



Report

Financing of Technical and Vocational Education and Training (TVET), Vietnam

Fact Finding Mission

GDVT

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Publisher:

Vietnamese-German Development Cooperation
Promotion of TVET, Viet Nam

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Layout: Mariette Junk, Berlin (cover page)
Photo: Ralf Bäcker, Berlin (cover page)

Place and year of publishing: Hanoi, 2007

**German Technical Cooperation with Vietnam
Promotion of TVET**

**Financing of Technical and
Vocational Education and Training (TVET)**

Viet Nam

Report of a Fact Finding Mission

Jutta Franz

December 2007

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List of Abbreviations

ACCC	Canadian Association of Community Colleges
ADB	African Development Bank
AFD	Agence Francaise de Développement
BDS	Business Development Services
CFAA	Country Financial Accountability Assessment
CIM	Centre for International Migration (German personnel cooperation)
CNC	Computerized Numerical Control
DOET	Department of Education and Training (provincial level)
DOF	Department of Finance (provincial level)
DOLISA	Department of Labour, Invalids and Social Affairs (provincial level)
EFA	Education for All
GDVT	General Directorate of Vocational Training
GOV	Government of Vietnam
GTZ	German Technical Cooperation
IGA	Income Generating Activity
JICA	Japanese International Cooperation Agency
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
MTEF	Mid-term Expenditure Framework
NDF	Nordic Development Fund
NGO	Non Governmental Organisation
NORAD	Norwegian Agency for International Development
NTP-E	National Target Programme Education
TBS	Targeted Budget Support
TVET	Technical and Vocational Education and Training
USD	United States Dollars
VND	Vietnamese Dong
VTC	Vocational Training Centre

Executive Summary

Introduction

The Government of Vietnam (GOV) has increased its efforts to reform the country's system of technical and vocational education and training (TVET). The aim is to promote TVET that is demand-oriented, on a par with international quality standards and widely accessible. The TVET development strategy foresees substantial investment in new and upgraded TVET supply structures, and includes a range of reform steps in order to improve quality and relevance of TVET. In view of increasing resource requirements long-term sustainability has become a major challenge. Well in accordance with international best practice, the focus lies on a diversification of TVET funding sources. A "socialization" of TVET intends to mobilise all available resources in society for TVET, in particular to stimulate private investment in TVET institutions. Already now, private households contribute significantly to the cost of training through paying training fees. It is furthermore envisaged to improve the targeting of public investment, to stimulate employers involvement in TVET, and to increase income of training institutions through productive activities. However, the funding strategy appears to require further analysis and fine-tuning of instruments. Not all develops into the right direction at the moment. The current financial structures of TVET institutions even seem to have an adverse impact on training quality.

Against this background, the German Technical Cooperation (GTZ) project *Promotion of TVET* has agreed with the General Directorate of Vocational Training (GDVT) to consider supporting the further development of financing mechanisms for TVET. It therefore commissioned a fact finding mission to assess the current state of financing TVET and to recommend further activities to be undertaken to work towards a sustainable TVET funding system. This report compiles the results of this fact finding mission, which took place between July 13 and 27, 2007.

Overview of the Current Situation of Financing TVET in Vietnam

Due to a rather diversified structure of responsibilities in the Vietnamese TVET supply thorough information and reasonably exact data on costs and expenditure in the system are very difficult to obtain. Therefore, the report only presents some principle funding patterns.

The following are the main findings with respect to public TVET institutions:

- Only long-term TVET at vocational secondary and college level receive significant public funding of recurrent cost. For institutions under GDVT, this is allocated through the per-capita quota system. The budget norm per training place is 4,3 million VND per annum. However, actual allocations are often lower.
- Since elementary level TVET is not part of the quota system, VTCs only receive little base funding from their parent sponsoring organisation.
- Special programmes meant to cover training cost for a defined range of marginal and special groups in the labour market and a student loan scheme complement public sources.
- An important source of capital funds has been the *Strengthening Vocational Training Capacity* Component of the National Target Programme Education. All TVET institutions

under GDVT benefit from this programme, however, its effectiveness needs to be analysed.

- Tuition fees have developed into the single most important source of income for TVET institutions. Trainees from marginalised and poor households are exempted. At the moment, fees are capped.
- Other income sources including from Income Generating Activities (IGAs) appear to be marginal in general. Selected TVET institutions have received funding from international donor programmes.
- Public TVET institutions enjoy a relatively high degree of financial autonomy by international standards.

The private training market has grown during recent years. Private training providers are usually fully self-financing. The main source are tuition fees. They do not receive any regular state funding. In line with the *socialization* policy, the Vietnamese Government explicitly encourages the establishment of non-public training providers that has formulated generous incentive policies, including provision of land and infrastructure, tax exemption and credit schemes. The relevant law even makes provision for the possibility to finance private training through state subsidies, and to integrate private providers in the public compensation schemes for fee exemptions to trainees from social policy targeted groups.

With respect to employers' involvement in TVET it appears that with the exception of state-owned enterprises, the preparedness of companies to invest in training is rather underdeveloped. Large and often foreign companies as well as companies involved in technologically advanced production are more likely to invest in training, either through company-based training facilities or through buying staff upgrading programmes in the training market. In the case of advanced and specialised skill areas, companies are prepared to pay training fees well above the normal tuition rates in the TVET market. There also appears to be an increasing trend that sector and professional organisations embark on initiatives to organise training. Although the Government explicitly encourages employer-based training attractive incentive packages are lacking.

Overall, the knowledge base about costs and expenditure in TVET is extremely weak in Vietnam, and by no means a sufficient base for future planning exercises. Reliable and reasonably solid data on public TVET spending and on unit costs are not available.

The relevant policy documents have defined the major political orientation for a financing system for TVET to be developed in future. These include the concept of socialization (or diversification of funding sources), concentration of public funding on focal areas, flexibilization of tuition fees while supporting needy trainees, and encouragement of private investment in TVET.

Some issues and options

Overall, the strategy of socialization in the sense of diversification of funding sources appears to be well in accordance with international best practice. However, a number of strategic and implementation issues need further consideration.

Incentives for quality

TVET institutions operate in an environment of increasing management autonomy on the one hand, and public pressure on the TVET system to increase access on the other. In this context, the current financing framework creates incentives for institutions to increase enrolment numbers at the expense of training quality. Many TVET institutions have increased their enrolment figures during recent years. In fact, as public allocations for recurrent spending do not increase, raising tuition fees through increased intake of trainees has become the most convenient way of increasing institutional income.

Increased trainee intake can only be profitable for institutions, if the marginal cost of training one trainee is lower than its fee income. As a consequence, increased intake has led to a lowering of unit cost, for example through larger class sizes or lower per-trainee spending on training material, all negatively impacting on the training quality.

The current trend appears to be mainly caused by three system problems: the inflexible fee system in public institutions, a public financing system that is not linked to performance indicators, and the lack of effective quality control of TVET. In this context, the plans to revise the current fee structure, the introduction of quality criteria and the pilot tender scheme represent appropriate policy responses.

Among the most important determinants of the current quality problems, however, is the virtual absence of effective quality control within the TVET system. Any change in the financial framework with a view to create incentives for producing quality training will only be effective if quality in TVET is defined, measured and monitored, if effective sanctions are in place to punish non compliance and, not least, if supportive structures are available to assist institutions to improve quality.

Public Financing of TVET

Up to now, the TVET reform has not been comprehensively costed. It is apparent, though, that the reform if implemented as envisaged will require substantially more resources than currently spent on TVET, mainly because:

- Supply targets set by the Government of Vietnam imply a cost increase not only because enrolment numbers per se will rise, but also through the envisaged change in the vertical supply structure.
- Improved regulatory, supervisory and supportive functions of the TVET system do not come for free. In particular the establishment and maintenance of occupational standards and the related assessment and certification structures require substantial initial but also long-term recurrent resources.
- The current massive investment in modernised equipment at institution level will necessitate substantial recurrent expenditure in the future to ensure the investments' sustainability.

Achieving the ambitious TVET development goals will therefore require a substantial increase of resources available for TVET. Assuming that the growth in public spending will not keep pace with the growth of resource requirements, Government will need to set spending priorities. It will need to embark on a process to develop a comprehensive, integrated and costed sub-sector financing framework. Such a framework would include cost projections, a detailed plan of envisaged government spending, and an outline of mechanisms to raise additional resources from other sources, including (costed) strategies to implement these mechanisms and estimates of income from these sources.

Efficiency issues

Available information at the current moment does not allow to evaluate efficiency and efficiency problems in the TVET system. However, a financial strategy for TVET should not only be geared towards increasing income to the system, but also to improve cost effectiveness. It appears important to consider the following:

- The process of decentralisation of management responsibilities to the school level appears to provide a good base condition for efficient system management. However, capacity building at the level of TVET institutions and other important administrative levels may be necessary.
- Alternative delivery modes (apart from the predominant school-based TVET) may impact substantially on the cost-effectiveness of TVET, notably cooperative training.
- Efficiency will be an issue to look at in the allocation of public funds. Scarce public funds should be used in a way to stimulate TVET that is relevant, of high quality and cost-effective. They should be concentrated on those areas where without state subsidies important training would not take place.

Income Generating Activities

The current TVET policy expects a greater share of institutional cost of TVET delivery to be recovered by income generating activities (IGAs). IGAs are widespread in the training sector, but their net income potential appears to be underutilized, notwithstanding the fact that since the recent administrative reforms institutions enjoy substantial autonomy and operational freedom with respect to the implementation and management of IGA. Major problems include:

- Within the current financing framework, other income sources, in particular income from tuition fees, are more convenient to generate.
- Necessary business management skills, in particular market assessment, marketing, costing and financial management are not sufficient.

Experience in other countries suggests that IGAs in TVET institutions can be stimulated by a combination of financial incentives and capacity building of management staff in TVET institutions. In many countries there is a concern that IGAs create unfair competition to private businesses and distort local markets. This issue needs to be analysed in Vietnam.

Private Investment in TVET

Key to Vietnam's policy of socialization of TVET is to encourage the private sector to invest in TVET. Vietnam follows here the example of many other countries that have embarked on successful TVET reforms.

GOV has already established a good legal base for private commercial institutions to develop. However, despite this relatively favourable regulatory environment, the previous growth of the private TVET sector appears to fall short of expectations. No systematic information on barriers is yet available, but the following core problems are suggested:

- A lack of effective implementation of existing support policies
- A lack of competitiveness of private providers vis-à-vis the state training sector
- A low reputation of private relative to public providers by the target groups.

In general, a thorough analysis of the investment climate, chances and potential barriers of private commercial investment in TVET in Vietnam would be useful to better understand the determinants and constraints of the private training market and to fine-tune support policies. Such an analysis should also look at policy options to integrate private providers in the system of state subsidies, and analyse current public investment policies with respect to potential crowding out effects of the private training market.

The involvement of employers in TVET appears to be rather low in Vietnam concentrated on large and foreign company. This appears to contradict the general perception that companies in Vietnam do experience skills shortages.

