1. Key development issues and rationale for Bank involvement

With China’s economy growing at an average rate of about 10 percent in real terms over the past decade, the demand for skills has been strong, particularly in the coastal region, where the three project provinces – Guangdong, Liaoning and Shandong – are located. The returns to an additional year of schooling rose from 4 percent in 1988 to 11.4 percent in 2003 (World Bank, 2007). The placement rates of graduates from technical and vocational schools and colleges are high. Matching the demand for skills with supply not only is key to sustaining economic growth, but is also critical to poverty alleviation. According to the Bank’s Poverty Assessment (2007), only 2.5 percent of households whose adult workers have 9-12 years of education live below the poverty line (a-dollar-a-day), compared with 16 percent in households whose workers have less than 6 years of schooling. Post-compulsory education attainment, which includes TVE, increasingly has become a de facto prerequisite for accessing higher value-added and higher paying urban jobs in the manufacturing and service sectors. Between 80 and 90 percent of students in TVE are from the rural areas and the rest, from the poorer segments of the urban areas. Rural youths and the urban poor can escape poverty through access to TVET.

China’s TVET system currently enrolls over 20 percent of the 16-19 age cohort, or 15 million students at the senior secondary level. In addition, vocational colleges at the tertiary level enroll 7 million students. Another 75 million workers receive training of short duration. After the introduction of market-based economic reforms, China has made substantial efforts to modernize and restructure the TVET system. The public sector TVET system has a dual structure. The Ministry of Education (MOE) and its provincial counterpart are responsible for formal, pre-employment TVE, accounting for over 80 percent of TVE enrollment at the senior secondary level, and almost 100 percent enrollment at the tertiary level. The Ministry of Labor and Social Security (MOLSS) and its provincial counterpart are responsible for formal skills development (accounting for nearly 20 percent of enrollment at the senior secondary level), non-formal vocational training, and short-courses in employment training centers for migrant workers and retrenched workers, as well as for nationwide skills testing and certification. Schools which previously were under technical ministries and SOEs are increasingly being transferred to either MOE or MOLSS. Furthermore, there is a growing private sector that provides formal and non-formal TVET, accounting for roughly 12 percent of schools.
In spite of the reform efforts, the gap between policy and practice remains. Quality of TVET is poor. The high placement rate of graduates reflects a very tight labor market for skilled workers and technicians, not necessarily high quality of available skills or employers’ satisfaction. Equity is a concern because the very poor students cannot afford the high fees. These issues persist partly because of fragmented governance and management within the public sector, inadequate and unfocussed public finance, and the lack of clarity in the appropriate role of public and private institutions in provision and financing of TVET.

China is taking steps to address these issues. The 11th Five-Year Plan (2006-2010) identifies TVET as one of its strategic priorities. It aims (i) to raise the quality and relevance of TVET by strengthening the linkages between enterprises and schools and the practical orientation of TVET; (ii) to improve equity and provide more student assistance to low-income students; (iii) to diversify sources of training; and (iv) to increase public investment from each level of the government. The State Council in July 2006 approved Guangdong, Shandong, and Liaoning to borrow a total of US$60 million from IBRD.

This project supports public sector investment in TVET in the three provinces because it generates public goods through piloting reforms and innovations, strengthening the capacity for policy analysis and evaluation, supporting poorer provinces in a twinning arrangement, and transferring knowledge nationwide. Furthermore, private providers tend to operate in niche markets, providing training in the service sector (such as foreign language instruction, business, computer skills, and personal services), rather than going into the engineering fields which are in high demand, but which require heavy fixed cost investment in machineries and workshops.

This project cannot address all of the systemic issues of TVET affecting the whole nation because it only operates in three provinces. However, the project proposes to add values by (i) developing competency-based curricula using industrial standards in key trades within a quality assurance framework; (ii) undertake international comparative analysis of cognitive skills of students and occupational standards for benchmarking purposes; (iii) undertake analytical work on financing of TVET and the development of a training market; (iv) piloting the use of training vouchers and setting up of a training authority; and (v) facilitating national policy dialogues between industries and public and private training providers, across central and provincial agencies, and among the coastal, central and western regions. The Bank’s international experience places it in a unique position to bring the best technical knowledge to bear on these interventions at the provincial level that have the potential to more dramatically impact the much larger policy and investment framework of the country.

2. **Proposed Development Objectives and Key Performance Indicators**

The development objectives for all three provinces are: (i) to improve quality and relevance of TVE in order to meet labor market demand; and (ii) to improve policy analysis and program evaluation, to pilot innovations, and to disseminate lessons learned.

