

PROGRAM EXPENDITURE AND FINANCING ASSESSMENT

A. Expenditure Framework

1. Kerala's education and health profile is among the best and the most equitable in India. According to the 2011 Census, its literacy rate was 94% against India's overall average of 73%. Kerala's gender gap in literacy rates was 4% (96% for males and 92% for females) while India's overall gap was 16% (81% for males and 65% for females). The infant mortality rate at 12 per 1,000 is the lowest in India. Despite having strong education and health indicators, paradoxically, Kerala has poor unemployment indicators. In 2011–2012, the state's unemployment rate was 7.4%, which is more than triple the national average of 2.3%. Moreover, contrary to expectations, the overall unemployment rate increases with the level of education. Recent estimates show that the unemployment rate was 6.1% for those with primary education, 12.4% for secondary school graduates, 33.7% for higher secondary school graduates, and 26% for degree holders.¹ Kerala's problem of "educated unemployment" shows that its high literacy and school enrollment rates have not translated into the level of employability required by the market.

2. The Government of Kerala launched the Kerala State Skill Development Project in July 2012 to enhance the employability of the youth and create opportunities for productive employment within and outside the state. It has two subprograms to tackle the supply-side problems.² The first, Additional Skill Acquisition Program (ASAP), has been designed by the Department of Higher Education (DOHE) and the Department of General Education (DOGE) to address the "preventive" dimension of low employability. The second, the Additional Skill Enhancement Program, has been designed by the Department of Labor and Employment and the Department of Local Self Government to address the "curative" dimension by focusing on reskilling the unemployed youth registered with employment exchanges.

3. The Government of India and the state government have requested Asian Development Bank (ADB) assistance to strengthen and scale up ASAP since it aims at tackling the problem of "educated unemployment" early on by introducing market-relevant foundation training (in English communication and basic information technology), and vocational training and career counseling alongside the general curriculum at the higher secondary (grades 11 and 12) and undergraduate levels (i.e., post-basic education). Once a student successfully completes the foundation courses (180 hours), he or she will be able to choose from a menu of vocational courses (course hours depending on the trade) that focus on growing sectors such as banking and financial services, business process outsourcing, customer care, health care, hospitality, printing, retail, and telecommunication. These foundation and vocational courses will be offered after regular school or college hours and during vacations, so that students become market-ready while pursuing their education. The state government's decision to use budgetary resources and mobilize external financing to enhance the employability of the relatively poor and disadvantaged youth, enrolled in government and government-aided schools and colleges, is sound. The growing frustration of an increasing cohort of educated but unemployable youth, and the related socioeconomic costs provide a strong justification for public intervention.

4. As discussed in the program soundness assessment,³ ASAP has been designed on the basis of consultations with students, faculties of higher secondary schools and

¹ Government of Kerala. 2012. *Kerala State Skill Development Preliminary Report, 2012*. Thiruvananthapuram (Table 1).

² The state government has taken several measures on the demand side too, to strengthen the state's infrastructure, attract private investment, and establish industry parks and technology hubs to stimulate investment and create employment opportunities. These measures are examined in the sector analysis.

³ Program Soundness Assessment (accessible from the list of linked documents in Appendix 2).

undergraduate colleges, industry associations, and sector skills councils.⁴ The ASAP secretariat has been in operation since July 2012 and comprises experienced officers from different departments. As of 1 July 2014, ASAP is being piloted in 437 schools and colleges. It has enrolled 15,899 students, 56% of them are females. The ASAP secretariat has engaged 101 program managers (55% females) to implement the program. A total of 1,167 skill development executives (67% females) have been empaneled for providing foundation training in communication English and basic information technology.

5. The program results assessment discusses how the output and outcome indicators of ASAP are specific, measurable, achievable, relevant, time-bound, and transparent.⁵ Baseline figures and targets apply to each of them. The focus remains on the beneficiaries and the results chain is clear. With effect from 1 August 2014, the ASAP secretariat has operationalized a detailed management information system (MIS) for collecting sex-disaggregated and social inclusion data on different aspects of ASAP. Through the accompanying capacity development technical assistance, ADB will help the secretariat deal with the conceptual, methodological, and practical challenges of tracking the main outcome indicator (Disbursement-Linked Indicator 1) i.e., “increase in the employability rate of ASAP trainees over the 2016 baseline”, as well as the employment outcomes of the subset of ASAP certificate holders who start looking for jobs within 2–3 months of getting their certificates. A detailed monitoring and evaluation framework will be designed to use a multipronged approach including the MIS, beneficiary group feedback, and periodic tracer studies and monitoring and evaluation surveys of firms to establish the baseline, and track not just the outputs, but also the outcomes and, ultimately, the impact. This will also help in the triangulation of the findings established through the MIS. Further, the ASAP secretariat has agreed to engage a third-party firm to undertake independent validation of the outputs and outcomes. As a result of this approach, it will be possible to track the outputs and outcomes of the proposed loan and ensure efficiency and economy in the use of limited public funds.

