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Skills training in the informal sector in China

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**International Labour Office
InFocus Programme on Skills, Knowledge and Employability**

FOREWORD

The phenomenal growth of the informal economy during the past three decades poses a major challenge for the ILO's decent work agenda. The development of skills and knowledge is undeniably a major instrument for promoting decent work in the informal economy.

This report is one of a series of papers on skills development in the informal economy that were prepared in the framework of the InFocus Programme on Skills, Knowledge and Employability. At the same time this series also fits into the preparatory work for the general discussion on the informal economy to be held at the 90th International Labour Conference (ILC) in Geneva in June 2002.

The papers in this series include literature surveys and case studies reviewing various experiences with regards to skills development in the informal economies of developing and transition countries.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the 'informal sector'. The development of a conceptual framework for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to advance a single concept for use by the authors of these papers.

This paper on skills training in the informal sector in China was prepared by the Research Group of the Department of Training and Employment, Ministry of Labour and Social Security of the Republic of China. The responsibility for opinions expressed and definitions used in this paper rests solely with its authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in it.

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1. Introduction

China is a developing country with abundant labour resources. For a long time, capital and material input were over-emphasized and the development of human capital was neglected. This has caused the problem of low-skill labour supply exceeding demand, and structural unemployment, which has become the biggest obstacle to sustainable social and economic development. With economic restructuring and the acceleration of globalization, fierce market competition, State-owned Enterprises (SOEs) have also started downsizing their labour force. This explains why in recent years SOEs have been unable to absorb new labour market entrants; instead SOEs have been laying off workers. On the other hand, the informal sector is gaining ground, and to some extent it has become a new force in creating jobs, releasing employment pressure in China's labour market.

In recent years, a large number of "surplus" employees and rural migrant workers have found new jobs in the informal sector. As the majority of workers in the informal sector are not well educated or highly skilled, there is a low quality of employment, low job security and high turnover. Hence, research and studies on skills training in the informal sector to explore the training mechanisms, training content and methodologies have become an urgent matter.

This is why, on the request of the International Labour Office (ILO), the Training and Employment Department of the Ministry of Labour and Social Security, China, organized some scholars and specialists to conduct the research summarized in this report. This research is based on the review and analysis of the experience on re-employment training of the urban laid-off employees, the implementation of a labour preparation training programme and the rural employment training programme supported by an ILO project. This report combines theoretical analysis with empirical evidence. It reviews the current situation and main concerns of employment training in the informal sector. It also draws conclusions and raises policy suggestions.

This paper concludes that the re-employment training programmes, business start-up training programmes, the Rural Labour Force Development and Employment Programme, the Rural Employment Promotion Programme and the Labour Force Preparatory Piloting Programme have all generated positive effects in terms of raising workers' vocational skills, enhancing job quality and increasing job opportunities. These programmes have been initiated and promoted by the State and have won wide support from the general public. In future, in order to meet the fierce market competition and the unemployment situation, multiple and flexible employment forms should be explored. In particular, employment in the informal sector should be given special attention. Relevant training programmes that meet the demands of those working in the informal sector should be developed to raise their vocational skills, business start-up capacity and their adaptability to market demands.

2. The current situation of employment in the informal sector in China

2.1 Definition and main features of the informal sector in China

The informal sector (*fei zhenggui jingji*) refers to (a) own-account workers who are basically and mainly engaged in individual economic operations and activities; (b) household-based

micro-enterprises; (c) other micro-enterprises engaging in activities with very little legal restriction on their operational scope and with very little capital. In addition, depending on the provinces or cities, there may be other special categories of workers or enterprises that are considered as informal by the local authorities and that may be the subject of special promotional policies, for example the "informal labour organizations" (*fei zhenggui laodong zuzhi*) in Shanghai.

Own-account workers are often street vendors, cleaners and various kinds of people engaged in community services, etc. Household-based micro-enterprises make use of family members as labour, engaged in simple processing production and services. Such enterprises tend to grow into formal small enterprises in areas with great market demands. Micro-enterprises are often linked to the formal sector through subcontracting arrangements.

In general, incomes are very unstable and operational activities are often on the margin of laws and regulations. Workers engaged in informal employment have not yet established, or are in no condition to establish, stable employment relations. Informal employment therefore mainly refers to insecure and unstable jobs. Most of the workers in the informal sector are not covered by social security.

As to the composition of the labour force in the informal sector, they are mainly urban laid-off employees and the unemployed, school dropouts, some surplus workers in partially suspended or under-running enterprises, the retired, rural migrant workers, and those who work individually or with partners on non-agricultural production in rural areas. In recent years, with the advent of new information and communication technology and the increasing value-added attached to knowledge, a new group of people has emerged, who are in possession of high professional skills and strong independent working ability. They are capable of using the latest information and telecommunication technologies to their advantage. Generally, they engage in software design, consultancy and development and in return they get handsome fees - but not necessarily social protection. This category is also referred to as high value-added freelancers. However, it should be made clear that these freelancers are only a small minority who are not at all representative of those working in the informal sector in China.

The above features are quite similar to those of the informal sector in other countries. Most of the informal sector relates to individual operations and micro-enterprises with little capital and few workers. There are no fixed labour relations, no fixed employers and clients. Some do not even have fixed premises.

Regarding the special sub-category of the informal sector, such as "informal labour organizations", this avatar of the informal sector is not found in other countries. In Shanghai, this term refers to a form of employment of the laid-off employees who, individually or in groups, provide various temporary labour to the community, such as catering services, street cleaning, and other forms of public labour to enterprises or institutions as a means of making a living, when they cannot (or conditions do not permit to) establish employment relationships with the organizations employing them.