Employers are among the main beneficiaries of good and relevant TVET. In other countries, they are expected to systematically contribute to the cost of training. This may be done in two ways: through real investment (actual training provision) or through financial contributions (for instance through a training levy).

In Vietnam, mainly real investments are supported at the moment. However, implementation of the supportive framework falls short of intentions. Reasons for this should be further analysed. The Government may also consider the set up of a TVET levy scheme as an accompanying instrument to stimulate real investment. Such a levy scheme may on the one hand generate needed resources into the national TVET scheme. However, by exempting those companies, which actively train, or granting rebate of actual training costs, such a levy scheme can at the same time be used to create incentives for companies to train.

Access and Equality

Improving access and equality of access to TVET is one of the most important goals of the TVET reform agenda. Special social programmes are intended to ensure access to TVET by previously marginalised groups (such as ethnic minorities, war orphans, and others) and generally the poor. The envisaged policy reforms are likely to impact on low income groups mainly through the expected rise of tuition costs. Already now, total training cost for households, including living expenses, have been estimated at some 700,000 VND per months per trainee. Furthermore, children from poor families and other marginalised groups are likely to be over-proportionately represented in short term elementary level TVET, which is an issue to consider when Government tends to focus investment mainly in higher qualification levels.

Discussions during the mission revealed some scepticism about the effectiveness of existing social support programmes with respect to reaching the needy. Further analysis in this regard may be necessary. Also, the accessibility by TVET trainees of the new student loan scheme may be evaluated.

Recommendations

In sum, it is recommended that previous reform efforts will be continued, consolidated and improved, in order to further strengthen diversification of resources for TVET. Main recommendations are summarized in the following synopsis:

Strategic field	Recommendation for Activities of the GOV	Potential Contributions of Promotion of TVET Project (GTZ)
Integrated TVET Finance Planning	<ul style="list-style-type: none"> - Consultation with experts and stakeholders about strategic orientation in financing TVET - Conduct cost assessment - Improve financial reporting in the TVET system - Set up/improve management information system - Consultation with other E&T sub-sectors regarding financing strategies - Prepare prioritized and costed Financing Framework for TVET 	<ul style="list-style-type: none"> - Fund and facilitate national workshop principles of financing TVET; provide resource person(s) - Fund and facilitate cost assessment - Consultancy support to development process of an integrated financial framework
Develop performance-based budgeting	<ul style="list-style-type: none"> - Development of a concept for formula funding of public TVET institutions including quality related indicators, and indicators to incentivize IGAs - Pilot and implement formula funding scheme - Evaluation of the <i>Strengthening Vocational Training Capacity Programme</i> 	<ul style="list-style-type: none"> - Support the evaluation of the the NTP-E Component <i>Strengthening Vocational Training Capacity</i> - Consultancy support for the development of a concept for performance-based budgeting
Development of a training market	<ul style="list-style-type: none"> - Evaluate experience with pilot tender scheme - Extend, if found appropriate, tender scheme to other areas of budget allocation, also including investment support - Integrate private providers into tender scheme 	<ul style="list-style-type: none"> - Support to the evaluation and concept development process
Training fees	<ul style="list-style-type: none"> - Increase flexibility of public TVET institutions with respect to tuition fees 	
Strengthen private investment	<ul style="list-style-type: none"> - Study on status quo, constraints and potentials of private investment in TVET - Development of an integrated concept to strengthen private and employers' investment in TVET - Consider establishment of training levy - System development of cooperative TVET delivery 	<ul style="list-style-type: none"> - Support to analytical work (about obstacles and changes of private sector involvement in TVET) - Feasibility study training levy, including support to concept development, if appropriate - Support to cooperative TVET system development
Promote equity	<ul style="list-style-type: none"> - Status quo analysis of participation of marginalised target groups in TVET - Evaluation of effectiveness of existing social programmes - Establish a mechanism for continuous social impact monitoring 	<ul style="list-style-type: none"> - Support to analytical work (status quo analysis and effectiveness evaluation of current social programmes in TVET)

	<ul style="list-style-type: none"> - Analyse and, if appropriate, conceptualize the establishment of a loan scheme for TVET trainees 	
<p>Capacity Building of TVET institutions</p>	<ul style="list-style-type: none"> - Organisational development needs analyses; - Development and implementation of comprehensive capacity building concept for TVET institutions - Development and implementation of a strategy to strengthen IGAs and delivery of tailor-made training courses for industry - Possibly: Concept development and implementation of production schools - Development and implement strategies to incentivize and support cooperation of TVET institutions with companies 	<ul style="list-style-type: none"> - Analytical work in selected pilot schools with respect to cost-effectiveness, organisational development needs, and others - Capacity building activities in pilot schools - Development of business plans in project schools and coaching of IGAs - Assistance in the implementation of cooperative TVET schemes in pilot schools

1 Introduction

The Government of Vietnam (GOV) has increased its efforts to reform the country's system of technical and vocational education and training (TVET). The aim is to promote TVET that is demand-oriented, on a par with international quality standards and widely accessible. Background are serious labour market imbalances that negatively impact on the competitiveness of the Vietnamese economy. Whereas every year more than 1 million new labour market entrants need to be absorbed in the job market, the modern economy is faced with substantial shortages in skilled labour leaving many job vacancies unfilled. Only around 20% of the workforce has a vocational/technical qualification. Recent policy papers expect an increase of this rate to 26% by 2010 and at least 40% by 2020¹.

The TVET development strategy foresees substantial investment in new and upgraded TVET supply structures, and includes a range of reform steps in order to improve quality and relevance of TVET. Supported by international cooperating partners, the Government has embarked on a major system reform comprising the formulation of occupational standards, a standard-based testing and certification system, reform of accreditation, introduction of new delivery modes in cooperation with companies, improvement of the system of technical teachers training, and administrative reforms, among others.

Being aware of the financial implications of such a reform, issues related to financing TVET have been a key element in strategic documents during recent years. In view of increasing resource requirements long-term sustainability has become a major challenge. Well in accordance with international best practice, the focus lies on a diversification of TVET funding sources. A “socialization” of TVET intends to mobilise all available resources in society for TVET, in particular to stimulate private investment in TVET institutions. Already now, private households contribute significantly to the cost of training through paying training fees. It is furthermore envisaged to improve the targeting of public investment, to stimulate employers involvement in TVET, and to increase income of training institutions through productive activities.

However, the funding strategy appears to require further analysis and fine-tuning of instruments. Not all develops into the right direction at the moment. The current financial structures of TVET institutions even seem to have an adverse impact on training quality. Against this background, the German Technical Cooperation (GTZ) project *Promotion of TVET* has agreed with the General Directorate of Vocational Training (GDVT) to consider supporting the further development of financing mechanisms for TVET. It therefore commissioned a fact finding mission to assess the current state of financing TVET and to recommend further activities to be undertaken to work towards a sustainable TVET funding system. This report compiles the results of this fact finding mission, which took place between July 13 and 27, 2007.

During the mission, discussions were held with officials and experts from the TVET sector, headmasters and administrative staff of public and private TVET institutions, representatives from the world of work, experts from the project *Promotion of TVET* as well as other donor agencies and independent experts². A debriefing meeting at the end of the mission attended by

¹ Compare MOLISA 2006. A list of documents used is attached in the Annex (A1).

² A list of meetings and persons met is attached in the Annex (A2 and A3).

officials and experts from the GDVT and GTZ provided an excellent opportunity to clarify the understanding of problems and challenges.

I cordially like to express my gratitude to all discussion partners during the two-weeks mission. Very special thanks go to the staff members of the *Promotion of TVET* project for their unbeatable support, and to Mr. Du for his patient and competent translations.

The following report will firstly provide an overview about structures and principles of the system of funding TVET in Vietnam at the current moment, including a brief description of relevant policy orientations (Section 2). Unfortunately, many information gaps remain. This description is followed by a discussion on what are considered major issues to be taken up in the further development of a financing framework for TVET in the specific Vietnamese context (Section 3). Finally, Section 4 formulates some recommendation on activities considered necessary to further develop the financing system, rounded off by suggestions what assistance may be rendered by the GTZ project.

2 Overview of the Current Situation of Financing TVET in Vietnam

Due to a rather diversified structure of responsibilities in the Vietnamese TVET supply (compare the box below), thorough information and reasonably exact data on costs and expenditure in the system are very difficult to obtain. Therefore, the following section only presents some principle funding patterns of the most common and important types of TVET provision, sometimes complemented by sketchy information of costs and expenditure.

The TVET landscape

*State management*³ of TVET basically rests with the General Department for Vocational Training (GDVT) in the Ministry of Labour, Invalids and Social Affairs (MOLISA) and the Department of Technical and Vocational Education in the Ministry of Education and Training (MOET). In 2007, GDVT was responsible for 871 TVET institutions catering for 1,34 million trainees (in 2006) including 40 vocational colleges, 232 secondary vocational schools and 599 vocational training centres (MOLISA 2007). MOET at the same time managed around 272 technical secondary schools and 228 colleges and universities that were also delivering TVET level programmes⁴ providing TVET for some 550,000 students. Within the decentralised administration structure, some state management functions rests with the Departments of Labour Invalids and Social Affairs (DOLISA) and Departments of Education and Training (DOET) at provincial level.

Responsibility for *direct management* of TVET institutions is rather diversified. Some of the technical schools under M/DOET are private institutions, while GDVT institutions include those run by various central ministries, provinces and districts, mass organisations, trade unions, companies, private institutions as well as few directly under MOLISA.

The Vietnamese TVET environment further includes more than 800 other providers (for example labour exchange offices) offering short term training courses. Formal apprenticeship training also exists legally but is hardly implemented. Another important mode of training is informal training, mainly on the job training, which is formally not recognised at the current moment⁵.

The main funding sources of TVET in Vietnam, which is essentially institution-based training, are public funding and contributions of private households, complemented by donor funds and investment in training of some companies. However, funding patterns differ substantially between the different TVET provider structures.

2.1 Public TVET institutions

³ *State management* means regulatory and supervisory competencies. It comprises mainly responsibility for policy and legal development, sector planning and monitoring and quality assurance (such as standard setting, curriculum development, accreditation), see also Law on Vocational Training, Chapter X.

⁴ Information provided by MOET, Department of Technical and Vocational Education.

⁵ See also PLANCO 2007.

Around 70% of TVET institutions registered under the state management of GDVT and some 25% of secondary technical schools under MOET are public institutions, or institutions run by mass organizations⁶. These institutions receive state funding, among other income sources. Volume and modalities of public funding depend on the level of programmes and the type of institution. In line with policy priorities, public funding is targeting predominantly the long term programmes at secondary and diploma levels⁷.

The basic structure of funding public TVET (under GDVT) is also depicted in the Graph in the Annex A4.