6. ASAP is closely aligned with the priorities of the Kerala Perspective Plan, 2030, which emphasizes the need to move toward a knowledge-based economy.⁶ The plan will be implemented over the forthcoming five-year plans. The 12th Five-Year plan of Kerala (2012–2017) sets the overall skills training target at 1.48 million (0.31 million for ASAP and 1.17 million for Additional Skill Enhancement Program). It emphasizes ASAP since it focuses on the “preventive” aspect of tackling low employability.⁷ The proposed loan will train 233,058 students over the period 2012–2018. The state government’s overall target for ASAP is 310,000 students. While ASAP was conceived jointly by the DOGE and DOHE, the latter has been designated as the executing agency since the budget allocation has been made to it.⁸

7. The total provision for ASAP in the budget for 2014–2015 is about 14% of the plan expenditure (and 3% of the total expenditure) estimates for DOHE.⁹ This underscores the importance the state government attaches to skills development. The yearly share of the

⁴ The ASAP secretariat was constituted as an implementing agency under the supervision of DOHE by Government Order [GO (Ms) No. 271/2012/HEdn] dated 7 July 2012.

⁵ Program Results Assessment (accessible from the list of linked documents in Appendix 2).

⁶ The Kerala Perspective Plan, 2030, prepared by the National Council of Applied Economic Research, New Delhi on behalf of the state government, was presented to the Kerala Legislative Assembly on 24 March 2013.

⁷ Government of Kerala, State Planning Board. 2012. *Twelfth Five-Year Plan, 2012–2017 (draft)*. Thiruvananthapuram.

⁸ DOGE administers school education from pre-primary to secondary (grade 10) levels, while DOHE is responsible for higher secondary education (grades 11 and 12), college education, and technical education.

⁹ Plan expenditure represents current development and investment expenditure included in the annual plan (both central and state) as derived from the priorities of the ongoing Five-Year Plan. Non-plan expenditure refers to the estimated expenditure provided in the budget for spending during the year on routine functioning (e.g., wages and salaries, interest) of the government.

education expenditure is given in Table 1. While non-plan expenditure (routine expenditure) constitutes the bulk of DOHE's expenditure, the plan expenditure component has increased from about 8% of the total expenditure in 2011–2012, to 13% in 2013–2014, and to 15% in 2014–2015 (budget estimate). Even for the education sector as a whole, plan expenditure has increased from 5.5% to 8.5% of the total expenditure between 2011–2012 and 2014–2015. This indicates the high priority given to reforms in education and vocational training.

B. Financing Plan

8. ASAP expenditures are estimated to be \$200 million from September 2012 to March 2018 (Tables 2 and 3).¹⁰ The state government will support the ASAP expenditure framework through an annual budget to be executed by DOHE (\$100 million), and ADB will finance the balance (\$100 million). About 46% of the ASAP budget (\$92 million) is allocated to knowledge enhancement, which is for the delivery of skills training (foundation courses and vocational courses) and professional development of staff, managers, and teachers. The cost of building community skills parks (CSPs) and renovating skill development centers amounts to \$49 million, or 24% of total expenditure. The recurrent budget of \$58 million (29% of total expenditure) consists of salaries, allowances, and operating expenditures. A substantial component of the operating expenditure (\$38 million or about 19% of total expenditure) goes to the provision of refreshment and transport to students who attend training classes. As ASAP is primarily targeted at enhancing the skills of the students from economically weaker sections of society, provision of refreshment and transport is essential to motivate them to attend the classes. This estimate assumes that the recurrent budget will increase based on the support required for managing the incremental number of students in training. An assessment of the ASAP expenditure framework in terms of effectiveness, efficiency and economy, and adequacy is presented below.

