



Report and Recommendation of the President to the Board of Directors

Project Number: 45010-002
November 2014

Proposed Loan Mongolia: Skills for Employment Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 November 2014)

Currency unit – togrog (MNT)

MNT1.00 = \$0.0005

\$1.00 = MNT1,870.00

ABBREVIATIONS

ADB	–	Asian Development Bank
CBC	–	competency-based curriculum
CBT	–	competency-based training
CBT&A	–	competency-based training and assessment
GDP	–	gross domestic product
M&E	–	monitoring and evaluation
MEDS	–	Ministry of Education and Science
MOL	–	Ministry of Labor
NCVET	–	National Council on Vocational Education and Training
PAM	–	project administration manual
PIU	–	project implementation unit
SDR	–	special drawing right
TVET	–	technical and vocational education and training

NOTES

- (i) The school year (SY) in Mongolia officially starts on 1 September and ends on 1 June. “SY” before a calendar year denotes the year in which the school year starts, e.g., SY2014 ends on 1 June 2015.
- (ii) In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. The Project	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	5
E. Implementation Arrangements	6
III. Due diligence	7
A. Technical	7
B. Economic and Financial	8
C. Governance	8
D. Poverty and Social	9
E. Safeguards	9
F. Risks and Mitigating Measures	10
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 45010-002	
Project Name	Skills for Employment Project	Department /Division	EARD/EASS
Country Borrower	Mongolia Mongolia	Executing Agency	Ministry of Labor
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Secondary Technical and vocational education and training		6.63 18.37
		Total	25.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change Institutional development Organizational development	Gender equity (GEN)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Implementation Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		25.00	
Sovereign Project loan: Asian Development Fund		25.00	
Cofinancing		0.00	
None		0.00	
Counterpart		3.59	
Government		3.59	
Total		28.59	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the Skills for Employment Project.¹

2. The project will improve the employability of graduates from technical and vocational education and training (TVET) programs and courses in three priority sectors of the economy in Mongolia: agriculture, construction, and road and transportation.² The project, which has several innovative features, will (i) develop an industry-driven TVET system; (ii) upgrade selected TVET providers to implement competency-based training and assessment; (iii) establish training systems for TVET teachers and managers; (iv) support secondary education career guidance and schools that specialize in technology; and (v) establish an effective project management system.³

II. THE PROJECT

A. Rationale

3. Mongolia's economy has grown rapidly with a two-fold increase in gross domestic product (GDP) per capita from 2001 to 2012,⁴ due in large part to the booming mining sector, which boosted its share of GDP from 9.0% to 18.6%. The rapid growth of the economy has significantly changed the structure of employment and the demand for skills. In 2012, the agriculture sector share of GDP (14.8%) was second after the mining sector, while agriculture employed the largest proportion of the labor force (35.0%), but its share of GDP and employment decreased by more than 10 percentage points during 2001-2012. The share of employment in the construction and mining sectors, on the other hand, had almost doubled in the same period, accounting for 5.6% (construction) and 4.4% (mining) in 2012. The three priority sectors (agriculture, construction, and road and transportation) contributed 22.9% of GDP as a whole and employed 45.9% of the labor force; women accounted for a minority of employment (46.8% in agriculture, 21.1% in construction, and 19.8% in transportation and storage).⁵

4. The supply of skills, however, has not responded flexibly to labor market demand. Despite a strong demand for skilled workers, only 55.6% of TVET graduates found employment in 2012;⁶ the labor force participation rate remained at 63.6%, lower than the world average;⁷ and the national unemployment rate was 8.2%, with higher rates in urban areas (9.7%), and among youths aged 20–24 (18.3% for women, 16.1% for men). This situation can be partly explained by the country's TVET system whose linkages with industries and employers were

¹ The design and monitoring framework is in Appendix 1.

² The programs are in general of 2.5–3.0 years' duration, leading to complete secondary and vocational certificates. The duration of a course is up to 1 year and upon completion, a vocational certificate is issued.

³ The Asian Development Bank provided technical assistance funded by the Japan Fund for Poverty Reduction: ADB. 2012. *Technical Assistance to Mongolia for Reforms in Technical and Vocational Education and Training in Mongolia*. Manila (TA 8299-MON).

⁴ GDP per capita, purchasing power parity (constant 2005 international \$). World Bank. 2001–2012. *World Development Indicators, 2001–2012*. Washington, DC.

⁵ Government of Mongolia, National Statistical Office. 2012. *Statistical Yearbook 2012*. Ulaanbaatar; Government of Mongolia, National Statistical Office. 2012. *Labor Force Survey Report 2012*. Ulaanbaatar.

⁶ 28.6% of graduates from TVET programs remained unemployed and 15.8% of graduates went to study at higher education institutions in 2012.

