

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC864

<b>Project Name</b>	Workforce Skills for Regional Developmen (P144167)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Russian Federation
<b>Sector(s)</b>	Vocational training (47%), Secondary education (30%), Adult literacy/non-formal education (13%), Public administration- Education (1 0%)
<b>Theme(s)</b>	Education for the knowledge economy (75%), Education for all (25%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P144167
<b>Borrower(s)</b>	Ministry of Finance, Ministry of Education and Science
<b>Implementing Agency</b>	Noncommercial Foundation for Enterprise Restructuring and Financial Institutions Development
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	27-May-2014
<b>Date PID Approved/ Disclosed</b>	28-May-2014
<b>Estimated Date of Appraisal Completion</b>	16-Jun-2014
<b>Estimated Date of Board Approval</b>	12-Feb-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Over the past decade, Russia has experienced stable economic growth with GDP growing by 7 percent per year between 1998 and 2007. Despite a significant decrease in 2009 due to the financial crisis, the Russian economy held steady in 2010 and 2011, but in 2012 it started to decline and dropped down to 3.4 percent and then to an estimated 1.3 percent in 2013, the lowest growth rate for the past decade. While the global economic crisis certainly played a part in this slowdown, it is clear that the underlying conditions for growth have also changed within Russia, especially since oil prices are near record levels and higher than in 2011.

Analyses have shown that earlier rapid growth was primarily due to, and is limited by, increasing capacity utilization. The 2011 World Bank's flagship report on productivity in Europe and Central Asia underscored the fact that a large proportion of the productivity gains in Russia derived from

increased capacity utilization, particularly in manufacturing. As firms began using excess labor and capital that had been idle during the deep transitional recession in the 1990s, their output increased. In fact, two-thirds of the expansion in per capita GDP can be attributed to an increase in the number of hours worked.

However, there is a long-term downward trend in the Russian labor supply. The growth in the working-age population in Russia and the influx of immigrant labor are no longer sufficient to increase the supply of labor (Bakatina, et al, 2009). Moreover, changes in Russia's demographic profile, including low fertility rates and declining life expectancy, further constrain the size of the labor pool, and by 2050 Russia's workforce is due to decline by 25 million (World Bank, 2013).

One of the main ways to foster Russia's future economic growth, therefore, is to increase labor productivity. Russian workers are among the least productive in all modern nations. A single Russian worker spends approximately 2,000 hours a year to produce on average U\$20 per hour worked, whereas in the top-performing countries, employees work just 1,400 hours a year to produce three times as much (estimation based on data from Eurostat). The labor productivity of Russian workers is only 30 percent of the USA level, for example (Bakatina et al, 2009).

The need to increase productivity and changes in industry composition will impose new demands on Russia's workforce, who will need better skills to satisfy the needs of an expanding business sector and a growing economy. As the World Bank's report Skills Development in Russia (World Bank, 2013) showed, the structure of Russian employment has undergone substantial changes in the last two decades. In particular, the service sector has expanded significantly while employment in less productive manufacturing and agriculture sectors has declined. The World Economic Forum's Global Competitiveness Report for Russia (WEF, 2011) showed that productivity in the support sectors (in other words, market services including construction, retail, and hospitality) grew faster over this period than in many basic sectors (such as mining and manufacturing, which are mainly owned and promoted by the government). International evidence demonstrates that the modernization of the economy has been accompanied by changing demand for skills.

According to the World Bank's World Business Environment Survey (WEB), Russia's private sector firms consider the lack of skills and education among the workforce to be the severest constraint on their expansion and growth, even ahead of taxation and corruption. Paradoxically, the overall level of educational attainment of the Russian workforce is actually high compared with international benchmarks. The share of the workforce with less than an upper secondary education is only 11 percent, and the proportion of the adult population with some tertiary level of education is 54 percent (by comparison the United States has 11 percent and 41 percent respectively, while France has 30 percent and 29 percent respectively). However, the Russian population lacks the skills that are essential for economic success. Recent research (World Bank, 2013) has shown that cognitive skills, such as problem-solving abilities, the ability to work independently, and taking initiative appear to be in high demand by employers but are limited in supply. Skills shortages in Russia in the face of high and rising school enrollment rates suggest that the problems lies not so much with access as with the quality and relevance of education. In other words, the skills provided by the educational system may be insufficient or not relevant to the needs of the labor market.