Public subsidies for long-term programmes

In the case of long-term TVET programmes (at secondary and diploma levels) public funding of recurrent cost is based on student quotas for individual TVET institutions. For this purpose, GDVT prepares every year a national training funding plan indicating the number of long-term trainees by institution and skill area to be funded by Government. This plan is based upon requests from individual TVET institutions, which forward their institutional training plans to the provincial DOLISA. DOLISA consolidates the requests from individual institutions and districts into one provincial training funding plan, which is forwarded to GDVT serving as inputs into the quota allocation at the national level. GDVT then takes the consolidated national funding plan to the Ministry of Finance (MOF) to be used in the annual budget allocation to the different public organisations, under which TVET institutions are run (ministries, public agencies, provinces, mass organisations, etc).

Until recently, training planning by GDVT was based on national training targets and supply factors. Nowadays quality criteria and elements of competition have been introduced into the quota allocation. According to information provided by the GDVT Finance Department, TVET institutions have to demonstrate that they meet required institutional standards before they are allocated quotas⁸. Also, a system of public tendering of training quotas has been introduced on a pilot basis in five occupational groups. In 2007, a total of 2,700 training places were allocated through the tender system.

Allocations are based on a per capita-based funding norm set on the basis of a cost calculation in 1998. The standard norm of 4,3 million VND per trainee per year represents an average across 12 vocational groups, for which the standard ranges between 3,5 million and 5,4 million VND. Due to budgetary constraints, however, the actual allocation approved by the MOF for each long-term training place is lower than the stipulated 4,3 million VND. According to information from GDVT, not more than 2,5 million VND per training place were in reality allocated in 2007. Based on MOLISA planning figures for TVET (Decision Nr. 07/2006/QH-BLDTBXH)⁹ this would sum up to total public allocation for long-term training under GDVT of 761,250 million VND (about 48 million USD) in 2007.

However, the actual decision on the allocation of funds to the training institutions is done by the parent sponsoring organisations that own and finance the institutions (direct management).

⁶ Information provided by GDVT and MOET. Also included in this category are TVET institutions attached to state owned companies.

⁷ In accordance with the English translation of the Vocational Training Law of 2006 (Article 6), the terms *vocational elementary level*, *vocational secondary level*, and *vocational diploma level* are used to describe the newly introduced three-level programme structure in TVET.

⁸ This policy is based on the Decision of the MOLISA Minister Nr. 468 of April 2007, and is intended to be used during an interim period until the tender system will be fully implemented.

⁹ The plan foresees a total of 304,500 training places at secondary and college level in 2007.

This may result in actual allocations significantly deviating from the standard allocation of the MOF. In case of provincial and district ownership of the institutions, allocation is done within the decentralised budget preparation processes involving DOF, DOLISA and the Provincial People's Committees¹⁰. During the budget preparation process a number of reallocation and correctional processes take place, over which GDVT has no control nor knowledge in a systematic manner. According to information available, the actual per capita allocation institutions receive varies between the different sponsoring organisations dependent on their different spending priorities. Evidence collected during the mission suggests that overall, institutions under central ministries receive more public funds per trainee than institutions at provincial or district level or those run by mass organisations.

In any case, allocations are finally not dependent on the actual number of trainees. From an institutional perspective they are de facto - and are considered by institutions as such - lump sum public subsidies.

Institutions under MOET are not part of the GDVT planning and quota system. They receive public funds within the MOET budget allocation system, which is based on enrolment targets, historical budgets and education levels¹¹.

Public subsidies for TVET at vocational elementary level

Short term training at elementary level is also not part of the quota funding system of recurrent budget allocation. This is in particular a problem for vocational training centres that only provide elementary level training and form the bulk of the country's training institutions catering for almost 80% of the overall TVET supply (administered under GDVT)¹². VTCs normally receive only basic funding from their parent organisation based on the number of their permanent posts and meant to cover salaries and related costs. Although no systematic information on the funding situation of VTCs was available, it appears that many VTCs, which often have only a small corps of permanently employed staff, receive very little public contributions to recurrent training cost.

Special targeted programmes

A number of special programmes and funds complement the state funding to public training institutions. These are usually earmarked to support special target groups or training programmes and are allocated to institutions who participate in the programmes. They include, for example, programmes for demobilised soldiers, ethnic minorities, people in rural areas, unemployed, or training for labour export¹³. A 1 billion USD *Young Peoples Fund* is currently in the preparation stage to be implemented by the Ho Chi Minh Youth Union. It is meant to fund vocational training and other employment programmes for young people including credit.

Investments

¹⁰ The draft CFAA (2006) provides a description and assessment of the budget allocation mechanism in the case of education, which is similar to the mechanisms in the TVET sector.

¹¹ See World Bank 2007 for a description of funding principles in the education system.

¹² According to planning data, of the 1,405,000 overall trainees in 2007 a total of 1,100,000 were trained at elementary level (see MOLISA 2006, Art. 2.2). Actual aggregated figures are not available.

¹³ One example is the *Veterans Fund* earmarked for demobilised soldiers who are supposed to be trained for labour export.

While the Ministry of Finance and its decentralised structures (DOFs and BOFs) are in charge of preparing and allocating recurrent budgets, the Ministry of Planning and Investment (MPI) and its structures are responsible for allocating capital budgets. Information on the extent and procedures of capital budget allocation to TVET institutions in general were not available. Capital budgets for TVET institutions are part of the overall development budget of the organisations that sponsor the institutions and are allocated according to their priorities. As is the case for recurrent budget, final budgetary decisions are made without an influence, hence without the specific technical expertise of TVET sector specialists.

Steady earmarked capital budgets for TVET institutions were secured in recent years through the *Strengthening Vocational Training Capacity* Component (Component 7) of the *National Target Programme for Education (NTP-E)*¹⁴. Under the programme's first phase, a total of 780 billion VND were allocated to the TVET sector under GDVT between 2002 and 2005 (NORAD 2005, p. 8). Another 1,500 billion VND were in 2005 foreseen to be allocated to the TVET sub-sector under the NTP 2006-2010 (NORAD 2005, p. 14). According to a MOLISA report from 2007, 500 billion VND were allocated under the programme in 2006 alone (MOLISA 2007, para 5). The indicative NTP Budget for Component 7 shows an actual allocation of 700 billion VND for 2007 and an indicative allocation of 1,000 billion for 2008.

The programme is meant to support both capital investments and capacity building of teachers and instructors, but has so far mainly been used for funding investments, such as computer equipment. Apparently, all TVET institutions, including VTCs, benefit from allocations under the NTP-E. Available information suggest that most institutions receive an annual lump sum of 200 to 300 million VND.

There appears to be some scepticism with respect to the effectiveness of the Target Programme¹⁵. An evaluation the TVET component of NTP-E may be necessary¹⁶.

Tuition Fees

Apart from public contributions to recurrent and capital budgets, tuition fees payable by trainees are the main other income source for public TVET institutions. Decree 10 of 2002 introduced tuition fees into the Vietnamese education system. Although no precise figures were available, the visits of selected TVET institutions suggested that tuition fees have developed into the most important income source, which cover at least half, if not more of the total institution's budget.

While institutions are free in principle to determine the fee levels¹⁷, tuition fees for long-term programmes (at secondary and college level) in public TVET institutions are capped at 120,000 VND per month. However, institutions may add additional charges for special purposes, such as contributions for training materials and books¹⁸.

¹⁴ NORAD (2005) highlights that the NTP-E is not a programme in the conventional sense but rather a specific budget instrument to manage conditional and earmarked grants.

¹⁵ This was confirmed in interviews. Also MOLISA 2007, Art. 2.7 mentions the need to increase effectiveness of the target programme.

¹⁶ An evaluation of the NTP-E is currently under preparation, however not including Component 7 (Strengthening Vocational Training Capacity).

¹⁷ See regulation No. 43/2006/ND-CP, Article 23.

¹⁸ On top of fees, there may be a variety of additional, often formally voluntary contributions payable by students. These include, for example, contributions to social events, examination charges, extra classes, purchase of additional protective clothing, etc.

Fees for short-term courses on elementary level are not set and vary in accordance with markets and training costs. Monthly tuition fees between 100,000 and 300,000 were usually reported. Those institutions, which serve the market for upgrading training financed by companies, apparently succeed in raising significantly higher fees.

Apart from fees, boarding can constitute a substantial burden to families. In one visited institution, the costs for boarding were indicated to be 400,000 VND per trainee and month.

Trainees from one of the following backgrounds are exempted or part-exempted from paying fees: children of wounded soldiers, war orphans, members of ethnic minorities and children from poor families presenting a written statement from their local authorities. Normally, 15% of trainees should be exempted. Institutions receive a lump sum public subsidy meant to compensate 30% of the lost income incurred through the exemption policy. Some concern about the effectiveness of the exemption scheme has been raised.

Other income sources

Other income sources of public TVET institutions include income generating activities and donations. But the proceeds of these sources remain relatively small in relation to fee income.

Income generating activities (IGAs) include sale of products and services, either specially produced to generate income, or produced as part of the training. Although systematic information could not be obtained it appears that IGAs generate substantial income only in exceptional cases. Interviews with management staff in training institutions revealed a rather underdeveloped business thinking. In cases, turnover was not distinguished from profit rendering any attempt to estimate the income potential futile. On the other extreme, cases were reported where TVET institutions were involved in piece rate contract work for large companies during their practical training.

Some donor programmes are involved in supporting individual schools with capacity building support and funds for upgrading infrastructure and machinery. These include the German Cooperation, supporting a total of nine TVET institutions and two technical universities with technical, financial and personnel support; the *Vocational and Technical Education Project* co-sponsored by the African Development Bank (ADB), Nordic Development Fund (NDF), Japanese International Cooperation Agency (JICA), Agence Française de Développement (AFD) and Vietnamese Government supporting 15 institutions; SwissContact, which has worked with 37 VTCs over the last 14 years. The Dutch NUFFIC finances a programme to support TVET development in the forestry sector under the Ministry of Agriculture and Natural Resources. The Canadian Association of Community Colleges (ACCC) currently supports one community college that offers technical secondary education under MOET and plans to expand its assistance. Furthermore, Vietnam and South Korea are currently preparing a cooperation project with the aim to establish five new TVET Colleges including technical support and curriculum development.

No information could be obtained about the extent and form of donations from local sources, such as NGO, mass organisations, companies, and the like.

Financial management

Public TVET institutions enjoy a relatively high degree of financial autonomy¹⁹. To stimulate a further diversification of funding sources institutions have the right to collect and receive different types of income and decide at institutional level, within the frame of general public sector rules, about the use of income. They are required to set and collect tuition fees and fees for other services within the frame of determined ceilings for these fees. They are expected (and encouraged) to generate and manage income from production and sale of goods and services. Institutions have far-reaching staff management responsibilities including the right to raise pay levels above the stipulated minimum wages and public salary scales. Institutions are also allowed to take and manage credits from credit institutions and other sources.

TVET institutions are subject to taxation, but may be tax exempted according to the Vocational Training Law of 2006 (Art. 53).

2.2 Private training providers

The private training market has grown during recent years. It is estimated that at the moment, 30% of the GDVT managed TVET institutions, and 20% of the schools under MOET are registered as private schools. Private training providers are usually fully self-financing. They do not receive any regular state funding.