⁷ World Bank. 2011. *World Development Indicators, 2011*. Washington, DC. The global average labor force participation rate was 69%.

weakened considerably during the transition from central planning to a market-based economy, and have never been fully restored.

5. The shortage of skilled workers constrains growth in some key sectors of the Mongolian economy. First, although Mongolia has unique and abundant agricultural resources, these have remained largely underutilized because of poor product quality and productivity, despite recent favorable government policies to support the introduction of modern technology in the production and the processing of agricultural products. This underutilization can be explained in part by difficulties in finding skilled workers in the sector. Second, the recent growth of public and private investments in housing and public facility development has generated employment opportunities in the building construction sector, which recorded the largest number of job vacancies of all sectors in Mongolia in the first quarter of 2013.⁸ Third, Mongolia is large, sparsely populated and landlocked, and the government has invested in road and railway construction projects to improve connectivity, both internally and with neighboring countries. However, serious shortages of skilled workers have often forced contractors to hire foreign workers.⁹

6. To improve the responsiveness of the TVET system to labor market demand, the government initiated reforms beginning in the 2000s that have involved employers, and industry and professional associations. The amendment to the TVET law in 2009 was a landmark in recent TVET system reforms, establishing a specialized TVET agency,¹⁰ and the National Council on Vocational Education and Training (NCVET) as an institution to actively engage employers, and industry and professional associations in TVET policy development. Four sector subcouncils have been established under NCVET, but NCVET and the sector subcouncils have yet to become functional. With the support of development partners, competency-based curricula (CBC) have been developed for certain occupations,¹¹ using standards set in collaboration with some employers. However, no standards have been approved by NCVET or sector subcouncils and widely recognized by the relevant employers, and industry and professional associations. CBCs were introduced relatively recently, and remain in an early stage of implementation. Moreover, graduates from TVET programs and courses have not been independently assessed and certified, and competency varies across TVET providers, programs, and courses.

7. In SY2012/13, there were 75 formal TVET providers,¹² 49 of which were public. The government is the largest financier in the TVET sector, enabling public providers to offer tuition-free TVET, with dormitories and teaching–learning materials that are largely free. Private TVET providers are also subsidized by the government. Student enrollment was 45,225 in SY2012/13;

⁸ Data from the Labor Exchange Central Office indicates the construction sector had 73,246 out of 249,791 job vacancies (29.3%).

⁹ The construction sector employed the largest number of foreign workers (21.6%) of all sectors, followed by the mining sector (18.3%), and the transportation and storage sector (13.4%). (Government of Mongolia, Ministry of Labor, Employment Service Center. 2013. *Report on Labor Market Trend in February 2013*. Ulaanbaatar.)

¹⁰ Prior to the establishment of the Agency for Vocational Education and Training, the former Ministry of Education, Culture, and Science was responsible for TVET along with the other levels of education. The agency was disbanded in 2012 with responsibility for TVET transferred to the newly created Ministry of Labor.

¹¹ The list of occupations for which CBC have been developed is in Appendix 4 of the Project Administration Manual (PAM, accessible from the list of linked documents in Appendix 2).

¹² The 75 formal TVET providers include 40 vocational training production centers (18,629 students), 13 polytechnic colleges (11,257 students), 7 branches of tertiary level institutes (5,884 students), and 15 branches of universities (9,455 students). Vocational training production centers offer both long-term programs (2.5–3.0 years leading to complete secondary and vocational certificates) and short-term courses (up to 1 year leading to vocational certificates). Others provide short-term courses. Currently, levels of vocational certificates offered by different types of institutions are not clearly differentiated.

45.6% were female. In SY2011/12 program and course enrollment in the three priority sectors was 2,088 in agriculture (27.3% female), 14,528 in construction (5.1% female), and 4,227 in road and transportation (11.9% female). Although both the number of TVET providers and TVET enrollment have increased dramatically in less than a decade,¹³ most TVET programs and courses have been offered without adequate training equipment and facilities. With the exception of those that have been supplied training equipment under projects funded by development partners, many TVET providers, particularly in remote areas, have been operating with training equipment that is outdated or can no longer be used, and training facilities that require repairs.¹⁴ Licenses have been given to TVET providers that meet basic requirements, but these requirements are insufficient to ensure quality at program, course, and institution levels. Inadequate training equipment and facilities are major constraints on the development of a TVET system that is responsive to labor market demand.

8. The lack of both technical and vocational skills and experience among teachers is another constraint faced by the TVET system. In SY2012/13, there were 2,236 full-time teachers; 1,468 (65.7%) taught technical and vocational subjects, but about 92.5% of them had only 0–4 years of industry experience in the subjects they teach. Most TVET teachers have been trained as general secondary education teachers, because qualifications for teachers in the TVET system have not been clearly specified.¹⁵ Institutional mechanisms for in-service training for teachers in technical and vocational skills are almost non-existent. Additionally, most management staff of TVET providers lack the industry experience and skills needed to develop and manage TVET programs and courses in collaboration with employers, and industry and professional associations.