### **Sectoral and Institutional Context**

The education system in Russia consists of pre-primary education, general education, and higher education. At the pre-primary level, children are admitted into the school system between the ages

of 1 and 6 years old. Compulsory education starts at the age of 6, and since 2007 full-time education lasts for eleven years and continues up to the age of 17. The general education school system in Russia consists of nine years of basic general education (primary and lower secondary education) and two years of upper secondary education, the completion of which results in the awarding of a certificate confirming the completion of the secondary education cycle. Basic general education is almost always provided in single-structure schools up to the age of 15. The end of basic general education coincides with the transition between lower and upper secondary education.

There are two main options in upper-secondary education – the general education option, which prepares the pupils for higher education, and the vocational option, which prepares pupils both for the working life and for higher education. These different options are organized into separate programs and institutions, and the students have to opt for one or the other at the end of lower secondary education.

In 2003, Russia signed the Bologna Declaration, in accordance with which the government began moving away from the traditional tertiary education model to a modern degree structure. In October 2007, Russia enacted a law to replace the traditional five-year model of education with a two-tiered approach: a four year bachelor's degree followed by a two-year master's degree. In 2010, admission to the traditional five-year programs was stopped. By 2014, there should be no five-year program students in Russia, except in a few specializations.

Russia invests a significant amount of its resources in the education sector. The share of public expenditures allocated to the education sector is around 10 percent, and the share of public expenditures on education in relation to GDP increased from 3.6 percent in 2003 to 4.3 percent in 2010.

Based on the results of international large-scale student assessments (TIMSS, PIRLS, and PISA) the World Bank's Skills Development in Russia report (World Bank, 2013) concluded that educational quality is adequate at the pre-primary and primary levels. However, at the secondary education level, Russian students are less able than their OECD counterparts to use their knowledge and skills to meet real-life challenges as measured by PISA.

There are no significant differences in educational attainment between men and women, and in recent years more young women have completed post-secondary education than young men. Girls outperform boys in reading in standardized exams and score as well as boys in math and science. At first glance, women do not seem to have any difficulties in transitioning from school to work or remaining employed throughout the life-cycle. Also, female labor force participation is significantly higher than the levels observed in other countries in Europe and Central Asia, as well as in the OECD. While high educational attainment and high levels of female participation in the labor market may suggest equal results in labor market outcomes, high sector segregation and gender income gaps remain, with women earning on average 30 percent less than men.

The government believes – and the World Bank's Skill Development in Russia report (World Bank, 2013) provides evidence supporting this belief – that the Russian technical and vocational education and training (TVET) system is not responding to the needs of the labor market and is producing graduates with skills that do not match the demands of the business sector. This is mostly due to the legacy of the Soviet planned economic system, which demanded narrow professional specializations for each specific sector and, thus, needed a large number of relatively small vocational schools.

However, after the collapse of the Soviet Union, the economy has changed dramatically, transforming the employment structure and setting new requirements for the labor force. In particular, the service sector has almost doubled and reached 62 percent of GDP, while employment in manufacturing and agriculture sectors has declined. These new emerging sectors require a workforce with a new skill set, which in turn means that the TVET system needs to be modernized.

