1

**Note:** The total population in the age cohorts 15-29 is 770,809 and enrolment in VET in 2018 is 7,629 students, which is less than 1% of the population cohort 15-29 years. In 2018, enrolment was 88% of available places in public VET institutions.

4. A survey of 75 organisation were targeted regarding their interests in “Management Outsourcing” of VET Provision and 33 organisations completed the questionnaire. It is interesting that about 1/3 of the surveyed companies expressed interest in engaging in "Management Outsourcing" PPP with public VET colleges. Moreover, companies can name public VET colleges with which they would like to start the partnership. Small companies are more interested in partnership than big companies.

The main motivating factors for private sector to engage in “Management Outsourcing” PPP were named as: corporate social responsibility, increasing the quality of VET education and improvement the relevance of VET provision. Furthermore, financial as well as non-financial benefits and cooperation with an international partner in outsourcing of management with VET Institutions are also important factors for the survey companies. For private sector engagement, the survey found that clear contractual requirements are necessary for the distribution of risks between public and private sectors and for effective communication between interested parties.

The completed survey also revealed that companies would prefer partnerships within the “management outsourcing” PPPs to last from one to three years and that the surveyed companies had no experience in managing VET Colleges. But, indicated that they needed further information about the existing outsourcing of management PPPs in Georgia and good international practices.

5. The Roles and Functions for VET provision that need to be developed further:
  - **Initial Vocational Education and Training (IVET)** school-based or Work-Based Learning (WBL), targeted at those aged 15-19 with option for second chance students<sup>13</sup>
  - **Non-formal VET** – Life Long Learning (LLL)
  - **Informal VET** – based on test centres as part of recognition of prior learning
  - **Adult education** – extras curricula
  - **Entrepreneurial development** centres / incubator centres / product development centres

<sup>11</sup> <http://iswd.ge/eng/page/51>, Public-Private Partnership Concept, MoESCS, March 2016

<sup>12</sup> Assessment Report of Good International Practice under Good Governance Fund project, MoESCS, November 2018

<sup>13</sup> Those that are older than 19 years and who have no qualifications and who may want to return to VET

- **Industry linkages** between public VET institutions and industry
- **Special projects**
- **Provision of services** on a cost recovery basis
- **National and international partnerships**

Within each role outlined above, there are several functions. Some functions are common to all roles and some functions are specific to individual roles. Please, see Annex 1 for list of functions of VET system.

6. The Fiscal Affordability Assessment shows that there is a wide wage differential between the business and non-business sectors in the Georgian economy. Therefore, based on preliminary cost estimates the subsidy budget for Public VET institutions would have to increase from the current notional level of 650 GEL per student to a minimum of 1,000 GEL per student. In fact, based on the data of the Geostat, it should be increased to 1,500 GEL per student for the cost of services rendered, in order to be compatible with business sector wage earnings and attract high level private sector interests (*opinion of GGF Project Team*).

The review of budget and costs associated with VET in 2017 reveal that overall per capita budget amounted to 2,106 GEL.

7. The study completed by MCA in 2015<sup>14</sup> indicate enough interest of the private sector in PPPs in education. Also confirmed by the survey carried amongst 75 companies with 33 completed questionnaires under this Project. History has shown that if a business opportunity is a viable proposition, then the business sector will be interested.
8. PPP in education should be selected based on **informed evidence** of improvements in the “internal efficiencies” and “quality improvements” in VET, ensuring that the State gets VfM for PPP contracts.
9. For Small Project that falls outside of PPP Law, and that involve the outsourcing of management services - a simplified approach should be based on development of the **Term of Reference** for a specific need and carrying out normal procurement procedures in accordance with the Law of Georgia on Public Procurement.
10. For project that falls within the PPP Law in full, the procedures to be followed are specified in the PPP Law and the Law on Public Procurement.

## 1.6 Recommendations

**The recommendations herein are to provide the MoESCS with PPP policy options<sup>15</sup> as part of the decision-making point based on the results of the international good practices assessment and draft feasibility study.**

1. Under the auspices of MoESCS, a PPP Working Group should be established for education and skills sector in order to maximise the potential benefits of PPP in education and skills development.
2. The MoESCS has an opportunity to implement PPP projects for Operating and Maintaining (O&M) of public VET institutions based on PPP Law or in accordance with the Article 14 section 5 for small O&M PPP projects. To comply with early FAA, it is recommended that a cluster of at least three public VET providing institutions be part of one O&M PPP contract (cluster). Alternatively, one VET college with at least one outreach centre that could comply with the criteria for either a large or small PPP in accordance with the PPP Law. For example, a VET institution with 800 students at a per capita cost of 2,000 GEL, with an annual budget of 1.6 Million GEL and 8 Million GEL at baseline (year 1) costs for 5 years in compliance with the PPP Law concerning minimum duration of a PPP contract. In this scenario, the O&M contract would have to comply with PPP law in full. Whereas, Small PPP Projects must comply with Article 14.5 of the PPP law.
3. Pilot testing of low risk PPPs should take place in 2019 based on two options for existing public VET institutions:
  - a) The active experimentation of the Hybrid model (outlined as policy option 5 in this feasibility study) for PPPs under the PPP Law in full, or for Small Projects under the Public Procurement Law, and in partnerships with existing VET providing institutions based on trust and dialogue. Such PPP projects could focus on maintenance of VET infrastructure and for example, the outsourcing of catering services.
  - b) Pilot testing of low risk PPPs under the Hybrid model for innovation in VET provision, involving different types of provision both public, private and other forms of provision to include gender equality and social inclusion.

<sup>14</sup> <http://iswd.ge/eng/page/51>, Public-Private Partnership Concept, MoES, March 2016

<sup>15</sup> Table 1. Suggested Policy Options for O&M PPPs in VET under PPP Law for Large and Small Projects

This will necessitate institutional development and capacity building as an integral part of each PPP being piloted.

4. Pilot testing of the Multi-Stakeholder PPP Model provides the opportunity to widen the scope of PPP for greater impact, whereby the Private Partner consisting of consortiums with an optional international partner would work with an existing public VET provider or alternative form of provision such as WBL.

This type of PPP would necessitate an alternative legal set-up such as Legal Entity in Private Law (non-profit). However, the new legal entity could also be established as for-profit legal entity. Such PPP would be controlled by Board of Directors, with the Ministry representative having the deciding vote in split decision situations.

For pilot testing, it is recommended that one named VET LEPL be identified for the preparation of pilot road map and procurement tender dossier.

5. MoESCS and ESIDA should prepare a Project Concept for new public VET provision (possible locations such as Martvili, Khashuri, Akhalkalaki, Borjomi and Marneuli). (Outlined as policy option No 1, DBOM in this feasibility study).
6. MoESCS should consider establishment of “Centres of Excellence” PPP that is sector specific (could be implemented under the Multi-Stakeholder model).
7. For all PPPs (models) that come within PPP Law in full, all initiators have the possibility to complete the identification of a potential PPPs and hand over to the PPP Agency.
8. For Small PPPs contracts / agreements, complete the identification, screening and appraisal and get agreement to proceed with procurement under the Law of Georgia on Public Procurement.
9. Recommended steps for the facilitation of large PPP projects in VET:
  - The preparation of Public Notice with outline specification
  - The launch of public notice for expression of interest (Eoi)
  - The evaluation of EOI submitted and the preparation of short list
  - Initial due diligence of short-listed candidates
  - The launch of tender documents
  - Tender evaluation
  - Contract negotiation
  - Contracting
  - Implementation, monitoring and reporting
  - Annual contract review
  - Completion of contract
10. The process to achieve O&M PPP Contract **involving different actors** is as follows:
  1. Identification of the potential PPPs
  2. Initiation
  3. If necessary, involving PPP agency in the preparatory works
  4. Engaging the Ministry of Finance (MoF) and the Ministry of Economy and Sustainable Development (MoESD)
  5. Submitting the concept to the Government of Georgia (GoG) with the relevant supplementary documentation
  6. Government reviews the concept and issues decision on approving the preparation
  7. Competent body undertakes preparation of the project
  8. Competent body engages with the PPP agency and the Ministry of Finance for the execution of their respective functions
  9. Financial and economic analysis are prepared
  10. The outcomes of the preparation of the PPP shall be submitted to the MoF for further review
  11. The MoF prepares relevant evaluations as determined by the legal act of the GoG that are applicable to the overall project
  12. The package is submitted to the GoG
  13. The GoG shall approve or reject the project
  14. If approved, the competent body prepares the tender documentation for selecting private partner
  15. The GoG may determine other requirements to the financial and economic analysis of PPPs
  16. The GoG shall identify the competent body to develop and implement the PPP or make decision about the joint implementation in case the PPP is within the competence of more than one competent body

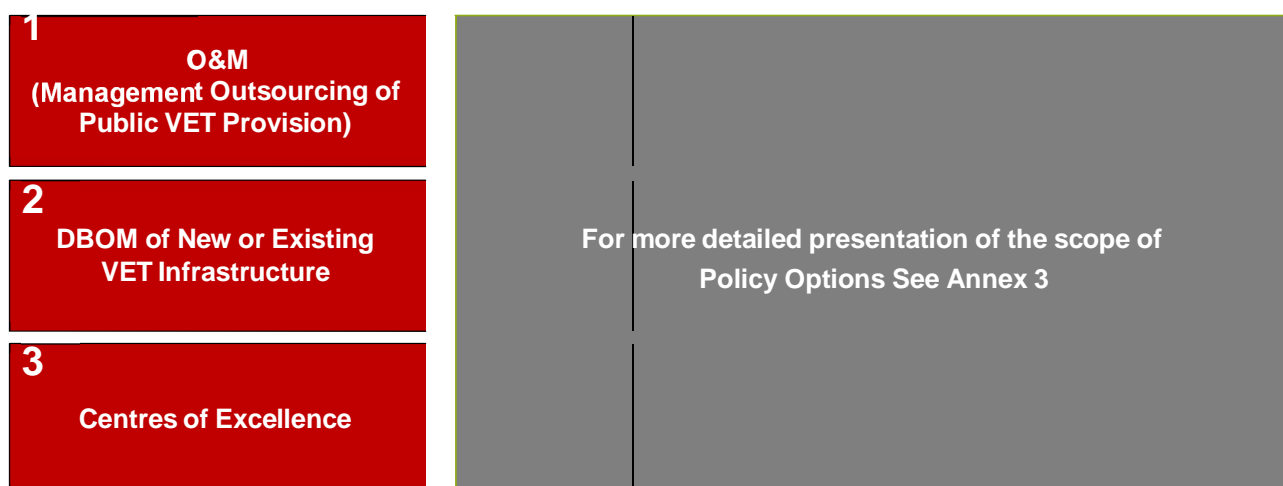
17. Selection through the tender
18. Contract preparation
19. Contract draft review (MoF involved)
20. Submit recommendations to the competent body
21. If needed /required participate in the negotiations (MoF)
22. Concluding agreement with the selected private partner
23. Monitoring the implementation process
24. Alteration or termination

For process flow chart, please see Annex 2.

Recommended steps for the facilitation of **Small** PPP projects in VET (Article 4 and 14.5, PPP Law):

1. Preparation of PPP Concept
2. Term of Reference
3. Approval process
4. Tender procedure in accordance with the Law on Public procurement
5. Contracting
6. Implementation, monitoring and reporting
7. Contract review
8. Completion of contract

**Diagrammatic Representation of Suggested PPP Policy Options for VET (please, see Annex 3)**



### 1.7 Next steps

**The Ministry of Education Science Culture and Sport of Georgia should make a decision on whether the O&M PPP is viable and would like to test the model. If the decision is made to proceed with the trial, the GGF project team will start working on the Output 2 and 3 of the project.**

As such, the next steps are:

- Decision point by the MoESCS and selection of the Policy Option – **mid January 2019**
- GGF team to proceed with preparation of Action Plan for selected Policy Option – **after decision is made by the MoESCS**
- Assistance in development of the Procurement Dossier - **after decision is made by the MoESCS**



## 2. Situation Analysis

### 2.1 Socio-Economic Context of Georgia

For initiating PPP in VET it is important to analyse the environment in which this partnership should be implemented. The economy of Georgia achieved a stable growth since 2003 as well as improved “Doing Business” Indicators. In 2008, Georgia was hit with the “twin crisis” of the August armed conflict with Russia followed by the global economic downturn. Since 2014, economy has recovered with a steady growth of close to 5% per year. In 2018, Georgia is ranked number 6 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings<sup>16</sup>. During the last twenty years, Georgia became an upper middle-income country<sup>17</sup>. The business deregulation, reforms related to anti-corruption, legal, tax, and trade made the country more attractive for FDI. Despite good economic growth and Doing Business Indicators, Georgia’s labour market and social indices are still weak. The overall unemployment rate is 13.9 %, and long-term unemployment is 43%<sup>18</sup>. Some groups are left out of good jobs, including women and youth. Good jobs in Georgia have been created mostly for the highly skilled workers in urban areas, which have benefitted from higher wage returns to education.

The employment rate is modest (56.7%), among women it is 50.8% while among men 63.4%. About 43% of the jobs are in agriculture sector, either self-employed (19 %) or unpaid workers (23%)<sup>19</sup>. Absolute income poverty is 21.9%, with a working poverty rate even higher (23%). The high unemployment rate in Georgia is caused primarily by weak labour demand; companies expand more from productivity improvements than from increasing employment. Despite top unemployment employers find it difficult to recruit workers with the right skills. Job in low-productive areas (especially in agriculture) is the main factor behind the high incidence of in-work poverty (agriculture employs 2/3 of the working poor)<sup>20</sup>.

Georgia signed and ratified the EU Association Agreement (1 September 2014). A Free Trade Agreement has been signed with the EU, and this will harmonise the country’s economic policy with the European standards. This trend creates a basis for further economic and social development of the country (Bank of Georgia, 2014).

The vision of the Government of Georgia is to ensure a stable macroeconomic policy as a necessary condition for sustainable and inclusive economic growth. In addition to use to a combination of fiscal, monetary and exchange rate policies to ensure medium-term fiscal consolidation, preserve the sustainability of public debt and maintain price stability. Another priority is more focus on the development of the labour market in Georgia that creates social and economic problems such as unemployment, poverty, illegal labour migration.

### 2.2 Skills Development

Georgia has been implementing Vocational Education and Training (VET) reforms during the last decades, which aimed at supporting the Socio-Economic Development and Poverty Reduction priorities of the country as well as the development of human resources to meet the short-, medium- and long-term requirements of the labour market (VET reform strategy, 2013-20). Some of the main focuses of the VET reform are the identification of skills, adjusting the training towards the needed qualifications, reducing the mismatch between supply and demand and supporting employment of VET graduates.

Though significant reforms there is considerable room for improvement in the quality of the education and training system in Georgia that would produce workers, most notably young people, with skills that are attuned to the needs of the labour market. The skills mismatch in the local market is a significant determinant of poor employment outcomes, especially among young men and women.

There is a need for the further development of skills of graduates and assurance of quality of professional qualifications. Employers do not trust vocational qualifications and skills of students<sup>21</sup>. Opportunities for students to engage in real work-based learning and apprenticeships are limited.

The problem is not the lack of an educated work-force, as the educational attainment of the work-force is very high. Georgia has 100% literacy rate and, more importantly, 43% have completed tertiary education, with well over 50% having at least secondary education in urban areas. Women and informal workers are more likely to be over-educated for their current jobs. The rate of over-education is highest for business graduates, technology, engineering, mathematics (STEM), information, communication, technology (ICT) and architecture graduates. Number of over-educated workers are the

<sup>16</sup> <https://tradingeconomics.com/georgia/ease-of-doing-business>

<sup>17</sup> World Bank classification, 2016

<sup>18</sup> Geostat, 2017

<sup>19</sup> Geostat, 2017

<sup>20</sup> World Bank (2018), Doing Business 2018

<sup>21</sup> Torino process 2016-Georgia. ETF, 2016

lowest for the following graduates: humanities, social sciences, education, social services, law, and healthcare<sup>22</sup>. Women and the less skilled workers among the tertiary educated are more likely to take jobs that require lower levels of education.

Of course, highly educated workers do not necessarily mean highly skilled workers. The popularly cited 'skills mismatch' in Georgia is a mismatch between excess supply of qualifications and insufficient demand for such requirements. The latter in turn is the reflection of a slowly evolving economic structure that is dominated by agriculture and low productivity service sector activities. The result is that many educated workers find themselves either unemployed or underemployed, despite more than a decade of pro-market reforms.

Social Partners have a consultative role at the national level (NVETC), though at the sector level are almost non-existent. Thus social partners lack influence in VET policy-making decisions around the skills that sectors require. Local social partnership (such as work-based learning) at the level of educational institutions is also weak, though there are good examples. The social partnership needs to develop on the sectoral level to support the closing of the gap between the skills and labour market. On a micro level, it is essential to promote the education-business partnerships.

PPP concept accepted in 2015, facilitated government partnership with the private sector having interest in launching the VET providers focusing on particular sectoral development of the labour force. PPP concept anticipated three modalities that have been followed in each case: (1) establishment of new institutions jointly with sharing investments (s) outsourcing of management of VET Colleges and (3) WBL contacts.

#### Target Groups for VET by Regions

Demographic analysis help in the identification of potential VET participants and the scope and scale of PPPs in response to demand for public/private VET provision. The age cohorts most likely to participate in VET are from 15 to 29 age group. This is the cohort 15-19, 20-24 and 25-29 (Table 5 below). About 7.2% of the population on average is represented by the three cohorts of the population, which is relatively low when compared to the norm of about 9% of the population in other countries with stable population dynamics.

**Table 5. Georgian Population Cohort 15-19, 20-24 and 25-29<sup>23</sup>**

Population by Regions	Total Population	Population Cohort 15-19	% of Total	Population Cohort 20-24	% of Total	Population Cohort 25-29	% of Total Population
Tbilisi	1,108,717	71,502	6.45%	94,462	8.52%	90,198	8.14%
Abkhazia A.R.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adjara A.R.	333,953	21,866	6.55%	26,412	7.91%	28,463	8.52%
Guria	113,350	6,008	5.30%	5,964	5.26%	7,016	6.19%
Imereti	533,906	29,878	5.60%	32,331	6.06%	35,589	6.67%
Kakheti	318,583	18,216	5.72%	19,759	6.20%	21,068	6.61%
Mtskheta-Mtianeti	94,573	5,487	5.80%	6,601	6.98%	6,882	7.28%
Racha-Lechkumi and Kvemo Svaneti	32,089	1,455	4.53%	1,119	3.49%	1,383	4.31%
Samegrelo-Zemo Svaneti	330,761	17,740	5.36%	17,976	5.43%	21,222	6.42%
Samtskhe-Javakheti	160,504	10,256	6.39%	11,137	6.94%	12,934	8.06%
Kvemo Kartli	423,986	27,930	6.59%	32,784	7.73%	35,590	8.39%
Shida Kartli	263,382	15,684	5.95%	17,580	6.67%	18,317	6.95%
<b>Total Population</b>	<b>3,713,804</b>	<b>226,022</b>	<b>6.09%</b>	<b>266,125</b>	<b>7.17%</b>	<b>278,662</b>	<b>7.50%</b>

The total population of 15-29 cohort is 770,809 people with approximately 33% living in Tbilisi. Assume that 15% of population should have qualifications in VET as a minimum, which would mean that minimum of 116,000 should have received VET type qualifications in age group 15-29. To achieve this target 8,260 should qualify with VET type qualifications each year.

From a geographical perspective, the largest share of the population age 15-29 is in Tbilisi (33%), followed by Imereti (13%), Kvemo Kartli (12%), Autonomous Region of Adjara (10%), Kakheti (8%) and the balance with the smaller populated regions.

<sup>22</sup> World Bank, Georgia at Work: Assessing the Jobs Landscape, 2018

<sup>23</sup> National Statistics Office of Georgia

Based on the opinion of the GGF Team, by 2030, 60% of all VET learners should be receiving VET type qualifications in partnership with businesses, which opens-up the opportunity of different types of education-industry partnerships. This policy is also supported by the international alliance for apprenticeships.

According to the data from the 2014 census, there are 2,251,666 aged 30 and above. About 3 to 5% are also target groups for VET participation in public VET institutions, which in sum equals the numbers from 67,550 to 112,583 respectively, that should receive one-off VET type training/retraining in every 5 years' time through publicly financed VET provision. This means that at a minimum of 13,510 people should receive training / retraining on an annual basis by means of public VET project.

In summary, about 8,000 should qualify from initial VET each year and 13,000 adults should receive some form of skills development on an annual basis.

Annex 4 provides useful data for planning VET enrolment and the capacity of provision.

The table 6 below shows the percentage of overall population (in age group 15-29) by region and enrolment in public VET provision in 2018. That is % of total VET enrolment by region when compared to % of total population by regions. It is interesting to note that Adjara A.R has the highest % of enrolment when compared to the other regions. The overall share of enrolment in public VET provision in 2018 is about 1% of the total population 15-29 years (Population 15-29=770,809, Enrolment in 2018= 7,629, which is just under 1%)

**Table 6. % of Total Population by Regions and % of Total VET Enrolment by Regions in 2018<sup>24</sup>**

Most populous regions age group 15-29	% of total population in Region age group 15-29	% of total VET enrolment in 2018 (Spring/Autumn)
Tbilisi	33	37.1
Imereti	13	10.5
Kvemo Kartli	12	7.7
Adjara A.R.	10	<b>19.6</b>
Kakheti	8	8.1
Shida Karti	7	5.1

**Note:** In cases of same admission entry points of students or/and in case of students with disabilities the enrolment number can be higher than available places.

## 2.3 Financing of VET

The main objective of this section of the report is to:

- Analyse the implementation costs of O&M functions of VET institutions in Georgia based on the data of selected VET colleges, and
- Assess the fiscal affordability based on the voucher and subsidy budget variables.

### 2.3.1 Research Methodology and Limitation

In the first phase of this project, the GGF project team's research goals were:

- To determine detailed breakdown of activities and functions that VET colleges require in capacity of O&M PPP contract; and
- To estimate the cost of each O&M function. For this activity team's methodology aimed at obtaining data through primary as well as secondary researches.