In line with the *socialization* policy, the Vietnamese Government explicitly encourages the establishment of non-public training providers that enjoy rights and privileges as codified in the Education Law of 2005²⁰. Within the usual limits²¹ they enjoy full educational freedom, autonomy and self-accountability in terms of management, and full recognition of awards (Art. 65). According to Article 68 of the Education Law private providers shall be granted preferential access to land and infrastructure (allocation or rental) by the state. Tax exemption and credit support is also foreseen. The law also makes provision for the possibility to finance private training through state subsidies, and to integrate private providers in the public compensation schemes for fee exemptions to trainees from social policy targeted groups.

The main income source of private providers are tuition fees. Unlike in public TVET institutions, fees are not capped in private TVET institutions. Available evidence suggest that fees in private institutions are slightly, but not significantly, higher.

2.3 Company/industry-based TVET

No systematic information is available about investment of companies in training, and about patterns and extent of TVET delivered or financed by companies. From the discussions held during the fact finding mission it appears that with the exception of state-owned enterprises, the preparedness of companies to invest in training is rather underdeveloped. A significant indicator for this problem is the widespread practice that TVET institutions provide financial compensation for training related costs to companies if these accept trainees for attachment. In fact, TVET providers appear to compete for attachment places through the compensation amount they are able to pay to employers. Companies are also involved in selling training opportunities directly to young labour market entrants. Allegedly, it is common practice in the

¹⁹ Important legal documents include Decree No. 10/2002/ND-CP, Interministerial Circular No. 21/2003/TTLT-BTC&BGD-BNV, as well as Regulation No. 43/2006/ND-CP.

²⁰ See Art. 53,3 and 85 of the Vocational Training Law 2006.

²¹ Described by laws and regulations either by MOLISA or MOET.

garment industry that school leavers undergoing short term skills training in company-owned training facilities pay tuition fees during an initial training period, and also accept wage deductions during the first months of productive work in the factory until they are considered fully productive. Payments in such company-owned and organised training facilities tend to be higher than in normal TVET institutions, which may indicate both, a shortage of training places in the institutional TVET sector, and that trainees honour the increased job placement security linked to in-company training.

There are also indications that mainly large and often foreign companies as well as companies involved in technologically advanced production are more likely to invest in training, either through company-based training facilities²² or through buying staff upgrading programmes in the training market. In the case of advanced and specialised skill areas, companies are apparently prepared to pay training fees well above the normal tuition rates in the TVET market. During the fact finding mission, monthly fees up to 5 million VND for upgrading in CNC machine operation were mentioned.

Furthermore, there appears to be an increasing trend that sector and professional organisations embark on initiatives to organise training. Initiatives to set up training centres in the textile sector and in the field of mechatronic are just two examples.

Although the Government explicitly encourages employer-based training²³, attractive incentive packages are lacking. Training related expenses are tax deductible as a normal operational expense.

2.4 Lack of knowledge about costs and expenditure in TVET

The knowledge base about costs and expenditure in TVET is extremely weak in Vietnam, and by no means a sufficient base for future planning exercises.

There is no aggregate overview neither about state funding nor private resources available for TVET delivery in Vietnam. This situation is due to the following reasons:

- As described above, the actual public budget allocation for TVET institutions is done through the sponsoring parent organisations, i.e. line ministries, central agencies, provincial and district level authorities. Consequently, allocations to TVET institutions are part of the budget of their parent organisations. There is no requirement of parent organisations to report to GDVT about actual spending on TVET institutions. Consolidated budget data combining all public spending by different ministries and at different administrative levels do not exist²⁴.
- As was also mentioned before, actual allocations to institutions differ substantially between the different sponsoring parent organisations. Some appear to stick to the government standard norm of 4,3 million VND per trainee/year, others fall short of or exceed the norm. The same appears to apply for capital cost, where some sponsoring

²² MOLISA (2007, Art. 3.1) counts a total of 143 training institutions attached to enterprises in Vietnam, however, also mentioning that mainly the large corporations run own centres.

²³ Cp. Chapter V of the Vocational Training Law 2006.

²⁴ Cp. also CFAA 2006.

organisations are assumed to add own resources to the allocations from the MPI²⁵. These variations render spending estimates based on GDVT planning data difficult.

- Private spending, mainly through fee income, is difficult to estimate as no actual enrolment figures are available. Available figures are usually target figures.

Against this background, reliable and reasonably solid data on public TVET spending are not yet available.

At the same time, knowledge of TVET unit cost is insufficient. The standard (average) budget norm of 4,3 million VND per trainee per year is based on an average cost assessment undertaken in 1998. It was supposed to cover all recurrent cost plus depreciation. The figure represents a model cost calculation based on curricular requirements and standard training norms (for instance regarding student-teacher-ratio, etc). However, actual costs incurred may differ substantially, depending on class size, nature, extent and quality of practical training and other cost determining characteristics of the training. All experts interviewed emphasised that this norm is considered outdated and needs revision²⁶.

TVET institutions that were visited during the mission were mostly not able, or not willing, to provide unit cost data for their institutions. Available information on budgetary allocation to individual TVET institutions in relation to enrolment figures may lead to the assumption that actual unit spending in some institutions is lower than the standard budget norm of 4.3 million VND.

Unfortunately, the mission also did not succeed in obtaining any meaningful information on the structure of cost and expenditure.

2.5 Government policies relevant for the reform of TVET funding structures

This report focuses on financing mechanisms of TVET. However, it is important to emphasise once again that a financial and a general system reform in TVET are interrelated. The further development of financing mechanisms for TVET is part of a larger reform agenda. Within an overarching system reform, the financing framework can be instrumental in assisting the implementation of structural changes in the TVET system. For example, financial incentives can support the participation of employers in TVET, which is intended as a strategy to improve quality. At the same time, many financing instruments can only be successful if other elements of the TVET reform have already been implemented. Performance-based budgeting, for example, requires prior introduction of quality standards and instruments to measure and control quality.

Background of the reform of the funding system is the ambitious TVET development targets of the Government of Vietnam, which foresee enrolment increases on the one and quality improvements on the other hand. In order to secure financing for these plans, the Government

²⁵ DOLISA in Vinh Phuc, for example, indicated that the province would allocate some 120 billion VND to the TVET sector in the province on top of the central allocations.

²⁶ International comparisons of TVET unit costs, which allow for international cost benchmarking are usually not appropriate and are therefore hardly done. TVET costs depend very much on the specific delivery structures that are specific to each TVET context.

of Vietnam has already defined major strategic orientations with respect to financing TVET²⁷. In short, these are:

Socialization

Socialization of TVET as a central strategy to generate resources for the TVET system was decreed by the Decision of the MOLISA Minister No. 1000/2005/QD-BLDTBXH of June 2005. According to Regulation 139/2006/NDCP (Government of Vietnam, November 2006) socialization of TVET means investment and participation in TVET of all forces of the society, in particular national and foreign organisations, companies and individuals.

Government will support and encourage such investment (Article 3).

Socialization can be considered the base principle of the financing strategy, calling for a far-reaching diversification of funding sources and participation of beneficiaries. The policy of socialization serves as a justification for the other major reforms in the financing system, such as the introduction of fees, and the support of private investment in TVET. Another important instrument under socialization is also the transformation of public TVET schools to institutions of private or social ownership. According to GDVT information, a substantial number of public TVET schools are planned to be transformed into share companies by 2010.

Concentration of Public Funding

Although Government envisages substantial increases in overall public spending on TVET in the future, all relevant documents define spending priorities. In general it appears that Government intends to focus its support in the future on training at higher qualification levels, delivered in vocational secondary schools and vocational colleges. Other training will be supported if previously undersupplied areas are concerned, such as mountainous, remote and rural areas, islands, etc. In some papers the focus lies on high quality institutions in economic growth regions and industrial zones, or on most important economic sectors (e.g. MOLISA 2006, Art. 3.1).

While concentration of scarce resources seems to be a reasonable approach, the actual focus still appears to be slightly unprecise and rather wide. Since policy statements send important signals to TVET institutions, it appears necessary that Government sharpens its statements with respect to priority funding in order to give orientation to TVET providers²⁸.

Tuition fees and support to trainees

Already in 2002, tuition fees were introduced throughout the educational system as a cost-sharing mechanisms. Fees for long-term TVET programmes were capped, i.e. maximum fee levels were defined by the Ministry of Finance. Apparently, a reform of the fee system is now in the making at the moment, introducing a range of fees with the aim to increase flexibility in

²⁷ The most important include the Vocational Training Law 2006, which became effective in 2007, the Report of the State of TVET during the Phase 2001-2006, Aims and Activities for the Development of TVET until 2010 of May 2007 (Reference is based on the German Translation: Bericht über den Stand der Berufsbildung in der Phase 2001-2006, Ziele und Massnahmen zur Entwicklung der Berufsbildung bis 2010. (Translated by VietVision for TVET Project); and the Announcement of the Decision of the Approval of the “Planning for the Development of a Network of Vocational Colleges, Vocational Secondary Schools and Vocational Training Centres until the Year 2010 and Orientation until the Year 2020” of October 2006 (Reference based on German Translation: Entscheidungsschreiben über Genehmigung der „Planung zur Entwicklung eines Netzes der Berufscollages, Berufsschulen der Mittelstufe und Training Centers bis zum Jahre 2010 und Orientierung bis zum Jahr 2020“. MOLISA Nr.: 07/2006/QH-BLDTBXH, Hanoi, 2. Oktober 2006. Veröffentlicht in der Law Gazette Nr. 43/44 am 23.10.2006. Translated by VietVision for TVET Project.)

²⁸ One public TVET provider visited during the mission was expecting a complete stop of public funding of recurrent costs in the future, while other interview partners suggested that this was not planned.

the setting of fees. It is also generally expected that as a consequence the overall fee level will increase²⁹.

Parallel to the fee policy, a variety of programmes and mechanisms to mitigate the social consequences of increased cost of TVET for households have been introduced, and new are planned to be set up. Alongside various social programmes to exempt trainees from marginalised and poor households from fees, a new support fund for vocational trainees is being set up and a new student loan scheme for needy students established, which is supposed to be accessible also to trainees in TVET programmes. Already now, the best achievers in each programme receive a monthly stipend to be paid by training institutions. Furthermore, special incentives have been promised to TVET institutions to provide training to defined target groups, such as tax holidays or tax reduction³⁰.

Support for private investment in TVET

Support of private investment is one of the core strategies in support of “socialization”. This includes both: the emergence of private TVET institutions, including private investors taking over formerly public schools, and investment of companies in training centres and training programmes. It is also hoped that foreign investors will become active in TVET, bringing modern standards, technology and training equipment to Vietnam. In the same context, cooperative TVET will be supported (cp. Government of Vietnam, November 2006).

The following chapter will discuss some of the issues in more detail.

²⁹ Information obtain during various interviews.

³⁰ Cp. Government of Vietnam, November 2006, Art. 22,3.

3 Some Issues and Options

This chapter will highlight some issues related to the further development of financing TVET where more discussion is considered necessary. It should be emphasised that in general, the strategy of socialization in the sense of diversification of funding sources appears to be the right choice, well in accordance with international best practice. However, a number of strategic and implementation issues need further consideration.

