1. Country and Sector Background

China’s economy has grown rapidly since 1978, when it began to reform with an average annual growth rate of 9 percent lifting some 400 million people out of poverty. The expansion has shifted employment into manufacturing and service industries with growth rates twice those of agriculture, 10 percent versus 4 percent. This growth has accelerated industrialization and technological change, increasing the demand for new skills. China’s investment in education under the 11th five-year plan has responded. The plan calls for universal compulsory education up to 9 years, expansion of enrolments in vocational secondary education with improvements in quality and teaching reforms, and expansion and improvements in the quality of higher education.

The investment in public vocational education leads the way in an environment where the capacity of enterprises to train has been diminished. Over the past decade state-owned enterprises have shifted responsibility for education and training in skilled worker schools to the Ministry of Labor and Social Security. In addition, the market has been opened to private providers of skills, but this capacity is only beginning to emerge and does not yet ensure uniform access. Government’s strategy has been focused on upgrading school infrastructure and addressing issues of access to education by allocating more resources to rural and poor areas and setting up student aid systems. Spending on education in 2005 increased from 2.8 percent of GDP to 3.0 percent in 2006 with plans for further expansion to 4 percent.

Guangdong Province with a population of 93 million in 2006 is located along the southeastern coast and is one of China’s centers of growth, accounting for about 12.4 percent of national GDP. The Pearl River Economic Development Zone is the province’s economic hub. From its early agricultural origins, Guangdong has benefited richly from China’s reforms and rapid industrialization. The province’s economic boom began in the early 1990s and the economy today is based on manufacturing and exports. Its GDP in 2006 was 2.6 trillion RMB, among the highest in the nation, with year-to-year growth in real terms of 14.4 percent. Guangdong is part of the labor-intensive manufacturing powerhouse that China has become with its exports.
accounting for 31 percent of the nation’s total. Gains in agricultural productivity nationally have created a large pool of surplus labor that has supported this growth through rural to urban migration.

Like many other areas with rapid growth in China, Guangdong is beginning to face new challenges, however, as economic forces have begun to introduce changes in the structure of its employment and reduce the importance of older labor-intensive industries using large quantities of unskilled labor. These industries have begun to feel competitive pressures on exports from rising labor costs and appreciation of the Yuan. Wages, long kept low by the flow of surplus labor from rural areas, including from within Guangdong itself, have begun to rise. As a result, the mix of industries has started to shift with the expansion of new knowledge-based industries.

These structural changes in the economy have important implications for the employed population by increasing the demand for skilled workers to support growth of the new knowledge-based industries and sustain the competitiveness of traditional manufacturing. Guangdong has responded by expanding access to secondary and higher education. With near universal access through junior secondary education, attention is focused on senior secondary education where access is limited by space and the impact of fees charged for this education. An estimated 6 out of 10 students completing a junior secondary education continued in 2005 to a senior secondary school. Enrolments in senior secondary schools have grown by 40 percent since 2000, while for higher education enrolments have nearly tripled.

Demand for vocational and technical education is strong when measured by the expansion of enrolments in secondary and tertiary institutions. Public provision of vocational and technical education fills an important gap in responding to this demand for advanced skills in Guangdong against a background of limited private provision and weak enterprise capacity, but schools face capacity constraints that result in students being turned away as applications exceed admissions by as much as 40 percent. While demand is strong, there are issues of quality and relevance of the training offered in schools. Equipment for practice is limited, curricula are often outdated, and instructors lack adequate industry experience and teaching skills. The strength of the labor market nevertheless assures graduates with jobs. School-based reforms are needed to support the transition to a more knowledge-based economy.

A nascent training market and its institutions have begun to emerge, but require careful study as a guide to future policy development. New market institutions expanding access to labor market information down to townships levels, the introduction of a qualifications framework and instruments for quality assurance of the training offered, and as part of this framework, capacity for the testing and certification of skills all need to be carefully studied and evaluated. The issue of access for the poor is being addressed by government at the school level by fee waivers and vouchers. The coverage and effectiveness of these programs also merits study for policy development as do actions to fully engage the private sector and enterprises in the provision of skills training. Public vocational and technical schools are being subjected to market forces as government is giving them more autonomy for mobilizing and managing resources.

2. Objectives
The project’s development objective is to expand capacity and improve the quality and relevance of technical and vocational education and training in secondary and tertiary institutions and the efficiency of its delivery with enhanced policy development. The project plans to develop 3 model senior secondary and tertiary institutions and extract lessons that can be used for further reform of the TVET system.

The proposed operation directly supports the objectives of the Bank’s China Country Partnership Strategy (CPS), which reflects government priorities laid out in the 11th Five Year Program for 2006-2010. The project contributes to pillar 5 of the CPS by improving public and market institutions. The proposed reforms will improve performance and accountability of the TVET system through a shift in focus to outcomes that are reflected in skill competencies established by industry rather than to inputs in the form of classroom, workshops, instructors, and courses offered. It also contributes to pillar 2 of the CPS by reducing poverty, inequality, and social exclusion.

The project would develop three model schools serving a primarily rural population, and in doing so, build capacities of the poor by helping pilot the delivery of skills training that is more closely integrated with the needs of industry. The choice of Guangdong Province and the three schools was made by the national government targeting a province where growth and demand for skills is strong along with commitment to education reform. The project will build capacity for monitoring and evaluation of this experience to capture its outcomes and lessons as a guide for future investment in TVET.