Primary research involved interviews, mainly expressed in observations of six selected VET colleges. Please see the profiles of the surveyed colleges in Annex 5

Out of surveyed six colleges only three (LEPL Community College "Mermisi", LEPL Community College "Phazisi", N(N)LE Vocational College "Ikarosi") qualified as reliable data observation points as other institutions did not have continuous operational history.

After analysing financial information provided by surveyed VET institutions, due to the unavailability of the data and/or lack of cost segmentation, the team decided to apply secondary research methodology based on the financial/economic calculations on annual VET budgetary accounts submitted to MoESCS Economic Department by each VET institution.

<sup>24</sup> Data from [Education Management Information System \(EMIS\)](#)

Due to these limitations, for the first phase of the project, per-budgetary-line costing approach replaced per-function costing approach. This on the other hand resulted in less detailed cost estimation exercise, as accounting principles and chart of accounts utilised by VET colleges allow limited ability to directly match actual costs to O&M functions.

### 2.3.2 Framework of Education Budgeting in Georgia

VET in Georgia is exclusively financed by the government and compared to the state funding, contributions by the private sector/employers, donors or the learners themselves is fairly limited. Management and implementation of VET policy in Georgia basically rests with the Vocational Education Development Department of the MoESCS, which represents the responsible body for the formation of high quality and efficient vocational education system at a national level.

According to the information of the VET department, in 2017, total number of students involved in VET was 14,296, of which 11,540 students (81%) were enrolled in public VET colleges and 2,756 students (19%) in private VET providers. Overall, there are 24 public and 90 private VET institutions operating in the country.

VET financing framework in Georgia is regulated by the Government Resolution #244 (dated on September 19, 2013) on "Defining the Rule of VET Financing for Public Education Institutions". The Resolution creates a framework for two types of funding: 1) **voucher** and 2) programme financing (also referred as **subsidy** budgeting).

Voucher financing covers the basic expenditures of learning process, including teachers' salaries and costs supporting the learning process of students with disabilities and special needs, while on modular programmes, the voucher funding allocates the expenditures on learning materials.

Programme budgeting entails: a) the salaries of personnel (including administration) and contracted staff of the educational institutions, b) operational costs, and c) all other running costs of the facility.

### 2.3.3 Overview of Macro Data on Education Budgeting

According to the Geostat data, education contributed by around 3% to Gross Domestic Product in 2017 and for the first two quarters of 2018 this figure stands at 3.6%. Whereas, in accordance with the information released by the MoF, in 2018 public spending for all levels of education in Georgia constituted 1.2 bln. GEL, which is 11.8% of total public expenditure. On average, in 2015-2018 years budget expenditure on education increased by 76%<sup>25</sup>.

In 2018, the ratio of VET funding to the total state budget allocations of the MoESCS (1.2 bln.GEL) constitutes only 2.8% (41.4 mln. GEL). This includes spending on VET development support activities (94%), accessibility of VET education for prisoners (0.5%) and trainings and retraining for ethnical minorities (5.6%). Over 2015-2018 years, on average, VET funding increased from 23 mln. GEL (in 2015) to 41 mln. GEL (in 2018). Traditionally, on average, VET development support measures absorb the biggest portion among the VET implementation dimensions funded by the state.

Planning for state budget allocations for VET in 2019 is also positive. In accordance with the MoF budgeted figures, VET allocations will increase by 17% compared to 2018 year data, which will constitute 3.1% of total allocations of the MoESCS in 2019. In 2018, 95% of VET education spending were generated by the state budget and the rest were the contributions from grants and credits.

The analysis showed that throughout 2016-2018 years, out of six surveyed colleges, state funding increased in Modusi, Ikarosi and Mermisi VET colleges, while Phazisi College had 7% increase only in 2017 compared to the previous year. Since Gudauri Adventure Tourism School and Railway Transport College were established in 2017, budget allocations are not available for 2016 year.

Funding analysis of the surveyed VET colleges revealed that mainly, the voucher funding is the major source of recourse mobilisation for the institutions and subsidy allocations are fairly less - compared to the ratio of voucher funding. However, in some VET colleges (e.g. Modusi, Railway Transport College), the volume of subsidy funding is higher compared to voucher.

<sup>25</sup> State budget allocations on education, MoF data: <https://mof.ge/5115>

**Table 7. State Budget Allocations (in GEL) for Surveyed VET Colleges Over 2016 – 2018 Years<sup>26</sup>**

Surveyed VET Schools	2016	2017	2018 <sup>27</sup>
LEPL Community College Modusi	683,658.00	859,129.00	640,000.00
LEPL Community College Mermisi	1,169,148.73	1,281,420.82	669,700.00
LEPL Community College Phazisi	513,693.62	476,394.12	336,168.00 <sup>28</sup>
N(N)LE Vocational College Ikarosi	1,452,461.31	1,529,170.08	440,000.00
Railway Transport College <sup>29</sup>	NA	158,649.25	401,844.00

### 2.3.4 Financial Analysis of Surveyed Colleges

In accordance with the budgetary classification applied by the MoF Georgia, the basic structure of costs across all public sectors is comprised of the following categories: expenditures, increase in financial assets, increase in non-financial assets and decrease in liabilities. The “expenditure” category itself is composed by the sub-categories, such as salaries, goods and services, social insurance, grants, subsidies and other costs.

For the purposes of this report, sub-categories selected under the “expenditure” costs, “goods and services” and other costs associated with the implementation of the O&M functions of VET colleges are integrated under the categories of:

- (a) “Total operating costs” which entails all labour and O&M functional costs, and
- (b) “Total capital expenditures”, including expenses that VET colleges are spending on fixed assets, property and plants, equipment and inventory.

The latter does not include capital expenditures by ESIDA and analyses spending of the VET institutions only.

Based on the analysis of the data provided by the Economic Department of the MoESCS, in 2016-2017 total operational costs<sup>30</sup> of public VET institutions in Georgia increased by 13%. In 2017, the portion of the total O&M costs (4.1mln. GEL) comprised 24% of the total operational costs of the whole VET sector (17.1 mln. GEL). Distribution of voucher (8.7 mln. GEL) and subsidy financing (8.3 mln. GEL) across total allocations on operational costs were 51% and 49% respectively. In 2017, voucher and subsidy financing both for whole VET sector and surveyed colleges were increased by 13% on average. Please see the Table 8 below.

<sup>26</sup> Data is obtained from the Economic Department of the MoESCS

<sup>27</sup> 2018 year allocations are based on requested subsidy funding for most of the colleges except Phazisi

<sup>28</sup> Actual balance of the first two quarters of 2018

<sup>29</sup> Allocations are made on the basis of subsidy funding in both 2017-2018 years

<sup>30</sup> All state-funded VET colleges

**Table 8. Major Cost Categories (amounts in GEL)**

Category	2016		2017	
<b>Operational Costs for all VET</b>	<b>15,138,948</b>		<b>17,068,063</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	7,717,200	7,421,748	8,716,862	8,351,201
<b>Financing Sums for Surveyed Colleges<sup>31</sup></b>	<b>2,989,920</b>		<b>3,193,398</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	1,885,218	1,104,702	2,039,198	1,154,200
<b>Total Capital Expenditure</b>	<b>609,636</b>		<b>589,818</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	536,142	73,494	240,026	900
<b>Capital Expenditure of Surveyed Colleges</b>	<b>143,362</b>		<b>589,818</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	142,462	349,792	68,076	23,058
<b>Total O&amp;M Costs</b>	<b>3,681,310</b>		<b>4,062,461</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	1,694,916	1,986,394	1,706,533	2,355,928
<b>O&amp;M Costs of Surveyed Colleges</b>	<b>746,996</b>		<b>781,069</b>	
	<i>Voucher</i>	<i>Subsidy</i>	<i>Voucher</i>	<i>Subsidy</i>
	518,180	1,986,394	228,816	255,613

In 2017, the ratio of voucher financing constituted 51% of the total operational costs of the whole VET sector, while subsidy finance made 49% contribution to the operational costs category. As for the surveyed VET colleges, these indicators were 64% (voucher) and 36% (subsidy) respectively. On average, for the entire VET sector, about 41% of capital expenditure is financed through voucher (75% in surveyed colleges) and 59% via subsidy funding (25% in surveyed colleges). Around 42% of O&M costs are formed by voucher in the sector (67% in surveyed colleges) and 58% by subsidy funding (33% in surveyed colleges).

In 2017, **direct labour costs** amounted to 12% of total operational costs of the all public VET colleges, while goods & services (12%), gas costs (2.5%), fuel (1%), water costs (1%), maintenance costs (1.2%), office inventory (1%) and communication costs (1%) were the main contributors to the costs associated to the implementation of O&M functions (4.1mnl. GEL).

In 2016-2017, **indirect labour costs** across all public VET colleges increased extremely and reached almost 217%, due to the growth in expenditures for the implementation of O&M functions for the following cost categories: cleaning (92%), maintenance costs (40%), stationary (37%), fuel (35%) and electricity (23%).

In 2017, **the total capital expenditure** (590,000 GEL) of all public VET colleges in Georgia decreased by 3% compared to the previous year (610,000 GEL), while costs of fixed assets increased by 36%.

In 2016-2017, **the total operational costs** of surveyed colleges, similar to the operational costs for the whole VET sector, increased by 7%; In 2017, voucher financing allocations (2 mln. GEL) increased by 8% and subsidy financing (1.2 mln. GEL) increased by 5% compared to the previous year. Over 2016-2017, **the total capital expenditure** of the surveyed colleges decreased by almost 58%, of which the cost on equipment and inventory reduced by 83%.

In 2017, the biggest cost ratios under operational costs of surveyed VET colleges are direct labour costs (67%) and allocations for other goods and services (15%), while utility (15% - dominated by gas and electricity costs), maintenance (4%), building repair (3%), stationary (2.5%) and office equipment (2%) costs constitute the relatively big cost categories for the O&M functions implementation. In 2016-2017, costs on total O&M functions implemented by the surveyed colleges increased by 5%. As for the cost-categories revealing the largest growth rates under O&M functions, building repair (almost 100%), cleaning (67%), utility service (35% on average) functions lead along with the expenditures on indirect labour (increased by almost six times).

In 2017, **student (per capita) cost** across operational costs for the surveyed schools amounted to 1,780 GEL (2% increase compared to 2016), of which 1,081 GEL (2.6% increase compared to 2016) is voucher allocations and 699 GEL (1.2% increase compared to the previous year) stands for subsidy finance. Direct (65%) and indirect (11%) labour

<sup>31</sup> Figures in the table are analysed for "Mermisi", "Phazisi" and "Ikarosi" VET colleges

costs make biggest contribution to the student (per capita) costs, while attributions to O&M functions (24%) and capital expenditures (3%) are relatively small.

In 2017, operational costs per student across all VET sector in Georgia amounted to 2,106 GEL, while an average spending for a single student in surveyed schools was 1,780 GEL. The figure varies for each individual VET school as following: LEPL Community College Mermisi – 1,845 GEL, N(N)LE Vocational School Ikarosi – 2,074 GEL, LEPL Community College Phazisi – 1,421 GEL.

### 2.3.5 Fiscal Affordability Assessment

One of the exercises, which was included in financial assessment of PPP project in VET sector, involved analysis of effect of change in the value of funding components on aggregate budgetary accounts. For this, the GGF project team decided to estimate two major funding components:

- 1) **Voucher funding** per student (covering costs that are compatible to voucher scheme), and
- 2) **Subsidy funding** per student (covering capital expenditures and indirect costs that are subject to financing through subsidies).

**Table 9. Scenarios, change in funding components and VET sector budgets (Amounts in GEL)**

Cost Category	Actual, 3 School AVG	Δ %	Suggested Standard	Δ %	Suggested Increase	Δ %	Suggested Ceiling
Voucher	1,115	17%	1,300	0%	1,300	0%	1,300
Subsidy	717	-9%	650	15%	748	34%	1,000
<b>Total Budget</b>	<b>1,832</b>		<b>1,950</b>		<b>2,048</b>		<b>2,300</b>
Δ Original P.C			118		98		350
% Δ Original B.P.C			6%		5%		18%
<b>Total VET Budget</b>	<b>14,850,073</b>		<b>15,802,800</b>		<b>16,592,940</b>		<b>18,639,200</b>
<b>Δ Scenarios</b>			<b>952,727</b>		<b>790,140</b>		<b>2,836,400</b>

According to the analysis of economic / budgetary accounts of shortlisted VET schools (Mermisi, Phazisi, Ikarosi), total cost per student / capita in 2017 fiscal year reached 1,832 GEL, which can be broken down to **1,115 GEL (voucher funding) and 717 GEL (subsidy funding)**.

For the purposes of Fiscal Affordability Assessment, the GGF project team analysed the following three scenarios:

1. Suggested standard – total cost per capita 1,950 GEL (voucher – 1,300, subsidy - 650) – **Base Scenario**
2. Suggested increase – total cost per capita 2,048 GEL (voucher – 1,300, subsidy 748)
3. Suggested ceiling – total cost per capita 2,300 GEL (voucher – 1,300, subsidy – 1,000)

As size of voucher funding is fixed by legislature, in short to medium term it is expected that any incremental funding required for maintaining PPP contracts will be channelled through subsidy funding, hence voucher part in above given scenarios is fixed to 1,300 GEL and incremental increases are expressed in subsidy funding.

Further sensitivity analysis is used to estimate total effect on VET sector budget by changing value of the discussed two main variables - subsidy funding and voucher funding.

The Table 10 below, provides estimation of the BASE SCENARIO (total cost per capita 1,950 GEL, voucher funding – 1,300, subsidy funding - 650) and subsequent incremental increases from 2% up to 20% upward cost ceiling. According to these estimations, total funding for VET sector might reach up to GEL 19 mln, as a worst-case scenario.

**Table 10. Sensitivity analysis – Estimation of VET Sector Budget (Amounts in GEL)**

		Aggregate budget variance										
		Voucher cost dynamics										
		1326	1352	1378	1404	1430	1456	1482	1508	1534	1560	
		2%	4%	6%	8%	10%	12%	14%	16%	18%	20%	
Subsidy cost dynamics	663	2%	16,119	16,330	16,540	16,751	16,962	17,172	17,383	17,594	17,804	18,015
	676	4%	16,224	16,435	16,646	16,856	17,067	17,278	17,488	17,699	17,910	18,121
	689	6%	16,330	16,540	16,751	16,962	17,172	17,383	17,594	17,804	18,015	18,226
	702	8%	16,435	16,646	16,856	17,067	17,278	17,488	17,699	17,910	18,121	18,331
	715	10%	16,540	16,751	16,962	17,172	17,383	17,594	17,804	18,015	18,226	18,437
	728	12%	16,646	16,856	17,067	17,278	17,488	17,699	17,910	18,121	18,331	18,542
	741	14%	16,751	16,962	17,172	17,383	17,594	17,804	18,015	18,226	18,437	18,647
	754	16%	16,856	17,067	17,278	17,488	17,699	17,910	18,121	18,331	18,542	18,753
	767	18%	16,962	17,172	17,383	17,594	17,804	18,015	18,226	18,437	18,647	18,858
	780	20%	17,067	17,278	17,488	17,699	17,910	18,121	18,331	18,542	18,753	18,963

As per the Table 11 below, total incremental funding for VET programme could increase by GEL 3.1 mln if voucher funding increased to GEL 1,560 and subsidy funding rose to GEL 780. This increase peaks per capita funding to 2,340 GEL, which is 20% higher than base scenario and 28% higher than average figure for 1482 surveyed schools (Mermisi, Phazisi, Ikarosi), that was observed in fiscal year 2017.

**Table 11. Sensitivity analysis - Incremental changes (Amounts in GEL)**

		Variance to Aggregate budget by standard costs									
		Voucher cost dynamics									
		1326	1352	1378	1404	1430	1456	1482	1508	1534	1560
Subsidy cost dynamics	663	316	527	737	948	1,159	1,370	1,580	1,791	2,002	2,212
	676	421	632	843	1,054	1,264	1,475	1,686	1,896	2,107	2,318
	689	527	737	948	1,159	1,370	1,580	1,791	2,002	2,212	2,423
	702	632	843	1,054	1,264	1,475	1,686	1,896	2,107	2,318	2,528
	715	737	948	1,159	1,370	1,580	1,791	2,002	2,212	2,423	2,634
	728	843	1,054	1,264	1,475	1,686	1,896	2,107	2,318	2,528	2,739
	741	948	1,159	1,370	1,580	1,791	2,002	2,212	2,423	2,634	2,845
	754	1,054	1,264	1,475	1,686	1,896	2,107	2,318	2,528	2,739	2,950
	767	1,159	1,370	1,580	1,791	2,002	2,212	2,423	2,634	2,845	3,055
	780	1,264	1,475	1,686	1,896	2,107	2,318	2,528	2,739	2,950	3,161

**Note:** Averages of three shortlisted schools are taken as a benchmark, instead of total VET sector averages since these institutions have observable operational history and observation data is relatively free of outliers.

Considering that, upward 20% increase in costs is commensurate to all possible cost increase probabilities, GEL 3.1 mln is the maximum value at risk affected by the launch of VET PPP initiative across all existing VET institutions. Government’s key mitigation strategies for averting these losses remains engaging in cost-neutral PPP activities as discussed in subsequent sections.

### 2.3.6 O&M Functions: Infrastructure

School facility infrastructure is critical to excellence in teaching and learning opportunities in the VET system in Georgia. Classrooms, gymnasiums, playfields, play equipment and structures are the physical learning environments - which **Operate and Maintain** management are responsible for. The purpose of this questionnaire that was used (see Annex 6) is therefore, to determine the **expected results, guidelines and standards** to ensure that the operations and maintenance of VET provisions are protected in a consistent, measurable and sustainable manner.

VET provision facility **Operations and Maintenance** encompasses all the traditional trades (carpentry, plumbing, electrical, grounds etc.) as well as building operations (energy management, heating, ventilation, air conditioning etc.) and custodial services (caretaking, cleaning, mowing etc.) and many others in modern VET infrastructure. The complexity of the VET provision environment demands a high degree of knowledge and professionalism. For example, VET providers may have learners ranging in age from 15 to 70 years as well as special needs learners. Therefore, the



O&M professionals must know how to operate, maintain and manage this broad spectrum of tasks to ensure VET provision is operated and maintained to a specified standard.

Traditionally, 5 types of maintenance have been distinguished, which are differentiated by the nature of the tasks:

- **Corrective maintenance:** The set of tasks is destined to correct the defects to be found in the different equipment and that are communicated to the maintenance department by users of the same equipment.
- **Preventive Maintenance:** Its mission is to maintain a level of certain service on equipment, programming the interventions of their vulnerabilities in the most opportune time. It is used to be a systematic character, that is, the equipment is inspected even if it has not given any symptoms of having a problem.
- **Predictive Maintenance:** It pursues constantly know and report the status and operational capacity of the installations by knowing the values of certain variables, which represent such state and operational ability. To apply this maintenance, it is necessary to identify physical variables (temperature, vibration, power consumption, etc.). Which variation is indicative of problems that may be appearing on the equipment? This maintenance is the most technical, since it requires advanced technical resources, and at times of strong mathematical, physical and / or technical knowledge.
- **Zero Hours Maintenance (Overhaul):** The set of tasks whose goal is to review the equipment at scheduled intervals before appearing any failure, either when the reliability of the equipment has decreased considerably so it is risky to make forecasts of production capacity. This review is based on leaving the equipment to zero hours of operation, that is, as if the equipment were new. These reviews will replace or repair all items subject to wear. The aim is to ensure, with high probability, a good working time fixed in advance.
- **Periodic maintenance (Time Based Maintenance):** The basic maintenance of equipment made by the users of it. It consists of a series of elementary tasks (data collections, visual inspections, cleaning, lubrication, retightening screws,) for which no extensive training is necessary, but perhaps only a brief training. This type of maintenance is based on Total Productive Maintenance.

Based on the above a comprehensive survey instrument was developed and used by the GGF project team to assess the 6 VET colleges as per Table 12, to determine the level on concurrence and interest in the functional areas.

Table 12 below provides a summary of the level of interest in infrastructure maintenance in surveyed 6 VET colleges.

**Table 12. Level of Interest in Maintenance in Surveyed 6 VET Colleges**

	Functions	Modusi	Phazisi	Ikarosi	Mermisi	Railway	Gudauri	
1	Administration Of O&M	Maybe	Yes	Yes	Yes	Yes	Yes	
2	Facilities And Equipment	Yes	Yes	Yes	Mostly Yes	Yes	Yes	
3	Risk Management	Yes	Yes	No	No	Moderately Yes	Maybe	
4	Hazardous Materials/ Safety Management	Mostly Yes	Mostly Yes	No	Yes	Moderately Yes	Mostly No	
5	After Hours Service	Yes	Maybe	No	No	Maybe	No	
6	Provision Of Utilities	Yes						
7	Caretaking	Yes						
8	Grounds Maintenance	Yes	Mostly Yes	Moderately Yes			Moderately no	
9	Solid Waste Disposal	Yes						
10	Building Exterior	Yes						
11	Building Interior	Yes						
12	Mechanical Systems	Moderately Yes						
13	Electrical Systems	Yes	Mostly Yes	Moderately No	Mostly Yes	Mostly Yes	Moderately no	
14	Miscellaneous	Yes	Yes	No	Yes	Yes	No	
15	Teaching And Learning Equipment / Laboratories Support And Maintenance Services	Yes						
16	Technology Support And Maintenance Services	Yes						Maybe
17	Green Vet Provision	Yes	No	No	No	Maybe	Maybe	
18	First Aid	Maybe	Yes					
19	Pest Control	Yes	Yes	Yes	Yes	Yes	No	
20	Training Services	Yes						No
21	Assessment Criteria (Current Situation)	Yes						

**Source:** Survey of 6 VET Colleges. For full report on methodology and result, please see Annex 6.

Please also see the following Annexes:

- Summary of Financing VET Colleges under Annex 7
- Summary of Voucher Financing of VET Colleges under Annex 8
- Summary of Subsidy Financing of VET Colleges under Annex 9
- Student per Capita Costs Across Public VET Colleges under Annex 10
- Distribution of Financing Weights in VET Budget under Annex 11

## 2.4 Attitudes of the Private Sector towards “Management Outsource PPP” in VET Sector in Georgia

### 2.4.1 The Aim of the Research

The objective of this research is to analyse the attitudes of private companies towards “Management Outsource PPP” in VET Sector in Georgia as well as to identify their interests and motivation to engage in "Outsource Management PPP."