The key performance indicators include both outcomes and process at the school and provincial levels. The outcomes indicators, compared with baseline data and disaggregated by trade, by gender and by rural/urban registration of students, aim to capture the internal and external efficiency of the system and stakeholders’ feedback on quality. They include the following: (i) student in-take (also as a percentage of application), dropout and completion rates; (ii) percentage of graduates who take the national qualification tests and their pass rates; (iii) time-taken after graduation to find employment within a period after graduation; (iv) percentage of students who find employment in the trades they are trained for; (v) parents’ and students’ satisfaction of the education and training offered; and (vi) employers’ evaluation of the skills of graduates and of the schools.
3. Preliminary Project Description

The project will have two components—the first one produces public goods at the provincial and national levels, and the second one links policy with practice and implementation at the school level.

Component 1. A policy component at the central and provincial levels:

(i) Support the collaborative efforts among the central line ministries, provinces, employers, and schools in the development of modular, competency-based curricula using industrial standards and on par with international best practices;
(ii) Support the central line ministries and provincial departments to undertake policy studies and program evaluation in collaboration with the World Bank;
(iii) Support provincial governments to pilot innovations;
(iv) Develop a learning framework and conduct national workshops to dissemination lessons of experience to both public and private training providers and to other provinces; and
(v) Support poorer provinces through twinning arrangements.

Component 2. Support for school-level reform: This component links policy with practice. The model schools in the three coastal provinces will receive support for:

(i) Testing and implementing modular, competency-based curricula, working in conjunction with provincial and central authorities, and supporting competency-based teacher and principal training;
(ii) Building more effective mechanism of school management;
(iii) Piloting innovation in school quality assurance; and
(iv) Upgrading of infrastructure, facilities, and equipment.

4. Alternative interventions

Alternative interventions considered include (i) support for accreditation of public and private training providers under a national qualifications framework to further diversify the training sources and validate different education and training experiences (which were adopted in countries like Australia, New Zealand, South Africa, and the U.K.); and (ii) use of different financing strategies to integrate public and private training providers (which were developed in South Korea, Malaysia, Singapore, South Africa, Jordan). These interventions are not included in this project because they have to be built on a foundation of strong capacity for policy analysis and sectoral management, which this project aims to strengthen.

5. Lending instruments

This project is a three-year Specific Investment Loan (SIL) to match the fast pace of China’s development. The project provides a window of engagement for the Bank to undertake joint analytical work and evaluation with the central and provincial governments, in order to provide the groundwork for the follow-on project to be undertaken under the 12th Five-Year Plan (2011-2015). The follow-on project could be more ambitious in the scope of reform as mentioned above.
6. Potential risks and mitigation

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<tr>
<th>Risks</th>
<th>Mitigation</th>
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<tr>
<td>As the borrowers are the provinces, central line ministries may not have sufficient ownership.</td>
<td>Regular consultation between national and provincial leadership is needed to transfer experience and to share the products and lessons across countries. National workshops will be held. Supervision missions will include an expert panel from MOE, MOLSS, employers, and project and non-project provinces to maximize experience sharing.</td>
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<td>Lack of competition between private and public schools in the choice of project schools</td>
<td>The project generates public goods which will be beneficial to both public and private schools and project and non-project provinces.</td>
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<tr>
<td>Lack of participation of the non-state sector in project design.</td>
<td>Consultation will be held with representatives of employers and workers to ensure market-driven content.</td>
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<tr>
<td>Lack of provincial resources and leadership to implement twinning arrangement</td>
<td>China’s policy requires richer coastal provinces to transfer knowledge to poorer provinces in the central and western regions. Currently, Guangdong has twinning arrangements with Jiangxi, Guangxi, and Sichuan; Liaoning with Heilongjiang, Jilin, Tibet and Qinghai; and Shandong with Gansu, Ningxia, and Xinjiang. The project provides a platform vehicle to transfer new knowledge to poorer provinces.</td>
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<td>Uneven project implementation capacity among three provinces</td>
<td>Institutional assessments will be undertaken to appraise the fiduciary capacity and programming of training workshops to strengthen the implementation team capacity. Preparation of the Project Implementation Plan (PIP) before appraisal will help guide implementation.</td>
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7. Safeguard policies that might apply

Social assessment will be carried out to ensure equitable access by low-income students, particularly those from the rural areas and poorer regions. An assessment on waste management from TVE schools and safety standard will be carried out.

8. Tentative financing

Source: ($m.)
BORROWER n.a.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT 60

Total 60

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