3. Rationale for Bank Involvement

The World Bank has a long record of investing in technical and vocational education and training (TVET) reforms, going back to 1963. The knowledge and lessons drawn from this experience provide a rationale for involvement in this sector in China along with the experience from recent lending to China for TVET which closed in 2003. Against the background of China’s investment in upgrading school infrastructure and student assistance programs, the Bank can fill an important gap by introducing international experience and innovation in school-based reforms and supporting policy studies of key sector and system-wide issues to further inform government policies and investment.

The Bank’s comparative advantage includes its ability to leverage international experience on this subject with that which is country-specific through economic and sector work. Its financial support to the sector is often important to bringing other donors to the table and enlarging the size of financing available for sector support, as evidenced in this project by the mobilizing of support from the Republic of Korea. Finally, the Bank can bring its experience in monitoring and evaluation to help build a learning culture for school management and policy development, supporting better resource allocation and program outcomes.

4. Description
The project’s development objective is to improve the quality and relevance of technical education in three schools and produce lessons from this experience as a guide to future school reforms and policy development. Quality improvements will be measured by gains in the percent of trainees setting for certification exams who pass these exams. Improvement in relevance will be assessed by gains in the percent of trainees finding employment in their CBT specialization within 3 months after completion of the training and gains in the starting salaries of graduates in CBT programs compared with similar non-CBT program graduates. The project plans to develop three model senior secondary and tertiary institutions and extract lessons that can be used for further reform of the TVET system. The project objective will be achieved by the support of (i) school-based reforms and innovations to improve quality and relevance of technical and vocational education and (ii) policy development and capacity building that help capture lessons drawn from the three school sites. While not targeted on rural areas, the project with its selection of schools by government is expected to serve a substantial number of rural residents and farmers and therefore have a positive impact on household poverty and rural development.

1. Key outcome indicators include:
   
   • Percent of graduates that pass skill certification exams
   • Percent of graduates finding initial employment within 3 months in the specialties in which they were trained
   • The starting salary of graduates (graduates with competency-based curricula versus trainees without this curricula)

Project Components

2. The project will have two components: (i) school-based reforms and innovation and (ii) policy development and capacity building.

3. COMPONENT ONE. School-Based Reforms and Innovation. This component will (i) strengthen the linkage between schools and industry, (ii) improve school management; (iii) introduce an updated modular, competency-based curriculum; (iv) expand and upgrade facilities and equipment; (v) train instructors to use the new curriculum; and (vi) improve student assessment and quality assurance at the school level.

4. COMPONENT TWO. Policy Development and Capacity Building. This component will (i) support evidence-based policy research and knowledge sharing at the national and provincial level, (ii) improve monitoring and evaluation, and (iii) support capacity building for planning and management.

5. Financing

   Source: ($m.)
   Borrower 20.7
   International Bank for Reconstruction and Development 20.0
   Co-financing of Trust Fund, Republic of Korea 0.6
6. Implementation

The project will be implemented at the provincial and school levels. At the provincial level, the Guangdong Department of Labor and Social Security will have overall responsibility for coordinating project implementation and organizing provincially managed activities. The project will establish an inter-department Project Steering Committee to provide policy guidance and overall direction for the project. The day-to-day implementation of project activities will be carried out by Project Management Offices (PMO) established at the provincial and school levels. At the school level, the project will be implemented in 3 secondary and tertiary technical schools: the Guangdong Urban Construction Secondary and Tertiary Technical School, the Guangdong Light Industry Secondary and Tertiary Technical School, and the Yangjiang Secondary and Tertiary Technical School.

7. Sustainability

Key elements for achieving project sustainability are political commitment, economic and financial viability, and stakeholder participation. At the level of political commitment, the Government of China recognizes the critical importance of technical and vocational education and training to growth and poverty reduction and is fully committed to further investment in this sector. This commitment is reflected in the 11th Five Year Program (2006-2010), and the numerous policies and programs adopted by the national and local governments in recent years.

In terms of economic and financial viability, the project economic analysis shows benefits that significantly exceed the project costs with an estimated internal rate of return of 24 percent. The capital and recurrent cost of the project are expected to be manageable.

Finally, the project is built on a good understanding and ownership by the government and consultation with school administrators and instructors. The investment package of reforms will enhance the opportunities for trainees to get better jobs and to better manage income risks.

8. Lessons Learned from Past Operations in the Country/Sector

The project builds on lessons learned in designing and implementing projects in China and elsewhere. Lessons drawn from international experience in TVET relevant to this project include the following:

- Strong links between schools and industry.
- Effective school management.
- Modular, competency-based training.
- Quality assurance.
- Development of market institutions.
- Diverse providers of training.
- Promotion of lifelong learning.
- Building a learning culture.
Some specific lessons learned from the Bank’s China portfolio, including the Labor Market Development and Vocational Training projects, include:

- Labor market information.
- Capacity building.
- Institutional development.
- Project implementation.

9. Safeguard Policies (including public consultation)

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<td>Projects on International Waterways (OP/BP 7.50)</td>
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10. List of Factual Technical Documents

1. Labor Market Study

2. Background Notes on Rural-Urban Migration

3. Review of past TVET Projects

11. Contact point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas
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