9. Because of its poor public image, TVET remains a secondary option to most students and parents. The growth of student TVET enrollment has resulted largely from the monthly stipends given to TVET students, rather than their informed choice. Career information and guidance have not been provided for junior secondary students, who must choose between senior secondary education and TVET after graduation. As a result, TVET has enrolled students who are generally academically less successful and come from poorer families. Notwithstanding academic success, existing senior secondary and tertiary education do a poor job of preparing students for work, as evidenced by the low labor force participation rates for youths aged 15–24, and high unemployment rates for graduates from tertiary education.

10. **Strategic fit.** The Government Platform, 2012–2016 highlights employment as one of five goals in creating a sustainable and competitive economy.¹⁶ Many initiatives are underway to reform TVET and general education systems in order to better prepare the country's labor force. The project will support the government's reform initiatives in the TVET and secondary education sectors. The project is included in Asian Development Bank (ADB)'s country operations business plan, 2014–2016 for Mongolia, and is aligned with ADB's interim country partnership strategy, 2014–2016 for Mongolia, which has a focus on achieving inclusive growth and social development through broad-based employment generation.¹⁷

¹³ Government of Mongolia, Ministry of Education, Culture, and Science. 2010. *Education Statistics, 2009–2010*. Ulaanbaatar. In 2005, there were only 38 formal TVET providers which enrolled 23,249 students.

¹⁴ Total public expenditures on TVET are estimated to be less than 1% of GDP, of which capital expenditures are around 10%.

¹⁵ The Law on Vocational Education and Training (Article 18) requires TVET teachers to have "proper experience in production work" and "a high vocational degree"; these have not yet been defined.

¹⁶ Government of Mongolia. 2012. *Government Platform, 2012–2016*. Ulaanbaatar.

¹⁷ ADB. 2014. *Country Operations Business Plan: Mongolia, 2014–2016*. Manila; ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

11. **Innovative features.** The project will introduce several innovations to Mongolia's TVET system, including (i) support for sector subcouncils, industry and professional associations, and employers to set standards for TVET programs and courses; (ii) creation of an independent competence assessment and certification system; (iii) strengthening of workplace training for TVET students and teachers; (iv) introduction of career guidance in junior secondary schools prior to tracking; and (v) development of a credit transfer system between senior secondary education, tertiary education, and TVET within a national qualifications framework.

12. **Lessons.** The project builds on past and ongoing projects in the TVET sector supported by development partners and the private sector.¹⁸ It also draws on lessons from previous involvement by ADB in the Mongolian TVET and general education sectors.¹⁹ Major lessons from these projects are (i) various interventions—such as development of training curricula and materials, upgrading of equipment and facilities, and training for TVET teachers—need to be aligned with standards set in collaboration with employers, and industry and professional associations; (ii) institutionalized technical and vocational skills training for TVET teachers is indispensable for keeping skills of TVET teachers upgraded; (iii) provision of career information and guidance in early grades is essential to enable students to make an informed choice regarding their career, and prepare for work; and (iv) active public communication and consultations are key to sustainable reforms of TVET and general education systems.

B. Impact and Outcome

13. The impact of the project will be increased employment in the three priority sectors (agriculture, construction, and road and transportation). The outcome of the project will be enhanced responsiveness of the TVET system to labor market demand in the three priority sectors.

C. Outputs

14. The project will have five outputs:

15. **Output 1: Industry-driven technical and vocational education and training system established in the three priority sectors.** The project will, in collaboration with employers, and industry and professional associations, support the establishment of an industry-driven TVET system in the three priority sectors by (i) developing occupational and other related standards for key occupations; and (ii) establishing accredited assessment and certification centers with rehabilitated and/or refurbished testing facilities, adequate testing equipment, and accredited center personnel.²⁰ The role of sector subcouncils in developing, approving, and registering standards, and assessment and certification, will be reviewed and strengthened.

¹⁸ Major development partners and the private sector that have supported the Mongolian TVET sector include the European Commission, German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, the Korean International Cooperation Agency, the Millennium Challenge Account-Mongolia, Oyu Tolgoi LLC, Singapore Polytechnic, and the Swiss Agency for Development and Cooperation.

¹⁹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to Mongolia for the Social Security Sector Development Program*. Manila; ADB. 2006. *Proposed Grant Assistance to Mongolia for the Nonformal Skills Training for Unemployed Youth and Adults Project*. Manila; ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Third Education Development Project*. Manila.