3.1 Incentives for quality

TVET institutions operate in an environment of increasing management autonomy on the one hand, and public pressure on the TVET system to increase access on the other. In this context, the current financing framework creates incentives for institutions to increase enrolment numbers at the expense of training quality. Contrary to the higher education sector, TVET institutions under GDVT are not subject to enrolment limits. Many TVET institutions have increased their enrolment figures during recent years, obviously in both market segments of long-term and short term programmes. In fact, as public allocations for recurrent spending do not increase, raising tuition fees through increased intake of trainees has become the most convenient way of increasing institutional income. At the same time, increased intake often raises the reputation of the institutions within the local environment.

However, increased trainee intake can only be profitable for institutions, if the marginal cost of training one trainee is lower than its fee income, i.e. 120,000 VND per month (in case of long-term programmes in public institutions). As a consequence, increased intake has led to a lowering of unit cost, for example through larger class sizes or lower per-trainee spending on training material, all negatively impacting on the training quality. It is also a widespread phenomenon that TVET institutions with capacity constraints outsource the training delivery to other institutions with spare capacities.

The current trend appears to be mainly caused by three system problems: the inflexible fee system in public institutions, a public financing system that is not linked to performance indicators, and the lack of effective quality control of TVET.

As fees cannot be raised beyond the fixed ceiling at the moment, fees do not reflect costs or the market value of TVET programmes. In this context, it represents a first step into the right direction that the Government plans to revise the current TVET fee policy aiming at an increased flexibility of the fee levels within larger margins, and a broader fee differentiation between different training programmes depending on training costs and economic relevance of the occupational field.

At the moment, public subsidies are not linked to performance indicators. Once the budget is allocated, funds are disbursed to institutions independent of actual enrolment, or quality and relevance indicators such as graduation rate, success in job placement, or others. The system of allocation of state subsidies to TVET institutions does not provide incentives for improving the training outcome. It does not assist institutions to re-direct their institutional emphasis from “low-cost training for as many as possible” to activities that may promote both cost-

effectiveness and at the same time quality (such as cooperative training, well designed production activities, etc).

In view of scarce resources for TVET, the Government of Vietnam may therefore investigate feasible options to re-design the budget allocation system for TVET to incentivize quality. The new practice in GDVT introduced in 2007 to utilise quality criteria in the development of the national training plan can be seen as a first step to sensitize TVET institutions for quality requirements. The pilot tender scheme, which also started in 2007 in five occupational groups covering the training of 2700 long-term trainees is another very important initiative in this regard. A tender scheme is designed to introduce competition among public TVET providers on the basis of a quality/cost formula. It is an important step in the establishment of a training market. As such, it may achieve both: introducing incentives for quality, and at the same time targeting public resources towards the best training, i.e. to make sure that scarce funds are used in the most cost-effective way. Many countries have started to work with systems of performance-based budgeting and/or tender principles in the education sector. Vietnam may learn from such experience, when further developing budget allocation mechanisms to promote quality and relevance. Furthermore, conceptual work should be linked to discussions on performance-oriented budget allocation methods that have emerged in the higher education sector³¹.

Among the most important determinants of the current quality problems, however, is the virtual absence of effective quality control within the TVET system. It is the precondition that allows institutions to compromise quality for income generation. Any change in the financial framework with a view to create incentives for producing quality training will only be effective if quality in TVET is defined, measured and monitored, if effective sanctions are in place to punish non compliance and, not least, if supportive structures are available to assist institutions to improve quality. Any successful implementation of performance-based budget allocation will finally be contingent on the capacities of training institutions to deliver quality and to compete with other institutions on the basis of quality and efficiency.

3.2 Public Financing of TVET

Up to now, the TVET reform has not been comprehensively costed. Estimates that have been published envisage an increase of the TVET budget as a share of the education and training budget from currently 10 to 12% by 2010. (MOLISA 2007, Art. 2.5). In July 2007, the Director General of GDVT indicated that GDVT has proposed an overall spending of some 7,000 billion VND (\$437.5 million) for the time period 2006 to 2010 (Viet Nam News, 27. July 2007). However, it appears that these estimates are not based on solid information and cost estimates. There is no consolidated overview of aggregated current spending on TVET, no solid assessment of unit costs (cp. Section 2.4), and no estimates of recurrent and capital cost implications of the intended reform elements (such as building a system of standardization, assessment and certification).

It is apparent, though, that the reform if implemented as envisaged will require substantially more resources than currently spent on TVET, mainly because:

- Supply targets set by the Government of Vietnam imply a cost increase not only because enrolment numbers per se will rise, but also through the envisaged change in

³¹ Cp. World Bank 2007.

the vertical supply structure. At the moment, cheaper short term TVET programmes account for some 80% of the total training supply. However, this share is expected to drop to 70% in 2010 and 50% in 2020. Short term training at basic level will only marginally increase from 1.1 million to 1.194 million. On the other hand, the plans envisage an enrolment increase at college level by 330% between 2007 and 2010, and by 40% for TVET at the vocational secondary level (MOLISA 2006, Art. 2.2). This implies that the entire planned access growth will take place in the high cost segment of TVET.

- As experience in other countries shows, improved regulatory, supervisory and supportive functions of the TVET system does not come for free. In particular the establishment and maintenance of occupational standards and the related assessment and certification structures require substantial initial but also long-term recurrent resources. In order to raise the training quality, investments in continuous capacity building will be necessary. Not least the current massive investment in modernised equipment at institution level will necessitate substantial recurrent expenditure in the future to ensure the investments' sustainability.

Hence, achieving the ambitious TVET development goals will require a substantial increase of resources available for TVET. Assuming that the growth in public spending will not keep pace with the growth of resource requirements, Government will need to set spending priorities. The available policy documents have started to formulate priorities, which however still appear somehow rather comprehensive and unprecise (cp. Section 2.5). Issues that appear to require further discussion to support future planning might include:

- Concentration of public spending on regulation and quality assurance vs. funding of training delivery.
- Setting sector priorities, or priorities by levels of training or target labour markets (labour export, training for self-employment, etc), in the subsidization of training delivery
- Providing funding for equity programmes, i.e. to ensure access to TVET by marginalised target groups
- Introduction of financing instruments to support targeting, such as tendering for subsidies to schools. Tendering may also be included in the allocation of capital funds and support provided under the National Target Programme.

In order to synchronize policies with available resources in the TVET reform, i.e. to ensure sustainability of the envisaged reform process, GDVT will need to embark on a process to develop a comprehensive, integrated and costed sub-sector financing framework. Such a framework would include cost projections, a detailed plan of envisaged government spending, and an outline of mechanisms to raise additional resources from other sources, including (costed) strategies to implement these mechanisms and estimates of income from these sources.

Such a planning process would need to be undertaken within the relevant discussion in the wider education and training sector and preceded by substantial efforts to improve the information and knowledge base of the sector. Specifically, unit cost analyses of different TVET programmes, efficiency analyses of training delivery and management processes, as well as assessments of non-government resource flow into the TVET system are urgently required to inform a thorough sub-sector planning.

Furthermore, the lack of transparency in TVET financing at the current moment, and the actual de-linking of TVET policy from TVET budget making appears to be a substantial barrier to an improvement of the planning and monitoring processes in TVET. The underlying problem, which is basically a problem of the public financial management system, is currently being discussed in the wider education sector in Vietnam³². The TVET sub-sector may participate in these sector-wide discussions.

3.3 Efficiency issues

On the basis of information available to this mission it is difficult to make solid judgements about efficiency and related problems in the TVET system. As a general rule, a financial strategy for TVET should not only be geared towards increasing income to the system, but also to improve cost effectiveness. The following three issues appear important to consider in the Vietnamese context:

- The process of decentralisation of management responsibilities to the school level appears to provide a good base condition for efficient system management. In fact, granting (more) autonomy to TVET schools is among the most important reform issues in many countries. Another issue is whether school managements have sufficient capacities and systems in place to properly utilize the scope of action granted to them through decentralisation. GDVT may consider undertaking organisational development analyses and capacity building needs analyses in training institutions and at important administrative levels as part of its policies to introduce quality management in TVET.
- The current predominant mode of TVET is school-based training complemented by a relatively short attachment period. Experience has shown that alternative delivery modes may impact substantially on the cost-effectiveness of TVET. Notably cooperative training, i.e. combining training in an TVET institutions with learning at a workplace, can be very effective not only in terms of quality improvements, but also in terms of lowering unit cost in TVET. A systematic cooperative training usually reduces (costly) institutional training time thus decreasing unit cost in TVET institutions. At the workplace, on the other hand, trainees get involved in productive work thus producing value while learning. In one of its recent decisions, the Government of Vietnam has stipulated the introduction of pilot programmes for cooperative training (MOLISA 2006, Art. 4.2). This is a step in the right direction also from the point of view of financing. A thorough unit cost analysis should be part of the evaluation of the pilot.
- Finally, efficiency will be an issue to look at in the allocation of public funds. When public funds are scarce they should be used in a way to stimulate TVET that is relevant, of high quality and cost-effective. Public funds should also be concentrated on those areas where without state subsidies important training would not take place, for example in remote areas or in emerging skill areas. In other words, efficiency of the TVET system can be improved by appropriate targeting of public funding, and by selecting allocation mechanisms that stimulate competition in the training market and reward quality and relevance. As already discussed in other sections of this paper, GoV has already moved in this direction by acknowledging that the state needs to set spending priorities and by starting to introduce performance-based and competitive mechanisms of funding allocation.

³² See for example Clarke (2006) and CFAA (2006).

3.4 Income Generating Activities

Within the overall context of socialisation and decentralisation, the current policy expects a greater share of institutional cost of TVET delivery to be recovered by income generating activities (IGAs). At the same time it is hoped to improve practical training through involving trainees and teachers in IGAs. MOLISA (2006, Art. 4.2) has formulated for IGAs the target of 25% of total income by 2020, a relatively high target by international standards.

As mentioned previously, IGAs are widespread in the training sector, but their net income potential appears to be underutilized, notwithstanding the fact that since the recent administrative reforms institutions enjoy substantial autonomy and operational freedom with respect to the implementation and management of IGA. Typical problems for IGAs in other countries, such as prohibitive administrative regulations regarding use of funds, have already been removed in Vietnam. Major problems, still preventing a further growth of IGAs seem to include:

- Within the current financing framework, other income sources, in particular income from tuition fees, are more convenient to generate. Hence, incentives for increased IGA efforts are lacking.
- Necessary business management skills, in particular market assessment, marketing, costing and financial management are not sufficient.

Experience in other countries suggests that IGAs in TVET institutions can be stimulated by a combination of financial incentives and capacity building of management staff in TVET institutions. Financial incentives may include, for example, that the volume of generated income is one of the criteria to determine public funding.

In many countries there is a concern that IGAs create unfair competition to private businesses and distort local markets. This may be a particular concern in Vietnam as well, as TVET institutions are usually exempted from paying tax³³. It may be useful to investigate further the potential impact on IGAs on the local markets, not least because the TVET reform also aims at better cooperation between TVET institutions and local businesspeople. In some countries, supervisory boards of TVET institutions, in which local businesspeople participate, are envisaged to play an important role in stimulating and selecting IGAs for TVET institutions in line with the needs of local markets.

