

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA7672

Project Name	Enhancing Workforce Skills for Regional Development (P144167)
Region	EUROPE AND CENTRAL ASIA
Country	Russian Federation
Sector(s)	Vocational training (47%), Secondary education (30%), Adult literacy/non-formal education (13%), Public administration-Education (1 0%)
Theme(s)	Education for the knowledge economy (75%), Education for all (25%)
Lending Instrument	Specific Investment Loan
Project ID	P144167
Borrower(s)	Ministry of Finance, Ministry of Educaiton and Science
Implementing Agency	Noncommercial Foundation for Enterprise Restructuring and Financial Institutions Development
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	24-Jun-2014
Date PID Approved/Disclosed	25-Jun-2014
Estimated Date of Appraisal Completion	16-Jun-2014
Estimated Date of Board Approval	12-Feb-2015
Decision	

I. Project Context

Country Context

Russia's growth over the past decade has been uneven. Taking advantage of low capacity utilization, low factor costs (for energy and labor) and growing oil prices the economy flourished between 1998 and 2008 with growth averaging 7 percent per year. Following the onset of the global crisis in 2008, structural weaknesses in the economy were revealed, and Russia's output contracted by 8 percent in 2009. The recovery since then has been sluggish relative to most emerging markets in spite of a large fiscal stimulus during 2009-2010 (of close to 8 percent of GDP). More importantly, the crisis drastically changed the trajectory of economic growth in Russia. Growth averaged 3.4 percent in 2010-2013 and slowed to just 1.3 percent in 2013, while potential long-run growth is expected to be around 2.0 to 2.5 percent.

While recent high oil prices have supported growth and the expansion of the non-tradable sector and this in turn has led to productivity gains, this is an unsustainable long-term growth path. In the absence of the growth driver of increasing oil prices, structural challenges that constrain the

economy and productivity growth will need to be addressed. Among those key constraints are a tight labor market and a lack of skilled labor. Despite slowing economic activities in the past two years, unemployment remains at record low levels (of around 5.3 percent), and business surveys raise growing concerns about the lack of skilled labor. Constraints on labor mobility are a major problem and contribute to the misallocation of the skilled and educated labor force. In the future, a downward trend in the number of Russians of working age could put additional pressure on the labor supply. Changes in Russia's demographic profile, including low fertility rates and an aging population, will further constrain the size of the labor pool.

One way to foster Russia's future economic growth is to increase labor productivity, which is low compared to most developed countries. A single Russian worker spends approximately 2,000 hours a year to produce on average US\$ 24 (current PPP) per hour worked, whereas in the top-performing countries, employees work just 1,750 to 1,800 hours a year but produce two to three times as much (estimation based on data from the OECD). According to the OECD estimates, the labor productivity of Russian workers is only 37 percent of the USA level.

The need to increase productivity will impose new demands on Russia's workforce. One set of measures should be introduced to facilitate the mobility of the existing labor force by reducing the spacial misallocation of skilled labor and bringing the educated labor force closer to highly productive job markets. Other measures should deal with the growing mismatch of skills.

The overall level of educational attainment of the Russian workforce is 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 U. S. has 11 percent and 41 percent respectively, while France has 30 percent and 29 percent respectively). Yet, according to the World Bank's World Business Environment Survey (WBES), Russia's private sector firms consider the lack of skills and education among the workforce to be one the severest constraint on their expansion and growth. 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 problem 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 for 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. Compulsory education starts at the age of 6, and since 2007 full-time education lasts for 11 years, 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. 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.

The Technical and Vocational Education and Training (TVET) system in Russia provides formal

general secondary and vocational education to young students and lifelong learning and training opportunities to adults. For the youth, it delivers general secondary education program (allowing the students who have chosen the vocational track to receive compulsory general education) as well as vocational education and training programs. For adults, it provides the shorter courses usually targeted to the existing workforce and to the unemployed and economically inactive. In some regions and TVET colleges, the share of the courses delivered to adults is more or less equal to the share of the formal TVET programs provided to young people.

The government believes – and the World Bank's “Skill Development in Russia” report (World Bank, 2013) provided evidence supporting this belief – that the Russian 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, since 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, reaching 62 percent of GDP, while employment in the manufacturing and agriculture sectors has declined. The new emerging sectors require a workforce with a new skill set, which in turn means that the TVET system needs to be modernized.

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 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, few TVET institutions have links with associations of firms and employers. Currently, there are no agents or institutions that can facilitate the cooperation and forge links between businesses and educational institutions. Third, widespread access to publicly financed higher education makes 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 it. 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. Thus, the development impact of these programs has been limited.

Since 2005, TVET governance has been decentralized to the regions, which have had the power to alter their TVET systems to match the needs of their local labor markets. Many have attempted to do so, but 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 separation of students between vocational and general streams until the end of lower secondary education. 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.

II. Proposed Development Objectives

The project development objectives (PDO) are to increase the relevance of the skills of technical and vocational education and training graduates to the needs of the labor market in selected pilot regions and to expand best practices to other selected dissemination regions in the Russian Federation.

III. Project Description

Component Name

Introducing modern workforce training models for regional economies

Comments (optional)

This component will support development of different models of a regional TVET system that can be replicated in other regions in Russia. Ten regions have been competitive selected to pilot the modernization of their TVET systems. This component is divided into four thematic subcomponents: (i) bringing the content, technologies, and infrastructure used in vocational education into line with the current and future requirements of the labor market, (ii) supporting the modernization of the network of organizations engaged in workforce educating and training, (iii) developing and introducing relevant management and financial instruments and building the human capacity to apply them, and (iv) disseminating information on the models and the experiences of the pilot regions to additional regions.

Component Name

Building national-level capacity for workforce development

Comments (optional)

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, and TVET programs, the enhancement of human capacity, and information sharing activities. This component is divided into four subcomponents: (i) developing regulatory frameworks and guidelines to make regional vocational education systems responsive to changes in the labor market, (ii) supporting the updating of TVET programs and pedagogical technologies, (iii) disseminating information about best practices and innovations related to the modernization of regional TVET systems, and (iv) building the staff capacity of the TVET system.

Component Name

Project Management and Monitoring and Evaluation

Comments (optional)

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. Financing (in USD Million)

Total Project Cost:	410.00	Total Bank Financing:	330.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount

Borrower	80.00
International Bank for Reconstruction and Development	330.00
Total	410.00

V. Implementation

The proposed project will be implemented by the Ministry of Education and Science (MoES). The project will be coordinated by an Inter-agency Committee (IAC). The IAC was created by the Ministry of Education and Science to supervise the overall project implementation and to provide strategic oversight of the implementation of specific project activities. The main project advisory body will be the Board of Experts. The Board of Experts will provide the MoES and pilot regions with advice on modernizing their regional and sectoral vocational education systems and will carry out content assessments. The Board of Experts will consist of leading experts in the areas relevant to modernizing the vocational education system. The by-laws of the Board of Experts and its personal membership will be approved or amended by the MoES. The initial membership of the Board of Experts will be approved for the effective period of the project life, and the number of members will be about seven people. The activities of the Board of Experts will be managed by the Chairperson (or two co-Chairs) who will be appointed by the MoES.

The Foundation for Enterprise Restructuring and Financial Institutions Development, a competitively selected project implementation unit, will provide implementation support to the Ministry of Education and Science, including on procurement and financial management. Regional education authorities will be responsible for implementing the project in the regions, including coordination, monitoring and evaluation, and technical assistance.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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