



Report and Recommendation of the President to the Board of Directors

Project Number: 47334-002
October 2014

Proposed Results-Based Loan and Administration of Technical Assistance Grant India: Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 October 2014)

Currency unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.01624
\$1.00	=	Rs61.5704

ABBREVIATIONS

ADB	–	Asian Development Bank
ASAP	–	Additional Skill Acquisition Program
CSP	–	community skills park
DLI	–	disbursement-linked indicator
DOHE	–	Department of Higher Education
IT	–	information technology
M&E	–	monitoring and evaluation
MIS	–	management information system
PAP	–	program action plan
PPP	–	public–private partnership
RBL	–	results-based lending
SDC	–	skill development center
SSC	–	sector skills council
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of India ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year starts, e.g., FY2014 begins on 1 April 2014 and ends on 31 March 2015.
- (ii) In this report, “\$” refers to US dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 47334-002	
Project Name	Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	Department /Division	SARD/SAHS
Country Borrower	India Government of India	Executing Agency	Department of Higher Education, Government of Kerala
2. Sector		Subsector(s)	
✓ Education	Technical and vocational education and training	ADB Financing (\$ million)	
			100.00
		Total	100.00
3. Strategic Agenda		Subcomponents	
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 Information	
		Climate Change impact on the Project	Low
4. Drivers of Change		Components	
Governance and capacity development (GCD)	Institutional development	Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Pilot-testing innovation and learning	Gender equity (GEN)	✓
Partnerships (PAR)	Implementation		
Private sector development (PSD)	Private Sector Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	Medium
		Urban	High
6. Risk Categorization:		Low	
7. Safeguard Categorization		Environment: B Involuntary Resettlement: C Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Results Based Lending: Ordinary capital resources		100.00	
Cofinancing		1.50	
Japan Fund for Poverty Reduction		1.50	
Counterpart		47.00	
Government		47.00	
Total		148.50	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to India for Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education. The report also describes the proposed administration of the technical assistance (TA) for Capacity Building for the Additional Skill Acquisition Program (ASAP) to be financed by the Japan Fund for Poverty Reduction, and if the Board approves the loan, I, acting under the authority delegated to me by the Board, will approve the TA.¹

2. The proposed Asian Development Bank (ADB) assistance will support the efforts of the Government of Kerala's ASAP to complement post-basic education—i.e., higher secondary (grades 11 and 12) and undergraduate levels—with market-relevant vocational training and career counseling to enhance the employability of the youth (15–24 years old) and improve their employment prospects.²

II. THE PROGRAM

A. Strategic Context

3. Post-basic education prepares the youth for the world of work. However, in India, higher secondary schools and colleges have not addressed this critical link adequately. Their curriculum and pedagogy have not kept pace with the structural changes in the economy, requirements of the job market, and evolving youth aspirations. Even Kerala, which has the best education and health indicators in India, is struggling with high levels of unemployment coupled with low workforce participation rates, particularly among women.³ In 2011–2012, Kerala's unemployment rate was 7.4% as compared to the national average of 2.3%.⁴ Paradoxically, the unemployment rate in Kerala rises 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, with women forming the majority of the unemployed.⁵

4. Kerala's problem of "educated unemployment" reflects that its high literacy and school enrollment have not translated into the level of employability required by the market. The majority of Kerala's graduates lack fluency in English and familiarity with basic information technology (IT) skills—two key requirements for most jobs today. They are not provided much career counseling; nor do they have access to good quality and relevant vocational training. Between 2004 and 2011, while the share of the primary sector in Kerala's gross domestic product declined from 17.9% to 9.5%, and that of the secondary sector fell from 22.5% to 20.2%, the share of the tertiary sector increased from 59.6% to 70.3%.⁶ However, Kerala's

¹ The design and monitoring framework is in Appendix 1.

² ADB provided a project preparatory technical assistance. ADB. 2013. *Technical Assistance to India for Supporting the Additional Skill Acquisition Program in Kerala*. Manila.

³ Kerala is the 12th largest state of India with a population of 33.3 million. According to the 2011 Census, Kerala's literacy rate was 94%, against India's average of 73%. The gap between male and female literacy in Kerala was 4% (96% for males and 92% for females) against India's overall gap of 16% (81% for males and 65% for females). Kerala's infant mortality rate at 12 per 1,000 is the lowest in India.

⁴ Government of India, Ministry of Statistics and Program Implementation. 2014. *National Sample Survey, 68th Round, 2011–2012*. New Delhi.

⁵ Government of Kerala. 2012. *Kerala State Skill Development Preliminary Report, 2012*. Thiruvananthapuram.

⁶ The primary sector includes agriculture, forestry, and fishing; the secondary sector: construction, manufacturing, and mining and quarrying; and the tertiary sector: hospitality, transport and communication, trade, banking, insurance, public administration, and other services.

workforce has not been able to adjust to this rapid structural change. Nearly 32% of the workforce remains engaged in the low productivity primary sector and 29% in the secondary sector. Most of Kerala's current vocational training programs are government-run and focus on courses for plumbers, electricians, fitters, and lathe operators which offer limited job opportunities within Kerala. There are few training opportunities to prepare Kerala's youth for the fast-growing services sector. Consequently, Kerala's graduates are unable to compete effectively for modern jobs.