3.5 Private Investment in TVET

Key to Vietnam's policy of socialization of TVET is to encourage the private sector to invest in TVET and to increase the share of training provided or delivered by private providers and companies. With such a public-private partnership Vietnam follows the example of many other countries that have embarked on successful TVET reforms. An increased share and influence of the private sector in the TVET system is important for increasing relevance and demand-orientation of training, but also for diversifying the available resources hence increasing sustainability of the system.

³³ According to the Vocational Training Law, exempted are in particular also "products produced by training activities" (Art. 53).

Since policy options differ, this section will discuss separately the issues of (a) private training providers and (b) investment of employers.

Private training providers

The term private training institutions is commonly used for all kinds of non-governmental TVET institutions, including private commercial institutions and those run by non-governmental organisations. Of the latter, many appear to receive some state funding, such as those run by mass organisations, for example, by the trade unions. This section addresses in particular private commercial TVET institutions.

The encouragement of private investment in TVET institutions is generally considered an important instrument to mobilize additional resources for TVET. The growth of the private training sector can be instrumental in taking some of the financial burden away from government, in particular investment costs for new training centres. Many countries have adopted strategic policies to strengthen the private training market and some have been rather successful³⁴.

It is also important to emphasise that the emergence of private training providers can help to increase quality, efficiency and cost-effectiveness of training, also within the public TVET segment, by introducing competition into the training market and providing good examples.

As indicated in section 2.2 of this report, the Government of Vietnam has already established a good legal base for private commercial institutions to develop. The law basically envisages a level playing field for private providers vis-à-vis public providers in terms of operational freedom, access to support schemes and recognition of training. Also the legal possibility for including private institutions in state funding schemes demonstrates a fundamental commitment of Government to strengthen the private training market. At the same time, targets are ambitious. Apparently, high targets with respect to private sector participation in TVET and regarding the conversion of public schools into share companies are currently being discussed among the decision-makers.

However, despite this relatively favourable regulatory environment, the previous growth of the private TVET sector appears to fall short of expectations. No systematic information on barriers is yet available. Discussions during the mission suggest the following core problems:

- *A lack of effective implementation of existing support policies*, e.g. lack of actual access to concessionary credit and land, privileges, which are envisaged in the policies and provided for in the law;
- *A lack of competitiveness of private providers vis-à-vis the state training sector*. Private providers have to recover all costs through tuition fees, but may find it difficult to charge cost-recovery fees in view of competition with public providers;
- *A low reputation* of private providers relative to public providers by the target groups.

In general, a thorough analysis of the investment climate, chances and potential barriers of private commercial investment in TVET in Vietnam would be useful to better understand the determinants and constraints of the private training market and to fine-tune support policies.

³⁴ In Chile, for example, the number of private training centres could be raised from 0 to 168 between 1980 and 1990 as a consequence of strategic policies. Another example is the Czech Republic where all new technical training programmes that emerged since 1993 are provided by private stakeholders. See InWEnt 2005, p. 21.

Such an analysis should also look at policy options to integrate private providers in the system of state subsidies, e.g. a participation in the tender system or as beneficiary of the National Target Programme. In this context, it appears to be a step into the right direction that some of the major donor supported programmes, in particular the one funded by ADB and the German KfW envisage to integrate private providers as beneficiaries of investment capital support in the future.

Furthermore, the public investment policies with regard to new TVET institutions should be analysed with respect to potential crowding out effects of the private training market. Government should limit its investment to TVET segments that are vital but cannot be adequately served by the private sector.

Investment of employers in TVET

There are indications that the implementation of socialization at the current moment seems to be slightly unbalanced, generating new resources mainly from private households. On the other hand, companies, the other main beneficiary of TVET, are still not systematically contributing.

As described earlier, the involvement of employers in TVET appears to be rather low in Vietnam and concentrated on large, mainly state-owned, and foreign company and those operating with advanced technologies. The fact that TVET institutions usually pay a compensation to companies for accepting trainees for attachment indicates a rather undeveloped ownership of the TVET system among employers. That appears to contradict the general perception that companies in Vietnam do experience skills shortages. In fact, available surveys indicate that in particular TVET level craftsmen and technicians are in short supply in the Vietnamese labour market³⁵. The assumed low level of employers' investment in TVET³⁶ may therefore indicate that companies perceive existing TVET qualifications and programmes as irrelevant or of low quality. Supporting this assumption is also the fact that some large companies as well as business and professional associations are now embarking on initiatives to set up own training facilities – often in conjunction with specialised training institutions - instead of relying on the existing training market.

Employers are among the main beneficiaries of good and relevant TVET. In other countries, this is usually the justification to expect or even force companies to contribute to the cost of training. In fact, participation of employers in the financing of TVET, either through real training delivery or financial contributions, is rather the rule than the exception in well functioning TVET systems. In Germany, for example, employers mainly contribute in real terms, through the provision of apprenticeship training³⁷. In many other countries, training levy schemes are instrumental to generate resources for the training system, often organised through national training funds. Malaysia, Korea and Singapore, for example, are countries in Asia with training levies. In Vietnam, the search for appropriate mechanisms to increase contributions from employers appears to be in a rather initial stage.

It is useful to distinguish between two different kinds of training investment by companies:

³⁵ Cp. World Bank 2007, p. 153 – 161.

³⁶ Data and solid information on the extent of employers investment in TVET is not available, but merits further consideration.

³⁷ Some years back, it was estimated that on average, one apprentice costs each enterprise Euro 7,800 (10,600 USD) per year, cp. InWEnt 2005, page 16.

- (a) real investment, i.e. actual training provision by companies either by way of providing in-house training - in company-based training institutions or in the framework of cooperative TVET – or through the organisation of staff training delivered by external training institutions;
- (b) financial contributions, for instance as payments into a levy fund. Another form may be that companies support selected training institutions directly or pay contributions into support funds.

In Vietnam, mainly real investments are supported at the moment. In an attempt to increase on-the-job training, for example, GDVT currently pilots incentive schemes with four companies, namely Vietnam Minerals and Coal Industry Corporation, Post and Telecommunication Corporation, Viet Nam Shipbuilding Corporation, and Viet Nam Machinery Installation Corporation (Viet Nam News, July 27, 2007). It is further intended to strengthen cooperative training schemes, and pilot projects are in preparation aimed at the further development of a cooperative training system³⁸. Other types of cooperations between TVET institutions and companies are also explicitly encouraged. Furthermore, costs incurred in staff training can be deducted from corporate income tax as operational expenses (Government of Vietnam November 2006).

These initiatives all point into the right direction and should be reinforced. Interviews held during the mission suggest, however, that implementation of such a supportive framework falls short of intentions. For example, foreign companies are allegedly faced with insurmountable bureaucratic hurdles when trying to open company training centres. Also, the effectiveness of the tax deductibility as an incentive for training investment merits a further analysis. Finally, calls for compulsory training activities and employment restrictions³⁹ to support incentives should be carefully discussed and their impact analysed before any legal steps are taken.

If company investment in TVET continues to be limited to mainly large, state-owned and some foreign companies, the Government may rather consider the set up of a TVET levy scheme as an accompanying instrument to stimulate real investment. Such a levy scheme may on the one hand generate needed resources into the national TVET scheme. However, by exempting those companies which actively train, or granting rebate of actual training costs, such a levy scheme can at the same time be used to create incentives for companies to train⁴⁰. Similar thoughts have recently been formulated with respect to the higher education sector⁴¹. The discussions should be coordinated.

3.6 Access and Equality

Improving access and equality of access to TVET is one of the most important goals of the TVET reform agenda of the Government of Vietnam. They are concretised in the enrolment

³⁸ According to discussions held with different GDVT staff. The call for the development of cooperative TVET is also included in MOLISA 2006.

³⁹ During discussions it was repeatedly suggested that companies should be forced by law that all new employees should have received relevant TVET.

⁴⁰ Another argument in favour of levy schemes and particularly levy-grant schemes, which may be of importance in the Vietnamese context, is that these schemes provide compensation for training companies vis-à-vis non training companies, and therefore reduce the negative effects of poaching. The fear of staff being poached after training by other companies is often cited as one important obstacle for company investment in TVET.

⁴¹ Cp. World Bank 2007.

targets and the plan to geographically expand the network of TVET institutions, including at least one TVET centre in each district (MOLISA 2006). Special social programmes are intended to ensure access to TVET by previously marginalised groups (such as ethnic minorities, war orphans, and others) and generally the poor⁴².

The envisaged policy reforms are likely to impact on low income groups mainly through the expected rise of tuition costs. Already now, total training cost for households, including living expenses, have been estimated at some 700,000 VND per months per trainees⁴³. Furthermore, children from poor families and other marginalised groups are likely to be over-proportionately represented in short term elementary level TVET, which is an issue to consider when Government tends to focus investment mainly in higher qualification levels. Already now, elementary level training is not included in the per capital quota system of recurrent budget allocation.

Data and information about participation of marginalised groups in TVET could not be obtained during the mission. However, different discussions revealed some scepticism about the effectiveness of existing social support programmes with respect to reaching the needy. Further analysis in this regard may be necessary⁴⁴ with a view to design appropriate support schemes for poor target groups also taking into consideration that with increasing educational chances participation of children from poor and disadvantaged households will increase in the TVET sector. In this context, the accessibility of the new student loan scheme for TVET trainees should also be evaluated.

⁴² Girls and women, a groups that is traditionally affected by inequalities in TVET, does not appear to be considered a problem group in Vietnam. In fact, enrolment rates in the education system in Vietnam are almost equal for girls and boys. Vietnam is generally considered one of the more advanced countries with respect to gender equality. See also Gender Assessment 2006.

⁴³ Estimates of TVET institution management staff in one institution that was visited during the mission.

⁴⁴ Interesting insights in this context may also be provided by a flagship study on liquidity constraints to education recently commissioned under the World Bank Targetted Budget Support Education For All (TBS EFA).

4 Recommendations

In this section some recommendations from the previous discussions will be consolidated. It is divided into (1) recommendations for activities considered necessary for the further development of financing mechanisms for TVET in Vietnam, and (2) suggestions about possible activities of the Vietnam/German cooperation in promoting this process.

In sum, it is recommended that previous reform efforts will be continued, consolidated and improved, in order to further strengthen diversification of resources for TVET. Particular emphasis will be needed to make sure that TVET institutions will use their newly gained autonomy for the improvement of quality and relevance in TVET. Public funding should be carefully targeted. It should be used to support good practice, efficiency, quality and innovation in the TVET system. Finally, appropriate instruments aimed at increasing private investment in TVET need to be developed.

4.1 Recommendations for Further Development of the Financing System for TVET

In previous policies, many important reform steps towards ensuring sustainability and increasing the resource base have already been identified by the Government of Vietnam. This includes the process of socialization and encouragement of private sector investment, the deregulation and flexibilisation of the training environment, or the introduction of new and more cost-effective training modes. First of all, these steps will need to be further implemented, strengthened and deepened. Other complementary mechanisms may be considered in a second step.