²⁰ The methodology and procedures for developing standards are in Appendix 4 of the PAM. The criteria and procedures for institutions to be accredited as assessment and certification centers are in Appendix 5 of the PAM. The indicative list of 15 key occupations is Appendix 10 of the PAM.

16. **Output 2: Selected technical and vocational education and training providers upgraded to implement competency-based training and assessment in the three priority sectors.** The project will support the upgrading of selected TVET providers to implement competency-based training and assessment for the key occupations in the three priority sectors by (i) providing up-to-date equipment for the key occupations, and rehabilitating and/or refurbishing training facilities for at least 20 selected TVET providers;²¹ (ii) delivering training programs to managers and teachers of the selected TVET providers; and (iii) strengthening industry partnerships with the selected TVET providers based on sector or subsector human resource development plans and guidelines for teacher industry placement and student internships. The selected TVET providers will be trained to conduct graduate tracer studies and employer satisfaction surveys to adjust competency-based training programs and courses to employers' needs.

17. **Output 3: Training systems for technical and vocational education and training managers and teachers established in the three priority sectors.** The project will support the establishment of systems for training TVET managers and teachers for the key occupations in the three priority sectors by developing (i) a training program for managers in industry-driven TVET management at the Academy of Management; and (ii) industry-based technical and vocational skills training programs for teachers of the key occupations that combine institution-based, short-term training courses at accredited technical and vocational skills training institutions and workplace training through industry placement.²² The sector subcouncils, industry and professional associations, and employers will be involved in developing training modules and materials, and selecting master technical and vocational skills trainers in the key occupations.

18. **Output 4: Support for secondary education career guidance and schools that specialize in technology.** The project will support the (i) implementation of eighth and ninth grade civic education curriculum that integrates career guidance modules in all schools; and (ii) establishment of 30 independent senior secondary schools which will offer occupation-oriented technology elective courses.²³ Credits of the elective courses can be transferred to higher education institutions. Quality assurance mechanisms, entrance exams, and evaluation and assessment systems will be developed and implemented.

19. **Output 5: Effective project management system established.** The project will support the establishment of an effective project management system by developing the capacity of the executing agency and implementing agencies for project implementation, and monitoring and evaluation.

D. Investment and Financing Plans

20. The project is estimated to cost \$28.59 million, of which 9.1% of the base cost will finance civil works, 71.7% for equipment, and 3.8% for consultants.

²¹ The procedures for selecting TVET providers and the list of pre-selected TVET providers are in Appendix 6 of the PAM.

²² The strategy for establishing a training system for TVET managers is in Appendix 7 of the PAM. The strategy for establishing a technical and vocational skills training system for TVET teachers is in Appendix 8 of the PAM.

²³ The concept of independent senior secondary schools with occupation-oriented technology elective courses is presented in Appendix 9 of the PAM.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Establishment of industry-driven TVET system	3.42
2. Output 2: Upgrading of selected TVET providers	13.23
3. Output 3: Establishment of training systems	0.44
4. Output 4: Secondary career guidance and schools	6.79
5. Output 5: Establishment of project management system	1.37
Subtotal (A)	25.25
B. Contingencies^c	2.60
C. Financing Charges During Implementation^d	0.74
Total (A+B+C)	28.59

TVET = technical and vocational education and training.

^a Includes taxes and duties of \$0.87 million to be financed from government resources (\$0.07 million, tax exemptions) and Asian Development Bank (ADB) loan resources (\$0.80 million). The financing of taxes and duties is necessary to avoid delays in procurement. The amount of taxes and duties is determined on the grounds that (i) the amount will not represent an excessive share of the project investment plan, (ii) the taxes and duties apply only to ADB-financed expenditures, and (iii) the financing of taxes and duties is relevant to the success of the project.

^b In mid-2014 prices.

^c Physical contingencies computed at 5.0% for base investment costs. Price contingencies computed on average at 2.19% on foreign exchange costs and 2.79% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during implementation for the ADB loan has been computed at the interest rate of 2% to be covered under loan proceeds.

Source: Asian Development Bank estimates.

21. The government has requested a loan in various currencies equivalent to SDR16,965,000 (\$25.0 million equivalent) from ADB's Special Funds resources to help finance the project, including recurrent costs and interest during implementation. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement. The Government of Mongolia will provide counterpart financing of \$3.59 million equivalent for recurrent costs and contingencies (including taxes and duties). The government has assured ADB that it will provide additional counterpart funding for any shortfall of funds or cost overruns to ensure the success of the project. Total physical and price contingencies amount to \$2.60 million. The financing plan is in Table 2 and is further detailed in the project administration manual (PAM).²⁴

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (Asian Development Fund)	25.00	87.4
Government	3.59	12.6
Total	28.59	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