5. In July 2012, the Government of Kerala launched the Kerala State Skill Development Project to enhance the employability of the youth, and prepare them for emerging job opportunities within and outside the state. As part of this flagship project, ASAP has been launched by the Department of Higher Education (DOHE) and the Department of General Education to provide relevant vocational training opportunities to grade 11 and 1st year undergraduate students (i.e., post-basic education) after regular teaching hours and during vacations. This will increase employability of the students and make them market-ready by the time they graduate thereby, addressing the problem of educated unemployment.⁷

B. Program Rationale

6. The proposed loan reflects the priorities of the India country partnership strategy, 2013–2017, which seeks to reinforce India's efforts toward inclusive growth and recognizes education, with a focus on vocational training, as a new sector in ADB's India operations.⁸ It is aligned with the Midterm Review of Strategy 2020, which emphasizes the need for ADB to expand education sector lending by focusing on post-basic education and vocational training to develop human capital, and by facilitating public–private partnerships (PPPs) to leverage results.⁹

7. The results-based lending (RBL) modality is appropriate for ASAP. Its design is innovative and in line with the vision of India's National Skill Development Policy, 2009 and the recommendations of the Kerala Skill-Gap Study, 2013.¹⁰ There is strong ownership and commitment of the state government. DOHE established the ASAP secretariat in July 2012 to conceptualize and implement the program. As of 1 July 2014, ASAP is being piloted in 437 schools and colleges. It has enrolled 15,899 students, 56% of them females. Since ASAP's implementation involves multiple stakeholders (e.g., students, trainers, government departments, and industry partners) and diverse activities (e.g., industry engagement, youth mobilization, training, placement, and tracking of outcomes), the RBL modality will reduce transaction costs and focus on results. Moreover, detailed assessments confirm that Kerala's fiduciary and safeguards systems are reasonably robust. The government has also agreed to take measures to mitigate risk and improve its systems further. ADB will add value by improving ASAP's design and implementation further so that the program can be scaled up effectively and sustainably. It will help to strengthen industry engagement, facilitate PPPs in skills training, and support tracer studies to monitor results. This approach of exposing students at the post-basic education level to market-relevant vocational training could be replicated in other states of India that are struggling with low youth employability and high unemployment rates.

⁷ The Additional Skill Enhancement Program, designed by Kerala's Department of Labor and Employment and the Department of Local Self Government, addresses the "curative" aspect of the unemployment problem and focuses on reskilling unemployed youths registered with employment exchanges.

⁸ ADB. 2013. *India: Country Partnership Strategy, 2013–2017*. Manila.

⁹ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹⁰ Government of India, National Skill Development Corporation. 2013. *District-wise Skill-Gap Study of Kerala, 2012–2022*. Delhi.

C. Program Scope

8. The RBL program will help ASAP in providing Kerala's higher secondary and undergraduate students, enrolled in government and government-aided schools and colleges, with the opportunity to improve their English communication and basic IT and soft skills, and to learn in-demand vocational skills outside regular hours and during vacations. It will help to scale up ASAP in a sustainable and results-oriented manner to nearly 900 schools and colleges across Kerala so that coverage increases to 310,000 students. The RBL will cover the first phase of ASAP, under which level 1 vocational certification, equivalent to levels 3–5 (i.e., basic diploma) of India's National Skills Qualification Framework, will be provided. From 2018 onwards, the state government plans to launch the second phase of ASAP under which certification at levels 2 and 3, equivalent to levels 6 and 7 (i.e., advanced diploma) of the National Skills Qualification Framework, will be provided (Table 1).

Table 1: Program Scope

Item	Government Program (ASAP)	RBL Program
Outcome	Increased employability of ASAP certificate holders	Same as ASAP
Key outputs	<ul style="list-style-type: none"> (i) Market-relevant vocational training introduced in post-basic education for ASAP level 1 certification (Phase 1) (ii) Market-relevant vocational training introduced in post-basic education for ASAP levels 2 to 3 certification (Phase 2) (iii) Access to quality vocational training enhanced (35 CSPs constructed and 140 SDCs renovated) (iv) Increased awareness and private sector participation facilitated (v) Improved program management and M&E 	<ul style="list-style-type: none"> (i) Same as ASAP (ii) Phase 2 of ASAP not included under the RBL program (iii) Access to quality vocational training enhanced (35 CSPs constructed and 30 SDCs renovated) (iv) Same as ASAP (v) Same as ASAP
Activity types	<ul style="list-style-type: none"> (i) Training for ASAP certification at levels 1, 2, and 3 (ii) Kerala's training facilities expanded in line with market needs to facilitate private participation (iii) Outreach efforts (iv) Program management and M&E 	<ul style="list-style-type: none"> (i) Training for ASAP level 1 certification (ii) Same as ASAP (iii) Same as ASAP (iv) Same as ASAP
Program expenditure	\$200 million ^a	\$147 million
Main financiers and respective shares	Government of Kerala	Government of Kerala (32%) Asian Development Bank (68%)
Geographic coverage	Entire state of Kerala	Entire state of Kerala
Implementation period	From 2012–2022	2015–2018

ASAP = Additional Skill Acquisition Program, CSP = community skills park, M&E = monitoring and evaluation, RBL = results-based lending, SDC = skill development center.

^a Government of Kerala estimate.

Source: Asian Development Bank.

D. Program Results

9. The impact of the proposed loan will be increased employment of Kerala's youth (aged 15–24 years). The outcome will be increased employability of ASAP certificate holders.¹¹ This will be achieved through the following outputs:¹²