Informal labour organizations¹ are of a self-help or welfare nature, mostly unregistered by commercial and industrial authorities. They are being promoted by some municipalities to counteract the adverse impact of redundancies in SOEs and steer redundant workers into employment. On the one hand, policies and measures are introduced to promote, but also record and regulate, informal labour organizations, placing these more towards the formal end of the formality/informality continuum in terms of both enterprise and employment. On the other hand, the government authorities classify these organizations as part of the informal economy because they do not fall within the regulatory framework of the Industrial and Commercial Bureau. Thus, though they are recorded and regulated by the Labour and Social Security Bureau, they are not recorded and regulated by the government department which has the authority to grant them formal status. Moreover, most informal labour organizations are too small in scale and have too little capital to meet the requirements for registration as an individual household venture or small business.

There are two types of informal labour organizations, namely, self-employment labour organizations (*zizhu xing laodong zuzhi*) and public works labour organizations (*gongyi xing laodong zuzhi*). In the first type, laid-off and unemployed workers initiate the venture voluntarily, raise the capital, manage the venture themselves and take responsibility for profits and losses. In the second type, the local government provides assistance and sometimes subsidies.

2.2 Current status

(i) The evolution of employment in the informal sector

Although the informal economy has continued to exist in China since 1949, the concept of the informal economy (*fei zhenggui jingji*) is new. Employment in the informal sector emerged as early as the 1980s, when the Chinese Government tried to place the returning intellectual young people (there was a political campaign to re-educate young people in rural areas through working with local farmers) into jobs. Under the employment model of "government makes job referral in parallel with employment, free choice of individuals", came the first household-based industrial and commercial units (*Getihu*). In the 1990s, with the deepening of SOE reform and economic restructuring, the formal sector made a large number of their employees redundant. On top of this, the massive rural surplus labour force, as a result of bipolar economic restructuring, added further employment pressure. As a result underemployment is now not uncommon in China.

In order to maintain social stability and address the growing employment pressure, the Chinese Government adopted an active economic development strategy and declared the private sector an important component of the national economy. The State now encourages labourers to form private economic units and flexible employment forms to increase the number of jobs available.

¹Most of the paragraphs on "informal labour organizations" are taken from "Good Practice Study in Shanghai: Employment Services for the Informal Economy" by Jude Howell, ILO, 2002.

In 1999, the National Assembly (People's Congress) passed an amendment to the Constitution of the People's Republic of China which provided for joint development and ownership. This laid the basis of a legal framework for the development of private ownership and employment in the informal sector. The Government also promulgated a set of policy directives to promote the development of small and medium enterprises. For instance, in 1998, the Chinese People's Bank circulated its Policy Directive on Improving Financial Services to Small Enterprises, which requests financial institutions at different levels to further improve their lending practice to small enterprises. It requests these institutions to make small loans available to private economic entities and to small enterprises that employ laid-off employees.

In their own context, many localities have also formulated such preferential policies. For example, Shanxi Province has the regulatory provision that commercial registration formalities should be simplified for the laid-off employees who want to start up community service businesses. They and their businesses should be exempt during the initial three years from business operation taxation, individual income taxation and administrative fees. After the three years, administrative fees should be levied at half the normal rate. The laid-off employees who want to start their private industrial or commercial business operation, to engage in home-based craftsmanship or to start private enterprises, can apply to banks for a loan of 3,000 Yuan. The Re-employment Fund finances the interest accrued on the loan.

Under government support, home-based and private economic entities have developed rapidly throughout China. According to statistics, between 1996 and 1999, the number employed in SOEs and collective enterprises decreased from 142.6 million to 102.84 million. This is a net decrease of 39.76 million, an approximate 28 per cent decrease. Meanwhile, employment nationwide in urban private enterprises increased by 70 per cent, the number of own-account workers and persons employed in micro-enterprises has increased by 41 per cent. Employment in foreign-owned enterprises or joint ventures increased by 13 per cent (see table 1). This trend is even more pronounced in the number of female urban employees. In only five years, the number of female workers in urban collective enterprises has diminished by more than 50 per cent (see table 2). At the same time, rural employment has added 5.37 million jobs, while employment in private enterprises and self-employment have increased dramatically. Also, the number of those working in private enterprises and the self-employed has overtaken the number of rural agricultural workers. The number of those working in private enterprises and self-employed businesses has added two more percentage points to the total number of rural agricultural workers (see table 3).

According to statistics, during the years 1995 to 1999, SOEs have shed 15 million jobs. Meanwhile, the urban private and self-employed sectors have created 12 million jobs. Given the above facts, we can surmise that employment in the informal sector, which is closely associated with private and self-employed businesses, has witnessed rapid expansion both in the rural and urban areas. The increase in the number employed in the informal sector has effectively eased the employment tension and stimulated the strategic readjustment of China's employment structure.

Table 1: Changes in employment patterns in urban areas, 1996 to 1999 (in millions)

Year	Total employed	Employment in SOEs	Employment in urban collective enterprises	Employment in private enterprises	Own-account workers & employment in micro-enterprises	Employment in foreign-owned enterprises and joint ventures
1996	198.15	112.44	30.16	6.20	17.09	5.40
1997	202.07	110.44	28.83	7.50	19.19	5.81
1998	206.78	90.58	19.63	9.73	22.59	5.87
1999	210.14	85.72	17.12	10.53	24.14	6.12

Table 2: Female employees in enterprises according to type of enterprise (in millions)

Year	Total	SOEs	Urban collective enterprises	Others
1994	58.0	39.8	14.5	36.5
1995	58.9	40.6	14.0	43.1
1996	58.8	40.9	13.4	45.7
1997	58.2	40.3	12.7	52.4
1998	46.8	31.8	8.0	70.1
1999	46.1	31.3	7.0	78.3

Table 3: Changes in rural employment 1996-1999 (in millions)

Year	Total rural employment	Employment in rural private enterprises	Self-employed & employment in micro-enterprises
1996	490.35	5.51	33.08
1997	494.93	6.00	35.22
1998	492.79	7.37	38.55
1999	495.72	9.69	38.27

Source: *China Statistics Yearbook 2000*, p. 115, China Statistics Publishing House, September 2000.

