Final Report

Improving the Relevance of the TVET system to
The Needs of the Business Sector

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Executive Summary

To promote high economic growth, Vietnam must develop highly skilled industrial workers who can increase productivity and manufacture high-technology products and value-added products and services. In both the 2011-2020 National Socio Economic Development and the High Technology Development Strategies, human capacity building has been put as the primary priority. Furthermore, the way in which the poor can be incorporated into this process has also been emphasized. Up to now, significant skills gaps have emerged between what is provided by primarily a supply driven training system and what the evolving market economy requires. Most of the graduates from universities, colleges and technical, vocational schools have failed to acquire the skills increasingly required by industry. Many enterprises (44% of the FDI enterprises) have to organize training courses by themselves for their newly recruited workers and 25% of TVET graduates did not satisfy the skill and knowledge requirements in FDI enterprises (VIR, 2007).

This study is designed to contribute to this issue by examining the improvements of the relevance of the TVET system to the needs of the business sector in order to enhance skill development. Through this process it is hoped that it would contribute to poverty reduction in two pilot provinces of Thai Nguyen and Vinh Phuc. Having investigated both pilot provinces, the study team identified a clear need for policy change that can bring the needs of business and the skills developed by the TVET system, by improving the role the Board of Management of Industrial Zones (BMIZ) can play in narrowing the supply-demand gaps for trained labour. This policy change is new to both study provinces and has the potential to have a significant impact in Vinh Phuc province but more importantly for a number of other provinces throughout Vietnam.

The main methodological approach applied in the study is new to Vietnam and encompasses a combination of research, understanding and integrating this into tangible policies both at the national and local levels and subsequently piloting how the policy change can be implemented on the ground effectively. Thus the Policy Action Research (PAR) Approach is based on strategic framework of M4P approach. The approach adopted for this study started with policy and situation reviews, primarily aimed at understanding the policy opportunities and space for potential change. To improve the relevance of the TVET system to the needs of business sector, the study aimed to engage with a wide cross section of stakeholders to bring together a common vision at the local level of how this can be achieved. The study targeted two specific Provinces to analyse the current labour training system and from this base finding out ways to improve the access to and growth of the market which can effectively contribute to poverty reduction in Vietnam.

The key problems within the TVET system in Vietnam are well known and include: i) Fragmentation in TVET organization and management; ii) Weak capacities of TVET institutions managers; iii) Low capacity of TVET teachers; iv) Training courses are poorly aligned to diversified needs of labour markets and employers; v) The rural poor have limited information and access to TVET system. Currently, there are a number of the vocational training models in Vietnam and each of the models has its own advantages and disadvantages. The dominant model is still the traditional Vocational Training Model.
Although some attempt is made to develop more demand-orientation the model remains ostensibly a supply-based approach to training. Most of the vocational training institutions of this model give training based on the capacity of what the teachers are able to deliver. They have not paid significant attention to the needs of industry and the interests of their students. Shortage of funding within TVET institutions means that infrastructure and equipment are often outdated and in many cases obsolete especially in rural TVET units. This has constrained the quality of practical lessons for TVET students. This situation is not uncommon in most provinces and cities but is particularly acute in Provinces such as Thai Nguyen and Vinh Phuc.

The markets for trained / skilled labour in the two study provinces have their own characteristics. Vinh Phuc is one of the booming industrial provinces in the Red River Delta growing at over 16-17% per annum over the past few years. The province aims to be classified as an industrial city/province by 2020. The investment flowing into the province increased very quickly on the back of a relatively good business enabling environment. In addition to this upward trend in investment, labour demand in general and that for skilled labour in particular is also increasing rapidly. A number of ambitious targets have been set within the province, in particular ensuring that trained labour composes around 50% of the total labour force by 2015 and 64% in 2020. The whole system will need a radical overhaul if the Province is going to even come close to its 2015 target as it is now still at a low level. The TVET system in Vinh Phuc is relatively large though questions remain about its overall quality. Although the number of trainees at different levels of training is considerable, those who match with business requirements are relatively few in number. According 81.3% (13 out of 16) of interviewed companies and the officials of BMIZ of Vinh Phuc, almost all graduated trainees from elementary, secondary and even intermediate vocational training levels in the province need to undergone retraining in the businesses during their start-up period after being hired. The information and statistics of vocational graduates in the province is extremely weak, making any form of strategic planning very difficult.