There are several factors affecting the prospects for TVET development in the Russian Federation. The general economic and social factors include: (i) the globalization of the economy, accompanied by increasing academic and labor mobility, which means that there is a need for internationally compatible and comparable skills, (ii) the increasing internationalization of education, (iii) demographic and migration trends, (iv) the disappearance and outdatedness of some skills and the need to update them, (v) the emergence of new skills and jobs, (vi) the development of new technology, leading to rapid changes in industrial production, including more stringent environmental standards (such as energy-saving options, alternative sources of energy, and green technology), and (vii) the development of corporate systems of training. The TVET-specific factors include: (i) government programs to promote top-priority sectors and regions in Russia, (ii) an increasingly mass-scaled and accessible higher education in Russia, which has impaired the prestige of and reduced demand for secondary vocational education, (iii) the automation of operations and the trend towards employing people with a higher education in jobs meant for people with a primary and secondary vocational education, (iv) the failure of the TVET system to respond to meet the needs of the labor market, (v) the aging of faculty members in TVET schools, and (vi) poor infrastructure and equipment in TVET schools and student dormitories.

For the TVET system to be able to respond adequately to these new challenges, some key issues need to be addressed. First, there are few incentives for TVET institutions to produce graduates with skills that satisfy the labor market needs. The TVET system is still financed by inputs and is oriented towards producing quantitative outputs (such as a certain number of students, a certain number of graduates, and a certain number of diplomas issued). Second, the links between TVET institutions and associations of firms and employers are weak. Currently, there are no agents or institutions that can facilitate the cooperation and links between businesses and educational institutions. Third, widespread access to publicly financed higher education and a decreased number of basic education graduates due to demographic changes make TVET less attractive for potential students.

Policymakers are paying a growing amount of attention to the TVET system and have recently taken several initiatives to support and reform the TVET system. For example, the education component of the National Priority Projects of the Russian Federation supported several leading initial and secondary vocational education institutions. However the funds were primarily spent on buying new equipment. The Federal Targeted Program for Education Development (2011-2013) supported various regional programs aimed at modernizing TVET systems and adjusting them to the needs of the local economies. However, these regional programs focused only on the needs of large industrial employers (one employer per region). Thus, the development impact of these programs has been limited.

In terms of reforms, in 2005 the Russian government decided to decentralize TVET governance and transferred all federal TVET institutions to the regional governments. Since then the Russian regions have had the power to alter their TVET systems to match the needs of their local labor markets, and many have attempted to do so. However, they lack not only a strategic vision but also

the capacity to carry it out. The recent amendments to the Education Law eliminated the level of initial vocational education, thus deferring the separating of students between vocational and general streams until the end of lower secondary education. Accordingly, by 2014 all initial vocational schools will have to be closed or upgraded to secondary TVET schools. The government wants to introduce further reforms to modernize the regional TVET systems, build synergies between its various components and stakeholders, and make TVET systems more demand-driven. This would require building the various links between the education system and regional labor markets, as well as providing greater incentives for businesses and employers' associations to engage with education providers.

### **Relationship to CAS**

The proposed project responds to one of the priority areas of the World Bank Country Partnership Strategy (CPS) for the Russian Federation for 2012-2016. The proposed project would contribute to the strategic theme of "Expanding Human Potential" which aims at enhancing the provision of the adequate skills for economic diversification. The Project would contribute by improving vocational education systems through comprehensive analysis of the related policy issues, development of up-to-date VET institutions and institutional networks and launching of regional VET programs. The modernized VET system envisioned under the project would be able to produce relevant skills and competencies for the workforce needed to ensure growth of the Russian economy in the long term.

The Bank has already supported Russia with four educational projects both on federal and regional levels in the past. The Bank has supported the education sector in general and in particular the VET sector through the Education Reform Project (P050474), the Krasnoyarsk Vocational Education Project (P115371), the Krasnoyarsk TVET Development Project (P125969) and the Tver Oblast Vocational Education Project (P111759). The Education Reform Project allowed the modernization of initial vocational education systems in three regions (Samara oblast, Republic Chuvashia and Voronezh oblast) through introducing new mechanisms to system governance, management and financing, adjusting the vocational schools networks to the regional needs, and establishing the foundations for qualifications certification, among others. Many of the project outputs were disseminated nation-wide under the National Priority Project "Education". The technical assistance provided to the governments of Krasnoyarski krai and Tver oblast (through the projects P115371, P125969 and P111759) allowed an assessment of the regional TVET systems, the development of long-term strategies for these regional TVET sectors and the modernization of TVET institutions in these regions.