(ii) Contributions of the informal sector to China's economic and social development

The informal sector provides products and services that are not available from the formal sector, such as household services, fast delivery and shopping facilities that are very convenient to community residents. These businesses have their unique advantages, they are small-scale and flexible, they are quick in responding to market demand, provide cheap goods and satisfactory services to society.

The emergence of the informal sector has also positively affected employment promotion and poverty alleviation. The informal sector has not only absorbed a large number of employees retrenched from SOEs, it has also helped raise SOE efficiency. It has therefore enabled these SOEs to improve their performance and make profits. The informal sector has also provided a vast number of jobs to rural migrant workers. According to statistics, by the end of 1999, the total number of self-employed had reached 82.63 million, 12 per cent of the total employed.²

In Shanghai, employment in the informal sector witnessed rapid development. Informal labour organizations have found their roots in the urban communities of this city. They cover a wide range of services.³ Given that these activities require few skills, little capital investment, and the demand for them is great, they provide considerable employment opportunities for laid-off and unemployed workers. There were 8,835 such agencies of which about 7,820 have survived, absorbing some 104,000 employees. According to a survey by the All China Federation of Trade Unions (ACFTU) of laid-off employees in ten cities and one county, about 65.7 per cent of these now have a higher income than before they were laid off.⁴

The emergence of the informal sector has supported the development of the private sector. Presently, the informal sector is in the process of consolidation. After years of hard work, some informal enterprises are becoming larger and turning into formal sector enterprises. For instance, during the years of 1996 to 1999 in Shanghai, there were over 6,000 informal employment entities out of which 160 developed into formal enterprises, thus effectively promoting the development of the private sector.

(iii) Major problems in informal sector employment

Although employment in the informal sector has witnessed rapid progress since the start of reform, it is still hindered by some systematic barriers and low skills of those working in the informal sector. The major barriers are:

²China Statistics Yearbook of 2000.

³The Shanghai authorities have identified 15 types of activities in which informal labour organizations can engage, namely: repair and maintenance of household equipment; repair and maintenance of household goods; repair and refurbishment of houses; sewing, washing clothes and hair-dressing; domestic help and care assistance; express delivery; fast-food and ready-made food; cleaning and maintenance; providing work units with labour; loading and unloading of goods; equipment and tools' rental, recycling of waste and old goods; handicrafts workshop; community culture and entertainment; public works labour.

⁴Xue Shaoyun. "Several Points and Suggestions to the Development of the Informal Sector in China and the Encouraging of Informal Employment".

- Lack of long-term policy planning. There are no specific regulatory provisions with regard to employment in the informal sector, there is still no commonly agreed, clear definition of informal sector employment, and there is no long-term planning relating to employment in the informal sector. All these require further study and research. Also, the current policies in pension, health and unemployment insurance coverage exclude the informal sector. This exclusion of informal sector workers from social security exposes them to high employment risks.
- Lack of integrated measures. Due to the urban residential registration barrier, an integrated labour market has not developed. There are still many restrictions to rural migrant workers working in urban cities. The consequences are inequality in employment opportunity and obstacles in free movement of rural surplus labour force to non-agricultural industries and urban cities. Their legitimate employment rights cannot be ensured. This has prevented the informal sector from further development. Nonetheless, workers in the informal sector often find themselves with difficulties in financing business start-ups. There are restrictions attached to micro-credit and lending applications as well as complicated application and approval procedures.
- Poor skills and competence, low employment quality, lack of sustainable development potential. As the informal sector comprises a wide range of sub-sectors, they pose different skills requirements to workers. Normally, the informal sector can employ a high number of low-skilled workers. It is also this low requirement that results in products and service quality below expectation. There is weak market competitiveness and inadequate development of business potential. Because most workers in the informal sector are simple manual workers, they face high probabilities of being replaced. This causes job insecurity and relatively low income. According to a survey conducted by the All China Federation of Trade Unions in ten cities and one county, only 8.5 per cent surveyed informal sector workers are college degree holders. Primary or high schooling and below is the major form of education qualification. Only 3.7 per cent are highly skilled workers. Over 60 per cent of the surveyed workers are self-employed or hired employees working as sole traders or doing small retail business. About 24 per cent of the surveyed workers use their residence as their business premises, providing services or engaging in handcraft business.⁵ As employment in the informal sector usually requires low skills, it is often simple reproduction, and hence there is a high turnover rate.

(iv) Training demands in the informal sector

At present, promoting employment in the informal sector has positive significance in China as it is becoming an important source of employment. Although employment in the informal sector should be continuously encouraged and promoted, it should be further integrated with current employment policies. Also, vocational training should be strengthened to raise the skills of the informal workers. These training sessions should also help them with market and competition awareness and business start up competence in order to enable them to leave the low-skill, low-income loop.

⁵Xue Shaoyun, *ibid.*

3. Current situation of skills training in the informal sector in China

For a long time, a major problem with the training strategies for developing countries has been that training plans, training courses and training methodologies are formulated based on the needs of the formal sector. This means neglect of the training needs of the informal sector, which is now one of the pillars of economic activities. This in turn means that the Government excludes the informal sector from its vocational training strategies.

As the formal training institutes conduct diploma and certificate education, their training activities are centred on the requirements of the formal sector (in fact there is also deviation of focus in these training institutes). They usually enroll full-time students and trainees. Training in the informal sector is often "freewheeling". Often one sees apprenticeship training and private vocational training centres as the major instruments of skills training in the informal sector. Only a fraction of the number of workers in the informal sector go through training in formal training institutes.