Thai Nguyen has also witnessed relatively high rates of economic growth recently driven primarily through industrialisation although its speed of industrialisation is not as rapid nor as pervasive as that seen in Vinh Phuc. Thai Nguyen has also established industrial zones or industrial clusters and has altered significantly its demand for labour especially that for trained labour in terms of both quantity and quality. One of the distinct features of the province labour force is the large share working in the agriculture-forestry-fisheries sector. However, training for those farm level workers that will need to move to other sectors of the economy will be crucially important in the years to come. Compared to Vinh Phuc, Thai Nguyen possesses higher urban unemployment rates during the last 6-7 years. Therefore, the opportunities of getting jobs in Thai Nguyen are more limited. In Thai Nguyen, the majority of trained labour originates from the lowest levels of vocational training. The number of graduates from this lowest vocational training degree is relatively abundant but the demand for these workers from businesses is relatively weak. The challenge remains how to improve higher level skills that are required to sustain and deepen the process of industrialization which has already commenced in earnest within the Province.

Both provinces exhibit failures in the TVET System with respect to vocational training although there are differences in how these issues impact each Province. The demand for skilled labour seems to be larger in Vinh Phuc than in Thai Nguyen but with a wider range and different occupations. The key failure in the market of vocational trained labour is the mismatch between supply of and demand for these kinds of labour. Specifically, these failures include: i) TVET-business coordination failures; ii) TVETs, especially state-owned
entities, are still input-oriented rather than output-oriented; iii) Non-competitive market – where one or two government backed TVETs dominate a particular training category; iv) Lack of TVET-business linkages; v) The poor especially rural poor cannot have access to formal vocational training services without support from the government.

There have also been a large number of policies affecting labour market in general and trained labour market in particular in the two provinces. Economic policies in Vietnam are mainly stipulated by the central government following primarily a top-down approach. Vocational training policies are no exception. Among the vocational training policies, the analysis of policies and the potential for their change were focused on the policies related to the improvement of linkages between vocational training sector and businesses. By reviewing these policies which are at both central and local levels, selected policy failures are identified and can be seen as: i) The government subsidies for the state-owned TVETs cause unfair competition in the market for the supply of vocational training; ii) The government in an attempt to standardise training has stipulated a “framed curricula” for vocational training at college and intermediate levels such as Decision 58/2008/QD-BLDTBXH. These curricula used in the TVET system are often rigid and not up-to-date and thus do not meet the demand of businesses; iii) There are conflicts between increasing demand for vocational training and financial resources for the training; iv) There are different focuses on vocational training policies in the two investigated provinces. In Thai Nguyen for example, the scale of training is small and scattered and the quality of trainers is low. The TVET units are mainly at primary / very basic level and the fields of training are limited. In Vinh Phuc, the TVET system is more concentrated and scale is also larger with a much more focused orientation toward supporting the development of the industrial sector; v) There is still a mix in objectives pursued by state-owned TVET institutions. On the one hand they are encouraged to take a more business-like approach to the provision of training services, whilst there are other competing social welfare activities; vi) The state management on vocational training does not keep abreast with reality. The coordination amongst local state departments is still loose or not clear. This is due to the overlap in functions and mandates among them or sometimes the enforcement of policies from central government is not clearly stipulated. (for example in the case of Circular No. 13/2009/TT-BLDTBXH dated May 6, 2009 on state management of labour in industrial zones).