The following paragraphs address some issues considered essential in this context, addressing activities at the policy/system and the micro level.

4.1.1 Recommendations at the policy and system level

Development of integrated and costed financing framework

In order to ensure sustainability of the ambitious TVET reform and further development programme the Government of Vietnam should strive for **developing an integrated financing framework and plan**, based on agreed policy priorities, thorough costing of activities and solid cost and expenditure projections. Integration in this context means taking stock and including all types of training and all kinds of resources - public and private - into the planning exercise, and to obtain a comprehensive picture of the national TVET supply and its financial sources. The framework would also need to address agreed funding mechanisms, and strategies and timetables for the integration of reform activities for the funding system. The GDVT will need to consult with other government stakeholders of TVET as well as with private stakeholders in the process of developing such a framework.

As a precondition of thorough planning, it will be important to initially **address the most serious data and information gaps** which currently render sub-sector planning almost impossible. In particular, the following will be necessary:

- Unit cost calculation for different TVET programmes at different qualification levels, based on the new standards and curricula that are currently been developed;
- Comparative unit cost calculations for different TVET delivery modes, such as cooperative training schemes currently in preparation, training with production, distance education and other delivery alternatives currently in practice or in planning. Such a comparative analysis will substantiate and support priority setting and choices to be made by training institutions.

The **development of a management information system for TVET** recording relevant sub-sector developments and enrolment data in the different segments of the TVET system would be a pre-condition for important estimates of current public and private spending patterns.

Although under the management of MOLISA, TVET in Vietnam is part of the wider education and training sector. Planning for further development of the TVET sub-sector cannot ignore processes and plans in the education sector as a whole and specifically at the secondary and higher education levels. Many issues relevant for the financing framework (e.g. reform of fee structure, education/training tax, reform of budgeting system) are topics currently being discussed in different sub-sectors of the education and training system. GDVT should therefore **inform and consult its plans and policies with other education sector stakeholders**. With respect to the suggested financing plan, it appears important to drive this process in consideration and consultation with the current process to establish a mid-term expenditure framework (MTEF) in the education sector (see also Clarke 2006). TVET would also benefit from any developments to establish a regular and reliable financial reporting system, which is called for in the education sector (Clarke 2006).

Develop performance-based budgeting

In order to correct the incentive structure for TVET institutions, in particular to incentivize quality improvements in TVET delivery, **budget allocation structures should be developed that effectively link allocation of public funds to performance and outcomes**. A funding formula would need to be developed, combining different criteria in a way that institutional based funding is ensured and at the same time strong incentives created for improving institutional performance. While institutional base funding would need to be linked to enrolment numbers and location/occupation-specific determinants, possible indicators to be included in performance contracts might include, for example,

- Results in examinations and graduation rates. However such indicators would require the successful set-up and implementation of an external system of quality control and measurement, for example a system of occupational standards together with a standard-based assessment system.
- Success in the job placement of graduates, measurable through tracer studies.
- Success in the cooperation with employers, for example in the implementation of cooperative training schemes (number of apprenticeship contracts).
- Success in the generation of income from productive activities (IGAs) and from tailor-made training programmes.

It should also be considered to what extent and under which conditions it may be feasible to **link the allocation of capital funds to performance indicators, including allocations under the NTP-E (Component 7)**. An impact study of Component 7 of the NTP-E, possibly to be jointly conducted with an overall NTP-E evaluation, may generate more insights in this regard.

Developing a training market

Apart from linking budget allocation to performance, the **stimulation of competition among training providers** may further create incentives for TVET institutions to increase the quality and relevance of the institution's training delivery. In an open and transparent training market, TVET institutions have to deliver training of minimum quality and at a good price in order to "sell" their training products. Introducing market elements into the training landscape is generally considered an effective tool to promote both: quality and cost-effectiveness.

Possible methods to introduce market elements in the Vietnamese TVET sector include:

- **Further development of the tender system of recurrent budget allocation**, which has just been introduced on a pilot basis. It is recommended to evaluate the pilot with a view to its effectiveness and organisational requirements and to eventually disseminate the instrument to the entire publicly supported TVET sector.
- **Implementation of the envisaged reform of the system of tuition fees**. The increased flexibility of the fee rate would enable TVET institutions to respond to specific target groups and market conditions. It would also allow institutions to finance quality through increased tuition fees⁴⁵. It is important, however, that the tuition fee reform will also provide flexibility of setting tuition fees (within given margins) to individual TVET institutions.

As the experience in other countries shows, market mechanisms in the TVET system are also likely to support a further development of the private training sector, which is envisaged in the relevant government policies as an instrument to increase the resource flow into the TVET system. In particular if private providers operate at a level playing field they may have a chance to compete with public institutions and grow into an important group of actors. To **integrate private providers into a comprehensive training market** they may be equally included into public financing schemes of TVET. This may include

- **Eligibility of private providers to participate in the public tender system**; as well as
- **Integration of private providers into a system of competitively awarded capital grants** for TVET institutions.

In a fully developed training market, public finance to TVET delivery would then be channelled to the best institutions (in terms of quality and price) irrespective of whether these are public or private, and thus contribute to increased cost-effectiveness in the system as a whole.

Furthermore, the **introduction of demand-side financing instruments** may be contemplated with respect to **special social programmes** that finance access to TVET for specially earmarked target groups (e.g. demobilised soldiers). Demand-side financing may be organised, for instance, through vouchers to be used for buying training services from any eligible TVET institution. However, international experience with vouchers is rather mixed. Vouchers in connection with special social programmes in Vietnam should therefore only be initially introduced in carefully designed pilot schemes, preferably in urban areas with a fairly significant and diversified training supply.

⁴⁵ Available information points to an increasing individual rate of return to education in Vietnam (see World Bank 2007). Against this background, increased tuition fees may be justifiable.

Strengthen the participation of employers in financing TVET

Contributions of employers to the TVET system, currently underdeveloped, potentially represent one of the major additional sources to be tapped for raising the TVET resource base. In this context, **both forms of employers' contributions: real involvement, i.e. participation in and provision of training delivery, as well as financial contributions should be developed in an integrated manner.**

Increasing the involvement of employers in the delivery of TVET requires the existence of appropriate, conducive and functioning systems. The **development of cooperative TVET schemes** (apprenticeship training) will be instrumental to provide avenues for employers to participate productively in TVET delivery. Other activities may include **easing the regulatory environment for new investment in employer-based TVET institutions** and providing for **flexible recognition and accreditation rules for company training programmes** developed by companies or sector organisations.

Financial incentives for employers to provide staff training should accompany system and regulatory improvements. More analytical work is required to better understand existing barriers and to assess the feasibility of incentive schemes such as tax incentives or direct support. It is therefore recommended to **commission a study on obstacles and chances of increasing employers' investment in TVET** with the aim to identify appropriate support approaches and incentive schemes.

It should also be considered to integrate into such as study a **feasibility analysis of introducing a training levy scheme** in Vietnam. A training levy would force all companies (as major beneficiaries of TVET) to contribute to the cost of training and may, if appropriately designed, provide effective incentives for companies to embark on own training activities. A feasibility analysis would need to look at the following issues:

- Justification, political obstacles and chances to introduce a training levy;
- Feasibility of a levy-grant system;
- Estimates of levy income under different design scenarios;
- Options for organisational structure of levy collection;
- Options for the use of the levy income;
- Management of the levy funds including decision making structures;
- Relationship to/integration with other levy approaches in the education sector, if any

Promote equity

With the likely trend to increasing training fees and the intended concentration of public funding on higher TVET qualification levels, equity issues become the focus of attention. The current state of knowledge - as far as it could be traced during the mission - does not permit the identification of problems and formulation of recommendations to promote or maintain equity in access to TVET. However, **further analytical work** is recommended as a first step to eventually fine tune existing or develop new schemes to support access to TVET by poor and marginalised groups. In particular, studies should be conducted on:

- Participation of poor and marginalised target groups in TVET, basic fact finding;
- Evaluation of the impact and effectiveness of current social support schemes including the new student loan scheme.

The ongoing TVET reform process should furthermore be accompanied by **social impact monitoring** to ensure timely warning of social exclusion. This should be coordinated with and should benefit from activities in other E&T sub-sectors.

4.1.2 Recommendations for activities at micro level

Capacity building of TVET institutions and TVET administrations

Capacity building in TVET institutions will be required firstly, to support management capacities and management efficiency and secondly, to empower institutions to comply with increased quality standards. It is important to keep in mind that financing instruments aimed at improving training quality, such as performance-based budgeting, require to be effective institutional capacities to deliver quality.

It is therefore recommended to

- Conduct **organisational development analyses** (case studies) to identify efficiency problems; develop change strategies
- Conduct needs analysis and develop and implement a **comprehensive capacity building concept for training institutions** covering among other issues quality management, cost calculation and financial management, marketing, etc.
- Develop, on the basis of need assessments, **strategies to strengthen income generating activities of TVET institutions including development and delivery of tailor-made training courses**; support may include capacity building of management and supervisory organs (in market analysis, marketing, cost calculation, etc), coaching of individual schools in the development of business approaches; studies on the impact of IGAs on local markets, etc .
- Assess the feasibility in selected locations, and **provide support of pilots - if found feasible – of production schools**.

Promotion of cooperation between TVET institutions and companies

Cooperation between TVET institutions and companies supported through policy reforms (cooperative training system; incentive structures, levy-grant system, etc) need to be initiated at micro level. GDVT therefore need to develop strategies to **support cooperation of TVET institutions with the world of work**, including cooperative TVET delivery and other cooperations between TVET institutions and companies or business associations. Support may include linkage programmes between institutions and companies, coaching in the implementation of pilot cooperative training, coaching in the development and delivery of tailor-made TVET programmes for companies, and other instruments depending on needs.

4.1.3 Excursion: Possible activities at meso level

Neither GDVT in conjunction with provincial DOLISAs nor supporting cooperating partners will be able to roll out a comprehensive and sustainable capacity building approach reaching all TVET institutions in Vietnam. It may be considered, therefore, to design a project for the development of a corps of local TVET consultants. These consultants would be specialised in management and development of TVET institutions and capable of coaching institutions

through the reform process. Such a project could be designed using a business development services (BDS) approach emphasising on the development of commercial services in support of TVET institutions.

It is likely that the introduction of performance-dependent funding principles, as suggested in the previous section, would induce a substantial effective demand for support services. TVET institutions would need to be assisted in introducing quality management structures, adhering to accreditation rules, developing projects to apply for capital fund support and not least drafting proposals for training services awarded through public tender. They may need to be linked to the local business community and coached in internalising cooperation strategies. All this may render a commercial market for TVET development consultancies feasible.

4.2 Recommendations for Further Activities of the Vietnam/German Cooperation

The German Technical Cooperation (GTZ) is currently cooperating with the Government of Vietnam in the project *Promotion of TVET*. At the current moment, the focus of the project is the *support to model vocational training institutions*. In the future, a new component will focus on policy advise and system development, which is currently being prepared. Under both focal areas, GTZ has the mandate to support the development of sustainable financing mechanisms of TVET in Vietnam.