This is also true of countries other than China. For instance, in Manila, the Philippines, only 3.2 per cent of workers in the informal sector have gone through skills training in a formal training institute. In India, this figure is somewhere between 2 and 5 per cent. In Dar es Salaam, only 8 per cent of small business owners are trained by formal training institutes and only about 14 per cent of the hired employees in the informal sector are trained by formal training institutes.⁶ Training in formal training institutes is not only expensive, but also rigid. It does not meet the needs of workers in the informal sector. These institutes are also troubled with low efficiency. In this respect, China is no exception.

Formal school education has a strict and full-time curriculum. This system does not fit with the flexible working hours of workers in the informal sector, and its training curriculum is not practical for them.

In recent years, with increasing unemployment, the informal sector is becoming a major channel for the absorption of laid-off employees and rural surplus labourers. The informal sector has attracted the attention of the Government and society at large for its important role in creating new job opportunities. Meanwhile, there is growing concern about developing the skills and competence of workers in the informal sector and drawing up the requisite policies and measures for this.

⁶Liu Yanb (2000). Global Employment in the Wake of New Century. China Labour and Social Security Publishing House.

3.1 Skills training programmes for employment in the informal sector

- (i) The re-employment training programme

Background

In order to enhance the competence and skills of the unemployed and the laid-off employees, the Ministry of Labour and Social Security initiated the Three Years Ten Million Re-employment Training Programme. During the years of 1998 to 2000, this programme aimed at giving training to 10 million people, employees laid off from SOEs and the unemployed, in order to raise their vocational skills, build market awareness and assist them towards re-employment.

During the execution of this re-employment training programme, the Ministry set the 1-3-1 goal, i.e. each laid-off employee in an enterprise re-employment centre is entitled to one occupational guidance interview free of charge, three briefings of employment information, and one training opportunity free or partially free of charge. Vocational training centres, technical training schools under labour and social security departments, other training institutions, including those run by NGOs, the trade unions, the women's federations, and youth leagues, were the major institutions undertaking re-employment training workshops.

Local implementation

Many localities formulate a series of policies to promote re-employment training. For instance, Shanxi Province requests colleges, technical schools, vocational high schools, vocational training institutions etc. to establish re-employment training centres for SOE laid-off employees. These establishments are obliged to disseminate training information. The Province also mobilizes the general public and public agencies to support re-employment training programmes. It encourages the participation of trade unions, youth leagues and women's federations and other social groups, as well as individuals.

Jiangsu Province requires that those "laid-offs" whose family average income is lower than social assistance standard, or who are under a certain age (40 for males, 35 for females), can attend one vocational training course that is longer than a month, free of charge, if they can pass a particular test. Dalian City requests the enterprise re-employment centres to adopt active basic social security policies to link re-employment service with the provision of basic living allowance. This is to change the practice of the provision of basic living allowance to the provision of training opportunities and jobs. Hangzhou City requests labour departments at various levels to strengthen skills training for laid-off employees and the unemployed to raise their competitive ability and their business start-up competence. Meanwhile, the city also mobilizes social resources and has formed a volunteer team to provide information to the unemployed and laid-off employees, and to consult with them on how best to reduce business start-up risks and adapt to market competition.

Public formal vocational training institutes and private informal training institutes have both played important roles in re-employment. During the past few years, since many localities piloted their

own programmes of re-employment training, vocational training providers have emerged in response to market demand. These training providers adopt flexible and multiple forms of training workshops. For instance, Huanan Vocational Skill Training Centre, a private provider in Guangxi Autonomous Region, provided training to over 3,000 persons in 2000; 15 per cent of them are SOE laid-off employees. The centre is focused on market demand, it offers training workshops on cooking, computer skills, cosmetics, hair cutting, tailoring etc. It also gives tuition discounts and recommends its trainees for jobs. About 75 to 80 per cent of the trainees can find satisfactory jobs or start up their own businesses.

As to the linking of enterprises with training institutes in conducting re-employment training sessions, localities like Beijing and Shanxi Province initiated re-employment training partnerships or training partners alliance programmes. These programmes join training institutes with enterprise re-employment centres and job centres to conduct training workshops. This has greatly addressed the weaknesses in the organization and implementation of training activities and job placement services for the trained participants. By so doing, the effectiveness and efficiency of training courses have been strengthened.

During the implementation of these training programmes, localities are focused on the effectiveness of training activities. They link re-employment training with labour market demand and supply analysis. Decisions on training arrangements, training curriculum and training plans are based on the changing needs of the market. Taking the characteristics of the laid-off employees into consideration, these localities also give priority to occupational guidance in preparing the laid-off employees for adaptation to market-oriented employment.

Outcome

During the past three years, through efforts at different levels of society, the Three Years Ten Million Re-employment Training Programme has met its objectives. According to statistics, by the end of 2000, a total of 13.6 million laid-off employees, 11 per cent more than the set target, had been exposed to re-employment training. Almost 9 million, or 65 per cent of the total participants of the Programme, have been re-employed. It is fair to say this Programme has played an important role in enhancing the skills and competence of the participating laid-off employees.

(ii) Business start-up training pilot programmes

Background

Business start-up training is a measure for employment promotion through training and support and small enterprise development. Business start-up training has a direct effect on promoting employment in the informal sector, enhancing the competence of workers in the informal sector. At present, there are many laid-off employees starting up their own small businesses. But the survival rate of these businesses is quite low. A substantial proportion of informal businesses started by laid-off employees could not last for even three months. This is mainly because these business owners, i.e. the laid-off employees, do not have business skills and managerial capacity, etc. Hence the start-up training programme has a promising future in that it will help potential business starters raise their business skills.

This kind of business start-up training is mainly financed by the Government, and undertaken by public training institutes or other not-for-profit intermediaries. This training programme exposes its participants to the necessary components for starting up and running a business. Besides helping its participants to start up and run their businesses, it also aims at assisting self-employed persons.

Business start-up training is targeted at those unemployed people and SOE laid-off employees who have production and management expertise and are relatively well educated. At a later stage, this programme further expanded to vocational school students and other categories of participants.

