



Report and Recommendation of the President to the Board of Directors

Project Number: 49108-002
September 2017

Proposed Loan India: Himachal Pradesh Skills Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 September 2017)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.01567
\$1.00	=	₹63.8100

ABBREVIATIONS

ADB	–	Asian Development Bank
CLC	–	city livelihood center
DOHE	–	Department of Higher Education
DOP	–	Department of Planning
DOTe	–	Department of Technical Education, Vocational and Industrial Training
EIRR	–	economic internal rate of return
GOHP	–	Government of Himachal Pradesh
HPKVN	–	Himachal Pradesh Kaushal Vikas Nigam
ITI	–	industrial training institute
M&E	–	monitoring and evaluation
MCC	–	model career center
MIS	–	management information system
NSQF	–	National Skills Qualification Framework
PWD	–	Public Works Department
RLC	–	rural livelihood center
TVET	–	technical and vocational education and training

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 ends, e.g., FY2017 ends on 31 March 2017.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 49108-002	
Project Name	Himachal Pradesh Skills Development Project	Department /Division	SARD/SAHS
Country	India	Executing Agency	Department of Planning, Govt of Himachal Pradesh
Borrower	Government of Himachal Pradesh		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Technical and vocational education and training		80.00
		Total	80.00
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)	Institutional development	Gender equity (GEN)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Implementation Private Sector		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	Medium
Household Targeting	No	Urban	Medium
SDG Targeting	Yes		
SDG Goals	SDG4, SDG5, SDG8		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		80.00	
Sovereign Project (Regular Loan): Ordinary capital resources		80.00	
Cofinancing		0.00	
None		0.00	
Counterpart		20.00	
Government		20.00	
Total		100.00	
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 the Himachal Pradesh Skills Development Project.

2. The project will assist the Government of Himachal Pradesh (GOHP) in reforming and modernizing its technical and vocational education and training (TVET) institutions and programs to boost the employability of Himachal Pradesh's youth and improve their employment prospects.¹ Himachal Pradesh, located in northern India along the lower Himalayas, has a population of 6.8 million. Despite constraints such as its hilly terrain, poor connectivity, and predominantly rural population (90%), the state's economic, poverty, education, and health indicators have improved significantly since 2000. GOHP has successfully increased school and college enrollments over the past decade. This project will support it in addressing the "second-generation" challenge of providing relevant and good quality TVET opportunities to its youth to prepare them for the changing labor market.

II. THE PROJECT

A. Rationale

3. Between FY2005 and FY2014, Himachal Pradesh grew at an average annual rate of 7.8% compared with 7.6% for the Indian economy. Overall poverty declined from 22.9% to 8.1% between FY2005 and FY2012.² Rural poverty also declined sharply from 25.6% to 8.5% over this period. Nearly all villages of Himachal Pradesh have access to electricity. Two-thirds of the rural households have access to sanitation facilities, compared with the all-India average of 30.7%. Life expectancy at 70 years is higher than the national average of 66.1 years. Between 1991 and 2011, Himachal Pradesh's literacy rate increased from 63.7% to 82.8%. Male literacy rose from 75.3% to 89.5%, and female literacy from 52.1% to 75.9%. In FY2016, the net enrollment ratio in Himachal Pradesh was 67% at the secondary and 54% at the higher secondary level, compared with 51% and 33% for India.³ The gross enrollment ratio in higher education for youth aged 18–23 years in 2014–2015 was 28.4% for men and 32.5% for women.⁴

4. Despite the increase in secondary school and college enrollment, Himachal Pradesh is constrained by the low employability of its school and college graduates. Like in other states of India, general education at the secondary and college levels in Himachal Pradesh is weak and not adequately aligned to the needs of the market. The challenge of "educated unemployment" is growing.⁵ The state's TVET programs are constrained owing to outdated curricula and training equipment, limited reach of training facilities, and weak industry links. The TVET programs are fragmented across 12 state government departments. Consequently, there are no uniform norms

¹ The Asian Development Bank (ADB) provided \$725,000 in project preparatory technical assistance. ADB. 2015. *Technical Assistance to India for Supporting Skill Development in Himachal Pradesh*. Manila.

² Government of India, Planning Commission. 2014. *Databook Compiled for Use of Planning Commission*. New Delhi. http://planningcommission.nic.in/data/datatable/data_2312/comp_data2312.pdf

³ National University of Educational Planning and Administration. 2016. *School Education in India. Unified District Information System for Education, 2015–2016*. <http://www.dise.in/Downloads/Publications/Documents/U-DISE-SchoolEducationInIndia-2015-16.pdf>

⁴ Government of India, Ministry of Human Resource Development, Department of Education. 2015. *All India Survey on Higher Education (2014–2015)*. New Delhi. <http://aishe.nic.in/aishe/viewDocument.action?documentId=200>

⁵ The unemployment rate in Himachal Pradesh increases with the level of education—0.4% (primary education), 4.0% (secondary), 8.0% (higher secondary), 13.6% (undergraduate), and 19.1% (postgraduate). Government of India, Ministry of Labour and Employment. 2014. *Report on Education, Skill Development, and Labor Force, 2013–2014*. New Delhi.