*Under "Management Outsourcing" is meant a partnership, where private sector within the scope of the contract, for a certain period, takes responsibility to manage the state VET school, including Human, material-technical and financial resources, teaching process and income generating activities.*

Thus, the researchers studied the following topics:

- The attitudes and interest of companies to be involved in "Management Outsource PPP"
- Experience of companies in partnering with public VET colleges
- The motivation of the private sector to engage in “Management Outsource PPP"
- Preconditions that are impotent for initiating "Management Outsource PPP".

### 2.4.2 Methodology

The research was carried out during November-December 2018, using a specially designed survey questionnaire that consisted of 21 main questions and additional sub-questions. Questions were mainly closed-ended.

The research was a combination of online and face-to-face survey.

In total 75 organisations were contacted, out of which 33 filled in the questionnaire. Table 13 below provides a summary of surveyed companies by sectors:

**Table 13. Summary of the Surveyed Companies by Sectors**

Sector	Number of Organisations
Agriculture	5
Construction	4
Education	4
Finance	4
Governance	1
Industry	1
Real Estate	2
Tourism	5
Transport	2
<b>Total</b>	<b>33</b>

Please see the survey questionnaire and the list of surveyed companies in Annex 12

### 2.4.3 Results

#### Profile of the organisations

Most of the companies that participated in the research are Small and Medium size Enterprises. About 30 % of the organisations have more than 100 employees, others less.

### Experience of partnership with VET colleges

- 43% of the surveyed companies know how to collaborate with VET colleges. All of them had cooperation at the time of the survey.
- 3-3 organisations had a partnership with “Gldani VET Center” and “Ikarosi”, 3 of them - with other private VET colleges, 2 of them with “Aisi” and 1 of them with “Spektri”, “Mermisi”, “Opizari”, “New Wave”.
- The cooperation is a long run for 50% of the companies as it continues more than one year.
- Most of the companies ensure student’s practices (83%) and participate in planning / implementing the learning process (75%). Less common are participations in the selection of pedagogical resources and participation in income generating activities of an educational institution (about ¼ of surveyed companies are involved). Only 8% of the companies have experience in management of the educational institution, O&M and provision of equipment.

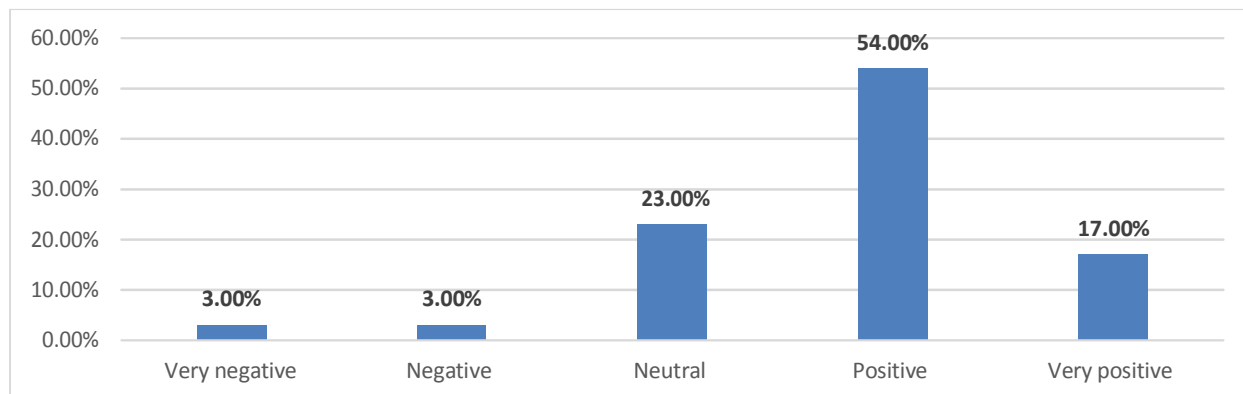
**Table 14. Fields of Partnership with VET Colleges**

	Field	%
1.	Ensuring student’s practices	83
2.	Participation in planning / implementing the learning process	75
3.	Participation in the selection of pedagogical resources	25
4.	Participation in income generating activities of an educational institution	25
5.	Participation in the marketing of educational institution	17
6.	Participation in management of educational institution	8
7.	Participation in the operation and maintenance of infrastructure	8
8.	Participate in providing equipment	8

### Attitudes of private companies towards "management outsource PPP" in the VET sector

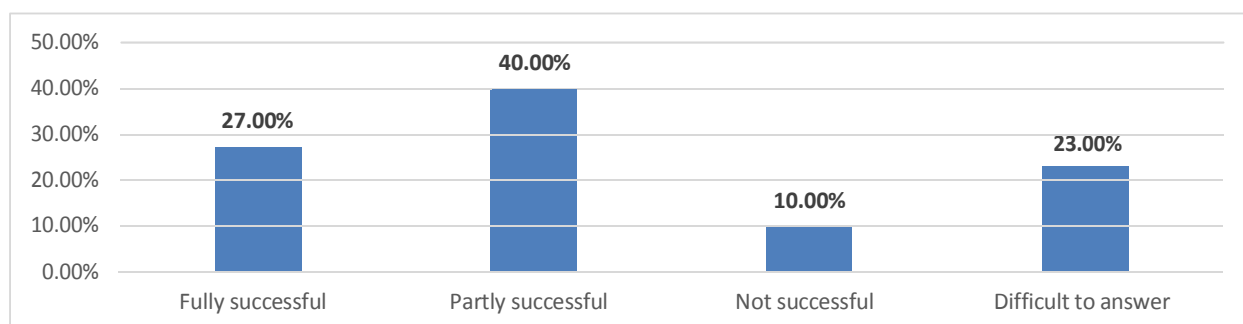
About 71% of the surveyed companies expressed positive attitudes towards such kind of partnership (54% positive and 17% very favourable)

**Graph 1. Attitudes of Private Sector towards Management Outsource PPP in VET**



Most of the surveyed companies (67%) think that the PPP model of Management Outsourcing with Public VET colleges will be successful, 40% believe that it will be partially successful and 27% fully successful. Other responses are given below, in Graph 2.

**Graph 2. How Successful will "Management Outsourcing PPP" be in VET Sector in Georgia**



About 30% (10 companies out of 33) of the surveyed companies would like to manage any public VET institutions through "management outsourcing" PPP model. 70% out of them are small as have less than 100 employees. 2-2 companies represent education and trading sectors, 1-1 companies in the field of tourism, industries of agriculture, real estate, finance, governance.

The companies would like to have partnership with following colleges: 2 companies named any of the public VET colleges, 1-1 Spektri, Modusi, New Wave, any VET colleges in the sector of finance and tourism.

The companies were asked to specify, whether, in the scope of "Management Outsourcing" partnership, they would be interested to carry out various functions. Please see the summary of the responses below under the table 15.

**Table 15. The Functions that Private Companies would like to carry out in the Scope of "Management Outsourcing" PPP with Public VET Institutions**

	Functions	Yes %	Yes, partly %	No %
1.	Human Resource Management, which includes administrative and pedagogical resources management	56	44	0
2.	Management of material-technical resources, including infrastructure	36	36	28
3.	Financial resources management	20	40	40
4.	Manage the teaching process	60	30	10
5.	Development and implementation of long-term and short-term strategic plans for the public VET college	50	40	10
6.	Management of entrepreneurial and income generating activities	40	40	20
7.	Marketing of VET institution, to include income generating activities	30	50	20

It should also be noted that the companies identified two additional functions, i.e. distribution as a sector should be involved in the teaching process and participation in student selection process.

**Prerequisites and motivations of the private sector to engage in management outsourcing PPP**

Analysis has shown that all **requirements named below in the table 16 are essential for the private companies when initiating the "management outsourcing" PPP with VET institution, but especially noteworthy are** clear regulations, **the possibility of** effective distribution of risks **between public and private sectors and effective communication between interested parties.**

**Table 16. Prerequisites for the Private Companies when Initiating the "Management Outsourcing" PPP with VET Institution**

#	Prerequisites	Significant and Important %	It is neither essential nor insignificant %	Not relevant %
1.	Clear regulations	100	0	0
2.	The possibility of effective distribution of risks between public and private sectors	100	0	0
3.	Effective communication between interested parties	100	0	0
4.	Competitive market	90	10	0
5.	Long-term contracts	90	10	0
6.	The government's will and initiative	90	0	10
7.	Political stability	90	0	10
8.	Macroeconomic stability	90	0	10
9.	An effective and transparent system of procurement	90	0	10

Additional factors also named were: **less bureaucracy** and **qualified allege of VET staff**.

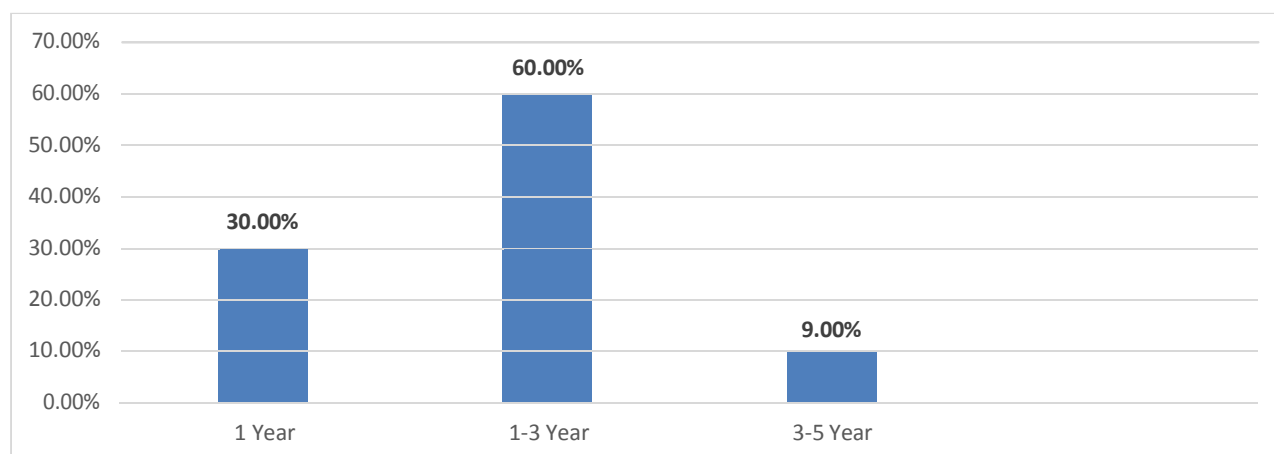
The research also studied the motivating factors for private companies to initiate "management outsourcing PPP" with public VET institutions. As the analysis has shown all named factors were important for initiating "outsourcing management PPP", but especially noteworthy are: **corporate social responsibility, increase the quality of VET education** and **improvement the relevance of VET provision** to labour market needs. Please see the summary of the analysis of motivation below in the table 17.

**Table 17. Motivating Factors for Private Companies to Initiate "Management Outsource" PPP with State VET Institutions**

#	Motivation Factors for Private Companies	Important %	It is neither essential nor important %	Not important %
1.	Corporate social responsibility	100	0	0
2.	Increase the quality of VET education	100	0	0
3.	Improvement the relevance of VET provision	100	0	0
4.	Non-financial benefits - Improvement of human resources	90	10	0
5.	Corporate with an international partner in outsourcing of management with VET Institutions	90	10	0
6.	Financial benefit	80	10	10

Regarding the duration of the partnership, about 2/3 of the companies responded that 1-3 year period contract for "management outsourcing" partnership is the most acceptable. Other responses are given below on the Graph 3.

**Graph 3. The Acceptable Period for Partnership within the Management Outsourcing PPP**



All companies would prefer to establish "Management Outsourcing" PPP with one college or at least to start with one college due to a lack of experience.

For all companies, it is important to get additional information about existing public-private partnerships in Georgia, as well as international experience on private-public partnership projects, including management outsourcing, and plans for private-public partnership projects in the education sector, including management outsourcing.

**Table 18. Getting Additional Information about PPPs**

	List of Additional Information	Yes	Difficult to say	No
1	About existing public-private partnerships in Georgia	90	0	10
2	International experience on private-public partnership projects, including management outsourcing	100	0	0
3	About plans for private-public partnership projects in the education sector, including management outsourcing	100	0	0

#### 2.4.4 Conclusions Based on the Survey Analysis

- About 1/3 of the private sector representatives have positive attitudes towards engaging in “Management Outsourcing” PPP with public VET colleges and believe that such kind of partnership will be successful in the VET sector of Georgia.
- It is interesting that the same number of companies express interest in engaging in "management outsourcing" PPP with public VET colleges. Companies can name public VET colleges with which they would like to start the partnership.
- Small companies are more interested in partnership than big companies.
- The following factors motivate the companies to engage in Management Outsourcing PPP: corporate social responsibility, increase the quality of VET education and improvement the relevance of VET provision. In addition, financial and other non-financial benefits and corporation with an international partner in outsourcing of management with VET Institutions are also important.
- For all interested companies the following pre-conditions are must: clear regulations, the possibility of effective distribution of risks between public and private sectors and effective communication between interested parties. Other factors, such as, the government will and initiative, political stability, macroeconomic stability, competitive market, long-term contracts, effective and transparent system of procurement are also important.
- Companies are more interested in having a short-term partnership, such as, from 1 up to 3 years. Also, they would prefer to initially start a PPP with only one public VET college.
- It should be considered that though about half of the surveyed companies have had some kind of partnership experience with VET colleges for mostly more than one year, the companies have had minimal experience in management of educational institution.
- Companies need additional information about the existing “Management Outsourcing” PPP in Georgia, as well as good international practices and future plans.

#### 2.4.5 Recommendations as per the Survey Analysis

- It is crucial to use conclusively positive attitudes of the private sector towards “Management Outsourcing” PPP in VET in Georgia to initiate PPP in VET.
- It is recommended to implement various **awareness-raising** activities among private companies to provide information about the good international practices, the importance and potential benefits of “Management Outsourcing” PPP for the private sector
- To carry out comprehensive research with the companies which might be interested in “Management Outsourcing” PPP, to have regular communication with them and take into account their interest and motivations while designing the suitable “Management outsourcing” PPP model for VET sector in Georgia. So that the MoESCS should explore ways to involve the private sector in management of VET colleges.
- The MoESCS should identify the relevant incentives for the private sector to engage in “Management Outsourcing” PPP as well as to meet private sector expectation about the clear regulation, effective sharing of risks between private and public sectors and communication. Thus, the MoESCS should develop a sound and evidence-based policy and regulatory environment for supporting “Management outsourcing” PPP in VET.

## 3 Legislation

Management outsourcing of the operation and maintenance functions of public VET colleges and other types of provision within the Georgian VET system, through public – private partnerships is dependent on the regulatory framework of Georgia. As stated earlier, PPP in VET has two legal options as follows:

### 3.1 Overview of the Legislative Framework

The aim of the legal framework overview is to assess the existing legal base for the private-public partnerships in Georgia for testing the O&M model for VET providers. The framework overview shall cover the following aspects:

1. The primary source/legal basis for regulating the Public-Private Partnerships in the country (VET law, PPP law, Law on LEPLs, Procurement Law)
2. Organisation fully vested with the PPP related functions
3. The other key actors in the process of setting up the PPPs (apart from the PPP Agency) and their functions
4. The status of the entities and other criteria for becoming part of the PPP
5. Other key criteria (if any) for participating in the alliance
6. The PPP process – key stages’ overview
7. **Small Projects within the Law of Georgia on Public Procurement**
8. Final analysis including strengths, weaknesses, recommendations, risks associated with the existing PPP legislation
9. The regulations and standards parties of the PPP have to be compliant with

The above are summarised in this section of the Feasibility Study. As for the full PPP Law please see Annex 13.

The area of our interest is the legal framework of the PPPs in VET for the O&M PPP models, as the VET law only refers to the support of the social partnerships in the VET field while listing the goals of the state policy in the VET sector. In order to assess the existing legal mechanism for the potential Public-Private Partnerships must focus on the primary legal source regulating PPPs across all sectors – the recently passed PPP Law. The law, which is fully effective since July 1, 2018 provides a solid legal basis for the public-private partnerships in Georgia, which has the following aim:

1. Increasing efficiency of the projects (involving VET providers amongst others)
2. Satisfying the public demand for creating new and/or enhancing the existing public infrastructure and/or service(s)
3. Raising private financing (including foreign investment)
4. Increasing cost-effectiveness of public expenses; allocating risks between the public and the private sector
5. Utilising private partner’s know-how<sup>32</sup>.

#### 3.1.1 The primary source/legal basis for regulating the Public-Private Partnerships in the country (VET law, PPP law, Law on LEPLs, Procurement Law)

The new PPP law clearly demonstrates what has been agreed on a policy level. Public – Private Partnerships have always been important for the development of the various sectors in the country, thus **the scope of the law is quite broad**, it applies to any public-private partnership and sets rules and procedures for successful implementation of such partnership projects. The PPP law reads that the GoG may determine the priority sectors and/or areas of implementation of public-private partnerships for Georgia, however, this wording does not limit the participation of various sector representatives<sup>33</sup>.

**As the support and promotion of the VET providers is still one of the prioritised directions for the GoG, VET shall by all means be amongst the sectors the newly established PPP Agency shall focus on in the nearest future** (*the charter of the organisation is already approved, Georgian version is available on matsne.gov.ge*). PPP agency shall be a tool for the public sector for facilitating the setting up of the partnerships. The competent bodies shall initiate the projects and engage the PPP agency in preparatory works, in preparation of the recommendations and elaboration of the proposals. On the other hand, the PPP agency itself shall help the competent bodies in identifying the prospective public-private partnerships.

<sup>32</sup> Article 3, Law of Georgia on PPP

<sup>33</sup> Article 6, Law of Georgia on PPP

As the VET providers of our interest for O&M model of PPPs are Public Law Legal Entities, it is worth referring to the key provisions of the **Law of Georgia on LEPLs**. Legal entities of Public Law are established with the aim of implementing/reaching specific public goals. Entities with LEPL status can be founded by one or few governmental entities/agencies. The majority of the authorised VET providers are exactly LEPLs, which means that they are bound by the provisions of the Law of Georgia on LEPLs and the Law on Public Procurement even though there are some exceptions<sup>34</sup>.

The LEPLs have the right of carrying out “commercial” activities, e.g. *generating income and thus having financial resources, other than funds received from the state budget*. But it does not have to be the key purpose of the LEPL, thus as the Law of Georgia on LEPLs provides, if LEPL is more actively engaged in commercial activities and generating more income the relevant governmental institution shall bring forward the issue of LEPL’s reorganisation or liquidation. The new VET Law<sup>35</sup> provides that the VET institutions established by the State or with its participation can carry out economic activities (commercial activities), but the primary aim of such activities should be the development and enhancement of the VET institutions, i.e. development of the educational process, ensuring financial sustainability, improvement of the services.

**Public Procurement Law** applies to the procurement of services, goods and construction works to be procured with the budgetary means and financial means of the private entities with the shares over 50% belonging to the State. The Public Procurement Law was already revised as per the recently passed PPP Law and reads that it does apply to the procurement of goods, services and construction works under the PPP projects. The same Article 1 of the Law of Georgia on Public Procurement provides, that the selection of the contractor shall be processed based on the Public Procurement rules (as provided by the Law of Georgia on Public Procurement) with a condition that (Section 3<sup>2</sup> of the Article 1) the following provisions do not apply to the selection process of the PPP contractor: Article 9; Section 1<sup>1</sup>, 2 and 7 of the Article 16<sup>1</sup>, Chapters IV and V.

One more interesting and important provision relates to the dispute resolution. According to the Law of Georgia on Public Procurement, in case of the disputes connected with the selection of the PPP contractor the relevant provisions of the Procurement Law shall apply – this is the wording specified in the PPP law. In addition, there is a legal act of August 24, 2018 on dispute resolution of the cases of selection as per the Public-Private Partnership Law, which indicated a conflict between both laws.

### 3.1.2 Organisation fully vested with the PPP related functions

**The PPP law introduces Public-Private Partnership Agency**, as the key actor for the purpose of developing and implementing public-private partnerships, for facilitating the processes described in the PPP law. As per the Article 8 “for the purposes of developing and implementing public–private partnerships, the relevant competent bodies, in accordance with their competencies and in accordance with legal act of government of Georgia shall:

- a) According to necessity, identify and initiate public-private partnerships, as specified in this law
- b) Analyse and assess unsolicited proposals
- c) Engage the Public-Private Partnership Agency to facilitate assessment and/or preparation of PPPs and for the performance of other functions specified in Article 10 Paragraph 2 of this law and the corresponding legal act of government of Georgia, as well as Ministry of Finance for the performance of the functions of the latter
- d) Arrange for conducting tenders
- e) Conduct negotiations with the bidders and/or lenders
- f) Sign public – private partnerships agreements on behalf of the public partner
- g) Perform any other functions necessary for implementing public-private partnerships”.

**PPP Agency functions are listed in Article 9 of the PPP Law.** The Agency has the administrative role, a role of a manager of the whole process starting from the initial stage of identification of the potential PPPs. The agency can identify and propose prospective PPP projects to the competent bodies, assist them in identifying the PPPs, conduct assessments of the projects, prepare recommendations, in case of request from the competent body the PPP agency may assist them in the preparation of the tender documents, in drafting the PPP agreements, etc. PPP agency arranges the selection, hiring and supervision of the consultants at any stage of the PPP, it monitors the PPP activities, supports the competent bodies with capacity building activities, creates and manages PPP databases.

The chairman of the organisation is appointed by the Prime Minister of Georgia. The Public Private Partnership Agency is accountable to the Prime Minister.

<sup>34</sup> Article 3, Law of Georgia on Public Procurement

<sup>35</sup> Article 31, Law of Georgia on VET



### 3.1.3 The other key actors (apart from the PPP Agency) and their functions

**For coordination and monitoring purposes and for ensuring the maximum results, apart from the PPP agency the PPP law introduces other key actors, such as for instance the Ministry of Finance and the Ministry of Economy and Sustainable Development.** The Ministry of Finance shall be involved at the few important stages of the preparation of the collaboration packages as per the PPP law. Involvement of the line ministry shall minimise the “errors”, but as noted above, the inclusion/participation of the Ministry in the process might overall delay the progress. However, it cannot be viewed as a negative development, on the contrary: eventually for ensuring smooth implementation of the contractual obligations, the concept paper review, fiscal risk assessment, review of the partnership agreements and involvement in tender documentation preparation are the key steps and successful completion of each equals productive and flawless partnership. It is vital to ensure that the specialists involved are well-trained professionals, ready to handle the PPP portfolio.