It is suggested that GTZ will preliminarily assist the development of the financing TVET framework in a way as outlined below.

At the system level, the following short and medium term activities are suggested:

- 1 Facilitation of a **national workshop** comprising decision-makers and stakeholders in order to discuss and reach consensus on major pillars and strategic orientations of a future financing framework for TVET in Vietnam. This may help structuring any further interventions.
- 2 **Improving the knowledge base** for further TVET decision making, notably supporting the GOV to conduct the following studies:
 - Comparative cost assessment of different TVET programmes
 - Evaluation of private investment in TVET, including analysis of obstacles and chances
 - Evaluation of impact of the Programme *Strengthening Vocational Training Capacity* (Component 7 of NTP-E), possibly in conjunction with other education sector actors
 - Evaluation and impact analysis of social targeting programmes in TVET
 - Further priority topics to be defined after the national stakeholder workshop
- 3 Assisting the GOV in **concept development processes**, depending on demand and agreements reached during the national stakeholder workshop and results of further studies. Important issues include:
 - Concepts for a performance-based budgeting reform
 - Concept for the further roll out of the tender system, including an analysis of pilot experiences

- Concept for creating financial support schemes and incentives for private TVET providers based on study results
 - Feasibility study for a training levy system in Vietnam
 - Further conceptual work depending on the outcomes of the workshop and studies
- 4 Assisting the GOV in the **development of capacity building strategies and implementation of capacity building in the project schools**. From the point of view of financing, the following emphasis is important:
- Development and introduction of quality management
 - Pilot project in one project school to improve the cost effectiveness of training delivery
 - Further training and coaching in financial management, cost calculation and marketing
 - Development of strategic business development plans at school level
 - Assistance in the implementation of cooperative TVET schemes
 - Assistance and coaching in the further development of income generating activities, including market analysis.

At the level of TVET institutions, GTZ interventions will be implemented in cooperation with CIM experts if available.

It was mentioned earlier that the further development of the finance system is just one part of an overarching TVET reform and that new financing mechanism will only produce the expected results when accompanied by other system reform elements. Particularly important in this context are the establishment of the new (standard-based) quality assurance system with occupational standards, standard-based assessment and certification, and the development of a cooperative TVET system. It is expected that GTZ will also contribute to the TVET reform process of the GOV in these policy areas.

4.3 Synopsis of most important recommendations

Strategic field	Recommendation for Activities of the GOV	Potential Contributions of Promotion of TVET Project (GTZ)
Integrated TVET Finance Planning	<ul style="list-style-type: none"> - Consultation with experts and stakeholders about strategic orientation in financing TVET - Conduct cost assessment - Improve financial reporting in the TVET system - Set up/improve management information system - Consultation with other E&T sub-sectors regarding financing strategies - Prepare prioritized and costed Financing Framework for TVET 	<ul style="list-style-type: none"> - Fund and facilitate national workshop principles of financing TVET; provide resource person(s) - Fund and facilitate cost assessment - Consultancy support to development process of an integrated financial framework
Develop performance-based budgeting	<ul style="list-style-type: none"> - Development of a concept for formula funding of public TVET institutions including quality related indicators, and indicators to incentivize IGAs - Pilot and implement formula funding scheme - Evaluation of the <i>Strengthening Vocational Training Capacity Programme</i> 	<ul style="list-style-type: none"> - Support the evaluation of the the NTP-E Component <i>Strengthening Vocational Training Capacity</i> - Consultancy support for the development of a concept for performance-based budgeting
Development of a training market	<ul style="list-style-type: none"> - Evaluate experience with pilot tender scheme - Extend, if found appropriate, tender scheme to other areas of budget allocation, also including investment support - Integrate private providers into tender scheme 	<ul style="list-style-type: none"> - Support to the evaluation and concept development process
Training fees	<ul style="list-style-type: none"> - Increase flexibility of public TVET institutions with respect to tuition fees 	
Strengthen private investment	<ul style="list-style-type: none"> - Study on status quo, constraints and potentials of private investment in TVET - Development of an integrated concept to strengthen private and employers' investment in TVET - Consider establishment of training levy - System development of cooperative TVET delivery 	<ul style="list-style-type: none"> - Support to analytical work (about obstacles and changes of private sector involvement in TVET) - Feasibility study training levy, including support to concept development, if appropriate - Support to cooperative TVET system development

<p>Promote equity</p>	<ul style="list-style-type: none"> - Status quo analysis of participation of marginalised target groups in TVET - Evaluation of effectiveness of existing social programmes - Establish a mechanism for continuous social impact monitoring - Analyse and, if appropriate, conceptualize the establishment of a loan scheme for TVET trainees 	<ul style="list-style-type: none"> - Support to analytical work (status quo analysis and effectiveness evaluation of current social programmes in TVET)
<p>Capacity Building of TVET institutions</p>	<ul style="list-style-type: none"> - Organisational development needs analyses; - Development and implementation of comprehensive capacity building concept for TVET institutions - Development and implementation of a strategy to strengthen IGAs and delivery of tailor-made training courses for industry - Possibly: Concept development and implementation of production schools - Development and implement strategies to incentivize and support cooperation of TVET institutions with companies 	<ul style="list-style-type: none"> - Analytical work in selected pilot schools with respect to cost-effectiveness, organisational development needs, and others - Capacity building activities in pilot schools - Development of business plans in project schools and coaching of IGAs - Assistance in the implementation of cooperative TVET schemes in pilot schools

Annex

- A1 References**
- A2 List of Interviewees**
- A3 Mission Schedule**
- A4 Graph: Flow of Funds in Public TVET (under MOLISA)**

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A2 List of Interviewee

Institution	Person
<i>Government of Vietnam</i>	
GDVT	Dr. Nguyen Tien Dung, Director General
	Prof. Dr. Mac Van Tien, Director, Vocational Science Research Center
	Dao Van Tien, Chief of Secretariat
	A. Prof. Dr. Duong Duc Lan, Standing Deputy Director General
	Le Thi Khanh, Project Manager, Vocational Training and Education Project
	Ta Huu Chat, Director, Planning and Finance Department
MOET	Dr. Hoang Ngoc Vinh, Director-General, Department of Technical & Vocational Education
	Nguyen Hoai Nam, Officer, International Cooperation Department
MoLISA	Dr. Nguyen Quang Hue, Chief, Labour Productivity Section, Institute of Labour Science and Social Affairs
DoLISA Vinh Phuc Province	Le Xuan Dang, Director
	Do Khac Phong, Head of Training Department
<i>German Cooperation</i>	
GTZ, TVET Project	Dr. Horst Sommer, Chief Technical Advisor
	Antje Schmidt, Technical Advisor
	Ding Viet Dung, Project Officer
	Bach Hung Truong, Project Officer
CIM/Viet Duc Industry College	Oliver Haass, Technical Advisor
GfA/KfW	Bernd Mayer
GTZ	Dr. Horst Idler, GTZ Representative

	Malaysia
<i>TVET Institutions</i>	
VinDuc Industry College, Thai Nguyen	Mr. Thang, Deputy Director
	Mr. Thiep, Director, Finance Department
	Mrs. Nguyen Thi Xuan, Deputy Director, Finance Department
Truong Trung Cap Nghe Thai Nguyen	Nguyen Van Thu, Director
Viglacera Building Material Vocational School	Nguyen Ngoc Hien, Vice Head Master
Die Rote Fahne (private Berufsschule)	Director
<i>Employers and industry</i>	
National Vietnam Textile and Garment Industry Association	(Mrs) Le Thi Bich Hanh
Vietnamese Academy of Science and Technology (Mechatronics Association)	Dau Si Thai, Senior Office Deputy Director, International Cooperation Department
	Dr. Pham Anh Tuan, Vice Director
Viglacera (Vietnam Building Glass and Ceramics Corporation)	Mr. Minh, Director, Personal Department
	Tran Quoc Thai, Deputy General Director
	Nguyen Tran Tuan Nghia, Vice General Director
<i>Other donors</i>	
SwissContact, STVT Project	Hoang Bich Ha, Program Officer
	Manfred Egger, Project Manager
Association of Canadian Community Colleges (ACCC)	Dominique Van de Maele, Senior Training & Research Officer
Belgium Technical Cooperation	Carlton Aslett, Budget Support Advisor
<i>Other experts</i>	
Consultant	Prof. Dr. Bui The Dung, Centre of Technology Development Promotion

A3 Mission Schedule

Date/Time	Organizations/discussion partner
Friday, 13.7.	
11.00	Arrival in Hanoi
12.00	Meeting Horst Sommer/Antje Schmidt, TVET Project
14.30	Promotion of TVET Project Office
Saturday, 14.7	
16.00	Bernd Mayer, GFA/KfW Projekt
Sunday, 15.7	
14.00	Meeting Horst Sommer/Antje Schmidt, TVET Project
Monday, 16.7.	
9.00	Preparatory Work
12.00	Lunch with TVET Project Staff
15.00	GDVT, General Director
18.00	Mr. Horst Idler, GTZ Malaysia
Tuesday 17.7.	
8.30	Preparation of meetings and instruments
12.00	Meeting translator and project staff
17.30	Mr. Oliver Haass, CIM
18.30	Dr. Horst Sommer, TVET Project
20.00	Dominique Van de Maele, ACCC/CIDA
Wednesday 18.7.	
9.00	SwizzContact
11.00	Preparatory work with translator
14.00	GDVT, Finance- and Planning Department
16.00	GDVT, Standardization Department
18.00	Interim Wrap up, Dr. Sommer, TVET Project

Thursday 19.7.	
9.00	Private School, <i>Die Rote Fahne</i>
15.30	ADB Projekt, Project Coordinator
Friday, 20.7.	
9.30	VinDuc College Thai Nguyen
16.00	Trade Union Vocational Centre in Thai Nguyen
Saturday 21.7.	Desk work
Sunday 22.7.	Desk work
16.00	Meeting with GfA Mission (KfW Project)
18.00	CIM Expert Thai Nguyen
Monday 23.7.	
8.30	MOLISA, Institute of Labour Science and Social Affairs
14.00	DOLISA Vinh Phuc
Tuesday 24.7.	
9.00	National Textile Association
11.00	Nationaler Mechanikverband
12.00	MOET International Department
16.00	MOET, Professional Education Department
Wednesday 25.7.	
9.00	Viglacera, Company and TVET Institution
15.00	Preparatory discussion for Debriefing with GDVT, General Director
Thursday 26.7.	
10.00-12.30	Debriefing with GDVT and GTZ Staff
12.00	Mr. Carlton Aslett, Belgium Cooperation
16:00	Prof. Mr. Dung, TVET Expert

Friday 27.7.	
9.00	GDVT, Vocational Science Research Centre
13.00	Lunch with TVET Project Staff
17.00	Departure

A4: Flow of Funds in Public TVET

Core Flow of Funds in Public TVET System (under MOLISA)