Implementation

The Ministry of Labour and Social Security started business start-up training pilot programmes in Beijing, Shanghai and Suzhou in 1998. During the execution of these pilot programmes, the Ministry and localities examined the implementation of these training activities and spread their experience. At present, this business start-up initiative has spread to over 30 cities.

Many localities divide their targeted training programme into three stages:

- (1) the review stage, when an overview of local economic development and, in particular, the market demand on some specific services and the skills gap in meeting these demands is obtained;
- (2) the setting up of coordination commissions: many localities set up specific task forces on promoting business start-up training. Such task forces are critical in linking industries with training institutes and coordinating activities between government agencies;
- (3) the selection of training participants and organization of training sessions.

The training courses include basic economics, laws and regulations, enterprise registration and industrial and commercial administration formalities, enterprise management, financial management, marketing, etc. They cover modules of production, marketing, management, operation, finance, loan application, taxation, etc. In addition, there are also courses on doing market surveys, the preparation of business start-up plans and analysis.

The major distinction of business start-up training from other forms of training is that its ultimate aim is to assist its participants start their own businesses, or to be self-employed. Thus, the participants will be exposed to every detail of the process of business start-up. While they are able to find themselves jobs, they can create jobs for other people too. Therefore, it is fair to say that actively developing business start-up training bears special significance under the serious and lasting employment pressure in China. It is beneficial to cultivate market awareness, business management ability and entrepreneurship. The end result would be to cultivate more self-employed individuals and more entrepreneurs. This employment option has great potential in China.

During the implementation of business start-up training programmes, localities focus on raising the business operation skills and competence of participants, and giving them policy support. They experiment on ways to be more successful. For instance, specialists, practitioners and scholars who have expertise on business start-up and enterprise management formed voluntary business guidance groups in Shanghai offering consultancy, guidance, business planning and follow-up services free of charge. They may offer prognosis of business start-up and operation, group prognosis, on-site guidance or pair up groups with relevant expertise. Such assistance boosts the confidence of the new business persons and raises the success rate of business start-up.

In some localities, loan guarantee and lending are used to provide financing to business starters. Small enterprises are started either by open bidding on projects, or by joint operation of project implementers with new business starters. In Beijing, business start-up follow-up service is available. Meetings of business starters are organized with resource persons presenting their advice as well as exchanging ideas among all participants. Such activities are helpful for business starters so that they can see the problems facing their business operations.

Under the current serious employment situation in China, self-searching for jobs and business start-up will be the choice of more and more workers. Therefore, while some localities are strengthening their efforts on business start-up training to the SOE laid-off employees, they also extend this training to new entrants to the labour force and other categories of people. Many technical schools, vocational schools and colleges have set up business start-up training courses to expose their participants to business start-up knowledge, and to boost their confidence in this field, raise their capacity and encourage and lead them on the path to the establishment of their own businesses.

Outcome

After three years of practice, business start-up training has found its way in promoting employment by business creation, and linking training and employment with the development of small enterprises. By the end of 2000, there had been a total of 30,000 individuals who had attended business start-up training courses, among which 18,500, or 61.6 per cent of training participants have started their own businesses; they have generated 74,000 jobs.

- (iii) Rural labour force development and employment programme and rural employment promotion programme

Background

The educational attainment of the Chinese rural labour force is quite low. This prevents them from finding good quality jobs, which normally require a high level of education and vocational skills. In 1999, in order to expand rural employment choices, optimize employment structure and raise rural workers' employment quality, the Ministry of Labour, Ministry of Agriculture and State Council Development and Research Centre started the Rural Labour Force Development and Employment Pilot Programme.

The pilot programme started with pilots in 50 prefectures and counties and 8 provinces. The main feature of this pilot programme is the linking of rural labour force development and vocational training in the context of rural economic development.

The pilot programme helps in establishing and improving the rural vocational training system. It has shaped the rural labour force administration and service system. In the piloting process, localities use vocational technical training as an important instrument for employment promotion, through the conducting of training courses on practical technology in agricultural sector, non-agricultural sector vocational training and training for rural migrant workers. The principle of the programme is to closely link training with employment requirements and raise workers' employment abilities.

Participants

It mainly targets rural redundant workers. However, this programme is becoming very popular among the rural population at large.

Implementation

The implementation phase can be seen as (a) county-level piloting phase during the years 1991 to 1993; (b) province-level piloting phase from 1993 to 1996.

The county-level piloting programme addressed the issues of:

- a. employment creation in agricultural sectors, including the traditional agricultural sectors, new agricultural sectors and also non-agricultural sectors in rural areas;
- b. employment creation in businesses with various types of ownership;
- c. intra-regional and inter-regional labour force migration;
- d. training workshops on practical skills;
- e. making intermediary services available to rural businesses and the self-employed.

The province-level programme piloted an employment service network in rural areas and formulated a long-term vocational training plan.

Outcome

This programme underlines the importance of integrating employment creation and vocational training with comprehensive local economic development. It also highlights the significance of developing a vocational training system and network in rural areas to raise the skills and employability of the vast rural population. Furthermore, in the context of the urgent need to create employment in the rural areas of the pilot counties and provinces, this programme also aims at increasing the incomes of the participating rural workers through paid jobs, and to improve their living standards.

- (iv) MOL/ILO project on strategic approaches towards employment promotion

Background

In order to promote poverty alleviation through paid employment at their localities, in 1997, the then Ministry of Labour, together with the ILO, implemented the MOL/ILO Project on Strategic

Approaches towards Employment Promotion. This project is also referred to as the China Rural Employment Promotion Project.

Participants

The selected pilot counties for this project include Dingxi County, Min County, and Guanghe County in Gansu Province, Xingtang County in Hebei Province and Yinchun Prefecture in Jiangxi Province. The participants are mainly local household farmers in these counties.