Some of the VET providers, operating in the country, fall under the definition provided in the PPP Law of the term “**competent body**”, which can be actually the initiator and the party to the PPP agreement.

Vocational education institution can be a legal entity of public or private law. Vocational educational programmes in Georgia are carried out by the following institutions<sup>36</sup>:

1. Vocational college – vocational education institution, carrying out the educational programmes of only the first three cycles of vocational education
2. Community college – vocational education institution, carrying out the educational programmes of all the cycles of vocational education. It is also entitled to carrying out secondary educational programmes, programmes in Georgian language and liberal arts
3. General education institution – which is authorised to carry out educational programmes of the first three cycles of vocational education
4. Higher education institution – the institution, which is entitled to carry out the educational programmes of all the cycles of vocational education.

Based on the levels, we can differentiate between two types of colleges:

- **Community College** – a vocational educational institution, which offers preparatory general education programmes or/and liberal arts programmes together with vocational education programmes and has also the right to provide Georgian language education programmes.
- **Vocational College** – a vocational educational institution, which offers only the first three level vocational education programmes.

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<sup>36</sup> Chapter IV. Legal Basis of Operations of College, Law of Georgia on Vocational Education and Training

**“Article 23. Establishment of College, Obtaining Status, and Implementing Educational Activities**

1. College is established and operates as a legal entity of public law, or private law.
2. Agencies of executive government of Georgia are authorised, upon the agreement with the Ministry, to establish legal entity in public law, or non-entrepreneurial (non-commercial) entity of private law with the purpose of implementing vocational education activities.
3. Municipalities are authorised, upon the agreement with the Ministry and in accordance with the Organic Law of Georgia Local Self-Government Code, to establish legal entity in public law, or non-entrepreneurial (non-commercial) entity of private law with the purpose of implementing vocational education activities.
4. Vocational education programme, short cycle education programme of Georgian language training programme defined in this Law may be implemented by a legal person with relevant authorisation – college. College is authorised to implement, without obtaining an additional right, vocational training programme or/and vocational retraining programme within the scope of that vocational education programme/short cycle education programme which it is entitled to implement as a result of obtained authorisation.
5. General education institution is entitled to, without creating an independent legal entity, to implement only basic vocational education programme, secondary vocational education programme, Georgian language training programme, vocational training programme or/and vocational retraining programme.
6. Higher educational institution is entitled to, without creating an independent legal entity, to implement any type of vocational education programme, short cycle education programme, Georgian language training programme, vocational training programme or/and vocational retraining programme.
7. Higher education institute is entitled to establish non-entrepreneurial (non-commercial) legal entity for the purpose of implementing vocational education programme or/and short cycle education programme.
8. Educational institutions with the status of legal entity of private law (except those educational institutions that are created with participation of state), with consideration of their essence, are not subject to chapter X of this law.”

### **The Ministry of Finance (MoF)**

When the competent body identifies the PPP, it prepares project concept, which is sent to the PPP Agency and the Ministry of Finance for review. Only if the Ministry's preliminary assessment is positive the concept goes to the Government. Once the concept is approved by the Government of Georgia and the competent body elaborates the proposal, the project is submitted to the Ministry of Finance again for further review, which prepares evaluation in accordance with the article 10 of the PPP law.

#### **Article 10. Fiscal risk assessment**

*a) The Ministry of Finance shall be engaged in the development of the public private partnership and perform functions related to public-private partnerships, inter alia:*

- Fiscal affordability assessments
- Value for money assessments
- Fiscal risk assessment
- Other kind of assessments, under its competence, if necessary

*b) Review draft initial contract, PPP-related documents and submit recommendation to the competent body*

*c) Review negotiated contract terms submitted by Competent bodies, to determine whether there are significant deviations from the terms approved by Government of Georgia and, to the extent there are such deviations, conduct respective assessments, according to legal act of government of Georgia and submit an opinion to the Government of Georgia on whether or not to proceed with the PPP on the proposed terms or on other terms, in accordance with the procedure set out in legal act of government of Georgia*

*d) If required, participation in negotiations on proposed amendments to the PPP Agreement*

*e) Conduct revised assessments, of proposed amendments to draft PPP agreements. Based on such assessments the Ministry of Finance may require the public partner to submit the draft amendments to the Government of Georgia*

*f) If necessary, define and approve methodologies for fulfilling functions defined by this article.*

**The Evaluation of the Ministry of Finance is vital for the formulation of the government's decision.** The only case when Ministry of Finance's feedback has a recommendation nature is in case of the Small Projects as per Article 14 of the PPP Law. The Ministry of Finance plays important role during the tender stage also, together with the Ministry of Economy and Sustainable Development it shall be represented in the tender committee.

**For mitigating fiscal risks and selecting the right candidate for the partnership in terms of fiscal affordability, project value and financial impact** - the legislation prescribes relevant functions to the Ministry of Finance. Thus the Ministry's role shall be one of the most important compared to other actors as the government's decision shall be largely based exactly on the MoF assessment and final analysis.

### **The Ministry of Economy and Sustainable Development (MoESD)**

Along with the MoF of Georgia the Ministry of Economy and Sustainable Development is introduced as one of the key actors in the process of setting up the public-private partnerships under the PPP Law. The Ministry oversees evaluating economic impact of the proposals. Financial and economic analysis shall be submitted to the government for its approval of the projects. **As the PPP Law provides the government is authorised to determine other requirements to the financial and economic analysis of public-private partnerships.** This means that there shall be a need of coordination of the work amongst the line ministries in a timely and effective manner. **Having a coordinating mechanism on interagency level might be helpful to push forward the PPPs,** the coordinator of the interagency commission/committee/board can be the PPP agency, it shall also be providing analytical assistance to the interagency commission members. The sessions can be attended by other parties (from relevant sectors) having guest-status but involved in the discussions and thus helping to shape the decisions (as sector specific experts). Such mechanism might contribute towards making better informed choices, as the queries regarding the proposals from various agencies can be answered during the meetings directly, discussions shall help to address issues that might not be brought to the surface through exchange of the packages in writing of course until it reaches the government for the final decision. Government committee (without providing any other details) is mentioned in the PPP Law only in case of need of amending the PPP agreements<sup>37</sup>. Forming a standing PPP interagency body can be recommended. Collaboration and more active involvement of all respective parties shall certainly help in defining the tasks, in evaluating the projects and also in preparing the tender documentation.

<sup>37</sup>Article 22, Law of Georgia on PPP

## **The Government of Georgia**

The Government of Georgia is the actor that decides the priority sectors for the PPPs, it is involved at every stage starting from the initiation stage until the very approval of the projects with the relevant legal act.

The GoG issues decisions on every step leading towards selecting the private partner through the tender and signing the contract, including the decision whether tender to be held public or closed. Also, based on the line ministries analysis the government can set some extra requirements for the proposals.

In relation to the government what can be considered as “ambiguous” is/are wordings similar to the following: “...in any event not exceeding a threshold established by legal act of Government of Georgia. Legal act of Government of Georgia may also provide for other incentives and guarantees for private initiators<sup>38</sup>.” “**May also provide**” always grants government power to direct the process as it is willing to. Number of provisions of the PPP Law attribute similar opportunities to the government, this might cause questions and uncertainties in the private sector. Also, it is the government who can prescribe additional criteria for non-eligibility of a person for tender via issuing a legal act. While legally such provisions do assist the government in minimising risks, it might bring up questions or doubt in the private sector entities. It has to be remembered, that for reaching its goals, which implies to attracting more private entities willing to form partnerships with the public establishments the Public Sector has to form environment which shall be inviting the business minded private entities, assessing possible risks and guarantees for their companies.

### **3.1.4 The status of the entities who can be part of the PPPs**

#### **Who can be the actors?**

The words used in the term “Public-private partnership” denote the original/literal meaning of them and thus the term means public entities legal status-wise on the one hand, and private entities on the other (including IPPP company or SPV Special Purpose Vehicle company). The PPP law provides the definition for the competent bodies and based on it we clearly see who a partner can be from public side.

#### **Public partner in a PPP can be:**

- Government of Georgia
- Ministry
- Legal entity of public law
- Other state or municipal entity, or
- Government of Autonomous republic of Adjara/Abkhazia, or
- Enterprise created, directly or indirectly, by more than 50% of state or municipal ownership.

**As for the private partner** - any private entity including IPPPs or consortium can become a private partner in a PPP if successfully selected through the tender. Consortium shall mean consortium of private legal entities or private legal entities and individuals established on the bases of joint activity (partnership) agreement.

### **3.1.5 Other key criteria - (if any) for participating in the alliance**

**The most important provision for the start of any PPP project is Article 4 of the PPP Law, which lists public - private partnership criteria.** The “conditions” are logical, but for instance, one of them which relates to the long-term nature of the partnership can also be a basis for hesitation from the private organisation’s side. Georgia has experience of the public-private partnerships, and those partnerships were and are regulated by specific agreements concluded between the parties and relevant rules and procedures applied, but there was no specified time-period the project had to last for (apart from what was agreed bilaterally; in case of grants terms were set by the donor organisations)<sup>39</sup>. This gave freedom to both parties involved, and it did not confine them to terms for participation time-wise such as minimum 5 years which can be striking at the initial decision-making stage.

This provision in the law - “*long term nature – the minimum term of PPP agreement shall be defined by the legal act of government of Georgia, but not less than 5 years period*” - does have the explanation though. The whole process of the pre-launch of the public-private partnerships, provided in the law, is a very complex and seems to be a lengthy process and it is resulting in at least 5 year partnership surely shall be a very logical and positive continuation<sup>40</sup>. However, private companies prefer flexibility in their actions, more freedom when bonding with public institutions and the term of minimum 5 years prescribed by law can actually push away some potential private partners. The authors of the PPP law were of course willing the public-private partnerships to last longer, provide stronger alliance between the parties<sup>41</sup> and

<sup>38</sup> Article 15.6, Law of Georgia on PPP

<sup>39</sup> Examples of the public-private partnership in the VET sector are: Railway Transport College and Adventure tourism school

<sup>40</sup> However, it should also be noted that for projects involving infrastructural component the term is relatively short

<sup>41</sup> Article 4, Law of Georgia on PPP

thus somehow ensure sustainability, but for instance setting minimum 3 years condition could have been more helpful in promoting and attracting new partnership opportunities.

Apart from specifying time-periods for the partnerships, the PPP Law reads: “The project value shall be no less than 5MIn GEL until July 1 2020; After July 1 2020 the threshold for PPP will be defined by the Legal Act of Government of Georgia”<sup>42</sup>.

As such, these two conditions have to be acceptable for the potential private partners in order to move forward, but of course after piloting few projects there can be a ground of reconsidering the above conditions. The negotiations’ stage and due diligence stage shall reveal the issues of concern for the private entities. Thus, it is important to monitor every single stage and draw conclusions for further enhancing the mechanism for O&M PPP model.

### 3.1.6 The PPP process – key stages overview

From initiating to the launching of PPPs the following steps need to be taken and the parties/actors referred to above contribute differently via having roles based on the limitations stemming from their legal status and also rights and functions attributed by the PPP Law:

- Mapping potential partners (mostly PPP agency’s mandate, also the competent bodies’)
- Resource mapping (also a responsibility of the PPP agency, but can be done with the help from line ministries, also VET colleges in our case)
- Preparing offer packages/disseminating information/approaching potential partners (mostly PPP Agency mandate, also competent bodies)
- Identifying tasks and deliverables (through public agencies collaboration, primary role played by the initiator competent body)
- Arrangement for tenders (through collaboration of the public agencies and direct involvement of line ministries)
- Conducting negotiations (few public agencies can be involved)
- Due diligence stage (also public agencies)
- Identifying risks (all public agencies as prescribed by PPP Law)
- Additional inquiries as necessary/addressing gaps (mostly based on the government’s comments)
- Final analysis / Involvement of the line ministries/ approval of the government
- Agreement stage – drafting phase
- Clearly defining roles and responsibilities, tasks and deliverables
- Setting timelines, formulating milestones
- Budget & Guarantees related provisions
- Conclusion of the agreement by the public and private parties (*signatory can be the PPP agency from the Public partner’s side*)

The process simply can be divided into 2 parts:

- 1) Preparatory stage, and
- 2) The second stage, conclusion of the agreement, which is purely a legal arrangement, based on the initial-preparatory stage outcomes.

#### **Article 12 of the PPP Law concerns the “Identification of the Public – Private Partnerships” and Article 13 covers: “Initiation, Project Preparation and Approval of Public-Private Partnership.”**

Article 12 and 13 cover the above-mentioned stages and few sub-stages, the process is more complex than it could have been without the new PPP law, sub-stages listed in the 12-13 articles require Ministry of Finance involvement and approval of the government. The process of coordination of such issues always stretches in time. Public-Private partnership may be identified by a competent body or PPP agency, or by a private initiator in accordance with Article 15<sup>43</sup>. The “competent body” referred to in the Article 12 means Government of Georgia, ministry, legal entity of public law, another state or municipal entity, or Government of Autonomous republic of Adjara/Abkhazia, or enterprise created, directly or indirectly, by more than 50% of state or municipal ownership.

<sup>42</sup> There is also small projects term introduced in the PPP law, this paper refers to it also.

<sup>43</sup> Article 15, Section 1 – “A private initiator may develop and submit an unsolicited proposal on implementation of concession to the relevant line ministry, in the sectors determined by the Government of Georgia.

15.2. The unsolicited proposal shall be submitted in accordance with legal act of government of Georgia.

15.3. The competent body shall evaluate the unsolicited proposal and if acceptable, arrange for its submission for further approval in accordance with legal act of government of Georgia. The procedure for approval and decision on the PPP shall be identical for both the PPP identified through the unsolicited proposal and /or by the competent body. In addition, in the cases provided by the legal act of government of Georgia, a private initiator may conduct the feasibility studies defined by paragraph 6 of article 13 of this law.

Project concepts are to be prepared by the competent body, then the concepts shall be submitted to PPP agency and the MoF for review. Timeframes for review are set with the government's legal act. Once the opinion of the PPP agency is ready and the Ministry of Finance issues its evaluation, the package is submitted to the Government for approval. Decision on approval of commencement of preparation is based on specific criteria, if the government issues positive decision, the competent body shall undertake preparatory works and engage again the PPP agency and MoF in the process. Preparatory stage involves development of the financial and economic analysis, which requires further review by the Ministry of Finance of Georgia. Then the package is sent to the government again and if the government approves the project, the competent body shall move on to the preparation of the tender documentation for selecting a private partner.

According to the PPP law, **“if a PPP is within the competence of more than one competent bodies, the Government of Georgia shall identify the competent body which shall develop and implement the PPP or make decision that PPP is developed and implemented jointly by relevant competent bodies.”**

For fiscal risks mitigation, for identifying expected social and economic effects of the partnership, environmental and social implications the provisions of PPP law provide adequate legal basis. However, as noted before, more guarantees are to be received through a complex and lengthy process characteristic to the public sector. When the law reads simply the proposal is submitted to the Ministry of Finance, and then again the project for analysis, it means that the package has to go through the check by all relevant structural units under the Ministry and each deliver their opinion.<sup>44</sup> The government's decision also depends on the feedback from all members of the cabinet, even though the ministries of the economic block shall play the decisive role.

**There is slightly different procedure for the Small Projects**, the competent bodies can be the initiators of the projects, and the project has still to go through the PPP agency and Ministry of Finance. The selection of the contractor shall be regulated by the Georgian law on Public Procurement, selection of the concessionaire shall be conducted in accordance with the PPP law and the legal act of Government of Georgia. The different feature of the Small Projects is that when the project is submitted to the government, the opinion of the MoF shall only have recommendation nature. As for the unsolicited proposals, a private initiator can address the relevant ministry with the proposal, in the sectors determined by the Government. The process develops as per the legal act issued by the government, based on article 15 of the PPP law the private initiator may conduct feasibility studies, the private partner can be selected in accordance with the procedures set out in Chapter IV of the PPP law or even via direct negotiations.

**The tender is one of the most crucial stages.** As per PPP Law, the selection shall happen through the tender as the Law on Public Procurement applies to the public entities (the VET providers of our interest are under the Ministry of Education, Science, Culture and Sport of Georgia and have the status of Legal Entities of Public Law). Also, the law on Public Procurements applies to the cases when non-commercial entities procure assets or services using budget funds, there are number of VET providers founded with Government participation.

According to the PPP law the tender shall be public, but in cases necessary to preserve Georgian national security it can be closed (as PPP law applies to the partnerships in various sectors).

Usual eligibility criteria for participating in the tenders applies, such as for instance (Please also refer to the Article 19 of the PPP Law):

- If a person has been convicted of money laundering or financing of terrorism crimes, shall not be eligible to participate in the tender. Also, additional ineligibility criteria can be determined by the government.
- A bidder can submit no more than one bid at the same tender.
- The enterprises in which the state or municipality directly or indirectly owns the amount of shares as defined by the legal act of the Government of Georgia have the right to participate in the selection process. The amount of such shares determined by the government's legal act shall be in any case less than 50% of total shares.

It is in the interests of the body announcing the tender – competent body to have very detailed and well-structured tender documentation, with the technical task, criteria, procedure and time limits. As per the Article 18.3 of the PPP Law, “the legal act of government shall establish the requirements for tender documents, procedure of their amendment and publication, requirements for tender prequalification's, as well as procedure and methodology of evaluation of tender proposals.” The criteria of evaluation shall be determined by the competent body, as the law reads in order to avoid impediments to competition. The tender committee shall be formed in accordance with the legal act of the Government of Georgia. The committee shall be comprised of “the head and or deputies of the competent body, representatives of the ministry of Economy and Sustainable Development of Georgia, the Ministry of Finance of Georgia and the representatives of the PPP agency<sup>45</sup>.” **Experts and specialists can be participating only with the authority to consult.**

<sup>44</sup> Which is then analysed by one division/department/service, merged to some extent and final analysis provided

<sup>45</sup> Article 18.5, Law of Georgia on PPP

After evaluation of the tender proposals and completion of the tender stages as per article 19, the competent body submits the negotiated terms of the agreement to the MoF for review as per Article 10 of the PPP law. The Ministry can suggest amendments and can participate in negotiations.

The last step - submission of the draft to the government together with the MoF opinion.

There is not much that can be done to ease the process and not to become a burden paperwork-wise and time-wise to the private organisations. The success of the tenders depends on the well formulated tasks, openness for inquiries (once the tender announcement is made public), provision of timely responses to the inquiries. Thus, PPP Agency has to ensure efficient collaboration with the competent bodies during the tender files preparation. Also, the success rates of the tenders depend on the costs, carrying out preliminary market research is important in specifying the right cost for the service.

### **The description of the process**

1. Identification of the potential PPPs
2. Initiation
3. If necessary, involving PPP agency in the preparatory works
4. Engaging the Ministry of Finance (MoF) and the Ministry of Economy and Sustainable Development (MoESD)
5. Submitting the concept to the Government of Georgia (GoG) with the relevant supplementary documentation
6. Government reviews the concept and issues decision on approving the preparation
7. Competent body undertakes preparation of the project
8. Competent body engages with the PPP agency and the Ministry of Finance for the execution of their respective functions
9. Financial and economic analysis are prepared
10. The outcomes of the preparation of the PPP shall be submitted to the MoF for further review
11. The MoF prepares relevant evaluations as determined by the legal act of the GoG that are applicable to the overall project
12. The package is submitted to the GoG
13. The GoG shall approve or reject the project
14. If approved, the competent body prepares the tender documentation for selecting private partner
15. The GoG may determine other requirements to the financial and economic analysis of PPPs
16. The GoG shall identify the competent body to develop and implement the PPP or make decision about the joint implementation in case the PPP is within the competence of more than one competent body
17. Selection through the tender
18. Contract preparation
19. Contract draft review (MoF involved)
20. Submit recommendations to the competent body
21. If needed /required participate in the negotiations (MoF)
22. Concluding agreement with the selected private partner
23. Monitoring the implementation process
24. Alteration or termination

#### **3.1.7 Small Projects within the Law of Georgia on Public Procurement**

As for the smaller budget projects as per the PPP Law, the Article 14 provisions are very straight forward:

1. Small projects may be identified and initiated by competent bodies, and respective project concepts shall be submitted to the PPP agency and Ministry of Finance of Georgia in accordance with legal act of Georgia.
2. The PPP Agency shall review the project concept and provide its recommendations to relevant competent body.
3. The PPP Agency shall, if necessary, conduct feasibility studies and assist the competent body in development and implementation of the small project within its competence, according to methodology approved by the PPP Agency.
4. Based on respective assessment, the Ministry of Finance shall provide its opinion to the PPP Agency and the competent body to mitigate any potential fiscal risks, which shall be taken into consideration by the competent body.
5. Selection of a contractor in small projects shall be regulated by law of Georgia on state Procurement and selection of concessionaire shall be conducted in accordance with article 18 paragraph (1)-(4) and the legal act of Government of Georgia.
6. Whenever provided in Georgian legislation, small projects may be submitted to the Government of Georgia for review. In such case, opinion of the Ministry of Finance of Georgia has a recommendation nature.

As already noted above, in the document on PPP Law, there is slightly different procedure for the small projects, the competent bodies can be the initiators of the projects, the project **has still to go** through the PPP agency and Ministry of Finance. The selection of the contractor shall be regulated by the Georgian law on Public Procurement, selection of the concessionaire shall be conducted in accordance with the PPP law and the legal act of Government of Georgia. The different feature of the Small Projects is that when the project is submitted to the government, the opinion of the MoF shall only have recommendation nature. As for the unsolicited proposals, a **private initiator** can address the relevant ministry with the proposal, in the sectors determined by the Government. The process develops as per the legal act issued by the government, based on article 15 of the PPP law the private initiator may conduct feasibility studies, the private partner can be selected in accordance with the procedures set out in Chapter IV of the PPP law or even via direct negotiations.