- (i) **Output 1: Market-relevant vocational training introduced in post-basic education.** This will support foundation training of 180 hours in English communication and IT skills will be offered to higher secondary and undergraduate students after regular hours and on holidays. Students who complete the foundation training will be able to choose from a menu of vocational courses focusing on growing service sector jobs in banking and financial services, business process outsourcing, customer support, health care, hospitality, printing, retail, telecommunication, media, and entertainment; and in emerging technology areas such as electronic product testing, optical fibre installation, and mobile communication.¹³ Vocational training will be provided during vacations. ASAP has designed 33 courses (150 to 500 hours depending on the trade) to date based on consultations with industry associations, sector skills councils (SSCs), and student surveys. The proposed loan will enable ASAP to introduce new courses and update existing ones based on market demand (Disbursement-Linked Indicator [DLI] 2, Program Action Plan [PAP] 1), strengthen quality assurance, and support tracer studies to track improvement in employability and employment outcomes (DLI 1, PAP 1 and 4). It will help ASAP in arranging internships with industry to give exposure to the trainees.
- (ii) **Output 2: Access to quality vocational training enhanced.** This will enhance access to quality vocational training focusing on the service sector and emerging technology areas by supporting construction of 35 community skills parks (CSPs) and renovating 30 skill development centers (SDCs) (DLI 3). As noted in para. 4, the existing industrial training institutes do not provide training in the trades which are increasingly relevant, considering the rapid growth in the share of the tertiary sector in Kerala's economy. Provision of modern training facilities with gender-friendly design and easy access for the physically impaired will help to attract more students (DLI 4) and private training providers (DLI 5), and improve the quality of training. PPP arrangements will be designed to outsource operation and maintenance of the CSPs to private operators (PAP 1.5). The proposed loan will ensure that each of the 14 districts of Kerala gets four to five modern training facilities on average. This will expand the training choices available to Kerala's youth and help to counter the stigma attached to vocational training.
- (iii) **Output 3: Increased awareness and private sector participation facilitated.** This will help the ASAP secretariat in increasing awareness about the importance of combining post-basic education with relevant vocational training, providing career counseling to inform the students about job opportunities, and enhancing

¹¹ Employability will be assessed through various channels, e.g., feedback from firms where ASAP trainees undertake internships, tracer studies, and employer surveys.

¹² The key outputs are designated as DLIs. Those that are important for outcome achievement but difficult to link to disbursement are included in the PAP (accessible from the list of linked documents in Appendix 2).

¹³ The demand analysis shows the need for an additional 6.7 million skilled workers in Kerala by 2018, with 70% in the tertiary sector and 30% in the secondary sector. ASAP's vocational courses focus on the growth areas.

student participation through outreach campaigns (DLI 4). Institutionalizing the engagement with industry associations and SSCs will facilitate private sector participation (DLI 5 and PAP 1.2), and ensure the continued relevance and quality of ASAP's training and certification.

- (iv) **Output 4: Improved program management and monitoring and evaluation.** This will build the ASAP secretariat's capacity to manage the program effectively, strengthen monitoring and evaluation (M&E), undertake tracer studies, and mainstream gender concerns (DLI 6, PAPs 2–6). ASAP will engage experienced staff for strengthening the accounts, procurement, and safeguard functions.

10. The disbursement allocation is in Table 2. Only six DLIs have been selected to focus on the core outputs and results chain essential for realizing the desired outcome and impact from the perspective of the beneficiaries. They provide flexibility and scope for encouraging innovations by the ASAP secretariat. Higher amounts are allocated to areas including quality, industry engagement, training, and M&E which will benefit the ASAP trainees directly.

Table 2: Disbursement-Linked Indicators

Outcome and/or Output	Indicator	Disbursement Allocated (\$ million)	Share of Total ADB Financing (%)
Outcome			
Increased employability of ASAP certificate holders	1. Increase in the employability rate of ASAP trainees	10.0	10.0
Output 1			
Market-relevant vocational training introduced in post-basic education	2. New or updated industry-accredited vocational courses offered	15.0	15.0
Output 2			
Access to quality vocational training enhanced	3. No. of CSPs established and SDCs renovated	30.0	30.0
Output 3			
Increased awareness and private sector participation facilitated	4. No. of students enrolled in ASAP level 1 courses	25.0	25.0
	5. No. of private training providers engaged	10.0	10.0
Output 4			
Improved program management and M&E	6. No. of SDEs empaneled	10.0	10.0
Total		100.0	100.0

ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CSP = community skills park, M&E = monitoring and evaluation, SDC = skill development center, SDE = skill development executive.

Source: Asian Development Bank.

11. A rigorous multi-level verification protocol, which includes provision for independent, third-party validation, has been established. The ASAP secretariat's program management information system (MIS) collects detailed data on all the DLIs. All receipts and payments made by ASAP are recorded in the secretariat's financial MIS. The MIS reports provide comprehensive information for verifying progress in terms of achieving the DLIs. The accompanying capacity development TA will support the ASAP secretariat in undertaking periodic tracer surveys to assess whether the project is on track to achieve the desired results. The Accountants General (Audit) of Kerala will undertake annual independent audits of ASAP.

E. Expenditure Framework and Financing Plan

12. **Program expenditures.** The RBL program expenditures are estimated at \$147 million from 2014 to 2018. Around 72% will be spent on vocational training, foundation courses, program management, industry engagement, and M&E, while 28% will help modernize Kerala's skills training facilities and align them to the requirements of the market (Table 3).

Table 3: Summary of Program Expenditure Framework (2012–2018)
(in 2014 prices)

Item	RBL Program		ASAP	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
1. Recurrent budget	41	28	58	29
2. Capital budget	106	72	142	71
Civil works and equipment	40	27	50	25
Training and capacity development	66	45	92	46
Total	147	100	200	100

ASAP = Additional Skill Acquisition Program, RBL = results-based lending.

Source: Asian Development Bank.

13. **Program financing.** The state government will provide \$47 million for the RBL program. The Government of India has requested a loan of \$100 million from ADB's ordinary capital resources to finance the RBL program. The loan terms and conditions are in para. 28. The financing plan is summarized in Table 4.

Table 4: Program Financing Plan

Source	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.