22. The Ministry of Labor (MOL) will be the executing agency and oversee overall project implementation and management activities. MOL will be the implementing agency for outputs 1, 2, 3, and 5, while the Ministry of Education and Science (MEDS) will be the implementing agency for output 4. A project steering committee, chaired by the minister of labor, will approve annual budgets and plans for the project, and guide and support project implementation. A

²⁴ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

project implementation unit (PIU) will be established by MOL to assume day-to-day management of the project. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 24).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	May 2015–May 2019		
Estimated completion date	31 May 2019 (estimated closing date: 30 November 2019)		
Management			
(i) Oversight body	A PSC will be established by MOL. The PSC will be chaired by MOL and composed of senior officials of MOL, MEDS, and the Ministry of Finance; and representatives of employers, and industry and professional associations.		
(ii) Executing agency	MOL will be the executing agency of the project.		
(iii) Key implementing agencies	MOL will be the implementing agency for outputs 1, 2, 3, and 5. MEDS will be the implementing agency for output 4.		
(iv) Implementation unit	A PIU will be established by MOL. On behalf of the executing agency and implementing agencies, the PIU will be responsible for the day-to-day management of the project. The PIU will be staffed by a project manager, a project coordinator responsible for output 4, a procurement specialist, an accountant and financial management specialist, a competency-based training and assessment specialist, a training specialist, a monitoring and evaluation specialist, an education specialist (senior secondary technology subject), an education specialist (career guidance), a project assistant, and a driver.		
Procurement	International competitive bidding	10 contracts	\$17,605,000
	National competitive bidding	9 contracts	\$3,120,000
	Shopping	11 contracts	\$385,000
Consulting services	Quality- and cost-based selection	38 person-months	\$318,500
	Consultants' qualifications selection ^a	57 person-months	\$316,650
	Individual consultants selection ^b	55 person-months	\$482,295
Retroactive financing and/or advance contracting	Advance contracting for three consulting services will be provided.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, MEDS = Ministry of Education and Science, MOL = Ministry of Labor, PIU = project implementation unit, PSC = project steering committee.

^a Two consulting firms will be recruited through the consultants' qualifications selection method on the grounds that highly specialized expertise is required, recruitment time is critical and the assignment is short-term, few consultants are qualified, and the process of preparing and evaluating competitive proposals is unjustified.

^b A total of 14 consultants will be engaged through the individual consultants selection method because collective responsibility is not needed, while individual experience and qualifications are the main requirements.

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

A. Technical

23. The project will upgrade selected TVET providers by supplying up-to-date equipment and rehabilitating or refurbishing training facilities. Equipment to be supplied will meet standards set by industries and employers to ensure the quality of TVET programs and courses. Maintenance and training services included in the supply contracts will enhance local capacity for the use, operation, and maintenance of the supplied equipment. Training facilities will be rehabilitated or refurbished in accordance with the national regulations, standards, and codes. The project outputs have been designed to incorporate international best practices, such as strengthening of sector subcouncils, involvement of industries and employers in the development of standards, and enhancement of workplace training for TVET students and teachers.

B. Economic and Financial

24. **Economic benefits.** The economic benefits of the project were estimated as the incremental value of higher earnings that graduates from TVET programs and courses can expect in the labor market as a result of improved skills attributable to the project. Other economic benefits were not considered due to practical constraints in quantifying the benefits. Incremental earnings for graduates who would work as full-time employees in occupations related to their training were conservatively assumed at 60%–80% of the average monthly salaries for the occupations. Estimating these benefits over the 25-year loan period and based on the total project cost of \$28.59 million, yielded an economic internal rate of return of 22.76%. The economic internal rate of return, tested through sensitivity analysis, stood at 19.84%. The project is considered economically viable.

25. **Financial sustainability.** The project has no revenue-generating component hence, financial costs and benefits were not analyzed. The financial sustainability of the project was assessed at the fiscal and project levels. An analysis of recent and projected government expenditures was undertaken to evaluate the potential impact of the project on the budget of MOL and MEDS. The government will fund \$3.59 million, comprising recurrent costs and contingencies. The government's annual commitment to the project as a percentage of the total budget of MOL and MEDS is estimated to be 0.10% in 2015, 0.09% in 2016, 0.13% in 2017, 0.03% in 2018, and 0.01% in 2019. The government's annual commitment to the project, therefore, is considered affordable.

C. Governance

26. Procurement capacity assessments have been carried out for MOL and MEDS. The two ministries have reasonable capacity to conduct procurement in compliance with the relevant national laws and regulations on public procurement. MEDS, through past and ongoing ADB projects, has experience in procurement using ADB policies and procedures. The procurement capacity of MOL will be strengthened by recruiting a procurement specialist to the PIU that will be supported by consultants specialized in project implementation start-up, equipment, and civil works. All procurement under the project will be carried out by MOL and MEDS, and coordinated by the PIU.