For the potential private initiator there are far more risks embedded in the law than guarantees even if it seems to be the opposite. Some would argue that the last sentence of the section 6 of the Article 15 “Legal act of government of Georgia may also provide for other incentives and guarantees for private initiators” signals positive / favourable treatment, but the wording actually only says that the government “may” “also” provide for other incentives and guarantees, thus it is not guaranteed. As for the compensation/refund of the documented direct costs, there can be the most valuable – idea of the private initiator, which could not be assessed, evaluation of the intellectual resource/s that was employed can also be tricky in practice.

Tender stages have been addressed above in the document, but please see **the key highlights of the Public Procurement Law** that can be helpful in case of the small projects:

The procurement law provides, that it applies to any public procurement apart from what is connected with the Law of Georgia on State Secrets.

Also it specifies other cases when the State Procurement Law does not apply, Article 3<sup>1</sup> provides the listing from “a” to “q”. As per subsection “p” the State Procurement Law does not apply to the procurement cases within the projects falling under the Public Private Partnership Law.

In the same Article (3) we read:

Article 3<sup>2</sup>: Based on the Public Private Partnership Law the selection of the contractor is carried out in accordance with the rules provided by the State Procurement Law, with the condition that the following provisions of the State Procurement Law shall not apply to the selection process of the contractor.

Article 9, Sections 1<sup>1</sup>, 2 and 7 of the Article 16<sup>1</sup> and chapters IV and V.

The disputes regarding the selection process of a contractor are dealt with in accordance with the VI chapter of the State Procurement Law.

The key principles of the public procurement: The funds have to be rationally spent and the process has to be public.

The law lists the actors/entities procurement carried out by whom shall be considered as public procurement. The interesting subsection in the article 3 is, that the public procurement law applies to the enterprises in which the state holds over 50% of shares, if that enterprise considering the specificities of the goods and services it is procuring does not fall under the regulation of the provisions of the legal acts issued by the government and regulating that specific area/type of goods and services. However, that special rule cannot be applied for more than 2 years. The requests/initiatives regarding the appliance of the special rules are presented to the government by the Ministry of Economy and Sustainable development.

The types / ways the procurements can be made covered by the Public Procurement Law: Electronic tender, Simplified Procurement, Consolidated tender, competition.

Electronic Public Procurement, which means that the entities we are focusing on can procure things electronically through competition, electronic tender and consolidated tender. With the decision of the entity requiring procurement the simplified procurement can be carried out electronically, as per the procedures that apply to the electronic tenders.

Simplified tender method can be used:

- If the goods or services that need to be procured is the exclusive right of one entity and there is no alternative provider who could be a replacement to that one and only existing entity<sup>46</sup>
- If the price of the goods or services to be procured is over 2,000,000 GEL, the price of the works is over 4,000,000 GEL and when outside the county there is another entity who can provide the service, goods or works.

<sup>46</sup> Article 10<sup>1</sup>, Law of Georgian on Public Procurement

And here we have to distinguish between the services and the works, as usually the works are used interchangeably, but for the purposes of the provisions of the Procurement Law the works refer to the construction services.

- If the goods and services cost less than 2,000,000 GEL, as for works they are of less than 4,000,000 GEL and there is/are entities within the country able to provide such goods, services or works.
- If there is an emergency / goods, services, works are urgently required. However, in such a case the goods, services and works have to be provided within the time period that is appropriate and necessary for tackling the urgency.
- With the decision of the procuring entity, for the purpose of ensuring the quality of the goods and services and for the future exploitation purposes to procure the subject of procurement from the same source/same provider, from which he already procured the goods or services (it can be procured from the same source or the subcontractor as per the contract that was previously concluded). The only exception that applies is the case when the price of the subject of procurement can be (*with preliminary assessments*) over the amount that was previously paid.
- The next case that can also be interesting for the O&M outsourcing is the provision of the same Article 10 (section 3, subsection “k”) - referring to the higher education institutions (*Public Law Legal Entities*). The higher educational institution can be a provider of the professional education, and thus this section could have been relevant for us, but the mentioned provision focuses on the higher educational courses and does not cover the VET.

The common rule that needs to be taken into consideration even in case of O&M outsourcing is the following: **the subject of procurement cannot be artificially divided in order to avoid the price-wise limitations prescribed by law.**

**Regarding the timelines the law on Public Procurement reads the following:**

As per the article 15<sup>1</sup> of the Public Procurement Law, for familiarisation with the tender notice/information and submission of the tender bid the following timeframes apply:

- Up to 150,000 GEL for same goods or services, no less than 7 days (distribution of the days: 5 days for getting familiarised with the proposal/notice and 2 days for submitting the bid)
- Over 150,000 GEL for the same goods or services, no less than 10 days (distribution of the days: 7 days for getting familiarised with the proposal/notice and 3 days for submitting the bid); If the pre-assessed value amounts is equal or over to the limitations prescribed by the EU public procurement related directives than the no less than 30 days can be given (distribution of the days: 25 days for getting familiarised with the proposal/notice and 5 days for submitting the bid);

The first section of the Article 20<sup>2</sup> of the Public Procurement Law provides that by decision of the Government of Georgia, a Consolidated Tender may be conducted to procure similar procurement objects. In such a case the Procurement Agency shall ensure to conduct a consolidated tender and identify the best tender according to procedures and conditions determined by secondary legislative act.

Based on the article 15 of the PPP Law the private initiator can **submit unsolicited proposal on the implementation of concession to MES**. The competent body, which is MoESCS in this case (generally the PPP Law defines broader spectrum of the competent bodies, in this case the circle is limited to the line ministries to which the proposal is submitted), evaluates the unsolicited proposal. And if acceptable arranges for its submission for farther approval in accordance of the legal act issued by the Government.

The procedure for approval and decision shall be similar to the PPP identified through the unsolicited proposal and /or by the competent body. If the legal act issued by the Government provides the feasibility study maybe conducted by the private initiator (defined in Article 13 of the PPP Law). The selection shall happen with a tender or direct negotiation. Direct negotiations possibility applies only to the Energy Sector, and this is the only sector specific favourable exception granted. Would have been of course helpful to have the same rule extended to the VET sector, such a possibility could have been tested with the Government’s decision at least for the first year since the launch of the PPP Law.

As a result of the selection, if the PPP agreement is concluded with a “concessionaire other than the private initiator, or its subsidiary company, or IPPP company with its participation, then the winning bidder shall compensate the private initiator for reasonable, justified and properly documented direct costs incurred in connection with the development and submission of unsolicited proposal, announced at the stage of tender, in any event not exceeding a threshold established by legal act of government of Georgia. Legal act of government of Georgia may also provide for other incentives and guarantees for private initiators”. The provision seems to be addressing in a just/fair way the case when entity other than the initiator wins, however in my view this specific provision can be a cause for misunderstandings in general, specifically for instance the assessment and coverage of the works that are not well documented can become an issue. For the potential private initiator there are far more risks embedded in the law than guarantees even if it seems to be the opposite. Some would argue that the last sentence of the section 6 of the Article 15 “Legal act of government



of Georgia may also provide for other incentives and guarantees for private initiators” signals positive / favourable treatment, but the wording actually only says that the government “may” “also” provide for other incentives and guarantees, thus it is not guaranteed. As for the compensation/refund of the documented direct costs, I assume there could be the most valuable – idea of the private initiator, which could not be assessed, evaluation of the intellectual resource/s that was employed can also be tricky in practice.

### 3.1.8 Final analysis including strengths, weaknesses, recommendations, risks associated with the existing PPP legislation

The fact that the PPP law was passed by the Parliament of Georgia is a positive development, the necessary framework is available. However, this recently enacted piece of legislation is no exception and smooth implementation is crucial.

Implementation-wise the issues that can be pointed out are the following:

- Human resources
- Financial resources
- Time-frames
- Willingness/political will/agreement – implementation largely depends on the political will and fair provisions of the guiding documents, if the decision-makers change their attitude or want to change the approach is actually taken by the PPP Law, the process can easily take another turn
- Implementation of the PPP Law in general and at the moment particularly in relation to the one of the key actors – PPP agency (full enactment date passed, but the PPP Agency is not established yet)
- Legally binding provisions - restrictions (such as the prescribed timeframe and amount /cost, as per article 4 of the PPP Law)
- Complexity of the process in general (stages and the essence of each stage)
- The level of efficiency of the PPP agency (this can be tested, however at this stage it is hard to judge and assess affectivity of the PPP agency as it is not yet established)
- Establishing a coordinating mechanism on interagency level for PPPs
- Adequacy of the secondary legislation (this also cannot be tested at this point)
- Issues usually associated with the tendering process.

From the points listed above the last one is generally the most problematic and the reason is that unlike from the rest of the activities, the tender results not fully depend on the efforts made by the respective parties, in this case public entity or entities willing to select the right O&M provider/partner. **The most important aspect of the whole tender process management is the preparation/formulation of the task, usually referred to as technical task.** The quality of the task ensures the best results. The proposal first of all has to attract the potential service providers (in case of O&M PPP model), to persuade them to invest into the sector, for this purpose the institutional framework for PPP management in general does not have to be ambiguous, extremely strict and has to provide a basis for well-balanced cooperation. Sometimes even when the tasks in the tender documentation are well formulated, the failures happen due to the price (even though the market research could have been carried out), and due to the deadlines (which might not seem realistic to the private parties).<sup>47</sup> Technical task is what helps the entity/entities to find exactly what they search for and plus it is transformed into the subject of the partnership agreement on a later stage with a specific value, terms and guarantees. The phase of preparation of the tender documents is one of the key let’s say “milestones” in the whole PPP process.

**Amendments are unavoidable and the need of amendments does not always signal that something was not planned well, adjustments are normal for successful completion of the projects and the PPP Law includes term on amendments.** Any amendment which might encompass fiscal risks shall be submitted by the public partner to the Ministry of Finance first and then to the Government for approval. Amendments to the material terms and conditions of the agreements shall be approved by the ad hoc government committee.

**Even though, as it is pointed out above, the PPP Law is the primary piece of legislation (dealing with any of the PPPs), VET law can also be updated based on the PPP Law - considering the partnerships in the sector and including some explicit provisions regarding the role, participation and support of the Ministry in setting up the PPPs.** Incorporation of such provisions in the VET Law is not absolutely vital, because the MoESCS and its LEPLs can follow the Public-Private Partnership Law as “competent bodies” and can regulate PPP related activities based on the form of the involvement with the legal acts issued by the minister.

<sup>47</sup> Thus dialogue with the private sector is of utmost important, based on the review of their ideas, concerns, initiatives and recommendations the PPP provisions can be revised in the future. Of course the Law shall be best “tested” when there is a first Partnership formed based on the new PPP Law, the whole cycle can be examined in practice and lessons learned

**As the focus of our interest in PPPs is O&M model of PPPs in VET, the role of ESIDA can be invaluable from the Ministry's side as of other agencies.** Educational and Scientific Infrastructure Development Agency, according to the PPP Law, qualifies as a competent body, which means that it can itself be an initiator or assist the ministry or other LEPLs within the system of the Ministry of Education, Science, Culture and Sport in developing the proposals to be presented to the government. ESIDA based on its experience in infrastructural development gained through the years can become a key actor in setting up the O&M model partnerships in VET. If the ESIDA is not an initiator it can still render assistance to other entities under the MES mainly during the elaboration of the tender documentation. Also, ESIDA can develop technical guidelines to be followed by the O&M model participants.

**The risks associated with the PPPs:**

- Changes in the legislation (*for instance, changes in the key requirements*)
- Changes in the government and policies – changes in the prioritisation of the sectors
- PPP Agency establishment – *it is still not operational<sup>48</sup>, the charter is ready.*
- Structural changes in the PPP agency
- Some provisions of the PPP Law might not be considered favourably by the potential partners from the private sector
- Private entities established for the purpose of participating in the alliances just like registering entities for gaining grants (*this is why minimum years of operation criteria should be incorporated into the law, (it shall be a condition in the tender documentation, but I believe it is worth including into the law)*). No condition in the PPP Law about the minimum term (period) of operation for the potential partners – introduction of the relevant provision should have been helpful in minimising risks associated with the incompetency due to the lack of experience and etc.
- Difficulties during the implementation of the contracts – for instance due to the insufficient capacity of the parties involved (*should be examined during the due diligence, but still during the implementation of the contracts unexpected difficulties may arise*)
- Contract amendment requests (Article 22 of the PPP law)
- Necessity of terminating the contracts (even though there shall be guarantees still it might impede the process of implementation )
- Failed tenders
- Was the agreed cost the best value?! *Again the implementation phase of the agreements shall make it obvious, and also it shall dictate the public institutions how to proceed farther, how to amend existing legislation, how to better regulate PPPs.*
- As provided by law a private initiator may develop and submit an unsolicited proposal on implementation of concession to the relevant line ministry, in the sectors determined by the Government of Georgia (Article 15. Unsolicited proposals). As the selection of a partner through direct negotiations can be conducted only in the energy sector, the private initiator might not be selected through the tender, and instead PPP agreement shall be concluded with a concessionaire other than the private initiator or its subsidiary company or IPPP company with its participation Thus the PPP Law reads:  

Article 15.6 - "If as the result of the proceedings specified in Chapter IV of this law it is resolved that a PPP agreement shall be entered into with a concessionaire other than the private initiator or its subsidiary company or IPPP company with its participation, then the winning bidder shall compensate the private initiator for reasonable, justified and properly documented direct costs incurred in connection with the development and submission of unsolicited proposal, announced at the stage of tender, in any event not exceeding a threshold established by legal act of government of Georgia. Legal act of government of Georgia may also provide for other incentives and guarantees for private initiators."
- One of the purposes of the Public-Private Partnerships is allocation of risks between the public and private sector, the risks should be re-assessed during the implementation process of the PPP agreements mitigation strategies – legal arrangements plan developed.
- Out of the difference between the practice before the introduction of the PPP Law and after: for instance, if the infrastructure was developed with the donor funds based on the grant agreements (in some cases) there were no fines included into the agreement. Thus enforcement-wise the only "stick" in the hands of the grantor and the grant manager was to delay the forthcoming payment (which could have been actually quite small amount compared to what was already invested. Thus even if the agreement was terminated on the basis of non-compliance to the provisions of the grant agreement, the "damage" for the compliant party was relatively small – depending on how the suspension or termination was handled). Upon termination of the agreements (*which can be the case in O&M model partnerships*

<sup>48</sup> As of December 14, 2018, the head of the Agency is not appointed yet

also) the parties cooperate to close out all matters related to the agreement and this might include return of the assets (in various forms) acquired from cooperation/partnership.

**The PPP Law provides the list of the terms and conditions for PPP agreements and it does include “grounds for, procedure and consequences of PPP agreement termination”. This is the part the public partner has to focus on particularly. And this shall be a part we as a project have to concentrate on when the preparations for the pilot project starts especially taking into account that the PPP Law gives opportunity of transferring the property to the private partner (and not returning it even in case of termination of the agreement).**

- For successful implementation of the PPP Law, the following legal acts are necessary as per Article 27 of the PPP Law. Until July 1, 2018 Government of Georgia, shall adopted the following legal Acts:
  - a) Approval of the statute of public-private partnership body (*status: adopted*)
  - b) Rules for elaboration and implementation of public-private partnership projects; as well includes list of sectors where the unsolicited proposals are allowed (*status: adopted*)
  - c) Rules and conditions of transfer of municipal property to a private partner; (*status: not yet issued*)
  - d) List of special importance objects (*status: adopted*)

To conclude, with the right incentives, tools and conditions private institutions can be encouraged to participate in the partnerships. Their active involvement can be gained only with the support of the PR campaigns, information sharing, introducing successful examples to the potential partners, the good practices and bringing additional profits. There should be cases to be regulated, legal conditions can be revised after application of the new law to certain cases and to some extent “tailored made” for VET out of the public interests, and by this what is meant is the following: VET sector needs farther enhancement and popularisation and vice-versa order-wise. The state has invested a lot together with international partners in reviving the sector, however, obviously much more needs to be done and inclusion of the private companies via forming partnerships is certainly the best option sustainability-wise. The government is the key – decision maker in the process via its agencies and with the support and just treatment of the potential candidates for partnerships a solid foundation for forming the tradition of the public-private alliances can be built.

### 3.1.9 The regulations and standards parties to the PPP have to be compliant with<sup>49</sup>

- The Law of Georgia on Occupational safety, March 7, 2018.
- The Law of Georgia on civil safety, 27.06.2018.
- The Law of Georgia on Licenses and permits, 2005 and orders issued based on this law, such as for instance the order N45 of the Minister of Environment and natural resources’ protection on issuing the form of the permit to be used in case of the of the impact on the environment, June 18, 2013.
- Government’s order N361, of May 27, 2014 on the approval of the Technical regulation of construction safety.
- Building permission terms, the decree of the government N57, issued in 2009.
- Decree of the government on the approval of the Technical regulation on fire safety, July 23, 2015.
- The order of the president N364, August 11, 2000 on the use of the service vehicles (it refers to the maintenance).
- In compliance with the requirements of authorisation (including material resources particularly important for O&M model) as per the order N99 N of the Minister of Education.
- Waste management code, 26.12.2014.

To be issued or existing documents revised:

- Operation and Maintenance manuals need to be revised. Usually such manuals are not available and the educational institutions and especially their relevant services (technical/maintenance service or division) follow the directions of the heads of the service based on the provisions specified in the institutions charter. The charter might not include very detailed information on operations and maintenance, but if for the PPP the private company is selected through the tender to provide such services the subject items shall be listed in the agreement and it can have annexes with manuals elaborated specifically for them.

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<sup>49</sup> The key legislation the entities need to observe: “The Law of Georgia on Vocational Education and Training”, “The Law of Georgia on Public-Private Partnerships”, “The Law of Georgia on Public Procurements”, “The Labour Code”, “The Tax Code”, “The Law of Georgia on Legal Entities of Public Law”, “The Law of Georgia on Entrepreneurs”, , “The Law of Georgia on Grants” (in case there is a grant’s component), “The Law of Georgia on Higher Education”, “The Law of Georgia of Education Quality Enhancement”, “The Law of Georgia on State Property, Budgetary Code”, “The Law of Georgia on Civil Safety” and all the normative acts stemming from it such as for instance fire safety regulations

Note:

Insurance is not obligatory and this is why even bigger educational institutions – higher educational institutions do not insure the property, there are of course some exceptions, such institutions choose to insure assets (movable and immovable property) based on the risk assessment, low cost office items are not ensured but major equipment such as for instance various labs are insured. Insurance provision as an obligation of private entity can easily fit into the agreements between the Private and Public institutions under the O&M model.

**Draft contract sections:**

- General Conditions
  - a) Documents making –up the agreement
  - b) Amendment related language
  - c) Waiver
  - d) Fraud, Corruption, measures to be taken
  - e) Applicable legislation
  - f) Eligibility (during the term of the contract, what conditions the entity has to meet, for instance keeping the country of registration the same).
  - g) Notices
  - h) The scope of the services/goods
  - i) Delivery (as applicable)
  - j) Contract price
  - k) Payments terms
  - l) Taxes
  - m) Performance security
  - n) Copyright
  - o) Confidential information
  - p) Subcontracting
  - q) Specifications and standards (as applicable)
  - r) Packing & marking (as applicable, depending on the goods/services)
  - s) Insurance
  - t) Transportation (if applicable)
  - u) Inspections & tests
  - v) Liquidated Damages
  - w) Warranty
  - x) Change in regulations
  - y) Force Majeure
  - z) Extension of the time-period
  - aa) Termination
  - bb) Reimbursable amounts
  - cc) Accounting, inspection and auditing
  - dd) Compliance with Environmental guidelines
  - ee) Compliance with the guidelines issued by the relevant Ministries
  - ff) Special conditions
  - gg) Monitoring
  - hh) Reporting
  - ii) Publicity
  - jj) Conflict of interest

## 4. Public Private Partnerships in Education and Training

### 4.1 Overview

Public Private Partnerships (PPPs) in education have gained momentum in different parts of the world. Since the 1960s as proponents of privatisation have successfully promoted the transformation of the role of business from supplier to “**partner**”, the notion of public education has become diluted by increasing the state contracting or subsidy to for-profit entities, carrying whole school or university establishment and management.

The shift from “Government to Governance” is commonly seen as the result of new management policies that most OECD countries introduced in the wake of the **neoliberal reforms** of the 1980s and 1990s. In the education sector, the shift implies **a new role for the State, new ways of regulating the education sector and new tools for generating or alleviating reform pressures**. In some countries the reforms were undertaken with the rhetoric of breaking the state monopoly using market forces of demand and supply to improve the quality of public education and reduce inefficiencies in the state bureaucracy. Regardless of whether the public education system was high or low performing, governments were under political pressure to have **new public management policies** that encouraged non-state actors such as businesses, churches, communities and families to open-up and operate schools with funding from public resources. The empowerment of the non-state actors in the new millennium, notably **businesses and philanthropies**, as key policy actors has been interpreted as a clear sign of the diversification of the state system in education provision, to include vocational education and training, which neoliberal reforms of the past 50 years intended to achieve.

Furthermore, the above-mentioned shift from “Government to Governance” has required governments around the world to focus on “network governance” (Ball and Juneman 2012) in which non-state actors, including education businesses are not only seen as providers of goods and services, but also a key partner of the policy process.

The fast advance of PPPs in education needs to be understood against the backdrop of critical studies on **how capital works**. A wide number of writers on the political economy (Robertson and Date 2015; Jessop 2016; and Jules 2017) have convincingly described the logic of the world’s capital system and have explained the fast pace in which the global education industry has grown. Moreover, how the private sector are more flexible, transnational and cosmopolitan than the public sector, whereby private services gives more attention to innovation, change and development. Policies that emerge as a result of **close liaison with the private sector** tend to be better aligned to the **needs of the labour market and thus also serving society and individual needs as well**.

Despite the fact of the positive aspects of PPPs in education, **they are highly contested phenomenon in the global education space**, both as a policy idea and subject of high-level criticisms at operational level, resulting from disastrous experiences with policy implementation. The social and financial costs of PPP projects in Scotland emerged in Edinburgh in March 2016 when the brickwork facade of Oxfgangs primary school collapsed during a storm. The PPP construction firm on the Edinburgh Schools Partnership – Miller Construction – was allowed to “self-certify” that buildings met local authority building safety standards, without building inspectors site visit to examine the work. In their haste to complete the project and minimise costs, builders forgot crucial wall ties needed for the building’s structural integrity. After the building collapsed, authorities carried out urgent safety inspections across Edinburgh, resulting in 17 PPP schools being closed to students due to structural faults identified by inspectors. In Ireland, similar experiences were encountered in the early PPPs under the Design, Build, Finance and Maintain, until proper institutional arrangements were put in place to mitigate all risks in the DBFM PPP Model.