Objectives

This project aims at:

- (a) capacity building of township labour and employment service offices;
- (b) coordination activities between various agencies;
- (c) support to economic activities of the rural participating households with the objectives of creating jobs and increasing household income;
- (d) learning from the project activities and making policy recommendations to the central Government.

Implementation

The project uses micro-loans as a means of supporting low-income households to be self-employed or to form partnerships in starting small businesses. The project provides vocational training to applicant households, helps them to make a business plan, and provides micro-lending and assistance in their business operation.

A flexible skills training approach was used in this project; it has the following features:

- (a) it is responsive to what rural households need for vocational training. The training method is such that it is easy for rural households to learn and, once they learn, it becomes easy for them to grasp the technical details and, once they grasp those, the technology will generate profits;
- (b) it is focused on resident communities and households so training courses are organized near where they live. This enables training courses to be closely linked to local requirements. It also saves transportation and board and lodging costs for these rural households. In doing so, it reduces training costs;
- (c) it combines theoretical teaching with practice, classroom presentation with follow-up and collective teaching with individual tutoring. It helps rural households to develop their own abilities for solving practical problems;
- (d) it combines training with employment support. The local Labour Service Office in Dingxi County in Gansu Province offers up to 3,000 Yuan to rural households that are willing to have jobs locally. This financial support helps them to be self-employed. It also serves as a launching fund

to help them start up their own businesses. They are also entitled to preferential policies as they can be exempted from some fees and get free access to some facilities. The Office also provides service of quality to rural households. For some potential training participants who are short of finances, the employment service agencies assist in renting facilities, purchasing production equipment, finding marketing channels, organizing rural households for joint production, encouraging them to form alliances;

- (e) it combines training with local industrialization. In the context of the local industry restructuring, the project develops suitable training courses. It also promotes localized employment for rural households. It encourages the learning of new skills, new technology, new knowledge, and creates jobs in various forms;
- (f) it encourages vocational training and labour force mobility. Hebei Province has the policy of providing vocational training to rural workers before sending them on assignments in other localities. This has raised the education and skills level, employment competitiveness and employment success rate dramatically.

Outcome

During the three years of implementation, the project has provided training to as many as 13,000 participants. About 5,776 households have been awarded microcredit and loans. It is estimated that this project has created at least 10,000 jobs. Indirectly the project may have created 16,000 jobs. With the implementation of this project, farmers in these poverty stricken counties are alleviated from poverty. The linking of employment with training is also explored.

- (v) Labour preparation programme

Background

Every year there are about 1.4 million primary and secondary school graduates who do not continue schooling. Due to the lack of necessary vocational skills and experience, the new labour force entrants are at a disadvantage in finding jobs. According to a survey, a large number of primary school graduates and secondary high school graduates are pouring into the labour market for employment without being previously exposed to vocational training. They make up about 30 per cent of the total new labour force entrants. As a matter of fact, this has not only increased employment pressure, but has also affected labour productivity.

Objectives

This programme refers to one to three years of vocational education and training to new labour force entrants. It enhances the employment abilities and business start-up skills of potential business starters. This could defuse the high employment pressure and improve labour productivity.

Participants

The programme targets urban primary and secondary high school graduates and rural primary and secondary graduates, who are not continuing their schooling, but intend to engage in non-agricultural employment or to move to urban cities to be employed and participate in the necessary vocational training schemes.

Implementation:

Since 1998, China has started the Labour Preparation Pilot Scheme in some provinces. This Scheme was spread to the whole nation in 1999.

The training length can be determined in accordance with enterprises' requirements and the needs of the participants. Normally the training length can be over one year for basic vocational skills level. For intermediary skills level, the training length would be more than two years for primary high school graduates. For secondary high school graduates, the intermediary skills level training would last more than one year, and the high vocational skills level would be more than two years. For jobs with no particular skills requirements, the length of training can be reduced. Rural migrant workers can attend training courses at the locality of their employment.

For training courses of less than two years, they consist of basic quality training, vocational knowledge and theory study, specific skills and practice in four major components.

Labour preparation practice can take flexible forms. It can adopt both full-time vocational training and part-time vocational training. It can either adopt the training points accumulating method, or training time accumulation method. It can also adopt distant learning methods. After the training, if tests are passed, the trainees are awarded the training qualification certificate or equivalent vocational qualification certificate. Their names are also entered into the local labour force information management system. They receive priority in the job referral service or guidance on how to form business partnerships or to be self-employed. They are also provided with other employment services.

Outcome

The implementation of the *labour preparation practice* plays a positive role in enhancing young labourers' vocational and employment qualities and alleviating employment pressure. In 2000, the total enrolment of the *labour preparation practice* reached 1.33 million. This number was 1.42 million in 1999.

3.2 Major problems in skills training for informal sector employment

In the past years, the central and local governments have formulated a series of programmes for promoting training for employment and raising the quality of employment in the informal sector. They have also adopted relevant measures, which have generated positive results. But training for employment in the informal sector still has weaknesses such as the relatively small scale and low quality of the training courses, absence of linkages of training to market demand, lack of practical training. Also, some courses are monotonous and not very interesting and training is not tailored to utilization. Professional quality, employment competence, business starting ability and adaptation of the trainees to the changing needs of their occupations are still to be addressed. More specifically, these are the main problems facing training for employment in the informal sector:

- (a) Unbalanced regional development of employment training for the informal sector. Eastern regions and coastal developed regions have witnessed a rapid development of entrepreneurship. Tertiary sector, particularly the residential community service sector, has a vast market, therefore employment training for the informal sector in these regions has witnessed rapid development. Yet as interior regions in China, the central and western regions remain relatively closed and economic productivity is underdeveloped. The potential of the service sector is still to be tapped.
- (b) Inequalities in training opportunities for those working in the informal sector. This is reflected in the following:
- The Government emphasises formal education as the basis of employment training for the informal sector, evidenced by the steady budgetary input to formal education. But the Government has still to integrate vocational training for the informal sector into its comprehensive planning of education and training. Budgetary input to employment training itself is very limited and cannot meet the special requirements of those working in the informal sector;
 - Within employment training for the informal sector, the emphasis is on urban people. There is virtually no government budgetary input on training to those rural migrant workers. Their training needs have yet to attract attention.
- (c) There are no close connections between informal sector training and employment in some regions. The setting of training courses and training contents are deviated, to some extent, to labour market demand. But some training courses are not well targeted and are therefore not practical and effective. In some large cities, the market requires individual housekeeping service providers to be capable not only of room cleaning, room keeping, but also to understand some psychology, nutrition, aesthetics and even know some simple oral English phrases. And yet most housekeeping service training institutes continue teaching their trainees only how to cook and clean, and therefore lag behind market demand.