14. **Disbursement arrangements.** The ADB loan will be disbursed over 4 years subject to the achievement and verification of the DLIs. The initial disbursement will be after loan effectiveness and upon verification of the prior results. DOHE has put in much effort and resources for launching ASAP. As of 1 July 2014, it has designed 33 relevant courses, enrolled 15,899 students, engaged 101 program managers, prepared standard architectural designs for CSPs, empaneled 1,167 skill development executives to conduct foundation training, and initiated recruitment of training providers. Since these actions, taken over a period of 1 year before loan effectivity, provide a strong foundation for scaling up ASAP effectively, 20% of the loan will be released against these prior results. The subsequent disbursements will be made annually after the corresponding DLIs are met. The ASAP secretariat will submit withdrawal applications along with evidence verifying the achievement of the DLIs, and unaudited financial statements for the period concerned. Any amount not disbursed for unmet DLIs will be disbursed once they have been achieved. Partial disbursement is allowed for DLIs 1 and 3 as noted in the verification protocol. The loan funds will flow from ADB to the special account

maintained by the Controller of Aids, Account, and Audit of the Government of India. It will then be transferred to the Finance Department of the state government, which will allocate it to DOHE. It will provide these funds to the ASAP secretariat for undertaking eligible expenditures.

F. Capacity Development and Program Action Plan

15. Capacity development support will be required to ensure that ASAP can be scaled up effectively and sustainably.¹⁴ This will focus on (i) conducting additional district and sector-specific surveys to track market demand for skilled workers within and outside Kerala so that ASAP's course offerings can be updated accordingly; (ii) mapping the demand for skilled workers to the location of the proposed CSPs and SDCs to ensure that relevant menu of training courses are provided in these; (iii) forging strong partnerships with industries and SSCs to increase the internship and placement avenues for ASAP trainees; (iv) designing PPP options to outsource operation and maintenance of the CSPs to private operators; (v) conducting tracer studies to monitor the effectiveness of ASAP's foundation and vocational training in terms of employability and employment outcomes; (vi) designing advanced vocational courses to enable ASAP to offer higher-level certifications; (vii) mainstreaming gender concerns in vocational training; and (viii) documenting development results to facilitate cross-learning.

16. A PAP has been developed to complement the DLI matrix. It includes actions in technical areas, fiduciary management, M&E, safeguards, and gender to ensure that ASAP is implemented effectively and sustainably. Since Kerala's own systems are assessed to be robust, the PAP will focus on strengthening these core functions within the ASAP secretariat.

G. Technical Assistance

17. A \$1.5 million accompanying capacity development TA, financed by the Japan Fund for Poverty Reduction, has been designed to support the outputs indicated in para. 15. The state government will support the TA in the form of counterpart staff, limited office accommodation and supplies, and other in-kind contributions.

H. Implementation Arrangements

18. DOHE will be the executing agency and the ASAP secretariat has been constituted as the implementing agency under DOHE. The State-Level Empowered Committee (chaired by the chief secretary, state government) guides the implementation of ASAP. The additional chief secretary, DOHE is the convener of the Empowered Committee and the overall in charge of ASAP. The additional secretary, DOHE is the head of the ASAP secretariat, and supervises program implementation. The secretariat has been in operation since July 2012. It has divisions focusing on strategic design, technical aspects, finance, quality control, training and program management, communication, research and documentation, and lifelong learning. The implementation period of the proposed loan is 1 January 2014 to 31 December 2018.

III. SUMMARY OF ASSESSMENTS

A. Program Technical Assessments

19. Efforts of most state governments in India to make post-basic education more job-oriented by offering career counseling and vocational training in parallel have not been effective

¹⁴ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

owing to certain weaknesses. These include limited or no engagement with the private sector, inability to offer good quality training in relevant vocational trades, lack of awareness building, and outdated training facilities. The program assessment found that these lessons have been incorporated into ASAP's design. The ASAP secretariat has been engaging with industry associations and SSCs to identify relevant trades, design the courses and delivery methods, organize internships, and establish quality standards. It has signed memoranda of understanding with several SSCs (e.g., automotive, retail, plumbing, health care, and rubber). ASAP's outreach campaigns are raising awareness about the opportunities provided by vocational training. Regular consultations are held with students to understand their needs and aspirations. The vocational courses being offered by ASAP focus on the growth sectors, which also match with students' aspirations.¹⁵ The foundation courses are offered after regular school and college hours for an average 3–4 hours a week, while the vocational courses are scheduled during the vacations. This gives flexibility to the students to combine post-basic education with vocational training. Through its rigorous process of recruiting skill development executives, ASAP is also building up a cadre of master trainers. The progress made by the secretariat in enrolling 15,899 students across 437 higher secondary schools and colleges and offering 33 market-relevant courses within 2 years underscores the strength of ASAP's design.

20. The economic analysis, which is based on a review of sector-specific employment trends, confirms ASAP's robustness.¹⁶ Given the concerted efforts of the ASAP secretariat to ensure the quality and market-relevance of its training programs, it is assumed that ASAP certificate holders will secure a nominal premium of 10% to 20% on domestic jobs, and a premium of 20% on corresponding overseas jobs, after having completed 1 to 2 years of domestic employment.¹⁷ The economic rate of return ranges from 31% in the low case to 48% in the high case scenario.

21. ASAP has a strong pro-poor and gender focus. For vocational courses costing up to Rs10,000 (around \$165 at prevailing exchange rate), disadvantaged students, who successfully complete the ASAP training and get a certificate, are exempted from paying the fees.¹⁸ Successful students, who do not belong to disadvantaged groups, will pay 75% of the fee.¹⁹ Students who do not complete the course will have to repay the entire fee in installments within 3–5 years. By offering vocational training courses focusing on the growing service sectors, ASAP will expand the career options for Kerala's women, within and outside the state. The network of CSPs and SDCs to be established across the state will make it easier for women to access quality training without having to travel far. By incorporating the different needs and aspirations of women and men in the career counseling and training modules, ASAP will promote gender parity in workforce participation (PAP 5). The DLI matrix and PAP have sex-disaggregated baseline and target indicators justifying the "gender equity" categorization.