Despite the dearth of analysis of the effects of PPP in education, since the 1990s, the contracting of the private sector by governments under many different arrangements (including private operation of public schools, subsidised private education delivery and voucher schemes) have been promoted as innovations, effective and flexible policy approaches to expand education and to address a range of challenges related to access and quality. In this context, the UN Sustainable Development Goals partnership arrangements are to play an important role in implementing strategies for realising the goals and targets under SDG4 and SDG17, promoting the use of partnerships between Government, and the private sector and civil society to address inequalities of provision and access to education, to include vocational education and training.

At the same time PPPs in education have given rise to concerns and challenges related to equity, accountability and social inclusion and effectiveness. Empirical research on the diverse range of PPPs have created or reinforced segregation within the systems, depressed teacher’s pay and have accelerated the process of privatisation of education. However, on the other hand those would strongly argue that without the private sector engagement in VET, it has no relevance due to the fact that VET must meet end user needs, which are the private sectors.

Part of the controversy around PPPs can be attributed to their disputed meaning. PPP is a vague and ambiguous term open to varied interpretations by different actors and users to denote multiplicity of PPP mechanisms with different rationales, motivations and expectations. In education, PPP generally relate to arrangements that involve public funding directly related to services provided or managed by the private sector, generally expressed as formal contracts between governments and the private sector. Or, more broadly a joint initiative focused on shared objectives in delivering an

**educations and training service.** The most common feature of new PPPs is the additional role and responsibility of the private sector, which was previously the responsibility of the State. **The shift in the State’s role away from direct state provision and management, to a role of policy development, monitoring, reporting and evaluation of internal and external efficiencies, relevance, impact and sustainability of the measures is becoming more common in many countries around the world.**

The design and implementation of PPP in VET is a high-stakes process. Interventions that affect the VET community and through them the wider society, without proper assessment and ex-ante evaluation of the chosen policy option for PPPs are doomed to failure.

The issue of transparency in stakeholder’s participation is closely related to risk assessment for any decisions regarding the scope and scale of PPP in VET. Such assessment should be holistic, considering the effects and implication regarding the expected outcomes of VET. More often than not considerations of PPP frameworks do not adequately take into account that there must be a **win-win situation for all**, which are the public, the private provider and the society and the individual. The most critical risk of all PPPs is the inability of the private provider of meeting the contractual responsibility due to insolvency and other factors, leaving the State responsible for damage control and the need to intervene in failed PPP projects. **Most PPPs in education and training fail on the one hand due to states’ inability to manage, regulate and monitor PPPs and on the other hand the private providers’ inability to comply with the requirements of the PPP.**

#### 4.2 Selected Case Examples of International Good Practice

**Table 19: International Good Practices in PPP in Education**

PPP Form	Country	Objectives & Description	Partners
Educational Services	Australia	<b>Objectives:</b> Increase access and improve quality Independent schools receive both recurrent and capital funding, with the former being the larger of the two components. Recurrent funding is provided both in the form of general per-student grants and specific funding aimed at targeted groups of students. Payments to individual schools are based on a sliding scale that depends on a school’s socioeconomic status. In 2007, enrolments in nongovernment schools represented over 33% of total enrolments.	Private, religious, and public schools, government of Australia
	Belgium	<b>Objectives:</b> Increase access and improve quality The vast majority of approved private schools receive grants from the government on the same basis as public authority schools. Staff salaries are paid directly by the government and funding is provided for other operating expenses. Assistance for the development of capital infrastructure is provided via grants, loan guarantees, and favourable interest rates. Grant aided schools must meet minimum academic and operating standards but have the freedom to choose their educational plan. In 2004, more than 50% of enrolments at the basic and secondary levels were private. Most private schools have a religious association.	Public, private schools, and the state
	Canada	<b>Objectives:</b> Increase access and improve quality Accredited independent schools receive basic grants equal to 35% of public school costs. Subsidised schools must comply with operating requirements, use the Alberta Programmes of Studies, and follow the same accountability requirements as public schools. However, they have the freedom to establish tuition fees and admission policies.	Provincial government of Alberta, independent schools

<b>Supplemental and Support Services</b>	Colombia	<p><b><u>Objectives:</u></b> Improve quality and provide technical assistance to schools and governments</p> <p>The Escuela Nueva Foundation delivers teacher training; designs curricula, textbooks, and educational materials; conducts research on pedagogical approaches; and advises governments on how to adapt the Escuela Nueva model in public schools. Escuela Nueva is a multi-grade rural school model that promotes leadership and cooperation between the administrative body, teachers, community, parents, and students.</p>	The Ministry of Education, Fundacion Volvamos a la Gente, external funders, other national governments
	India	<p><b><u>Objectives:</u></b> Improve quality of computer education and computer-aided education and increase operational efficiency</p> <p>The NIIT, a global IT corporation, works with the state governments of Tamil Nadu, Karnataka, West Bengal, and Andhra Pradesh in infrastructure creation, systems integration, facilities management, education delivery, and teacher training, thereby providing quality computer education and computer-aided education to thousands of schools. Many of the classrooms have become NIIT centres, open to the school children and teachers during the day, then used by the franchise holder in the evenings.</p>	Four state governments, government schools
<b>Operational and Management Services</b>	Argentina	<p><b><u>Objectives:</u></b> Improve quality of education provided to poor people. <u>example:</u></p> <p>Jesuit-controlled NGO that operates formal general and technical education</p>	Ministries of Education, foundations, international agencies, civil society, communities
	Canada	<p><b><u>Objectives:</u></b> Improve quality and increase management efficiency and accountability</p> <p>A small number of charter schools (capped at 15) operate in the province of Alberta in a similar manner to charter schools in the U.S. They have more management flexibility than public schools.</p>	The Provincial government of Alberta, school boards, and private operators
	Germany	<p><b><u>Objectives:</u></b> Outsource and finance school construction and maintenance of infrastructure</p> <p>The government contracts out the financing, refurbishment, and operation of government schools. Its private sector partners operate the schools for 15 years.</p>	SKE, Hochtief, the government of the County of Offenbach
	UK	<p><b><u>Objectives:</u></b> Improve quality and increase management efficiency and accountability</p> <p>Contract schools are privately managed but remain publicly owned and funded. Typically, private operators are brought in to manage the worst-performing schools. Students do not pay fees to attend these schools. Private sector operators must meet performance benchmarks and are paid a fixed amount per student, usually equivalent to the cost in the public sector, and a fixed management fee. Teaching and other staff continue to be employed by local authorities</p>	Local school boards, education management organisations, private educational providers

<b>Infrastructure Services/Education Services</b>	Australia	<p><b><u>Objectives:</u></b> Outsource and finance school construction and maintenance of infrastructure</p> <p>The private sector finances, designs, and constructs public schools following standards established by the Department of Education and also provides cleaning, maintenance, repair, security, safety, utility, and related services for buildings, furniture, and equipment until 2032. Private operators receive performance-related monthly payments. At the end of the contract, the buildings will be transferred to the public sector.</p>	Private operators, the State Department of Education and Training
	Belgium	<p><b><u>Objectives:</u></b> Outsource and finance school construction and maintenance of infrastructure</p> <p>The government selects a single consortium to be responsible for the design, construction, financing, and maintenance of all school building projects. The consortium does not own the buildings but will receive financial compensation over 30 years in exchange for making the buildings available to the schools. Secondary advantages include a decrease in costs due to economies of scale and the fact that school boards can focus on providing education.</p>	The Flemish Agency for Infrastructure in Education, private financial partners
	Canada	<p><b><u>Objectives:</u></b> Outsource and finance school construction and maintenance of infrastructure</p> <p>The government contracts with private providers, on a basis of competitive bidding, the design, construction, finance, and maintenance of schools for a period of 20 years. Incentives were built into contracts to ensure quality construction and maintenance.</p>	The government of Nova Scotia, private providers
	Ireland	<p><b><u>Objective: outsource and the design, build, finance and maintain education infrastructure</u></b></p> <p>The government contracts the private sector to design, build, finance and maintain education infrastructure for 25 years and then hand back the asset to the Government, known as off-balance sheet financing of education infrastructure, based on open international tender for bundles of schools for the design, build, finance and maintenance of the school infrastructure for 25 Years.</p>	National Development Finance Agency on behalf of the Government and private provider, both national and international.

For case examples of Australia, Canada, Ireland and UK please refer to Annex 14.

### 4.3 Facilitation of PPPs in the Georgian VET System for Improved Efficiency, Effectiveness and Quality Enhancement of VET Provision

Public Private Partnerships are increasingly perceived as an appropriate policy option to provide education for all in many different contexts. Key education stakeholders suggest, that by **partnering with the private sector, governments can expand their education systems in a more efficient and effective way**. For this and other reasons, many governments around the world are establishing PPP frameworks within their education systems. This is happening in both developed and developing countries, and in countries with very different administrative, financial, and political situations, including those affected by crisis and conflict.

Nonetheless, in education, PPP frameworks cover many **policy options** and follow very diverse rationales. As such, one of the main objectives of the feasibility study is to unpack PPPs international practices and experience gained to date in Georgia for determining **policy options for the expansion of PPP in the Georgian VET system**.



### 4.3.1 Guiding Principles

Good governance represents a broad philosophy that guides public and private entities throughout the life cycle of PPP in practice and therefore the following 15 guiding principles are an integral part of PPP governance.

- **Defining public-private partnerships in education**

**Principle 1:** The nature and extent of PPPs should be based on a government's assessment of its role in education and the relative costs and benefits of private involvement in the sector.

**Principle 2:** The gender equality and social inclusion impact of PPPs should be a key consideration in determining the nature and extent of public and private involvement in education.

- **Promoting public-private partnerships in education**

**Principle 3:** A sound general policy and regulatory environment, including high standards of public and corporate governance, transparency, and the rule of law, including protection of property and contractual rights, are essential for attracting the participation of the private sector in all sectors of the economy, including education.

**Principle 4:** Authorities can promote private involvement by putting in place an enabling regulatory environment, including recognising the role of the private sector in education, providing clear and ethical procurement process.

**Principle 5:** Access to capital markets is an essential factor in increasing private participation in education. Restrictions on access to markets and obstacles to international capital movements should be allowed.

**Principle 6:** Public authorities can promote foreign investment in education by treating local and foreign providers equally, providing investment incentives, and ensuring a supportive and efficient environment for investors.

- **Implementing public-private partnerships**

**Principle 7:** PPP processes should be free of corruption and subject to appropriate levels of accountability, while public authorities should take effective measures to ensure the integrity and accountability of all partners and should establish procedures to deter, detect, and sanction corruption.

**Principle 8:** Education authorities and private organisations should agree on the output- or performance based specific actions to be included in the contract as well as sanctions for non-performance is accepted by the parties.

**Principle 9:** The process for awarding PPP contracts should be competitive and should guarantee procedural fairness, no discrimination, and transparency.

**Principle 10:** Governments should ensure that the public agencies responsible for forming and overseeing PPPs have the resources, information, and skills required to design, develop, and manage the complex contracting processes.

**Principle 11:** Education authorities should have the capacity to identify fraud, track payments, and ensure that subsidies and payment claims are legitimate and accurate. They should also ensure that their private sector partners are paid as per contract conditions.

**Principle 12:** Public authorities can increase the popularity of PPPs by encouraging informed debate on the role and impact of these partnerships, consulting stakeholders and the public about the use of PPPs, putting in place an effective communications and awareness strategy, and creating a rigorous evaluation programme.

- **Encouraging responsible business conduct principle**

**Principle 13:** Private partners should observe the principles and standards for responsible business conduct that have been agreed on with the government and should participate in such projects in good faith.

**Principle 14:** Private partners should participate in the government's strategies for communicating and consulting with the public.

**Principle 15:** Private providers need to be mindful of the consequences of their actions for communities and to work together with public authorities to avoid and mitigate any socially unacceptable outcomes.

## 4.4 PPP Models in the Context of VET in Georgia

In education, PPP frameworks cover many policy options and follow very diverse rationales. As such, one of the main objectives of the **Facilitation of PPPs in Georgian VET System** is to unpack PPPs as a policy option for VET, and at the same time put forward proposal that are realistic, achievable and sustainable in the Georgian VET context.

It is not the intent of this Feasibility Study to repeat previous studies and concept documents on PPPs, but to build on experiences gained to date, and to build on international good practices for the development of PPP in the VET sector. It is important to **note** that there are at least **four typologies** and **main understandings** of PPPs. In recent years, however, the typology of models has included an additional model, known as the **Hybrid or Blended** model in the educational sector, which could have applicability in Georgia.

**The models are:**

### **1. Infrastructure Partnerships (IP)**

Partnerships with the private sector for the construction of school facilities and related infrastructures, generally known as:

- a) Design, Build, Operate and Maintain (**DBOM**)
- b) Design, Build, Finance Operate and Maintain (**DBFOM**)
- c) Design, Build, Finance and Maintain (**DBFM**)
- d) Design Build and Finance (**DBF**)
- e) Operate and Maintain (**O&M**), which is usually an integral part of the above, but can be a stand-alone PPP.

The Operation and Maintenance (O&M) of public VET institution includes management and administration of infrastructure and essential support services, such as administration, finance, catering and other services agreed in contract, either under PPP Law or Procurement Law

The Operation and Management (O&M) of public VET institutions, which include management and administration of VET infrastructure and some additional technical support services, such as ICT can be a separate contract under a, b, and c. In other words, O&M can be an integral part of a, b, c or a separate stand-alone contract.

### **2. Education-Industry Partnerships (EIP)**

These types of PPPs that are increasingly present in vocational training (e.g., Work-Based Learning as part of the VET delivery process). Here, the German, Swiss and Other dual VET systems stand out. In universities (e.g., knowledge transfer policies with the corporate sector). This model, which has gained increasing international traction, combines apprenticeships, or learnerships, or internships in a company and vocational education at vocational school/centres. For its execution, a partnership in the form of contractual agreements between the government and the companies involved needs to be formally established.

For typical work-based EIP please see the contract template under Annex 15.

### **3. Multi-Stakeholder Partnerships in education provision (MSP)**

This third typology of PPPs are “defined as the pooling and managing of resources, as well as the mobilisation of competencies and commitments by public, business and civil society partners to contribute to expansion and quality of education”. This type of partnership usually consists of joint initiatives established between governments and international organisations and the private sector, including private companies and foundations. The Global Partnership for Education and the Global Knowledge Partnership are some of the most pragmatic examples of this type of arrangement internationally and within the EU, the many partnership exist within the education fields.

### **4. Operate and Maintain Partnerships (O&M)**

Within this fourth modality, the private sector can be contracted to provide education and training under several formats. Under the fourth modality, which draws heavily on World Bank approach the following types of PPP contract described in 1 and 2 below can be implemented. However, the critical issue is legislative base for PPPs. On the one hand PPPs that fall within PPP law and/or Article 14.5 of the PPP Law, which references to Small Project that can be implement under Law of Georgia on State Procurement.

Under this model the private partner provides the following:

1. VET facilities and education services, which includes teaching and learning process. This option is based on the user pays (student), which can include public subsidies by way of per capita financing, for example voucher, which is given directly to the student who then becomes a user. Also considered as private VET provision in different settings.
2. The **Operation and Maintenance (O&M)** of a public VET institution, which includes management services of infrastructure, management and administration of support services and the management and administration of teaching and learning process. Also, considered as the transfer of all operation and maintenance of a public VET institution to a private partner under contract as per PPP Law or Procurement Law.

### **5. Hybrid partnership (HP) - Georgian Context**

In recent years, new combinations of PPPs are emerging - involving the four models selected above. Usually hybrid models encompass 3 clusters of PPPs:

- **The first cluster** focuses on national and/or sectoral policy and strategy development, policy implementation and policy monitoring, reporting and evaluation

- **The second cluster** focuses on PPPs that involve DBOM, or DBFOM, or DBFM, or DBF and/or O&M
- **Third cluster** focuses on different forms of direct provision of core education and training functions.

Within each of the above **3 clusters** the private partner(s) is selected on the basis of PPP arrangements within PPP legislation and usually of at least 3 year duration and having a minimum value of 2 Million GEL. For partnerships, outside of this duration and financing minimum, normal procurement procedures apply as per the Public Procurement Law and regulations.

In the context of the **Feasibility Study** and within the Hybrid Model, the following **policy options** will be considered, either together or individually, and the role of the private partner is to:

1. Assist public VET institutions with the preparation of **business plans**
2. Assist VET Institutions with **essential services for the implementation of business plan**
3. Assist VET Institutions with day-to-day **operations and maintenance of VET institution infrastructure.**

***The Business Plan (suggested content)***

1. School profile and scope of work
2. Drivers of change
3. Current VET Provisions
4. Future VET Provision, 3-year future focus
5. Policy and Strategy
6. Action Plan (Multi-Annual and Annual)

***Provision of essential services for the implementation of the Business Plan***

1. Administration
2. Finance
3. Human Resources Management
4. EIP Development/Partnerships
5. Communication and Visibility
6. Institutional Development and Capacity Building for implementation of the Business Plan
7. Support income generating activities
8. Marketing of good and services
9. Management of income from goods and service
10. Promote and manage extra-curricular activities, such as the use of institutional spare capacity for training activities with employers, and individuals and community use of VET Infrastructure such as sports facilities etc.
11. Promote and manage grants, both national and international
12. Cross-cutting to include Gender Equality and Social Inclusion

**Table 20: Provision of O&M services based on survey of VET Colleges in Georgia**

#	VET Infrastructure: Functions
1	Administration of O&M VET Infrastructure
2	Facilities and Equipment
3	Risk Management
4	Hazardous Materials/ Safety Management
5	After Hours Service
6	Provision Of Utilities
7	Caretaking
8	Grounds Maintenance
9	Solid Waste Disposal
10	Building Exterior
11	Building Interior
12	Mechanical Systems
13	Electrical Systems
14	Miscellaneous
15	Teaching And Learning Equipment / Laboratories Support And Maintenance Services
16	Technology Support And Maintenance Services
17	Green VET Provision
18	Training Services
19	First Aid
20	Pest Control
21	Assessment Criteria (Current Situation)

## 4.5 Gender Equality and Social Inclusion (GESI) as an Integral Part of all PPP Models

### 4.5.1 Introduction

Gender Equality and Social Inclusion (GESI) are principles for all communities and, correspondingly, countries that claim to be democratic. Almost all countries acknowledge equal rights for all despite their race, ethnicity, gender, religion, however, this does not ensure equal opportunities for all. Contemporary democratic societies and those striving for democracy realise that additional measures are needed to create these equal opportunities. Disadvantaged people in every society face barriers on the way to public goods, including education. Even if education is free, it is not guaranteed to all. To name just a few: Those who live in remote areas in Georgia cannot commute to the educational institution because of infrastructure/transportation barriers, and/or poverty (Kitiashvili, Sumbadze, & Makharadze, 2015; Friedrich-Ebert-Stiftung, 2017; UN Women, 2016); disabled people cannot study because of the lack of infrastructure and special equipment available for them (Tchintcharauli & Javakhishvili, 2016). Therefore, additional legislative base and subsequent measures are required to address the needs of all disadvantaged.

Today's Georgia faces many problems regarding gender equality in education and labour market. Family duties frequently serve as grounds for women of all income and education levels to be unemployed. The gender gap in the labour force participation is almost 20% and it is especially clear in construction, trade, communications, defence, public administration, transport fields. Women employed in education and health care systems largely outnumber men (Geostat, 2018), however, not at the top managerial positions pointing to the glass ceiling effect at work. In addition, quite large pay gap - women earn about 70% of that of men - has been characteristic to the Georgian labour market (The World Bank, 2018).

Gender distribution in VET education sector in Georgia is also unequal - 10 times more girl students in healthcare and social sciences, 8 times more boys in engineering and natural sciences. Widely shared stereotypes about which gender is fit for which occupation, play important role here regarding both boys and girls (Professional education Statistics Bulletin, 2016; UN Women, 2016).

In the frames of the current project, under the gender equality and social inclusion - GESI we mean all kinds of disadvantaged groups in Georgia's society who lack equal opportunity to receive quality VET education. These groups are: women and girls (as Georgia is a masculine country), disabled, those living in remote areas, such as mountain regions of the country, internally displaced people and those in poverty. Throughout the project realisation, we will identify the barriers the above listed groups might face on the pathway to receiving a quality VET education and provide recommendations to our beneficiaries, as well as to other stakeholders, how to overcome these barriers.

#### **4.5.2 Legal Framework**

Equal rights for all are documented in the country's constitution, however, as noted above, this does not guarantee equal opportunities. For this reason, Georgia has adopted other laws and regulations, relevant for the current project: the Law of Georgia on the Elimination of All Forms of Discrimination; the Law on Gender Equality; the Law of Georgia on Social Protection of Persons with Disabilities; the Law of the Development of High Mountainous Regions; the Law on Internally Displaced Persons from the Occupied Territories of Georgia; the Law on Vocational Education; the Social-economic Development Strategy of Georgia 2020; the Ordinance of the Government of Georgia on the State Programme for Professional Training and Retraining and Qualification advancement of the Job Seekers, the Strategy of Georgia for the VET Education Reform in 2013-2020, Human Rights Action Plans; the Ordinance of the Government of Georgia №41 on Establishment of Space For Persons With Disabilities and Approval of Technical Regulations of Architectural and Planning Elements, The Concept of Social Integration of Disabled Persons. As well as the signed UN Convention on the Rights of Persons with Disabilities (for legislative documents see web-site <https://matsne.gov.ge/>).

Human Rights Action Plan of 2018-2020 Is the state's most relevant document to address discrimination of people based of their disadvantageous positions. It states that Georgia should work on creating conditions for disabled persons and internally displaced people to receive VET education. It, also, acknowledges the need of trainings for ethnic minority people.