Also, it is self-evident that with economic growth and the acceleration of the process of urbanization, periodic and part-time employment will play a greater role in the employment structure. To adapt to this trend, training institutions are required to choose more flexible training modules and training methods to meet workers' continuous learning requirements. This is also a condition for the development of a learning society. But the current situation is that only a small number of social training entities have flexible mechanisms responsive to the changing needs of the market. The majority of public training institutions are still confined to conventional education mechanisms, yet to be adapted to market demand and flexible training courses. In addition, the low quality of training materials and the limitations of the trainers reduce training quality.

- (d) Business start-up training is still on a small scale, the business start-up and self-employment success rate is still not ideal and the number of jobs created is still very low. After more than

two years practice, business start-up training has developed in terms of scale and influence. However, in general, its coverage is limited and the business start-up rate is not high. This is caused by the lack of confidence and competence of potential private entrepreneurs, their strong reliance on the Government, lack of adequate financing, etc. The trainers themselves lack comprehensive knowledge and specific expertise on business start-up, and this means that these training courses are not practical and applicable. The consequence is often that their trainees are unable to start up their own business. Concerning external social environment, financing is a major difficulty because many banks are reluctant to provide business start-up loans to small enterprises. The difficulty in having financing access has a negative impact on training participation and motivation in starting businesses. In addition, in some localities, preferential taxation policies and provision of premises for business start-up need to be implemented.

- (e) Post-training employment service and occupational guidance are yet to be strengthened. Workers in the informal sector should enjoy equal rights with regard to training, employment services etc. Public and private training institutes should be open to the public, including rural migrant workers working in urban cities. Job centres and other employment service agencies should list them in their labour force management information database, and indiscriminately provide all sorts of job information, occupational guidance and services to help them find jobs rapidly.

4. Conclusions and policy suggestions

Conclusions

Strengthening informal sector training and improving the skills of those working in the informal sector are important measures towards decent work, job security and increased incomes for workers in the informal sector.

In order to develop a unified labour market in urban and rural areas, the target groups for training in the informal sector should be expanded, training courses enriched and the training made more flexible.

Policy suggestions

- (i) Vocational training targeting employment in the informal sector should enhance the skills and business start-up capacities of people working in the informal sector. Vocational training should be seen as an important component for the development of the informal sector, the growth of the local economy and the adjustment of the employment structure. It should be listed high on the Government's agenda.
- (ii) Planning of employment training for the informal sector should be integrated in the nation's comprehensive vocational training plan. Task forces should be set up to conduct studies on the current situation of workers in the informal sector. Localities should formulate training

programmes that effectively respond to market demand and employment priorities. These programmes should then be integrated into local comprehensive vocational training plans and linked to the national plans.

- (iii) Integrated policy measures on employment training for the informal sector should be undertaken. More specifically, the issues below need particular attention:
 - (a) The second phase of the Three Year, Ten Re-employment Training Programme needs to be implemented. This will provide re-employment training for more than 10 million laid-off employees and the unemployed during the years of 2001 to 2003. Through the provision of effective and practical vocational and business start-up training courses, the skills and qualities of workers could be enhanced. These courses could also enhance their ability to adapt to new jobs. Occupational guidance and vocational training could also help the shaping of new employment perspectives of the laid-off and the unemployed. Therefore, under the direction of government policies, they can search for jobs, become self-employed, or start their own businesses. Training courses should be developed in response to the job demand and supply situation and projections of labour market demand.

Re-employment training bases and other training institutions, including public training institutions and those run by the social partners, should be selected on the basis of their training capacity and their ability to contribute to the programme through tendering procedures. These selected training institutions can form partnerships with enterprise re-employment service centres, job centres or employers to provide occupational guidance and vocational training to enterprise laid-off employees. Vocational training institutes of all forms should actively open re-employment training workshops. These vocational training institutes should also adjust their training courses with the aim of closely linking training with employment.

Provide differentiated vocational training. Vocational training for informal sector strategy requires the recognition of specificities of those working in the informal sector. Training institutes should provide differentiated training workshops targeting enterprise laid-off employees and the unemployed of different ages, skills levels, education levels and their job preference. Young laid-off employees and the unemployed with a certain education level should be organized for new technology training workshops and business start-up training workshops. The young laid-off employees are proactive and adaptable to new changes, therefore, their training courses can expose them to new knowledge and prepare them for the jobs and careers that suit them. As to the older laid-off employees, their rich experience and carefulness should be utilized to their advantage, thus they can be organized for vocational training for tertiary sector. Those with simple skills and low education levels can be organized to attend vocational training workshops for labour-intensive jobs.

Adopt flexible training forms. Flexible training forms should be adopted in connection with the conditions of laid-off employees and the unemployed. Full-time, half-day training forms can be complemented with night school vocational training. Vocational training institutes can provide training courses. They can also jointly organize training workshops in collaboration with

enterprises for enterprise laid-off employees at training facilities close to them. Vocational training institutes should also make use of distant learning. Distant learning has the advantages of high training capacity, wide coverage and low cost. Thus vocational training institutes may take full advantage of radio and TV broadcasting, televised education facility, computer network, Internet, etc. to make training programmes available in classrooms, enterprises and workers' houses. This will broaden the base of vocational training courses.