According to M4P2 (2011), in order to pursue a policy change, the basic conditions for success must be present or in the process of developing – in the words of M4P this is known as a perfect storm. Based on information, consultations with relevant agencies such as DOLISA, BMIZ, businesses and TVETs and analysis made by the study team, we found that many of the potential conditions for a ‘perfect storm’ are more likely to be seen in Vinh Phuc rather in Thai Nguyen. These conditions include the following: (i) strong triggers for change, (ii) motivated stakeholders with legitimacy in market, (iii) public sector policy makers with authority and incentive to reform, (iv) capable private participants, (v) independent and respect sources of evidence and technical solution, and (vi) credible implementer and facilitator. Therefore, it becomes more apparent that Vinh Phuc possesses many of the conditions which are required to develop a successful pilot for policy change. The policy change here includes all measures that help improve the linkages between TVETs and businesses in matching the supply and demand for trained labour.

The Policy Pilot in Vinh Phuc Province was designed during the interim phase. The study team had a number of in-depth discussions with BMIZ of Vinh Phuc. This led to the development of a pilot plan for the action phase of the research in which the activities were undertaken by collaboration between two sides. The three main groups of activities included:
i) Organizing three-party stakeholder (State management authorities, TVETs and businesses) workshops on information sharing and demand-supply connection through vocational training in the province; ii) Conducting an experiment for collection, storage, updating and publishing (in local newspapers) trained labour demand-supply information from vocational schools and enterprises in the industrial zones; iii) Organization of a meeting reporting and submitting proposal to the Province’s People Committee (PPC).

The implementation of these pilot activities led to a very positive impact. All the designed pilot activities have been completed prior to the agreed revised deadlines of implementation. Specifically:

- Three-party stakeholder workshop on vocational training, information sharing and demand-supply connection in Vinh Phuc province was undertaken. The workshop was successful in bringing closer connections between the three-parties in understanding each other’s demand in provide training as well as in utilising trained labour. This interaction led to much closer engagement and the agreement for regular three-party workshops or meetings in the province to be held;

- Conducting an experiment for collection, storage, updating and publishing (in local newspapers) trained labour demand-supply information from vocational schools and enterprises in the industrial zones: The database collected was considered useful from the perspectives of both TVETs and businesses in the province. This vocational trained demand-supply database was published in Vinh Phuc Newspapers in November, 2011 giving special attention of both TVET and business communities. This also marked for the first time this kind of information was published in the local newspaper.

- Organisation of a meeting reporting and submitting proposal to the PPC: The proposal was drafted by both the CIEM-NIVT study team and BMIZ of Vinh Phuc. A meeting was organised in December, 2011 with the PPC on the main content of the proposal which aimed at changing the institutional setting for managing TVET institutions for those firms active in industrial zones in Vinh Phuc province. The aim of the proposals was to make sure incentives were better aligned to ensure that there were better linkages with the supply and demand for trained labour in the Province. The proposal which is signed by both parties of CIEM and BMIZ, was then revised and submitted to the PPC in February, 2012 for approval. The proposal was subsequently approved in early March 2012 by the PPC.

Having conducting the study in Thai Nguyen and Vinh Phuc provinces, a number of lessons learnt and associated policy recommendations can be summarised as follows:

- The demand for well-trained vocationally orientated graduates will become increasingly an important requirement for firms looking to invest in Vietnam or in new provinces. Although the ease of doing business in particular provinces remains an important consideration for most firms, as well as the size of the potential market for their products, so is the availability of adequate numbers of trained labour. Hence firms’ demand for labour not merely in terms of quantity but also quality in terms of skilled labour. The failure to adequately address this skilled labour demand can severely curtail the amount and quality of investment entering into a province, both in terms of new investment or additional investment of existing firms currently located in the area.
• The opening up of the TVET system to genuine more market orientated competition remains one of the systems primary weaknesses. The current system which continues to promote and support those institutions that can train a high number of students without little consideration to the types of jobs and / or vocations they ultimately follow continues to perpetuate this supply driven model. The lack of competition with genuine private sector training providers, and the difficulties foreign firms face when trying to open their training centres (ADB, 2011) means that cozy relationships can develop between TVET’s and provincial authorities and their line ministries which longer term can impact negatively on the growth of Provinces and the prospects of workers within the province in obtaining the types of jobs they crave. The evidence from both Thai Nguyen and Vinh Phuc provinces shows that for many TVETs there is an inertia that the current system produces both in terms of incentives and institutional setting which needs to be changed if lasting outcomes are to be achieved.