27. Financial management assessments conducted for MOL and MEDS confirmed that both have adequate accounting professionals, and computerized financial accounting and reporting systems and procedures related to their current project activities. The entity- and project-specific risks were rated as *substantial*, however, due to weaknesses identified in budget planning and execution at sector and local levels, key internal controls surrounding the government financial management information system, internal audit functions, and experience with donor-funded projects. These weaknesses will be addressed by providing training for MOL and MEDS staff and strengthening capacity of MOL and MEDS through the PIU. The PIU will be equipped with an integrated financial management system and staffed by qualified professionals—including an accountant and financial management specialist, a project manager, and a project coordinator—to ensure the project is implemented in compliance with ADB policy, operational, and procedural requirements. Annual project audits will be arranged by the National Audit Office.

28. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MOL, and MEDS. The specific policy requirements and supplementary measures are described in the PAM (footnote 24).

D. Poverty and Social

29. The project will directly benefit young students, who are enrolled in selected TVET providers, and generally come from poorer families and are academically less successful; and adult students who are unemployed or looking for better employment opportunities. TVET providers in remote and disadvantaged areas will be prioritized if they present self-assessment reports and quality improvement plans that fulfill selection criteria. About 15,500 students will complete competency-based training programs (3,500 students) and courses (12,000 students) for the key occupations that meet standards set in collaboration with employers, and industry and professional associations; as a consequence, they are expected to have improved employment opportunities. The project will reach eighth and ninth grade students in all junior secondary schools (99,920 in SY2012/13) with career information and guidance in order to help them make an informed choice among TVET programs, and between TVET and senior secondary education, and to better prepare them for work. Better preparation in earlier grades is essential to counteract the high youth unemployment rate.

30. **Gender benefits.** The project is designed to have gender equity as a theme, because the project will directly address gender equality and/or women's empowerment by narrowing gender disparities through access to TVET. The unemployment rate for women aged 20–24 has been higher than that for men. TVET generally enrolls fewer female than male students, whereas senior secondary and tertiary education have been enrolling more female than male students.²⁵ A gender action plan has been developed to ensure that gender disparities are addressed. The plan ensures the collection of sex-disaggregated data for planning and decision support, and monitoring and evaluation; gender sensitivity for public communication and consultations; general participation of female management staff and teachers in training (at least 37% will be women); identification and training of female master trainers (about 17%); participation of female students in internships (about 29%); development of gender-sensitive career guidance modules; and training of eighth and ninth grade teachers in gender-sensitive career guidance (70%).

E. Safeguards

31. **Environment.** The project is classified category C for the environment. The project involves minor civil works, limited to the rehabilitation of existing buildings under outputs 1 and 2. A simplified environmental assessment and review framework was prepared,²⁶ defining eligibility criteria for civil works, as well as environment management, supervision, and reporting responsibilities of selected TVET providers and contractors during minor civil works to avoid negative impacts on the environment, and health and safety.

32. **Involuntary resettlement and indigenous peoples.** The project is classified as category C for involuntary resettlement. The project involves minor civil works that will be carried out on existing government land and no land acquisition and resettlement impacts are anticipated. The project is classified as category C for indigenous peoples. The assessment determined that indigenous peoples will not be negatively impacted.

²⁵ In SY2012/13, females accounted for 45.6% of TVET enrollment, 54.1% of senior secondary education enrollment, and 58.3% of tertiary education enrollment.

²⁶ The simplified environment assessment and review framework is in Appendix 3 of the PAM.

F. Risks and Mitigating Measures

33. The overall benefits and impacts are expected to outweigh the costs and risks involved. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁷

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Changed government priorities affect policies and the government's commitment to project activities	Consult with and involve major stakeholders in and outside of government during project implementation, allocate funding for public communication on project activities to build a broad base of support for project activities, and engage a communication specialist to develop a communication strategy
Slow consensus-building processes on occupational and other standards among employers, and industry and professional associations, delay project implementation	Begin consultations with and capacity development of major industry and professional associations identified in the three priority sectors in the early stages of project implementation
Limited experience of MOL with ADB projects results in procurement delays, misprocurement, and irregularities	Before loan effectiveness, identify and train staff of the PIU that will assume day-to-day management of the project including procurement, disbursement, and financial management; train MOL staff in applicable ADB guidelines, policies, and regulations (by project implementation start-up specialist); and establish clear roles and responsibilities among MOL, MEDS and the PIU
Lack of capacity for compliance with the ADB guidelines and procedures, and environmental assessment and review framework, causes delays	Identify and train staff involved in project implementation on procurement, financial management and disbursement, conduct spot reviews of procurement and financial processes before loan effectiveness, and engage project implementation start-up specialist and environment specialist to provide training on procurement, financial management, disbursement, and environment