B. Program Systems Assessments

22. **Monitoring and evaluation system.** The M&E assessment confirms that ASAP's MIS captures sex-disaggregated data on beneficiaries, and will help in tracking the outputs and outcome. The ASAP program managers regularly interface with the trainees and trainers, and industry representatives. This will supplement the quantitative data captured by the MIS with

¹⁵ Demand Analysis (accessible from the list of linked documents in Appendix 2).

¹⁶ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

¹⁷ Since a large number of Keralites migrate out of India for jobs, the economic analysis assumes that a certain proportion of ASAP certificate holders will go overseas after 1 to 2 years of domestic employment.

¹⁸ Disadvantaged students include those below the poverty line and/or from socioeconomically backward groups.

¹⁹ For courses with fees above Rs10,000, the fee portion up to Rs10,000 will be treated similarly. All students will pay the fee portion above Rs10,000 from their own sources.

qualitative feedback. Industry-accredited experts will be engaged to monitor training sessions and improve the quality of trainers. The capacity development TA will support tracer studies to evaluate employability and employment outcomes (para. 15 and 17).

23. **Fiduciary systems.** The fiduciary assessment confirms that the state government's rules and procedures for financial management, procurement, and anticorruption are in line with commonly accepted good practices. The Kerala Financial Code, 2008 provides the rules on financial procedures for government departments, including guidelines for procurement of goods and works. The ASAP secretariat has a separate Finance Unit with three full time staff. To mitigate potential risk and strengthen its financial management function further, the secretariat will recruit a chartered accountant by the end of October 2014. The financial MIS is operational, and all payments and receipts are being routed through it. An internal auditor has been appointed. The Accountants General (Audit) of Kerala will undertake annual audits of ASAP. Audited financial statements will be submitted within 6 months of the end of the fiscal year.

24. The procurement capacity assessment and the procurement review for effective implementation confirm that the government's procurement framework is aligned with the principles of competition, efficiency, economy, transparency, fairness, and equal opportunity.²⁰ ASAP uses an e-procurement web portal to procure goods and consultants.²¹ However, to prepare for the scaling up of ASAP under the proposed loan and mitigate potential risk, the ASAP secretariat will create a dedicated procurement unit, and recruit a procurement specialist by the end of October 2014. Additional staff will be recruited as required. They will focus solely on procurement to avoid any conflict of interest. The Guidelines to Prevent or Mitigate Fraud, Corruption, and Other Prohibited Activities in Results-Based Lending for Programs were explained to and discussed with the government and DOHE.²²

25. **Safeguard systems.** Construction of CSPs and upgrades of SDCs will take place only on vacant land available within premises owned by the state government. No new land will be acquired, nor will anyone be displaced in anticipation of ADB funding. The loan is categorized as C for involuntary resettlement and B for environment. Since indigenous people constitute only 1% of Kerala's population, the categorization is C for indigenous people. A program safeguard systems assessment has been prepared to bridge the gaps between the national environmental regulatory framework and ADB's Safeguard Policy Statement (2009).²³ Since the proposed subprojects (i.e., construction of CSPs) will cover built-up area of less than 20,000 square feet, the national environment framework does not require an environmental impact assessment, disclosure of initial environmental examination, or an environmental management plan on the part of the contractors. The ASAP secretariat has prepared an environmental and social management framework to fill the gaps and ensure compliance with the principles of the Safeguard Policy Statement (2009). All sites will be screened and environmental measures undertaken to mitigate noise, dust, and possible obstruction of drainage during construction. The ASAP secretariat will recruit an environment safeguard officer to ensure compliance.

²⁰ Procurement Capacity Assessment and Procurement Review for Effective Implementation (accessible from the list of linked documents in Appendix 2).

²¹ Procurement involving high-value contracts, where the value exceeds the amounts specified in ADB's policy on RBL, will be excluded. Procurement will not be undertaken from any non-ADB member country.

²² ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

²³ The assessment was discussed with key stakeholders. Its draft and final version are disclosed on the ADB website.

C. Integrated Risk Assessment and Mitigating Measures

26. The main risks and mitigating measures are summarized in Table 5.²⁴ The overall benefits and impacts are expected to outweigh the costs.

Table 5: Summary of Integrated Risk Assessment and Mitigating Measures

Risks	Ratings	Key Mitigating Measures
Results. Challenge of measuring the outcomes in terms of enhanced employability of the ASAP trainees who continue with higher education, and improved employment prospects for the trainees who opt to look for jobs soon after getting their certificates.	Moderate	A firm engaged under the attached capacity development TA will carry out tracer studies to assess employability and employment outcomes. A third-party firm will be hired to assess results independently.
Fiduciary. The finance and procurement functions need to be strengthened. No audit of ASAP has been conducted as yet.	Substantial	The financial MIS is fully operational. A chartered accountant and a procurement specialist will be recruited by end-October 2014. ASAP has appointed an internal auditor. The first set of audited program financial statements is expected by end 2014.
Overall RBL program risk	Moderate	

ASAP = Additional Skill Acquisition Program, MIS = management information system, RBL = results-based lending, TA = technical assistance.

Source: Asian Development Bank.

IV. ASSURANCES

27. The Government of India and DOHE, Government of Kerala have agreed with ADB on certain covenants for the RBL program, which are set forth in the loan agreement and program agreement.

V. RECOMMENDATION

28. 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 of \$100,000,000 to India for Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 20 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 and program agreements presented to the Board.