The proposed project capitalizes on these results and lessons learned and propose a set of comprehensive measures to modernize and increase the responsiveness to labor market signals of the next level of vocational education – secondary vocational education and training system.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The higher order objective of the project is to contribute to the development of a professional workforce that better contribute to the economic growth and social and economic development of Russia and its regions. The modernized vocational education and training system envisioned under the project would produce graduates with demand driven professional/occupational skills and generic broad and transferable competencies, which could enable them to perform in environments of rapidly changing labor markets, addressing the urgent need to increase the productivity and

competitiveness of the Russian economy.

The project specific Development Objective is to support the modernization of the VET system in selected Russian regions so that is more responsive to the needs of regional labor market needs.

### **Key Results (From PCN)**

Achievement of the PDO will be measured through the following PDO level results indicators:

- Increased share of employers funding for VET programs in the project supported regions. (Data to be collected from VET service providers' annual budget reports).
- Share of VET college staff that passes the qualification certification procedures in the project supported VET providers. (Data to be collected from annual regional MOES/qualification certification centers' reports).
- Improved employers' perception of quality and relevance of graduates of project supported VET programs, as a proxy for increased employability and wage premiums. (Data to be collected through employer surveys. The survey has been developed under the context of the forthcoming Skills Development in Russia report).

## **III. Preliminary Description**

### **Concept Description**

The proposed project aims to support the Russian Federation and its regions in two main endeavors: (i) introducing up-to-date models of training in selected regional TVET systems and (ii) enhancing the capacity of the federal government to support regional TVET systems. In addition, a project management and monitoring and evaluation component.

Component 1: Introducing modern workforce training models for regional economies.

The purpose of this component is to develop different models of regional TVET system that can be replicated in other regions in Russia. Up to 10 regions will be selected to pilot the modernization of their TVET systems. The regions will be selected in accordance to the criteria agreed with the government (see Annex 2). The project team assumes that, by supporting key selected regions and building institutions to implement reforms in their TVET system, this will influence broader efforts in other regions even if they are not supported directly by the project. This component is divided into four thematic subcomponents.

Subcomponent 1.1: Bringing the content, technologies, and infrastructure used in vocational education into line with the current and future requirements of the labor market. This sub-component will ensure that the substance and outcomes of vocational education are aligned with labor market demand. It will support regional ministries of education in: (i) assessing labor market demand (including assessment tools), (ii) designing and implementing activities to establish links between enterprises and vocational education), (iii) developing competence-based modular TVET programs, and (iv) improving the physical infrastructure of vocational educational institutions, supplying specialized hi-tech training equipment, and training teachers and occupational instructors to deliver the new training programs. This component will be implemented in parallel with the federal component (Component 2) to ensure a unified approach to and dissemination of the outputs produced. Each region will develop a unique set of TVET programs to avoid any duplication of efforts. Each program developed in the pilot regions will be shared nationally (after passing through

the quality assurance procedures).

Subcomponent 1.2: Supporting the modernization of the network of organizations engaged in workforce educating and training. This sub-component will ensure that the network of TVET services providers is aligned with the demands of the regional economy. It will support activities to: (i) design regional roadmaps for restructuring and developing vocational educational institutions and for implementing priority training programs, (ii) introduce innovative institutional models to enhance the network optimization, and (iii) establish a system for the certification of skills and qualifications.

Subcomponent 1.3: Developing and introducing relevant management and financial instruments and building the human capacity to apply them. The sub-component will ensure that the management and financing models used in the TVET sector and institutions are efficient and aligned with the requirements of the regional economy. It will support activities to: (i) develop financial regulations to create incentives and introduce targeted funding mechanisms, (ii) introduce governance and management systems based on labor market information and that include employers' representatives, (iii) training regional administration and college staff in the new financing and management policies, (iv) organize career guidance and counseling services, and (v) prepare and publicly disseminate regional reports analyzing TVET sector development and skills development.