Make active efforts to secure the funding of training programmes and improve the practice of government purchasing training results. Re-employment training workshops are free of charge or at a reduced rate. This requires government subsidies. For the unemployed, the unemployment insurance fund can make subsidies for their participation in vocational training courses. A budget allocation should be made available to subsidise re-employment training.

The practice of government purchasing "training results" should be actively carried out. Government pays training institutes based upon their participants' training passing rate and their participants' re-employment rate in a certain time period. This method of payment links the use of a training budget with market demand of vocational skills and training quality. It can standardize training activities and raise the effectiveness of a training budget. While the Government increases its financial input, enterprises are also obliged to allocate funds for re-employment training of their laid-off employees. This financial contribution can be charged to their employee education budget.

Strengthen employment services and enhance training effectiveness with communities as bases for such activities. Communities are where informal sector workers live. Community employment service institutions should be strengthened. Data collection on job openings, as well as projections, should be institutionalized. One-stop employment service agencies should be established to incorporate unemployment registration, vocational training, job recommendation, occupational guidance, etc. Thus enterprise laid-off employees can also select courses suitable to them for vocational training when they come to the one-stop centres in search for jobs or filing unemployment benefit claims. For those laid-off employees or the unemployed who have obtained vocational training certificates and occupational qualification certificates, they should be registered in labour market information databases. For those who are interested in starting their own businesses, employment service agencies should assist them for registration with Chambers of Industry and Commerce. Employment service agencies should also help them to obtain taxation credits, access to premises, financing and loan arrangements, etc.

Strengthen collaboration between government agencies. Collaboration between labour and social security departments with departments of education, finance, chambers of industry and commerce, taxation offices, should be strengthened. Departments of labour and social security should also have close contacts with trade unions, women's federations and other NGOs. Working closely with these organizations, departments of labour and social security can

enhance the employment capability of enterprise laid-off employees and the unemployed, and help them with their re-employment.

- (b) **Continuously promote and improve business start-up training.** These courses should pay special attention to the development of jobs in the community-based service sector and be provided by designated training institutes and community employment service agencies. Where conditions permit, vocational training institutes can form alliances with enterprises. Guidance should be provided to enterprise laid-off employees and the unemployed to assist in business ventures. Channels in financing and investment projects should also be explored.

Vocational training should be linked to access to low-interest loans, information support and technical assistance for the increase of chances of higher-income generation, business development and profit return on participation in vocational training courses. Seen quite often are international cases of success in the development of micro-enterprises in the service sector, thanks to the implementation of micro-enterprise loan programmes. China should also extend to the informal sector its existing policies on financing and borrowing support, technical innovation policies, management information system, preferential policies on taxation and the use of facilities. This will be very conducive in removing barriers for employment in the informal sector.

- (c) Continuously promote pilot programmes for rural labour force development and employment. The following actions are necessary:

Strengthen vocational training planning. Rural labour force development and employment is a comprehensive matter. Thus, employment for rural surplus workers should include both internal transfers within the agricultural sector and transfer to non-agricultural sectors (such as non-agricultural production and trading activities in rural areas, employment in the informal sector in urban cities, employment in township and village enterprises, etc). Based on this understanding of the rural labour force and their vocational training preference, training plans should then be formulated in connection with the direction of local industrial restructuring.

Building up institutional capacity of vocational training institutes. A network of city, district/county, township and village-level training institutes should be established. Thus technical schools, employment training centres and township labour service stations can play even more important roles in conducting vocational training courses suitable to the rural labour force. In response to market demand, they can provide short-term and low-cost vocational training courses. Private vocational training institutes and enterprises can also extend vocational training to rural migrant workers.

Establish and improve urban and rural labour market service systems. Segregation of rural and urban labour markets should be abolished. Instead, a unified labour market for urban and rural areas should be established. This requires the removal of the urban residential registration barrier. Instead, the labour market should focus on educational background, vocational skills and competence. This is an important vehicle for rural labour force development and employment, and also enforces the principle of equal opportunity. A unified

urban and rural labour market information network, which can deliver information on urban industrial restructuring and job requirements to rural areas should be developed. Rural workers, who are qualified after vocational skills tests should be awarded state vocational skills qualification certificates. Job service centres should recommend these skilled rural workers for jobs or support them for business start up.

Labour and social security departments should strengthen labour inspection efforts. Rural workers without relevant vocational skills certificates should have to undertake vocational training within a given period of time, and only after they are tested qualified, should they be allowed to resume their jobs or businesses.

Provide vocational training support and services to returned rural migrant workers. According to some surveys, at present about 4 out of 100 rural migrant workers return to their original rural places to start up their own businesses. In total there are about 2.4 million such rural business owners nationwide. Some of them start franchise, industrial or commercial businesses. Government agencies can also provide support and management consultancy services to them and help them with access to financing and marketing information with the aim of enhancing their business success rate.

5. Final remarks

China is a large country in terms of population. The employment demand exceeding employment supply is likely to be a long-lasting phenomenon. The placement of the labour force will continue to be an issue and to affect reform, development and social stability. At present, the emphasis should be on employment expansion, income generation and increase within the context of national economic development. The development of employment in the informal sector, raising the vocational qualities of those working in the informal sector and improving the effectiveness and efficiency of the informal sector are all matters of urgency for the Government. From now on, appropriate steps should be taken to establish an informal sector statistics indicator system that can accurately reflect the overall development of the informal sector and its status in the whole domestic economy.

Attention should also be paid to the informal sector workers' skills and productivity and their job preferences. Surveys and interviews can help gather information on this. At the same time, we should also study international experience on training and employment in the informal sector. Through international seminars and study visits, we will be able to pick up international experiences to our advantage.