MEDS = Ministry of Education and Science, MOL = Ministry of Labor, PIU = project implementation unit.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

34. The government and the Ministry of Labor have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

35. The government and the Ministry of Labor have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

36. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR16,965,000 to Mongolia for the Skills for Employment Project, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

25 November 2014

²⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased employment in the three priority sectors.</p>	<p>By 2020 Number of workers in the three priority sectors increased by 4.0% (2012 baseline: 485,300)</p> <p>Employment rates of graduates from TVET programs and courses in the three priority sectors increased to 60.0% (2012 baseline: 55.6%)^a</p>	<p>Labor force surveys</p> <p>MOL statistics; TVET graduate tracer studies</p>	<p>Assumption Government continues to support key development policies</p> <p>Risk Volatile labor market demands</p>
<p>Outcome Enhanced responsiveness of the TVET system to labor market demand in the three priority sectors.</p>	<p>By 2019 15,500 students have obtained completion certificates of CBT programs and courses for the key occupations in the priority sectors developed in collaboration with employers, and industry and professional associations, of which 2,800 (18.1%) are female students (2012 baseline: 14.8%)^b</p> <p>3,000 students certified in the key occupations at the assessment and certification centers</p> <p>Eighth and ninth grade students in all schools have gender-sensitive career guidance integrated with civic education curriculum</p>	<p>MOL reports; reports of the selected TVET providers</p> <p>MOL reports; reports of assessment and certification centers</p> <p>MEDS reports; M&E reports</p>	<p>Assumption Enrollment in TVET programs and courses remains at the current level</p> <p>Risk Political risks, including a change in leadership, affect project implementation</p>
<p>Outputs 1. Industry-driven TVET system established in the three priority sectors.</p>	<p>By 2017 Standards for 15 key occupations validated with employers, and industry and professional associations in the three priority sectors</p> <p>Assessment and certification centers established in collaboration with employers, and industry and professional associations in the three priority sectors</p>	<p>MOL reports; standards submitted to sector subcouncils for approval</p> <p>MOL reports; reports of assessment and certification centers</p>	<p>Risks Employers, and industry and professional associations unable to reach consensus on standards for key occupations</p> <p>Change in political leadership may affect priorities of MOL and institutional arrangements for assessment and certification</p>
<p>2. Selected TVET providers upgraded to implement CBT&A in the three priority sectors</p>	<p>20 selected TVET providers with upgraded equipment and facilities offering CBT programs and courses for the key occupations in the priority sectors by 2017</p> <p>30 managers of the selected TVET providers trained in industry-driven TVET management by 2018, of which 10 are female managers</p> <p>170 teachers of the selected TVET</p>	<p>MOL reports; reports of the selected TVET providers; M&E reports</p> <p>MOL reports; reports of the Academy of Management</p> <p>MOL reports; reports of the</p>	<p>Risks Insufficient number of students enroll in programs and courses for key occupations</p> <p>Change in management of TVET providers may affect level of commitment to quality improvement</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>providers trained in TVS for the key occupations by 2019, of which 60 are female teachers</p> <p>50 teachers of the selected TVET providers trained in TVS for the key occupations through industry placement by 2019, of which 15 are female teachers</p> <p>350 students completed internship for key occupations in the priority sectors by 2019, of which 100 are female students</p>	<p>selected TVET providers; M&E reports</p> <p>MOL reports; reports of the selected TVET providers; M&E reports</p> <p>MOL reports; reports of the selected TVET providers; M&E reports</p>	<p>Teachers may leave their posts for better-paying jobs after training</p> <p>Employers unwilling to accept teacher placement and interns</p>
<p>3. Training systems for TVET managers and teachers established in the three priority sectors.</p>	<p>By 2016</p> <p>Training program for managers on industry-driven TVET management developed and delivered at the Academy of Management</p> <p>30 master TVS trainers identified and trained, of which about 5 are female</p> <p>TVS training programs for teachers developed and delivered for the key occupations at accredited training institutes in the priority sectors</p>	<p>MOL reports; reports of the Academy of Management</p> <p>MOL reports; M&E reports</p> <p>MOL reports; reports of TVS training providers for teachers</p>	<p>Risk</p> <p>Change in political leadership may affect institutional arrangements for TVET manager and teacher training</p>
<p>4. Secondary education career guidance and schools that specialize in technology supported.</p>	<p>By 2019</p> <p>Eighth and ninth grade civic education curriculum that integrates gender sensitive career guidance modules and materials implemented in all schools</p> <p>90% of eighth and ninth grade teachers trained in gender sensitive career guidance, of which 70% are female teachers</p> <p>30 independent senior secondary schools offered occupation-oriented technology elective courses</p>	<p>MEDS reports; M&E reports</p> <p>MEDS reports; M&E reports</p> <p>M&E reports; M&E reports</p>	<p>Risks</p> <p>Potentially heavy workload for teachers in secondary schools</p> <p>Lack of coordination among key stakeholders and with other initiatives may jeopardize the implementation of independent senior secondary schools</p>
<p>5. Effective project management system established.</p>	<p>Project performance management system established; baseline data collected (disaggregated by gender, income group, area, TVET provider or school, and occupation); and quarterly and annual reports generated</p> <p>Progress in achieving gender action plan targets monitored and reported</p>	<p>Quarterly and annual reports</p> <p>Quarterly and annual reports</p>	<p>Risk</p> <p>Change in political leadership may affect key staff involved in project implementation</p>
Activities with Milestones			Inputs
<p>1. Industry-driven TVET system established in the three priority sectors</p> <p>1.1 Develop occupational profile charts and standards documents, and validate for 15 key occupations in the priority sectors (2015)</p> <p>1.2 Review the role of sector subcouncils in developing, approving and registering standards, and assessment and certification (2015)</p> <p>1.3 Develop and validate CBT materials, and assessment criteria and methods for 15</p>			<p>Loan</p> <p>ADB: \$25 million</p> <p>Government:\$3.59 million</p>