• The evidence from both Thai Nguyen and Vinh Phuc provinces also shows that, many firms under-invest in training and/or seldom consider sending their workers to TVET institutes to acquire new skill and/or upgrade their skills. Apart from the fear of insufficient training being offered by TVET institutes, there is also a fear of “free-rider” problem (ADB, 2011). Most of the firms reported that one of the reasons for poor linkages with the TVET system, is the fear that this investment in workers will not provide tangible benefits to the company as their trained workers are free to leave their jobs (and often do) and move to competitor firms for only marginal increases in salary. Therefore, in most instances workers selected for training are rarely newly recruited workers, but white collar and skilled occupations. Those that join are often put through on-the-job company specific training which often has limited value outside of the company in which they work for. This perpetuates a cycle of producing a large pool of low skilled manual workers, whilst those with some form of skills valued by the industry or specific sector are in high demand with firms competing through higher salaries and/or better working conditions. Therefore the fear of poaching reduces the incentives of firms to train their workers in general and hence limits their co-operation with even the limited number of TVET institutes that are deemed to provide useful training.

• In most countries, the incidence of enterprise training tends to be highest among FDI companies producing for competitive markets, those investing in new technologies, among larger enterprises and—within the enterprises—for managerial and skilled occupations. A similar pattern follows in Vietnam, although with industry primarily focused on low end, relatively value added products where price competitiveness remains high, there has been a general lack of focus on up-grading skills and productivity improvements. However, as Vietnamese labour rates progressively increase at a faster rate than that of near neighbours such as Cambodia and Laos, the need to move up to higher value added activities and requirements for a better trained workforce will become more acute. The need to ensure an active market for quality training develops will remain unless the market can be opened to competition through a level playing field.

• The institutional setting for which department manages the TVET system needs careful assessment in each Province. Ideally the institutional setting needs to be
guided with those that have the greatest incentive to ensure that the link with the TVET system and businesses is strongest. In the case of Vinh Phuc the industrial zone authority had this incentive as its mandate of ensuring adequate inward investment to the Province was being hampered by the lack of trained and skilled workers in the province. Finding the suitable institutional arrangement is a difficult task as there are always a number of “candidate” provincial departments which can fulfil the role. However, ultimately the institution that is most affected by continuing to have a lack adequately trained labour, taking through a more independent investigation / research will ensure that incentives and motivations can be better aligned.

- The political will of provincial (or local) authorities and the chosen provincial department is one of the most important factors for making the linkages between TVETs and businesses successful. Without this determination, it is very difficult to set up good linkages between the stakeholders. The political determination of provincial authorities should be based on their real awareness about impact of the linkages on the provincial labour market has on the ultimate development of their province. Not all provinces are reliant on inward investment but the skills mix and labour market composition needs to be based on more careful assessment of the current sectors that drive economic growth in the Province and the potential areas of growth in the near future.

- The lack of sufficient information on the TVET system, its graduates and an effective system for tracking at least rudimentarily on how many graduates are able to obtain gainful employment within a provincial context is hampering the development of sensible long term planning. According to ADB (2011), lack of consolidated statistics about the dimension and performance of the TVET system is a nation-wide problem. No organization in terms of GDVT, MOET or MOLISA at the national level nor DOLISA at the provincial level have adequate statistics of what is actually going on within the TVET system. “Many of the institutions discontinued collection of these data because of the work involved and incompatibility with Ministry of Finance systems of accounting and reporting” (ADB, 2011). This lack of even very basic information means Provinces are no real idea of what is happening in terms of the supply of skilled labour, which for a Province such as Vinh Phuc would be crucial.