Takehiko Nakao
President

28 October 2014

²⁴ Integrated Risk Assessment and Mitigating Measures (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
Impact Increased employment of Kerala's youth (aged 15 to 24 years)	By 2022, the unemployment rate of Kerala's youth (aged 15–24 years) declines to 23% for males and 57% for females (2012 baseline: 28.2% for males and 66.9% for females) ^a	(i) National Sample Survey, Ministry of Statistics and Program Implementation, Government of India (ii) Kerala Economic Review, State Planning Board of Kerala, Government of Kerala (iii) Report on Youth Employment–Unemployment Scenario, Labour Bureau, Ministry of Labour and Employment, Government of India	Assumption No adverse economic shock affecting private investment and demand for skilled labor in Kerala
Outcome Increased employability of ASAP certificate holders	By 2018, at least 10% increase in the employability rate of ASAP male and female trainees over the 2016 baseline	(i) Employability assessment by the institutions offering internships to ASAP trainees (ii) ASAP MIS reports (iii) Tracking surveys	Assumption The industry and SSCs continue to support the ASAP secretariat to ensure continued relevance and quality training
Outputs 1. Market-relevant vocational training introduced in post-basic education	By 2018 for all indicators: (i) At least 60 new or updated industry-accredited vocational courses offered (July 2014 baseline: 33 courses) (ii) 60,000 students have enrolled for vocational courses during vacation (target: female = 55%; disadvantaged = 55%) ^b (2013 baseline: 3,000)	(i) ASAP annual reports (ii) ASAP MIS reports	Assumption The aspirations of ASAP trainees match the jobs being created by the market Risk Difficulty in getting experienced training providers for all the relevant vocational trades
2. Access to quality vocational training enhanced	By 2018 for all indicators (i) 35 CSPs with modern training facilities, gender-friendly design, and easy access for physically impaired made operational (2013 baseline: 0)	For all indicators: (i) ASAP annual reports	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>(ii) 30 SDCs renovated to specified standards (2013 baseline: 0)</p> <p>(iii) O&M of 50% of CSPs outsourced to private partners (2013 baseline: 0)</p>		
3. Increased awareness and private sector participation facilitated	<p>By 2018 for all indicators:</p> <p>(i) At least 170,000 students enrolled in ASAP (target: female = 60%; disadvantaged = 60%) (July 2014 baseline: 15,899 students; 56% female and 55% disadvantaged)</p> <p>(ii) At least 900 schools and colleges sign MOUs with ASAP (July 2014 baseline: 437 schools and colleges)</p> <p>(iii) At least 30 MOUs signed between ASAP and SSCs, industry partners, and prospective employers (2013 baseline: 12 MOUs)</p> <p>(iv) At least 20 private skills training providers engaged by ASAP (2013 baseline: 0)</p>	<p>For all indicators:</p> <p>(i) ASAP annual reports</p> <p>(ii) ASAP MIS reports</p> <p>(iii) Tracking surveys</p>	
4. Improved program management and M&E	<p>(i) By end-October 2014, experienced program management staff (including chartered accountant and procurement specialist) engaged (2013 baseline: none)</p> <p>(ii) ASAP MIS for monitoring implementation and achievement of gender and social inclusion targets operational by end 2014</p> <p>(iii) By 2017, at least 2,000 SDEs empaneled (June 2014 baseline: 1,167—with 67% female)</p>	<p>For all indicators:</p> <p>(i) Reports of review missions</p> <p>(ii) ASAP annual reports</p>	

Key RBL Program Actions	Inputs
<p>1. Output 1: Market-relevant vocational training introduced in post-basic education</p> <p>1.1 Agreements signed with government-aided higher secondary schools and undergraduate colleges in terms of timing and delivery of foundation and vocational courses (ongoing)</p> <p>1.2 MOUs with industry associations and SSCs (ongoing)</p> <p>1.3 Review outcomes of vocational training and update course offerings accordingly (ongoing)</p> <p>2. Output 2: Access to quality vocational training enhanced</p> <p>2.1 Finalize standard design for CSPs (by end-2014)</p> <p>2.2 Finalize sites for potential CSPs (by March 2015)</p> <p>2.3 Engage design and supervision consulting firm (by April 2015)</p> <p>2.4. Prepare site-specific designs and tendering of civil works packages (2015–2017)</p> <p>2.5 Construct and upgrade CSPs and renovate SDCs (2015–2017)</p> <p>2.6 Initiate vocational training in CSPs (from 2016)</p> <p>2.7 Hand over operation of selected CSPs to private operators under PPP arrangement (from 2016)</p> <p>3. Output 3: Increased awareness and private sector participation facilitated</p> <p>3.1 Scale up ASAP’s outreach program to enhance awareness about the opportunities provided by vocational training (ongoing)</p> <p>3.2 Sign MOUs with more target schools and colleges to expand reach of the program</p> <p>3.3 Engage private sector training service providers through an open and competitive process (tendering initiated in 2014)</p> <p>3.4 Establish partnerships with SSCs, industry partners, and prospective employers (ongoing)</p> <p>4. Output 4: Improved program management and M&E</p> <p>4.1 Establish a separate finance unit and a procurement unit with qualified and experienced personnel (by end-2014)</p> <p>4.2 Conduct capacity development and training of ASAP officials (ongoing)</p> <p>4.3 Analyze MIS data to improve design and implementation of ASAP (from October 2014)</p> <p>4.4 Operationalize quality assurance system (including deployment of quality assessors and installation of video monitoring system) (by end-2015)</p> <p>4.5 Design and pilot tracer studies and M&E surveys (from 2016)</p>	<p>ADB: \$100 million Government: \$47 million</p> <p>Japan Fund for Poverty Reduction: \$1.5 million (for the TA)</p>

ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CSP = community skills park, M&E = monitoring and evaluation, MIS = management information system, MOU = memorandum of understanding, O&M = operation and maintenance, PPP = public–private partnership, RBL = results-based lending, SDC = skill development center, SDE = skill development executive, SSC = sector skills council, TA = technical assistance.

^a Government of India, Labour Bureau, Ministry of Labour & Employment. 2013. *Report on Youth Employment-Unemployment Scenario, 2012–13*. Delhi.