Table 1: Education Budget at a Glance
(\$ million)

Level	Plan Expenditure				Non-Plan Expenditure			
	2011–2012 (Actual)	2012–2013 (Actual)	2013–2014 (Revised Estimates)	2014–2015 (Budget Estimates)	2011–2012 (Actual)	2012–2013 (Actual)	2013–2014 (Revised Estimates)	2014–2015 (Budget Estimates)
Elementary Education	16	8	32	11	623	646	678	809
Secondary Education	28	51	26	50	568	629	689	821
University & Higher Education ^a	19	33	41	58	197	223	272	323
Others	8	16	18	20	8	9	5	5
Technical Education	15	27	33	52	60	67	72	87
Total	86	135	150	191	1,456	1,574	1,716	2,045

^a includes Additional Skill Acquisition Program.

Source: Asian Development Bank.

¹⁰ Indicative since the detailed cost of designing and offering intermediate and advanced vocational training cannot yet be estimated accurately.

Table 2: Summary of Expenditure Framework

Item	RBL (2014–2018)		ASAP (2012–2018)	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
	1. Recurrent budget	41	28	58
Operating expenditure ^a	33	22	46	23
Personnel cost	8	6	12	6
2. Capital budget	106	72	142	71
Employability enhancement ^b	66	45	92	46
CSPs and SDCs ^c	39	26	49	24
Equipment ^d	1	1	1	1
3. Total	147	100	200	100

ASAP = Additional Skill Acquisition Program, CSP = community skills park, RBL = results-based lending, SDC = skill development center.

^a Includes expenditure incurred by the ASAP secretariat for rent, advertisement, staff travel costs, and other expenditures, and includes refreshment and transport expenditure for students.

^b Includes expenses on trainers and service providers for imparting foundation and vocational courses.

^c Includes expenditure for construction of CSPs and refurbishment of SDCs.

^d Includes expenditure on purchase of office equipment, e.g., printers and computers.

Source: Asian Development Bank.

Table 3: Expenditure Framework per Year
(\$ million)

Item	Total	Actual		Projected				
		2012–2013	2013–2014 ^a	2014–2015	2015–2016	2016–2017	2017–2018 RBL	2017–2018 ASAP ^b
1. Recurrent budget	57.8	0.4	3.6	8.8	13.0	15.9	0.0	16.0
Operating expenditure	46.2	0.3	3.1	6.8	10.4	12.8	0.0	12.7
Personnel cost	11.6	0.1	0.5	2.0	2.6	3.1	0.0	3.3
2. Capital budget	142.2	0.0	0.7	13.5	40.4	44.8	6.6	36.2
Employability enhancement	92.4	0.0	0.6	11.3	25.1	29.4	0.0	26.0
CSPs and SDCs	48.8	0.0	0.0	2.0	15.1	15.1	6.6	10.0
Equipment	1.0	0.0	0.1	0.2	0.2	0.3	0.0	0.2
3. Total ASAP Program 2012–2018	200.0	0.5	4.3	22.3	53.4	60.7	6.6	52.2
Less: Excluded from RBL Program	52.7	0.5						52.2
4. Total RBL Program 2014–2018	147.4	0.0	4.3	22.3	53.4	60.7	6.6	0.0
No of students trained:								
- Foundational courses	250,000	3,058	13,114	30,000	61,886	65,000	0	76,942
- Vocational courses	310,000	6,558	23,114	45,000	76,886	81,500	0	76,942

ASAP = Additional Skill Acquisition Program, CSP = community skills park, RBL = results-based lending, SDC = skill development center.

^a Expenditure incurred in fiscal year 2014 shall be eligible for reimbursement as “prior results.”

^b Expenditure estimated for level 2 and 3 certifications not included under RBL scope.

Source: Asian Development Bank.

9. The detailed costing exercise undertaken for each of the expenditure heads confirms that the investment plan for the results-based lending program is adequate, sustainable, and can support the desired results. The combined cost of imparting foundation and vocational training, including payments to training service providers and master trainers, account for

43% of the total results-based lending. This single largest head of expenditure is directly targeted to the beneficiaries (i.e., the poor and disadvantaged students enrolled under ASAP), and will help enhance their market readiness (i.e., employability) and improve their employment prospects. The employability enhancement costs were projected into the future based on the current costs per student per course multiplied by the number of students to be trained. While some courses may be dropped in the future and some new courses may be introduced, it is assumed that the costs would remain the same on average, irrespective of the trades. The operating expenditure comprises expenditure incurred by the ASAP secretariat on rent, advertisement, staff travel costs, and other expenses; and includes refreshment and transport expenditure incurred for students. The personnel cost includes the salaries of the skill development executives who will impart the foundation training, and the program managers who will help the secretariat in implementing ASAP.