- The policy change enacted by this research primarily focuses on institutional amendments to the implementation of Prime Minister’s Decision 1617 on investment. For the many provinces such as Vinh Phuc that are increasingly reliant on external investment – either through FDI or through investment originating from other provinces within the country, the pilot provides an institutional model from which others can easily replicate. However, provinces vary in terms of their socio-economic conditions and thus their specific issues need to be considered at the provincial level such as interests and demand from the labour market, financial resources, willingness to change from TVET system etc. Thus making wholesale changes as those undertaken in Vinh Phuc may not work for all Provinces in all circumstances and hence needs to be implemented based on the specifics of each province.

- Policy change does not just require the introduction of a new circular or decision at the Province level but rather requires an analysis of the situation and an understanding of the current policy framework to see where the most effective impact can be felt. In
the case of this study, changing the institutional framework to better align incentives amongst all stakeholders can have a significant impact on outcomes. The institutional change should be considered as part of a wider range of changes that should be used as a roadmap to improving the functioning of the TVET system at the provincial level. One would be to even the playing field between public and private TVET systems understanding that the public system has important non market roles to also play.
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1. Introduction and Background

The study forms a series of interventions financed by the Making Markets Work Better for the Poor Phase 2 Project and supported by the Ministry of Planning and Investment, the Asian Development Bank and the UK Department for International Development. This study aimed to develop tangible changes in the way government works with businesses and the current technical vocational training system (TVET) to improve its relevance to the needs of business and ultimately to benefit the poor in terms of better paid and more stable jobs from which they can derive better livelihoods.

The overall objective of the study was to improve the relevance of the TVET system to the need of business sector in order to enhance skill development and contribute to poverty reduction in Thai Nguyen and Vinh Phuc Provinces.

The main objective of the study was in line with the terms of reference developed and aimed to design and pilot the business sector demands-oriented TVET models to improve the relevance of the TVET system to the need of business/private sector in one or both of Vinh Phuc and Thai Nguyen Provinces. From the above objectives, four main issues where the study was going to place its key focus included the following:

- To identify constraints that prevent the enterprises from actively and effectively participating into the TVET system for skill training and those that prevent the poor to access skill development training on offer through the TVET system.

- To design business sector demand-oriented TVET models in which the trained skills can meet the demands of local employers in two important job-creation sectors.

- To design innovative financing system (cost-sharing) for vocational training.

- To conduct a pilot test for implementing the designed models.

At the initial phases of the study it was expected that all of these areas will be closely reviewed and then subsequently once policy space and interest would be developed with relevant stakeholders. Subsequently these issues would be narrowed down to incorporate what is possible and most likely to bring benefit to the stakeholders in these two Provinces. Through this process the focused policy change in this study aimed to improve the role of BMIZ in bringing TVETs and businesses closer together to narrow the supply-demand gaps for trained labour. In part this used to be within the policy remit of DOLISA but with the advent of a new policy directive from the Prime Minister it has opened the way to experiment with new models of engagement between the private sector and the TVET system. This policy change is new in both study provinces and was well potential to have good impact in Vinh Phuc province and beyond. The overall policy change includes changes in institutional building (with more mandate to BMIZ), instruments of providing information to TVETs, businesses and the public and triggering incentives of various stakeholders during the policy change process.
2 Methodological Approach of the Study

The main methodological approach applied in the study is new to Vietnam and encompasses a combination of research, understanding and integrating this into tangible policies both at the national and local levels and subsequently piloting how the policy change can be implemented on the ground effectively. Thus the Policy Action Research (PAR) Approach is based on strategic framework of M4P approach.

The approach adopted for this study starts with policy and situation reviews, primarily aimed at understanding the policy opportunities and space for potential change. To improve the relevance of the TVET system to the needs of business sector, the study aims to engage with a wide cross section of stakeholders to bring together a common vision at the local level of how this can be achieved. The study targets two specific Provinces to analyse the current labour training system and from this base finding out ways to improve the access to and growth of the market which can effectively contribute to poverty reduction in Vietnam.