^b Disadvantaged students include those who are below the poverty line and/or from a socioeconomically backward group according to government records.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=47334-002-3>

1. Loan Agreement
2. Program Agreement
3. Country Economic Indicators
4. Summary Sector Assessment: Education
5. Program Soundness Assessment
6. Program Results Assessment
7. Program Results Framework
8. Program Expenditure and Financing Assessment
9. Program Monitoring and Evaluation System Assessment
10. Program Fiduciary Systems Assessment
11. Program Safeguard Systems Assessment
12. Integrated Risk Assessment and Mitigating Measures
13. Program Action Plan
14. Attached Technical Assistance
15. Contribution to the ADB Results Framework
16. Development Coordination
17. Summary Poverty Reduction and Social Strategy
18. Program Implementation Document

Supplementary Documents

19. Additional Information to Program Soundness Assessment
20. Additional Information to Program Safeguard Systems Assessment
21. Additional Information to Attached Technical Assistance
22. Economic and Financial Analysis
23. Demand Analysis
24. Financial Management Assessment
25. Procurement Review for Effective Implementation
26. Procurement Capacity Assessment

DISBURSEMENT-LINKED INDICATORS, VERIFICATION PROTOCOLS, AND DISBURSEMENT SCHEDULE

Table A3.1: Disbursement-Linked Indicators

Disbursement-Linked Indicators	Baseline Value	Baseline Year	Target Values				
			September 2014	July 2015	July 2016	July 2017	July 2018
Outcome: Increased employability of ASAP certificate holders							
DLI 1: Increase in the employability rate of ASAP male and female trainees over the 2016 baseline ^a	Baseline available in 2016 (outcome disaggregated by sex and socioeconomic background of beneficiary)	2016			Baseline	Employability rate of male and female trainees improves by 5% relative to their respective baselines	Employability rate of male and female trainees improves by 10% relative to their respective baselines
Outputs							
Output 1: Market-relevant vocational training introduced in post-basic education							
DLI 2: Number of new or updated industry-accredited vocational courses offered (cumulative)	33 courses	July 2014	33	43	50	55	60
Output 2: Access to quality vocational training enhanced							
DLI 3: (i) CSPs with modern training facilities, gender-friendly design, and easy access for physically impaired made operational	(i) 0	(i) 2013	Standard design for CSPs completed. Process of selecting firm for preparing site-specific designs initiated.	(i) 0 CSPs	(i) 14 CSPs	(i) 14 CSPs	(i) 7 CSPs
(ii) Number of SDCs renovated to specified standards	(ii) 0	(ii) 2013		(ii) 10 SDCs	(ii) 10 SDCs	(ii) 10 SDCs	(ii) 0 SDCs

Disbursement-Linked Indicators	Baseline Value	Baseline Year	Target Values				July 2018
			September 2014	July 2015	July 2016	July 2017	
Output 3: Increased awareness and private sector participation facilitated							
DLI 4: Number of students enrolled in ASAP level 1 courses (cumulative)	15,899 students (Baseline: female = 56%; disadvantaged = 55%)	July 2014	15,899	30,000	61,886	65,000	173,058 (female = 60%, disadvantaged = 60%)
DLI 5: Number of private training providers engaged under ASAP increased (cumulative)	0	2012	—	12	15	18	20
Output 4: Improved program management and M&E							
DLI 6: Number of SDEs empaneled increased (cumulative basis)	1,167 (female = 67%)	June 2014	1,200	1,500	1,750	2,000	—

ASAP = Additional Skill Acquisition Program, CSP = community skills park, DLI = disbursement-linked indicator, M&E = monitoring and evaluation, SDC = skill development center, SDE = skill development executive.

^a Employability refers to a person's ability to gain and retain employment. It depends on a mix of factors: (i) a person's basic education; (ii) vocational skills relative to the needs of a particular job or market environment; (iii) awareness of and ability to access relevant job opportunities; and (iv) soft skills including interpersonal skills, work ethics, and fluency in the main business language. It is context-specific and affected by both supply and demand-side factors. Most ASAP certificate holders will not look for jobs immediately because they may wish to complete their education. Under the accompanying capacity building technical assistance, an index of employability will be designed and tested. It will draw on multiple sources — feedback from firms where ASAP trainees undertake internships, employer surveys, and tracer studies to establish a baseline (by 2016). This will be tracked over time to assess and improve the effectiveness of ASAP's design and implementation so that the overall employability of its certificate holders improves. ASAP certificate holders, who wish to look for jobs soon after getting their certificates instead of continuing with higher education, will be tracked to assess whether or not they are able to get placed within a reasonable time.

Source: Asian Development Bank.

Table A3.2: Verification Protocols

Disbursement-Linked Indicators	Definition and Description of Achievement	Information Source and Frequency	Verification Agency and Procedure	Verification Time Frame
Outcome: Increased employability of ASAP certificate holders				
DLI 1: Increase in the employability rate of ASAP male and female trainees over the 2016 baseline	<p>Percentage of ASAP trainees certified as employable by firms offering internships</p> <p>Employability is defined as ASAP certificate holders having skills proficiency equivalent to NSQF levels 3–5 (diploma) adequate for entry-level employment in the respective sector. ASAP will issue detailed definition of employable skills and evaluation format to be used by the firms offering internship by December 2014.</p> <p>Partial disbursement: Subject to the achievement of a minimum of 60% of the targeted increment, ADB will disburse an amount proportional to the result achieved. For example, for 70% achievement of the targeted increment, 70% of the earmarked amount will be released.</p>	<p>(i) ASAP annual report, which consolidates evaluation on employability of ASAP students by the firms offering internships. Frequency of feedback from the firms: after the completion of each internship program.</p> <p>(ii) Third-party validation of the evaluation reports prepared by the firms</p>	<p>Third-party validation agency will be engaged by ASAP using loan funds</p> <p>Terms of reference and requirements for third-party validation (including selection criteria) will be discussed between ASAP and ADB, and finalized by March 2015</p>	<p>Evaluation reports of firms offering internships (by July)</p> <p>ASAP's DLI achievement report, which consolidates the findings and reports to ADB (by September)</p>
Outputs				
Output 1: Market-relevant vocational training introduced in post-basic education				
DLI 2: Number of new or updated industry-accredited vocational courses offered (cumulative)	<p>New courses introduced and existing courses revised by ASAP and the training providers: vocational courses for which there is strong demand for female workers will be prioritized. Existing courses will be revised in accordance with the emerging needs of industries and sectors relevant for ASAP.</p>	<p>ASAP Annual Report</p> <p>ASAP training brochures</p> <p>NSDC or SSC certification of the respective courses</p>	<p>ASAP, through periodic reporting and annual reports, documents the evidence and process adopted for ensuring delivery of industry-accredited courses and in making</p>	<p>ASAP will share its periodic DLI achievement reports by July</p>