<p>key occupations in the priority sectors (2015–2016)</p> <ol style="list-style-type: none"> 1.4 Identify and accredit institutions that will become assessment and certification centers for the three priority sectors (2015–2016) 1.5 Identify, train, and accredit directors, assessors, and test developers of three assessment and certification centers (2015–2016) 1.6 Develop and validate assessment instruments, tools, and procedures; and certification policies and guidelines for 15 key occupations in the priority sectors (2015–2016) <p>2. Selected TVET providers upgraded to implement CBT&A in the three priority sectors</p> <ol style="list-style-type: none"> 2.1 Finalize the list of selected TVET providers to upgrade based on self-assessment reports, quality improvement plans, and environmental assessment and review framework; and procure equipment and minor civil works (2015–2016) 2.2 Implement CBT programs and courses for the key occupations at selected TVET providers (2016–2019) 2.3 Prepare and validate human resource development plans in the three priority sectors (2015–2016) 2.4 Develop and validate guidelines for industry placement for TVET teachers and internships for students (2015–2016) 2.5 Train industry supervisors and mentors for industry placement for TVET teachers and internships for students (2016–2019) 2.6 Train selected TVET providers in conducting graduate tracer studies and employer satisfaction surveys (2015–2017) <p>3. Training systems for TVET managers and teachers established in the three priority sectors</p> <ol style="list-style-type: none"> 3.1 Develop and validate training modules and materials for managers on industry-driven TVET management and train master trainers of the Academy of Management (2015) 3.2 Develop, validate, and conduct training programs for master TVS trainers for the key occupations (2015–2016) <p>4. Career guidance and technology-specialized schools supported in secondary education</p> <ol style="list-style-type: none"> 4.1 Develop, pilot, and validate career guidance modules and materials, assessment and evaluation tools, aptitude tests and self-exploration tools, and teachers' guides (2015–2016) 4.2 Develop, pilot, and validate teacher career guidance training modules and materials, and online teacher training course on career guidance (2015–2016) 4.3 Train teacher educators at pre-service teacher training institutes to deliver training on career guidance for eighth and ninth grade teachers (2016) 4.4 Develop and validate guidelines for independent senior secondary schools, quality assurance mechanisms, evaluation and assessment methods and tools, and documents detailing institutional arrangements for establishing a credit transfer system for independent senior secondary schools (2015) 4.5 Train technology teachers in curriculum; teaching-learning materials, equipment, and tools; and evaluation and assessment methods and tools (2015–2016) <p>5. Effective project management system established</p> <ol style="list-style-type: none"> 5.1 Establish a PIU and train staff in disbursement, procurement, financial management, environmental management, M&E, and reporting (2015) 5.2 Train staff of the executing and implementing agencies in project management (2016–2018) 	
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ADB = Asian Development Bank, CBT = competency-based training, CBT&A = competency-based training and assessment, M&E = monitoring and evaluation, MEDS = Ministry of Education and Science, MOL = Ministry of Labor, O&M = operation and maintenance, PIU = project implementation unit, TVET = technical and vocational education and training, TVS = technical and vocational skills.

^a The baseline employment rate in 2012 was 55.6% for graduates from all TVET programs and courses.

^b The baseline is the percentage of female enrollments in programs and courses in the three priority sectors in SY2011/12, because sex-disaggregated data on graduates from programs and courses in the three priority sectors are not available.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=45010-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Education
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Risk Assessment and Risk Management Plan

Supplementary Document

12. Full Economic Analysis