The objective of the study is to improve the market for skilled trained labour. The failure to properly develop a market which both meets the needs of businesses and provides the relevant skills mix of labour entering or looking for employment in the formal system in Vietnam, can be attributed to failures in both policy, institutional settings, and markets for vocational training. The market failures in this case are associated with coordination failure and thin and fragmented markets, while the government or policy failures are related mainly to poorly targeted subsidies and institutional constraints. In this study, we try to make a change in the policy by reducing government failure, improving dialogue among stakeholders namely the state, businesses and TVET institutions in delivering the training required by the business sector. During the process, the conditions for policy change including opportunity windows for policy change, motivated stakeholders and champions for change are also identified and a process of engagement conducted for the study. Having analysed all the above issues, an intervention through a clearly defined pilot activity is designed and conducted.

The general research framework proposed by the research team is presented in Figure 1 bellow.

The main steps applied in this study include:

- Literature review and secondary data collection:
  - The literature review is conducted by reviewing both recent research and policies that impact on vocational training in Vietnam. The focus of review is primarily on the issues surrounding the study objectives rather than simply undertaking broad reviews. The data and information on TVET systems, poverty status, quantity and quality of vocational education and training supply, skill development etc. were also collected.

- In-depth discussions with provincial departments and local authorities:
  - The discussions with provincial departments such as DOLISA, BMIZ, DPI, DARD and district people committees are very useful to understand how vocational training policies from the central level are implemented at local levels, specific issues at
provincial level in terms of vocational trained labour supply, vocation structure, the potential skill mismatch, skills development and how this impacts on poverty reduction, the local experience in vocational training and poverty reduction as well as financing system. The differences between state-owned and private vocational training colleges can also be revealed in addition to employment creation capacity of the business sector in the provinces. In-depth discussions were conducted especially in Vinh Phuc, and alternative institutional settings were also explored with differing agencies such as the industrial zone management board - BMIZ.

**Case studies**

- Case studies aim to understand issues from the perspective of business, primarily on the linkage between the TVET system and business. Thus rather than attempting to examine and address issues related to the whole TVET system, it takes a more focused approach by understanding in some depth the issues and constraints faced on a particular or particular subset of issues. Only a small number of TVETs and businesses were investigated with in-depth surveys. These case studies were chosen to test how changes to the institutional setting could improve TVET-business linkages and the extent to which they could correct some of the market and government failures prevalent in the system. From these cases, general experiences and lessons learnt would be drawn so that there is a wider body of evidence and practical experience to guide work in the TVET system in future. The case study approach is applied in all stages of the project implementation.

**Piloting with evaluation:**

- Having conducted a number of investigations, assessed data and discussed with stakeholders what is feasible, pilot activities are subsequently identified. Due to a number of reasons which will be presented in subsequent analyses, piloting and assessment was conducted in Vinh Phuc. The pilot activities included improving the supply and utilization of relevantly trained labour in collaboration with staff of BMIZ of Vinh Phuc province. Specific activities of this pilot included organizing stakeholder workshops, working with BMIZ to get buy-in for its new institutional role as the anchor to TVET activities in the industrial zone, and setting-up a database of supply and demand for trained labour in the province. This information was also made available to the public via local newspapers. In addition, lobby activities for policy change were undertaken reaching relevant leaders of the province. A proposal for promoting the role of BMIZ in connecting important “tri-parties” (state-TVET-business) in order to match supply and demand for trained labour was planned to be submitted to the People Committee of Vinh Phuc province.

During the pilot fieldwork undertaken in Thai Nguyen and Vinh Phuc, businesses/enterprises in each province were visited and in-depth discussions held with business leaders and selected workers. The research has not aimed to develop a statistical significant sample but rather to understand in some detail the precise nature of the problem. The issues discussed included the demand for vocational trained workers from a business perspective, comments on the current supply of vocational trained graduates in terms of both quantity and quality, their views on the innovative modes of training delivery, the need for changing the training curricula and financial system for vocational training to meet their actual demand. The
discussions with selected workers including both the vocational trained workers and non-trained workers focused on the usefulness of TVETs in terms of training, and the constraints that prevent them and the poor to access skill development training.

The framework used to analyse this issue is highlighted in Figure 1 below.