Disbursement-Linked Indicators	Definition and Description of Achievement	Information Source and Frequency	Verification Agency and Procedure	Verification Time Frame
			curriculum revisions. ASAP also verifies and documents the facts pertaining to industry accreditation of training pro-run programs based on evidence provided by the respective training providers.	
Output 2: Access to quality vocational training enhanced				
<p>DLI 3: (i) CSPs with modern training facilities, gender-friendly design, and easy access for physically impaired made operational</p> <p>(ii) Number of SDCs renovated to specified standards</p>	<p>(i) Prior result: standard design for CSPs completed. Process of selecting firm for preparing site-specific designs initiated by end-October 2014.</p> <p>(ii) Number of CSPs constructed, furnished, and operationalized according to standards mutually agreed upon by ASAP and ADB. Program managers and SDEs are assigned to initiate training activities.</p> <p>(iii) Number of SDCs renovated according to standards mutually agreed upon by ASAP and ADB.</p> <p>Partial disbursement: Subject to the achievement of a minimum of 60% of the overall target of CSPs and SDCs, ADB will disburse an amount proportional to the degree of achievement. For example, for 70% achievement, 70% of the earmarked amount will be released.</p>	<p>ASAP reports certifying the number of CSPs established and SDCs renovated, according to the agreed standards.</p>	<p>ADB and ASAP mission will conduct a random verification of CSP operation and utilization.</p> <p>ADB may hire an independent expert to verify the quality of operation of CSPs.</p>	<p>ASAP will share its periodic DLI achievement reports by July</p>

Disbursement-Linked Indicators	Definition and Description of Achievement	Information Source and Frequency	Verification Agency and Procedure	Verification Time Frame
Output 3: Increased awareness and private sector participation facilitated				
DLI 4: Number of students enrolled in ASAP level 1 courses (cumulative)	Number of students enrolled for ASAP's level 1 courses Partial disbursement: subject to the achievement of a minimum of 60% of the targeted increment, ADB will disburse an amount proportional to the result achieved. For example, for 70% achievement of the targeted increment, 70% of the earmarked amount will be released.	ASAP MIS	ADB and ASAP mission will review institutional level enrollment details as consolidated within the MIS and reported against the set annual targets.	ASAP will share its periodic DLI achievement reports by July
DLI 5: Number of private training providers engaged under ASAP increased (cumulative)	Number of contracts signed between ASAP and private training providers and industry associations. These contracts specify terms and conditions for delivering preapproved training courses at mutually agreed-upon deliverables.	Contracts signed between ASAP and private training providers and industry associations ASAP periodic reports	ADB missions to review contracts	ASAP will share its periodic DLI achievement reports by July
Output 4: Improved program management and M&E				
DLI 6: Number of SDEs empaneled increased (cumulative basis)	Number of SDEs selected and empaneled ASAP will empanel SDEs using the selection criteria, training plans, and terms of engagement approved in 2013.	ASAP MIS ASAP periodic reports	ADB mission will review the government order for the SDEs.	August 2014 for 2014 DLI ASAP will share its periodic DLI achievement reports by July for DLIs for 2015–2018

ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CSP = community skills park, DLI = disbursement-linked indicator, M&E = monitoring and evaluation, MIS = management information system, NSDC = National Skill Development Corporation, NSQF = National Skills Qualification Framework, SDC = skill development center, SDE = skill development executive, SSC = sector skills council.

Source: Asian Development Bank.

Table A3.3: Disbursement Schedule
(\$ million)

Disbursement-Linked Indicators	Total ADB Financing Allocation	Share of Total ADB Financing (%)	Financing for Prior Result (2014)	2015	2016	2017	2018
Outcome: Increased employability of ASAP certificate holders							
DLI 1: Increase in the employability rate of ASAP male and female trainees over the 2016 baseline	10	10	—	—	—	5	5
Outputs							
Output 1: Market-relevant vocational training introduced in post-basic education							
DLI 2: Number of new or updated industry-accredited vocational courses offered	15	15	5	3	4	3	—
Output 2: Access to quality vocational training enhanced							
DLI 3: (i) CSPs with modern training facilities, gender-friendly design, and easy access for physically impaired made operational (ii) Number of SDCs renovated to specified standards	30	30	5	5	10	10	—
Output 3: Increased awareness and private sector participation facilitated							
DLI 4: Number of students enrolled in ASAP level 1 courses	25	25	5	5	5	5	5
DLI 5: Number of private training providers engaged under ASAP increased	10	10	—	4	3	3	—
Output 4: Improved program management and M&E							
DLI 6: Number of SDEs empaneled	10	10	5	3	1	1	—
Total	100	100	20	20	23	27	10

ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CSP = community skills park, DLI = disbursement-linked indicator, M&E = monitoring and evaluation, SDC = skill development center, SDE = skill development executive.

Source: Asian Development Bank.