10. ASAP was set up in July 2012. The initial time frame for implementation of ASAP was the 12th Five-Year Plan (2012–2017). Under the proposed loan, ASAP will provide level 1 certification, which is equivalent to levels 3–5 of India's National Skills Qualification Framework.¹¹ ASAP will develop intermediate and advanced vocational courses by 2017 so that it can offer certification at levels 2 and 3, which would translate to levels 6 and 7 of the National Skills Qualification Framework. Accordingly, ASAP's implementation period will be extended beyond 2018. The program expenditure framework for the proposed loan has been estimated for 2012–2018.

11. The loan will assist ASAP in designing and establishing modern CSPs and renovating existing skill development centers, which is not currently provided under the government's technical and vocational education and training programs. This accounts for 27% of the loan. ADB will assist the secretariat in designing public–private partnership options so that the operations and management of the CSPs can eventually be outsourced to private operators. ASAP proposes to invite private participation in managing the CSPs whereby the private operator would allocate the required hours to ASAP and use the remaining time to run its own courses or invite other trainers to use the facilities for providing nationally certified vocational training. This will help in ensuring that the CSPs are fully and effectively utilized. The administrative burden on the ASAP secretariat will also go down. Increases in recurrent costs are based on an analysis of fixed versus variable costs, with variable costs rising with the number of students.

12. The state government is committed to providing the required counterpart funding for ASAP given its high priority for the state. Since it is funding only 32% of the proposed loan, no difficulty is foreseen in the allocation of funds.¹² To strengthen its fiduciary and institutional capacity early on, the ASAP secretariat will recruit a full-time chartered accountant and a procurement specialist by the end of October 2014. Detailed physical targets and work plans have been prepared to ensure that key activities take place on time to achieve ASAP's ambitious targets. The overall MIS and financial MIS became fully operational with effect from 1 August 2014. All payments and receipts are now recorded in the financial MIS. One of the key areas that the MIS needs to cover is the control of inflows that ASAP receives from students, contractors, and other parties, e.g., fees, fines. As per the rules of the government, any such receipt belongs to the Consolidated Fund and would therefore need to be monitored and deposited in the relevant account.

13. The ASAP secretariat will request budget allocations from DOHE based on an

¹¹ ASAP's skills proficiency certification for levels 1 and 2 will be offered either by the state government or jointly by industry and government depending on the vocational course. The level 3 ASAP certification will be offered jointly by industry, a university, and the government.

¹² The state government's proposal for accessing ADB funding for ASAP was cleared by the Department of Expenditure, Ministry of Finance, Government of India after an assessment of its fiscal situation and ability to provide counterpart funds.

agreed annual implementation plan with fully costed interventions to achieve results. The plan projections will include both capital and recurrent expenditures. Based on current estimates, ADB would provide \$100 million (68%) and the government is expected to contribute the balance (32%) of the proposed loan. While the government has fully committed to its plan expenditure program until the completion of the plan period (2012–2017), the financing source for the expenditure beyond 2017 is yet to be determined.

Table 4: Program Financing Plan

Source	(\$ million)			
	RBL Program		ASAP	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Government of Kerala	47	32	100	50
Asian Development Bank (ordinary capital resources)	100	68	100	50
Total	147	100	200	100

ASAP = Additional Skill Acquisition Program, RBL = results-based lending.
Source: Asian Development Bank.

C. Managing Risks and Improving Capacity

14. Table 5 summarizes key risks associated with the expenditure framework. The mitigating measures are reflected in the disbursement-linked indicators and the program action plan.

Table 5: Expenditure and Financing Risks, and Mitigating Measures

Risks	Rating without Mitigating Measures	Key Mitigating Measures
Effectiveness of expenditure framework:		
Allocated funds not absorbed due to insufficient enrollment or limited industry participation	High	(i) Budgeting framework will be reviewed and updated regularly (ii) ASAP will actively engage with the industry while counseling students so that they become employable on completing the vocational training courses (iii) PPP arrangements will be designed well so that the industry recognizes the benefits of participating in ASAP
Efficiency and economy:		
Suboptimal use of training facilities created with funds	High	(i) ASAP will engage with the private sector to develop viable PPP models for managing the CSPs

ASAP = Additional Skill Acquisition Program, CSP = community skills park, PPP = public–private partnership.
Source: Asian Development Bank.