Subcomponent 1.4: Disseminating information on the models used in and the experiences of the pilot regions to additional regions. This sub-component will support the dissemination of information on the piloted models and on the experiences in the pilot regions to additional regions to extend the benefits of the project system-wide. Up to 30 regions will be competitively selected for the dissemination, and each of these regions will then choose a model or project output (or a combination of outputs) that it is willing to introduce. This component will support the following activities, among others, on request from the dissemination regions: (i) staff training, (ii) the development of regulations, (iii) study visits and other experience exchange activities, and (iv) TVET infrastructure improvements.

Component 2: Building national-level capacity for workforce development.

This component will support system-wide changes in the TVET sector in line with national policy priorities including the development of enabling regulatory frameworks and guidelines, assessment tools, TVET programs, the enhancement of human capacity, and information sharing activities. This component is divided into four subcomponents.

Subcomponent 2.1: Developing regulatory frameworks and guidelines to make regional vocational education systems responsive to changes in the labor market. This subcomponent will provide tools and guidance to help the pilot regions to align their skills training with the demands of the regional economy and society. It will support activities to: (i) assess the labor market's needs and enable the exchange of information between employers and TVET institutions, (ii) develop management and financing mechanisms to align the TVET sector and institutions with the development needs of the economy and society, and (iii) introduce TVET quality assessment systems and establish a system to provide methodological support to the TVET sector and educational institutions.

Subcomponent 2.2: Supporting the updating of TVET programs and pedagogical technologies. This subcomponent will support the updating the design and contents of vocational education programs,

the adoption of modern educational technologies and teaching methods, and the alignment of secondary vocational education in the Russian Federation with labor market demand. It will also support the development of training skills assessment toolkits and of digital educational resources and information systems to support the new TVET programs and teaching/learning aids. The component will focus on cross-cutting occupational competencies and widely used occupational competencies. The sub-component will also support the development of a digital management system for TVET institutions and for regional ministries of education and establishing a depository of guidelines for teachers' professional development and training.

Subcomponent 2.3: Disseminating information about best practices and innovations related to the modernization of regional TVET systems. This subcomponent will inform the public, authorities, employers, educational institutions, and consumers of educational services about new developments in the Russian TVET system and make the outputs produced under the project widely available. The component will support: (i) information sharing programs; (ii) web-based information resources; (iii) analytical and advisory activities (AAA) to review best national and international practices and to support the implementation of regional TVET activities.

Sub-component 2.4: Building the staff capacity of the TVET system. The sub-component will support the building of capacity and the development of institutional frameworks for the professional development of all staff in educational institutions and regional TVET administrations that will be participating in the project. The federal government will provide retraining and professional development for the following target groups in pilot regions: (i) the managers of regional TVET systems and educational institutions, (ii) economists and finance specialists from the regional TVET systems, and (iii) the managers and faculty of TVET institutions and the foremen of on-the-job training in associated businesses involved providing on-the-job training. The subcomponent will support the following activities: (i) conducting assessments of human resource capacity in regional TVET systems, (ii) developing training programs for TVET staff including Master's degree programs, and (iii) designing toolkits for assessing the competencies and skills of teachers, foremen of on-the-job training, and managers of TVET institutions.

### Component 3: Project Management and Monitoring and Evaluation

The objective of this component is to provide resources for the day-to-day implementation of the proposed project by a Project Implementation Unit (PIU), as well as for monitoring and evaluating the project's implementation and outcomes. This component will finance the project's operating and monitoring costs, including the salaries of the staff of the PIU and its operating expenses such as translation and interpretation services, utilities, equipment, audits, communications, and supervision (transportation costs and a per diem), as well as the arranging of project-related monitoring and evaluation activities.

## IV. Safeguard Policies that might apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01	<b>x</b>		
Natural Habitats OP/BP 4.04		<b>x</b>	
Forests OP/BP 4.36		<b>x</b>	
Pest Management OP 4.09		<b>x</b>	



Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

## V. Financing (in USD Million)

Total Project Cost:	410.00	Total Bank Financing:	330.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			80.00
International Bank for Reconstruction and Development			330.00
Total			410.00

## VI. Contact point

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