**The Ordinance of the Government of Georgia on the State Programme for Professional Training and Retraining and Qualification advancement of Job Seekers 2018, lists all GESI groups as those to be given priority in applying for the programme.**

Chapter 2, Article 7 of the Law on Gender Equality states that the country ensures equal rights for men and women to receive education, VET education, among these. The National Referral Mechanism aims to protect victims of domestic violence and gender-based violence and designates the state to ensure education/special training for victims to be able to gain jobs and have independent lives in case of separation from their husbands/partners.

Article 24 of the Convention on the Rights of Persons with Disabilities declares that the state should ensure receive education, including VET education, to disabled people. The Concept of Social Integration of Disabled Persons, adopted by the Parliament of Georgia, as well as the Strategy of Georgia for the VET Education Reform in 2013-2020, state the same. Articles 19 and 20, chapter 4 of the Law of Georgia on Social Protection of Persons with Disabilities, 2001, focus on the same idea, separately mentioning VET education. VET institutions should also consider the Ordinance of the Government of Georgia №41 of 2014, which describes in detail how to equip buildings with ramps, etc. to be accessible for disabled.

Needs of disabled are addressed in the Social-economic Development Strategy of Georgia 2020: "Besides economic efficiency, the Government's economic policies will be guided by principles of social security and social justice. Reduction of unemployment and provision of dignified labour conditions of people, orientation towards quality and accessible education, health care and basic social welfare systems are tools for implementing those principles" p.4, and further states need for capacity building of "persons that face danger of discrimination in the labour market (handicapped people etc.)". p.40. It also calls for establishing inclusive learning environment for students with special learning needs. The same document addresses the poverty problem and states that it shall be addressed through all measures listed.

The Law on the Development of High Mountainous Regions provides additional financing for students from these regions. The Law on Internally Displaced Persons from the Occupied Territories of Georgia ensures rights for education.

Overall, despite of need for further improvement and development, the legislative basis of Georgia provides enough grounds for GESI consideration. All these documents call for creating conditions for disadvantaged persons to have access to high quality education and subsequent employment.

#### **4.5.3 Approach and Methods for GESI**

The GESI principles shall be addressed in the current project through considering barriers of GESI citizens on the way to VET education and ways to overcome these. These principles should then be embedded in the contract of a VET institution with the private organisation. At this point, until the PPP model is finally agreed upon, we will provide more

general approach and methods based on the international experience and the good practices (please see four such cases in the Annex 16).

There are two basic ways to address the GESI problem in any institution, including VET: The First is to have an especially designated person responsible and the other is to dissolve the responsibility among all employees. The second approach is called an embedded approach and is considered more effective than the first one; however, it has certain risks on its way of implementation. "An embedded approach to equity in VET demands that we work side by side with those responsible for reform to articulate the 'how' of redesigning the system to meet the diverse needs of learners experiencing disadvantage". The risks get to minimum if all employees are aware of the disability problems, share post-materialist values (trainings of various sorts, i. e. perspective taking) and understand importance of supporting disadvantaged, are aware of barriers faced by disadvantaged persons, as well as know how to address them. This condition is hard to achieve, it needs thorough planning and long time to implement. The first approach is easier to realise, however, it also has disadvantages, such as weak power of the designated persons - they might be willing to address the problem, but the decision makers/top management would object. This situation is quite apparent in implementing measures trying to achieve gender equality: gender equality officers at various levels and institutions quite often lack power, or/and thorough understanding of gender problems. Sometimes, this responsibility is given in addition to already existing position and in such cases, lack of time becomes an additional obstacle. The most realistic, therefore, would be combination of the two approaches: planning to achieve an embedded version, but temporarily appointing a designated person. In any case, as a minimal requirement, training of personnel, especially a designated one should be a necessary requirement. "Ensure the presence and training of gender sensitive women and men teachers, industry trainers, assessors, and managers" (Skills Sector Development Programme (2014–2020), 2017). Therefore, it is important to organise regular capacity building workshops on GESI sensitisation for all staff: high level management, supervisors, instructors and office personnel to build up GESI awareness and provide in-depth training on GESI mainstreaming techniques to instructors and supervisors.

The employees should develop (with the help of advisors) the GESI action plan. Unless there is adequate GESI knowledge within the institute itself, operationalising the GESI action plan will be very difficult. At the initial stages a GESI advisor can be hired but for regular follow ups and monitoring, the institutions must develop an in-house capacity. Hence, competence building on GESI needs to be given utmost priority. The same concerns VET institution students. VET institutions should also aim at changing the students' mindset on different GESI issues. Some of the words, language the students use sometimes are not GESI friendly. Special training is one approach, however, to consider GESI issues as cross-cutting in all classes, curricula and programmes would be the most efficient.

GESI citizens, usually, face barriers at every stage of the process of receiving education. These problems start even before receiving education or approaching an education institution. Some disadvantaged people might not even consider VET education, because they simply are not aware of its existence, or think that barriers on the way cannot be overcome. These barriers might relate to lack of access to affordable transportation, for example, or internet connection and many others. The problems continue after receiving this education, on pathways to work. All these barriers should be considered by the VET management on the planning stage of their programmes' development. Namely, the institutions should be considering the following:

1. additional finances to support GESI needs, entailing calculating the number of learners in VET who might require additional support; the costs involved in case management and wrap-around support services, including careers advice and the establishment of relevant infrastructure and staffing; the cost of delivering services in remote regions.
2. Curriculum revision considering GESI issues: usually, traditional curriculums do not consider gender equality or diversity issues and are mainly targeted to dominant groups in society, such as ethnic, religious, racial majorities, men, healthy individuals. It is of utmost importance to design VET programmes, courses, and materials in GESI neutral manner, concerning the content of the programmes, curricula and syllabus; training manuals, materials and methods, evaluation instruments.
3. Learning environment and transportation infrastructure making VET education accessible for GESI citizens. These measures include considering building entrances, lifts, classroom arrangements, special equipment, gender segregated toilets, contact hours, transportation, etc.
4. Outreach and recruitment of future students: expand the school contact lists, go to places where GESI people socialise or meet, such as disabled persons, women organisations and rehabilitation settings. Reach out to interest groups, consult with government agencies or local authorities who serve such persons or meet with village chiefs and informal leaders who often know their local communities the best.

#### 4.5.4 GESI Action Plan Outline

1. Learning environment, infrastructure - needs of GESI people are met;
2. Curriculum - the content of the programmes, curricula and syllabus; training manuals, materials and methods, evaluation instruments - all consider GESI;
3. Staff education - teachers, trainers, management, basically all employees are aware of GESI;
4. Student education - students are aware of GESI;
5. Outreach and recruitment - a special plan how to reach future students;

All these measures need to be considered in financing at the planning stage with possible inclusion of a GESI advisor.

#### 4.6 Policy Options for PPP in VET

The various model for PPPs in VET described above are outlined in more detail for consideration in Georgian VET system.

##### 4.6.1 MODEL 1 – Infrastructure Partnerships

###### 1.1 Model 1a: Design, Build, Operate and Maintain (DBOM) (new infrastructure)

<b>Design and Build Phase</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
What the Public Partners must do:	What the Private Partner must do:
MoESCS completed a <b>needs analysis</b> (pre-feasibility and feasibility study) for the justification of need for new VET institutions, supports by external specialist expertise (if appropriate)	
MoESCS together with ESIDA and if necessary additional architectural, quality surveying and engineering services prepare <b>detailed specifications and indicative cost estimates to include land purchase (if necessary)</b> for new VET providing VET institutions Indicative cost estimates include: <ol style="list-style-type: none"> <li>1. Preparation of specifications</li> <li>2. Appraisal and decision-making process</li> <li>3. Public notice for expression of interest or solicitation of interests</li> <li>4. Evaluation of Expression of Interest (EOI)<sup>50</sup></li> <li>5. Tendering preparation by private sector and if lump sum payment is to be made to losing bidder to partly compensate for cost of tender preparation</li> <li>6. Cost of tender evaluation and contracting process</li> <li>7. Cost of infrastructure build (work contracts and supply contracts)</li> <li>8. Cost of build supervision and inspection.</li> <li>9. Cost of build (works contracts) warranty supervision</li> <li>10. Cost of supply (Goods contracts) warrant supervision</li> <li>11. Cost of service contract</li> <li>12. Analysis of costs and determine sources of finance</li> </ol>	
<ul style="list-style-type: none"> <li>• Final EX-ANTE /Appraisal Report on New Build to include VfM and risk assessment.</li> <li>• Agree with PPP Agency as initiator of VET DBOM project</li> <li>• Government Decision and approval of Budget (Yes/No)</li> </ul>	
<ul style="list-style-type: none"> <li>• Public notice: call for expression of interests</li> </ul>	<ul style="list-style-type: none"> <li>• Submit Expression of Interest accompanied with EOI fee (if applicable)</li> </ul>

<sup>50</sup> Expression of Interest by private sector interested parties

<ul style="list-style-type: none"> <li>• Evaluation of EOIs and short list companies eligible for tendering</li> </ul>	
<ul style="list-style-type: none"> <li>• Complete due diligence of eligible companies</li> </ul>	
<ul style="list-style-type: none"> <li>• Prepare and launch tender dossier</li> </ul>	
	<ul style="list-style-type: none"> <li>• Prepare tender proposal and submit by deadline date</li> </ul>
<ul style="list-style-type: none"> <li>• If applicable, public opening of tenders</li> <li>• Evaluation of tenders and award of contracts</li> </ul>	
<ul style="list-style-type: none"> <li>• Contract negotiations</li> </ul>	<ul style="list-style-type: none"> <li>• Contracts negotiations</li> </ul>
<ul style="list-style-type: none"> <li>• If applicable, compensate losing bidder for part the cost tender preparations</li> </ul>	
<ul style="list-style-type: none"> <li>• Signing of contacts</li> </ul>	<ul style="list-style-type: none"> <li>• Signing of contracts</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Build phase:</b> Supervision and inspection by ESIDA with external support services if necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Complete build and per works type contact</li> </ul>
<ul style="list-style-type: none"> <li>• Certificate of completion (signed)</li> </ul>	<ul style="list-style-type: none"> <li>• Certification of completion (Completion)</li> </ul>
<b>Operate and Maintain Phase</b>	
<ul style="list-style-type: none"> <li>• MoESCS together with ESIDA and Other Agencies prepares <b>Terms of Reference (ToR)</b> for Operate and Maintain as per DBOM PPP Model</li> </ul>	<ul style="list-style-type: none"> <li>• Under the DBOM the same main contractor is consulted in the preparation of ToR</li> </ul>
<ul style="list-style-type: none"> <li>• Finalise ToR for range of services to be provided under O&amp;M component of DBOM</li> </ul>	
<ul style="list-style-type: none"> <li>• Contract negotiations</li> </ul>	<ul style="list-style-type: none"> <li>• Contract negotiations</li> </ul>
	<ul style="list-style-type: none"> <li>• Main contractor can sub-contract out O&amp;M to various service providers as per contract requirements</li> </ul>
<ul style="list-style-type: none"> <li>• Contract monitoring, reporting and evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Contract execution (implementation)</li> <li>• Either for one or more VET providing institutions</li> </ul>

**1.2 Model 1b: Design, Build, Finance, Operate and Maintain (DBFOM) (new infrastructure)**

<b>Design Build Finance Operate and Maintain</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
<b>What the Public Partners must do:</b>	<b>What the Private Partner must do:</b>
<ul style="list-style-type: none"> <li>• For DBFOM the same procedures and DBOM apply with the exception that the finance comes from the private partner.</li> <li>• Such PPP are off-balance financing for the Public Partner.</li> </ul>	<ul style="list-style-type: none"> <li>• The only difference with DBOM and DBFOM is the finance is provided by the private provider.</li> <li>• In non-concessionary PPP contracts (where the PPP is not-for-profit contract, and the finance is provided by the Private Provider, then usually the cost structure is:                         <ol style="list-style-type: none"> <li>a. Design and Build costs based on competitive tendering under PPP Law to include O&amp;M for the life cycle of the PPP (25 to 30 Years)</li> <li>b. Methodology, same as mortgage financing, where the capital (principle) plus interest is paid off over 25 years.</li> <li>c. The O&amp;M is based on a separate cost structure post D&amp;B and is an integral part of the PPP full cycle financing, typically 25 Years.</li> <li>d. Usually, such contract will have inflationary clauses and force majeure clauses included</li> </ol> </li> </ul>



**1.3 Model 1c: Design, Build, Finance and Maintain (DBFM) (new infrastructure)**

<b>Design Build Finance and Maintain</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
<p><b>What the Public Partners must do:</b></p> <ul style="list-style-type: none"> <li>• For DBFM, the same procedures and DBFOM apply with the exception that the infrastructure is maintained over the life-cycle of the contract.</li> <li>• Such PPPs are off-balance financing for the Public Partner and are of a duration of usually 25 years.</li> </ul>	<p><b>What the Private Partner must do:</b></p> <ul style="list-style-type: none"> <li>• The only difference with DBFM is that the private partners post Design, Build and Finance infrastructure is maintained as part of the PPP for the full life cycle of the contract.</li> <li>• The cost structure is usually fee based plus reimbursable items.</li> </ul>

**1.4 Model 1d: Design, Build and Finance (DBF) (new infrastructure)**

<b>Design Build and Finance</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
<p><b>What the Public Partners must do:</b></p> <ul style="list-style-type: none"> <li>• For DBF, the same procedures and DBFOM without Operate and Maintain or just Maintain components are excluded from the contract.</li> <li>• Such PPPs are off-balance financing for the Public Partner for a period of up to 25 years.</li> <li>• It should be noted that DBF PPP is not usually used in Developing and Transition economies due to the high cost of financing. Instead, financing is provided by multi-lateral financing agencies like EIB, WB, ADB and others in the form of soft loans with grant facility for the preparation phase.</li> </ul>	<p><b>What the Private Partner must do:</b></p> <ul style="list-style-type: none"> <li>• The private partner Designs, Builds and Finances the educational infrastructure, and on completion of the Design and Build by the private sector, the education infrastructure is handed over to the public partner.</li> <li>• The contract is a PPP because the finance is provided by the Private partner, usually under Special Purpose Vehicle (SPV), which allow investment by pension funds and other forms of institutional investors.</li> <li>• In recent years, philanthropy can replace the private investor and no cost to the public partners.</li> </ul>

**1.5 Model 1e: Upgrade (rehabilitation) Operate and Maintain (existing infrastructure)**

<b>Rehabilitation, Operate and Maintain</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
<p><b>What the Public Partners must do:</b></p> <ul style="list-style-type: none"> <li>• In Rehabilitation, Operate and Maintain the same procedures as in DBOM apply with the exception is that the infrastructure is an existing building, either a school or other types of building that can be refurbished as VET Institution under any of the above models.. Usually for the Public Partner, contract are for a period of up to 25 Years.</li> </ul>	<p><b>What the Private Partner must do:</b></p> <ul style="list-style-type: none"> <li>• The procedures for the Private Partner is the same as for DBOM, DBFOM, DBFM, and DBF with the use of existing infrastructure to be converted or upgraded for use as a VET providing institution.</li> </ul>

From initiating to the launching of PPPs the following steps need to be taken and the parties/actors referred to above contribute differently via having roles based on the limitations stemming from **their legal status and rights and functions attributed by the PPP Law:**

- Mapping potential partners (*mostly PPP agency's mandate, also the competent bodies*)
- Resource mapping (*also a responsibility of the PPP agency but can be done with the help from line ministries, also VET colleges in our case*)
- Preparing offer packages/disseminating information/approaching potential partners (*mostly PPP Agency mandate, also competent bodies*)
- Identifying tasks and deliverables (*through public agencies collaboration, primary role played by the initiator competent body*)
- Arrangement for tenders (*through collaboration of the public agencies and direct involvement of line ministries*)
- Conducting negotiations (*few public agencies can be involved*)
- Due diligence stage (*also public agencies*)
- Identifying risks (*all Public agencies as prescribed by PPP Law*)

- Additional inquiries as necessary/addressing gaps (*mostly based on the government’s comments*)
- Final analysis / Involvement of the line ministries/ approval of the government
- Agreement stage – Drafting phase
- Clearly defining roles and responsibilities, tasks and deliverables
- Setting Timelines, formulating milestones
- Budget & Guarantees related provisions
- Conclusion of the agreement by the public and private parties (*signatory can be the PPP agency from the Public partner’s side*)

**Model 1 DBOM Applicability to Georgian VET System**

Within the scope of new location for VET providing institution the following **options can be considered:**

**Table 21: The applicability of Model 1 for VET development in new locations**

Name of VET Institutions	MODEL 1 - Infrastructure PPPs					Comments
	DBOM	DBFOM	DBFM	DBF	Upgrade and or O&M of existing infrastructure	
	1	2	3	4	5	
Legislation: A=PPP Law B=Procurement Law	A	A	A	A	A/B	Under PPP Law, the minimum duration of PPP contract is five years and the minimum value is 5 Million GEL
<b>Possible New Locations for VET Providing Institutions</b>						
Martvili	X	X	X	X	X	Any of the policy options within PPP MODEL 1 could apply to the possible new location for VET Providing Institutions in Georgia
Khashuri	X	X	X	X	X	
Akhalkalaki	X	X	X	X	X	
Borjomi	X	X	X	X	X	
Marneuli	X	X	X	X	X	
Tskaltubo	X	X	X	X	X	

According to the PPP Law definition, “**creation of an infrastructure**” shall mean **construction reconstruction, rehabilitation, modernisation and/or implementation in any other form.**

**4.6.2 MODEL 2 - Education-Industry Partnerships in VET**

This model, which has gained increasing international traction, combines apprenticeships or learnerships or internships in a company and vocational education at a vocational school/centres. For its execution, a partnership in the form of contractual agreements between the government and the companies involved needs to be formally established.

Education Industry Partnerships	
Public Partner (MoESCS)	Private Partner
What the Public Partners must do:	What the Private Partner must do:
<ul style="list-style-type: none"> <li>• For EIPs the public partner is a Ministry or any Legal Entity in Public Law (LEPL)</li> <li>• EIPs are agreement pertaining any measure in the context of VET in accordance with the Law on legal entities.</li> <li>• One of the most common type of Agreement is a Work Based Learning (WBL) Agreement.</li> </ul>	<ul style="list-style-type: none"> <li>• For EIPs, the private partner is a citizen or any Legal Entity in Private Law (LEPL)</li> </ul>

For WBL agreement template please see Annex 15

#### 4.6.3 MODEL 3 - Multi-Stakeholder Partnerships (in the Context of O&M)

PPPs under this model are defined as the pooling and managing of resources, as well as the mobilisation of competencies and commitments by business and civil society partners to contribute to expansion and quality of education and training, which can include international partners.

Multi-Stakeholder Partnerships	
Public Partner (MoESCS)	Private Partner
What the Public Partners must do:	What the Private Partner must do:
<ul style="list-style-type: none"> <li>• The PPP law provides the definition for the <b>competent bodies</b>.</li> <li>• <b>Public partner in a PPP can be:</b> <ul style="list-style-type: none"> <li>○ Government of Georgia</li> <li>○ Ministry</li> <li>○ Legal entity of public law</li> <li>○ Another state or municipal entity, or</li> <li>○ Government of Autonomous republic of Adjara/Abkhazia, or</li> <li>○ Enterprise created, directly or indirectly, by more than 50% of state or municipal ownership.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>The PPP Law denotes for the private partner:</b> Any private entity including IPPPs or consortium can become a private partner in a PPP if successfully selected through the tender. Consortium shall mean consortium of private legal entities or private legal entities and individuals established on the bases of joint activity (partnership) agreement.</li> <li>• This allows for international partners to form consortiums of partners in the form of consortium agreement on the one hand and PPP agreement with a public partner.</li> </ul>

#### 4.6.4 MODEL 4 - Operate and Maintain Partnerships

PPPs under this model can be an integral part of DBOM, DBFOM, DBFM or a **separate stand-alone PPP for O&M**. or Operate and Maintain there are two options for the type of PPP contracts, which depends on the legal framework for the Contract. One that is within PPP Law and one that is outside of PPP Law. Usually under this model, the PPP involves a whole school approach, where the private partners take over the public VET providing institution for a specified period of at least 3 years.

Operate and Maintain Partnerships	
Public Partner (MoESCS)	Private Partner
What the Public Partners must do:	What the Private Partner must do:
<ul style="list-style-type: none"> <li>• The PPP law provides the definition for the <b>competent bodies</b>.</li> <li>• <b>Public partner in a PPP can be:</b> <ul style="list-style-type: none"> <li>○ Government of Georgia</li> <li>○ Ministry</li> <li>○ Legal entity of public law</li> <li>○ Another state or municipal entity, or</li> <li>○ Government of Autonomous republic of Adjara/Abkhazia, or</li> <li>○ Enterprise created, directly or indirectly, by more than 50% of state or municipal ownership.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The PPP Law denotes for the private partner, any private entity including IPPPs or consortium can become a private partner in a PPP if successfully selected through the tender.</li> <li>• Consortium shall mean consortium of private legal entities or private legal entities and individuals established on the bases of joint activity (partnership) agreement.</li> </ul>
<ul style="list-style-type: none"> <li>• PPP Law, Chapter III, Development of PPPs outlines the processes to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>• The role of the Private Partner in the PPP process is outlined under Chapter III of PPP Law</li> </ul>
<ul style="list-style-type: none"> <li>• Article 14 section 5 of the PPP Law indicated that Small Project PPP shall be regulated by Law of Georgia on Public Procurement.</li> </ul>	<ul style="list-style-type: none"> <li>• The role of the Private partner complies with the Law of Georgia on Public Procurement.</li> </ul>

#### 4.6.5 MODEL 5 - Hybrid Model

Hybrid type of partnerships are a combination of any component of the four models outlined above, derived from the “**Project Concept**” as per Article 2 section “S” of the PPP Law.

In this type of PPP, the role of the private partner can include, but is not limited to:

- Assist public VET institutions with the preparation of **business plans**
- Assist VET Institutions with **essential services for the implementation of business plan**
- Assist VET Institutions with day to day **operations and maintenance of VET institution infrastructure.**

PPPs within the hybrid model also allow for Design own PPP based on the legal framework for PPP contained in PPP law and the Law of Georgia on Public Procurement.

<b>Hybrid Public Private Partnership</b>	
<b>Public Partner (MoESCS)</b>	<b>Private Partner</b>
What the Public Partners must do:	What the Private Partner must do:
<ul style="list-style-type: none"> <li>• The PPP law provides the definition for the <b>competent bodies.</b></li> <li>• <b>Public partner in a PPP can be:</b> <ul style="list-style-type: none"> <li>○ Government of Georgia</li> <li>○ Ministry</li> <li>○ Legal entity of public law</li> <li>○ Another state or municipal entity, or</li> <li>○ Government of Autonomous republic of Adjara/Abkhazia, or</li> </ul> </li> </ul> <p>Enterprise created, directly or indirectly, by more than 50% of state or municipal ownership.</p>	<ul style="list-style-type: none"> <li>• The PPP Law denotes for the private partner, any private entity including IPPPs or consortium can become a private partner in a PPP if successfully selected through the tender.</li> <li>• Consortium shall mean consortium of private legal entities or private legal entities and individuals established on the bases of joint activity (partnership) agreement.</li> </ul>
<ul style="list-style-type: none"> <li>• Chapter III Development of PPPs, which outlines the processes to be followed</li> </ul>	<ul style="list-style-type: none"> <li>• The role of the Private Partner in the PPP process is outlined under Chapter III of PPP Law</li> </ul>
<ul style="list-style-type: none"> <li>• Article 14 section 5 of the PPP indicated that Small PPP shall be regulated by Law of Georgia on State Procurement.</li> </ul>	<ul style="list-style-type: none"> <li>• The role of the Private partner complies with the Law of Georgia on Public Procurement for Small PPP Projects</li> </ul>

### 4.7 Legal Framework Policy Options

#### OPTION 1 - PPP Law (To be fully in Compliance with the PPP Law)

#### OPTION 2 - PPP Law Small Projects Article 14 Section 5 (To be in Compliance with the Law on Georgia on Public Procurement)

Regardless of the option in Law, a PPP will need “**Project Concept**” shall mean a general description of a PPP that includes, but is not limited to its fundamental characteristics, evaluation and pre-feasibility of the Project as defined in legal Acts of Government of Georgia. The Project Concept for Small Projects could be “**Terms of Reference**”

The “**Project Concept**” describes the focus of O&M. The following **types** of services under O&M that could be characterised as Project Concept for O&M PPPs are as follows:

#### 4.7.1 Types of O&M Partnerships

##### **Operate and Maintain VET Infrastructure**

Operate and Maintain VET Infrastructure is usually part of the DBOM, DBFOM, DBFM models outlined above. However, it can be a separate contract with similar characteristic and focus on existing VET public infrastructure.

Operations and maintenance typically include the day-to-day activities necessary for the building/built structure, its systems and equipment, and occupants/users to perform their intended functions. Requirements will vary from a single facility, to a cluster of facilities under one O&M PPP Contracts. In all cases, O&M requires a knowledgeable, skilled, and well-trained management and technical staff and a well-planned maintenance programme.

A case example of the types of services under a PPP contract for 5 secondary schools in Ireland under an O&M with a focus on school infrastructure<sup>51</sup>.

<sup>51</sup> Apleona HSG Ireland

REF CODE	Description of Services Provided in the O&M of Infrastructure
S1	Planned Preventative Maintenance
S2	Reactive Maintenance
S3	Electrical Maintenance
S4	Mechanical Maintenance
S5	Grounds Maintenance
S6	Minor Improvements And Ad-Hoc Services
S7	Energy Management
S8	Waste Management
S9	Fire Safety
S10	Security
S11	Car Park Management
S12	Catering
S13	Cleaning And Housekeeping
S14	Window Cleaning
S15	Pest Control
S16	Caretaking And Porterage
S17a	Telecommunications Installations
S17b	Information Communication Technology
S18	Help Desk

In the preparation of this feasibility study, a survey of Colleges was completed to determine the scope of work under O&M of VET Infrastructure.

**Functions:**

- Administration of O&M
- Facilities and Equipment
- Risk Management
- Hazardous Materials/ Safety Management
- After Hours Service
- Provision of Utilities
- Caretaking
- Grounds Maintenance
- Solid Waste Disposals
- Building Exteriors
- Building Interiors
- Mechanical Systems
- Electrical Systems
- Miscellaneous
- Teaching and Learning Equipment / Laboratories Support And Maintenance Services
- Technology Support and Maintenance Services
- Green VET Provision
- Training Services on Best Use of Infrastructure
- First Aid
- Pest Control
- Assessment Criteria (Current Situation)

The **assessment found** that almost all of the above functions were necessary in the Georgian VET Schools, but some of the VET schools preferred not to outsource some of the functions. For details, please see Annex 6.

**Management of Professional Support Services**

Management is an essential component of public VET provision. For this purpose, O&M PPPs with private partners manage either **a single public VET institutions or cluster of public VET institutions or mix of legal entities**

**working together with public VET institutions.** Such PPPs cover administration, financial management, human resources and other categories of professional support services. Within these contracts, all non-managerial personnel continue to be public sector employees.

Management of professional support services PPPs have the following characteristics:

- Contractor to manage a range of activities
- Generally short term, usually for three to five years
- Limited potential for improvements in efficiency and performance, although more sophisticated management of support services.

According to a Review of Institutional Arrangements completed by EUVEGE, the following were identified as **Roles and Functions for VET**:

- Initial vocational education and training that is school based
- Initial vocational education and training that is WBL
- Non-formal Life Long Learning (Adult training and retraining)
- Informal VET, text centres as part of recognition of prior learning (RPL)
- Adult education (extra-curricular based on the user pays)
- Entrepreneurial development centres / incubator centres / product development centres
- Industry linkages
- Special projects
- Provision of projects on a cost recovery basis
- National and international partnerships

Contractors are usually paid a fixed fee to cover its staff and expenses. There may also be a performance-based fee for income generating activities.

Some may also include obligations on the private operator to operate and maintain the assets, sometimes extending to bearing the cost of routine replacement of small, low value parts of equipment. Such features require more monitoring to ensure that the outputs are being achieved and usually involve higher establishment costs.

The transfer of existing employees to the PPP contracts is optional in the process of taking over professional supporting services.

#### **Management of Teaching and Learning Processes**

Usually such PPPs are not in isolation but coupled with management of professional services. However, as a PPP policy option, they usually involve:

- Recruitment of teaching staff
- Management of teaching and learning processes
- Assessments
- Quality assurance
- Counselling and guidance
- Other activities related teaching and learning.

#### **Policy Options for O&M PPPs in VET under PPP Law for Large and Small Projects**

Services	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5
Operate and Maintain VET Infrastructure	YES	YES	YES	YES - A separate contract for O&M of VET infrastructure	HYBRID - Design Your Own PPP
Management of Professional Support Services	NO	YES	YES	YES	
Management of Teaching and Learning Processes	NO	NO	YES	YES	

#### 4.7.2 Strengths and Weaknesses of Policy Options for PPPs in VET

##### **Option 1: Outsource the management of VET infrastructure**

###### **Strengths**

- Professional management of infrastructure
- Frees up management and teaching staff to focus on teaching and learning
- Infrastructure managed and maintained to a high standard for both teaching and learning
- Infrastructure usually used in a more efficiency and effectively with expected utility cost savings through better energy management
- Under such outsource, the pathway to green school principle are advanced at a much quicker pace than in-house management of infrastructure.

###### **Weaknesses**

- More expensive than in-house management of VET Infrastructure
- VET Institution Management does not have full control of the management of infrastructure.

##### **Option 2: Management, professional and support services (include management of infrastructure under Option 1)**

###### **Strengths**

- Brings in professional skills and new ideas from the private sector
- Gives managers the freedom to manage
- Reduces the bureaucratic and union constraints associated with public service employment
- Promotes competition among organisations bidding to win the management contract
- Enables education authorities to specify performance requirements
- Services are quite cheap especially when the same contractor provides services for many schools
- It allows school staff to concentrate on teaching and student support services.

###### **Weaknesses**

- If public sector staff originally provided the services, then the handover to the contractors can be difficult
- The early phases of contracting can be daunting for officials who may be unfamiliar with the process and who may lack the know-how to establish contracts
- Management services are more difficult to contract out than some other services
- Specifying and monitoring the performance of service contracts
- As success of school deepens on many factors besides the management, it would be inappropriate to attribute changes in school performance to the management contract
- In most countries, the gains from contracting out input services have developed and changed over time as the governments need time to learn from experience and create these kinds of contracts.

##### **Option 3: O&M of VET providing institution (Entire VET Institution)**

In these operational contracts, private organisations not only manage the school infrastructure and support services, but staff it as well. The aim of such agreements is most often to hand over VET providing Institutions to the private sectors with more autonomy and flexibility, as the contractual arrangement would classify as private sector.

###### **Strengths**

- This type of contract can be targeted at disadvantages and low performing VET Institutions
- Makes a viable mechanism for improving schools with performance problems
- Ensures service delivery to “hard-to-reach” populations

###### **Weaknesses**

- To operate a whole school is a complex task and fail due to inadequate funding. In other words, the private contractor is expected to do more with the same level of finance and public managed VET Institutions.

##### **Option 4: Management of professional support services and teaching and learning**

Under this option the O&M of school infrastructure is either a separate PPP contract or a subcontract from the PPP service provider that is responsible for Option 4.

### **Strengths**

- This type of PPP excludes the management of VET infrastructure and allow the management outsourced team to focus on teaching and learning and the management of essential professional services and avoids technical issues associated with infrastructure

### **Weaknesses**

- Could result in breakdown in communication between the management of professional services, teaching and the operation and maintenance of infrastructure when it is a separate contract.

*Note: In option 4 a separate contact with service provider for infrastructure or it could be a sub-contract of the PPP service provider in option 4*

### **Option 5: Hybrid**

Under this model, the initiator of a PPP project can select the roles and functions in VET that are considered suitable for a PPP.

### **Strengths**

- PPP of this type are flexible and meet the need for Small Projects, such as selection of Teachers, quality assurance of provision and other functions. Hybrid tend to be functions oriented and can be a stand-alone functions or functions grouped together based on needs. Hybrid PPP are suitable for Donors, NGOs and Civil society Groups to be the initiator of a PPP project.

### **Weaknesses**

- They tend to fall outside the remit of PPP policy and guidelines and become fragmented and difficult to monitor and control. PPP of this nature could be not cost-effective due the scope and scale of project.



## 5. Fiscal Affordability Assessment: PPP in VET in Georgia

### 5.1 The Process of Analysing Fiscal Feasibility (Affordability)

Many countries create caps or limits for PPP liabilities. In capital expenditure under DBFOM, a Government might limit capital expenditure to 20% for DBFOM PPPs in the overall education capital budget.

Those caps, ultimately, aim at providing objective measures of fiscal feasibility and attempt to limit fiscal exposure to PPP commitments. However, relevant they are, they cannot replace a comprehensive analysis of affordability because they tend to focus on a formal and one-sided dimension of the problem, which is the allocation of finance.

The **Fiscal Affordability Assessment (FAA)** provides two essential outputs:

- **First**, it estimates the fiscal effect of the project in terms of direct and contingent exposures on the public budget. It also projects those effects from different perspectives, providing a comprehensive assessment of governmental liabilities. This is a central piece of information on its own for an informed **green light decision** at the end of the fiscal affordability assessment; and
- **Second**, the exercise generates a thorough due diligence, attesting to the compliance of the project with the regulatory aspects specific to each jurisdiction that limit PPP expenditures.

The results of the affordability assessment can have a strong influence on several other feasibility assessments, specifically on the commercial feasibility as it can limit, in cases of government-pays PPPs, the amount of government payments considered. In this case, the contract structure, financial model, or the technical requirements might be revisited in order to redefine the PPP project so that it is **simultaneously commercially feasible to the private partner and affordable to the public partner**.

Based on the budget information, VET in Georgia is financed based on the following types and sources of finance (budget allocation for VET in Georgia is by main category and by sub-categories):

- **Voucher** per capita funding by type of programme per participant with a nominal average of 1,300 GEL per student. Used for budgeting purposes.
- **Subsidy** or programme funding per VET providing institution, with a nominal average of 650 GEL per student.
- **Capital / Investment** budget is based on needs.

For the purpose of FAA, only 1 and 2 are considered.

**Table 22: Base Calculations of FAA of Outsourcing**

Category of budget	Average cost in GEL for VET Sector	Cost in GEL by named programme	Fixed or variable	% Adjusted for PPP and non-PPP	Total PPP Budget in GEL
Voucher	1,300.00	The voucher cost can vary and depends on the type of VET programme	Fixed by programme type	100% (no adjustment)	1,300.00
Subsidy	650.00	n/a	Variable	115% Based on international good practice	747.50
<b>Total</b>	<b>1,950.00</b>				<b>2,047.50</b>

**Table 23. Based on Actual Budget Data from 2016 and 2017**

Year	Overall VET budget [per capita]	Surveyed Schools per capita [Total budget] <sup>52</sup>	Overall VET Subsidy O&M [per capita]	Surveyed Schools per capita [Actual Subsidy]	Real Value of Voucher <sup>53</sup>
2016	1,796	1,746	437	427	1,369
2017	2,106	1,780	501	417	1,605

From the above calculation for basis FAA the eligible budget for PPP O&M would be 2,047.5 Gel per student, bearing in mind that the actual budget turnout for 2017 was 2,106 Gel on average across all VET programmes.

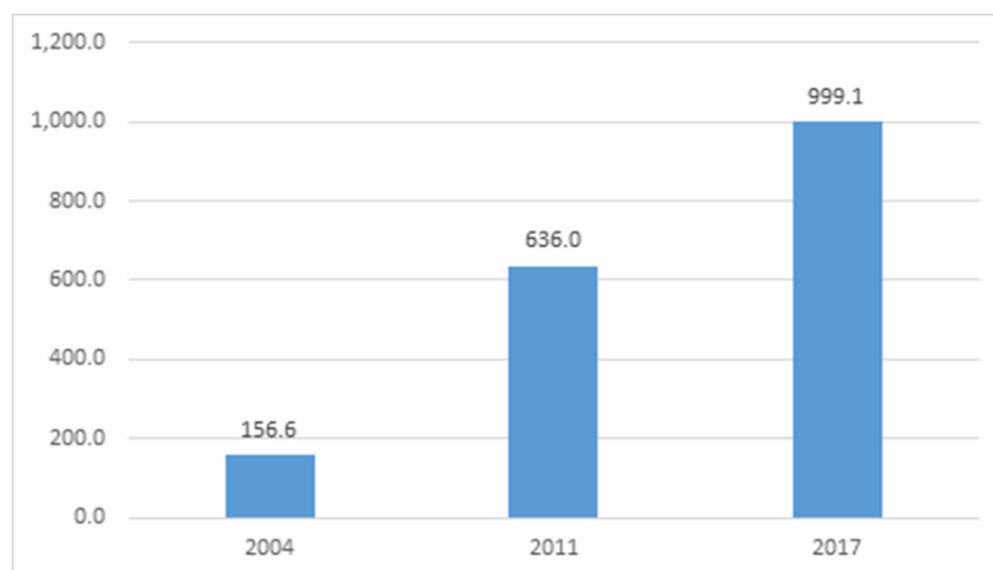
The **Fiscal Affordability Assessment** must take into consideration the market costs of labour. The average monthly wage in Georgia in 2017 was 999.1 (**say 1000**) GEL.

When comparing the business sectors and non-business sectors a big difference emerges. Take the **professional, scientific and technical** category that would be of interest to PPPs in VET. In the category, the average monthly salary in the business sector is 2,071 GEL, while in the non-business sector the average monthly salary is 1,000 GEL. In the education sector, the average monthly salary is 563.7 GEL.

**Table 24. Difference in Monthly Wage between the Business Sector and the Non-Business Sector<sup>54</sup>**

Economic Activity	Business sector monthly wage in GEL	Non-business sector monthly wage in GEL	Non-business sector as a % of business sector	Comments
Professional, scientific and technical Jobs	2,071	1,000	48	Average would be approximately 1500 Gel per Month across the business and non-business sector
Education	720 (Private)	563	78	

**Graph 4. Average Monthly Nominal Earnings of Employees [in GEL]**

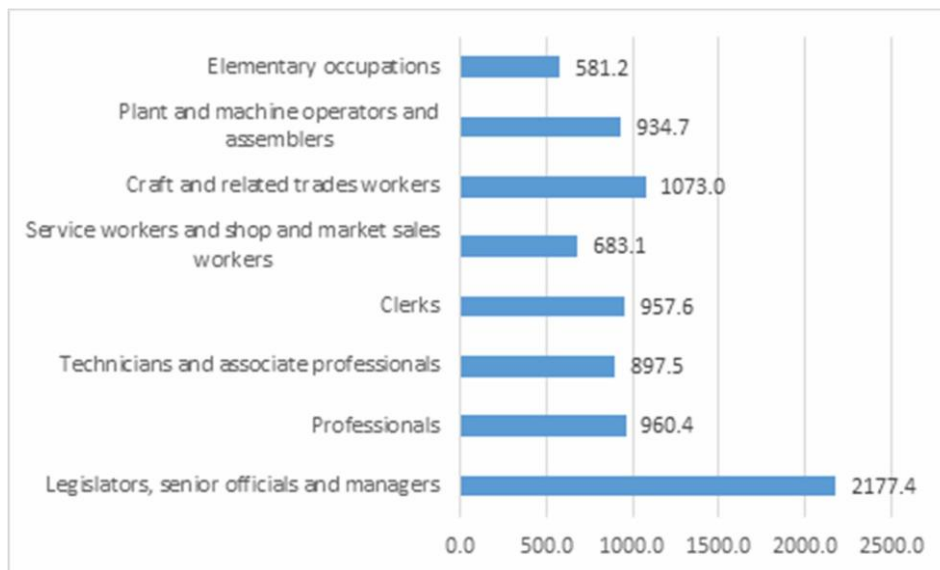


<sup>52</sup> Names of VET colleges surveyed under this GGF project: LEPL Community College "Mermisi", LEPL Vocational College "Phazisi", N(N)LE Vocational College "Ikarosi"

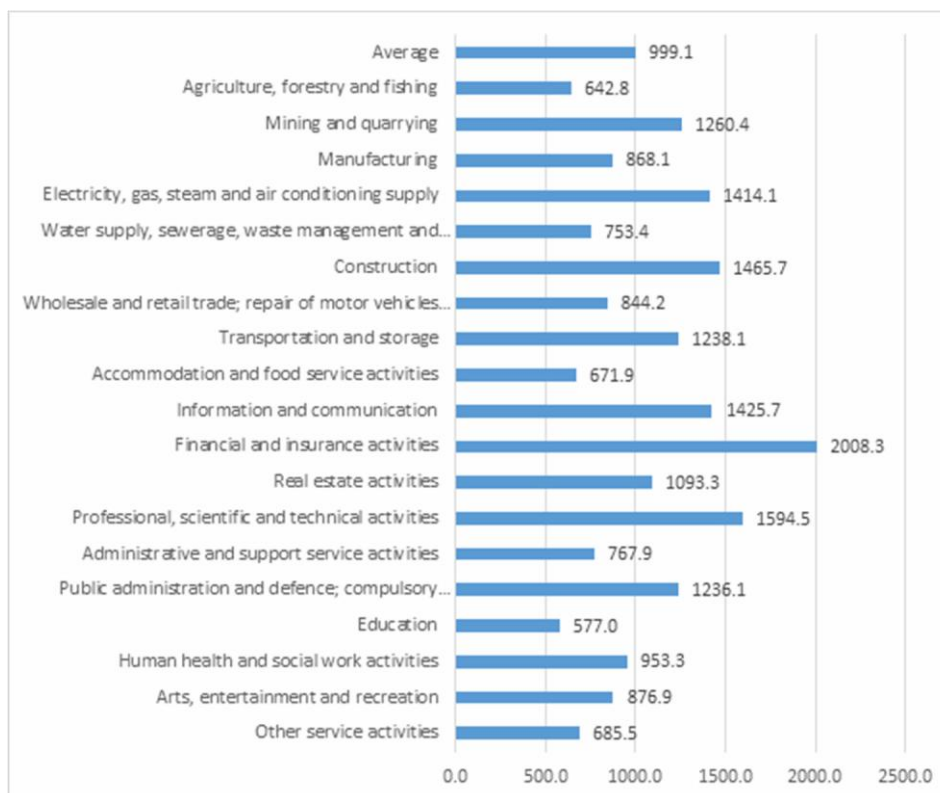
<sup>53</sup> The real value of voucher = Overall VET budget per capita – Overall VET Subsidy O&M per capita

<sup>54</sup> Geostat 2017 data on wages

**Graph 5. Average Monthly Nominal Earnings of Employees by Occupation [in GEL], 2017, Geostat**



**Graph 6. Average Monthly Nominal Earnings of Employees by Economic Activity/sectors [in GEL], 2017, Geostat**



For scatter diagram on wage differentials, please see Annex 17.

In Fiscal Affordability Assessment for the facilitation of public-private partnerships in VET, wages and wage differential have a bearing on the affordability assessment and where such PPP have to be considered in terms of Value for Money.

FAA is usually based on scenario building and modelling prior to real costs being determined for a given PPP and procurement stage.

In the case of Georgia, the following **scenarios** can be modelled to determine the feasibility of a PPP based on FAA approach.

Based on the baseline data of 1,300 GEL for VET Voucher and 650 GEL for Subsidy budget per annum and assuming that based on international good practice analysis, O&M type PPPs are about 15% more expensive than non-PPP in VET provision.

**Table 25. Modelling based on percentage increases from 10 to 35% more expensive than traditional in-house management of VET Institutions**

Current Subsidy Budget, average per student in GEL	15% above current level based on international experience with outsourcing O&M	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
		% above norm due to wage differentials					
		10%	15%	20%	25%	30%	35%
<b>650</b>	<b>748</b>	<b>822</b>	<b>860</b>	<b>897</b>	<b>934</b>	<b>972</b>	<b>1,009</b>
Amount above the current subsidy budget of 650	98	172	210	247	284	322	359

The analysis of the above data would indicate that by management outsourcing from the State sector to the private sector there could be a wage differential of 50% above the current baseline of 650 GEL. It should be noted that wages only make % of the subsidy budget and varies from College to College.

The preliminary assessment would indicate that the subsidy budget should be 350 to 400 GEL per student more than the current subsidy budget. However, this can only be determined accurately when a type of PPP model is selected, and detailed pricing is completed as part of any tendering package.

## Disclaimer

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