for training quality, certification, or placement outcomes. More than 90% of Himachal Pradesh's workforce has not received any formal skills training. Consequently, dependence on government jobs remains high. In 2014, 65% of organized sector employment in Himachal Pradesh was in the public sector.⁶ This is fiscally unsustainable and economically unproductive.⁷

5. There is a significant mismatch between Himachal Pradesh's economic and employment profiles which should be addressed urgently to tap the state's human resource base more effectively. In FY2014, the primary sector in Himachal Pradesh accounted for only 19% of the state's gross domestic product but 58.5% of the workforce reflecting its very low labor productivity. The tertiary sector and the secondary sector accounted for 43.0% and 38.0% of the state's gross domestic product but only 19.0% and 22.5% of the workforce respectively.⁸ Further, while the state has broad gender parity in school and college enrollment rates, there is sharp disparity in the workforce participation rates. In 2012, the average workforce participation rate was 87% for rural men and 73% for urban men, but 63% for rural women and only 28% for urban women.⁹ As Himachal Pradesh continues to urbanize and the share of the services sector grows, it is necessary to expand market-linked TVET opportunities for women.

6. It is estimated that net demand for skilled workers in Himachal Pradesh will amount to 515,557 between 2017 and 2022 across various trades such as retail, health care, tourism and hospitality, and information technology.¹⁰ The state has a narrow demographic window until 2022, after which the share of the working-age population (15–59 years) will begin to decline.¹¹ GOHP is keen to take advantage of this demographic window by providing market-linked skilling opportunities to those aged 15–35 years. The Twelfth Five-Year Plan of Himachal Pradesh, 2012–2017 emphasizes the need for “faster, inclusive, and sustainable development”.¹² As part of this goal, GOHP aims to enhance livelihood and employment opportunities for the state's youth. It established the Himachal Pradesh Kaushal Vikas Nigam (HPKVN) as a specialized skills development company under the Department of Planning (DOP) in September 2015, to consolidate the state's fragmented TVET programs, align all TVET programs with India's National Skills Qualification Framework (NSQF), and facilitate private sector participation in design and delivery of TVET.¹³ This approach is aligned with India's National Policy on Skill Development and Entrepreneurship (2015), which encourages states to develop umbrella skills development

⁶ Government of Himachal Pradesh, Directorate of Employment. 2015. *Annual Area Employment Market Report 2014–2015*. Shimla. Organized sector employment refers to public sector establishments and nonagricultural establishments in the private sector employing 25 or more persons.

⁷ In 2015–2016, the share of salaries and wages in total expenditure by the government was 23.7%, compared to an average of 15.8% for all other states. Government of India, Ministry of Finance. *Himachal Pradesh State Government Budget for the Financial Year 2015–2016*. <http://admis.hp.nic.in/budget/Aspx/Anonymous/budWeb.aspx>

⁸ The primary sector includes agriculture, forestry, and fishing; the secondary sector: construction, manufacturing, mining and quarrying, electricity, gas, and water supply; and the tertiary sector: hospitality, transport and communication, trade, banking, insurance, public administration, and other services.

⁹ Government of India, Ministry of Statistics and Program Implementation. 2013. *68th Round National Sample Survey of India for 2011–2012*. New Delhi.

¹⁰ National Skill Development Corporation. 2012. *Skill-Gap Study for Himachal Pradesh, 2012–2022*. New Delhi.

¹¹ By 2026, around 14.7% of Himachal Pradesh's population will be aged 60 years and above.

¹² Government of Himachal Pradesh, Department of Planning. 2012. *Twelfth Five-Year Plan of Himachal Pradesh, 2012–2017*. Shimla.

¹³ The NSQF, notified by the Government of India on 27 December 2013, is a competency-based framework that organizes all qualifications according to levels of knowledge, skills, and aptitude. These levels, graded from 1 to 10, are defined in terms of learning outcomes which the learner must possess regardless of whether they are obtained through formal, nonformal, or informal learning. NSQF is an integrated education and competency-based framework providing for multiple pathways, horizontal as well as vertical, within and across TVET and general education.

missions with “the overarching power to pool resources for harmonizing the skilling efforts across line departments, private agencies, and voluntary organizations, and reducing duplication”.¹⁴

7. **Value added by ADB assistance.** In June 2016, GOHP approved the Himachal Pradesh Skills Development Policy (*Him Kaushal*), 2016 to guide the reform and scaling-up of skills development efforts in the state.¹⁵ The project will build HPKVN’s institutional capacity to operationalize this policy and deliver the challenging mandate of the state’s skills development mission effectively. The project will add value by supporting GOHP in providing NSQF-aligned vocational training and livelihood development opportunities to around 65,000 needy youth over 2017–2022, introducing 3-year bachelor of vocational education courses and employability enhancing skills courses in selected colleges, expanding Himachal Pradesh’s annual TVET training capacity by 13,000, and extending the reach of quality training facilities and counseling services to underserved parts of the state. The project will fund a menu of short-term and long-term training programs in growth areas including automobiles, electronics, pharmaceuticals, retail, tourism and hospitality, banking and financial services, health care, apparel, beauty and wellness, construction, and food processing to help the youth of Himachal Pradesh in making the transition from the primary sector to the secondary and tertiary sectors, where job prospects are better and remuneration levels are higher. These training programs will also expand career choices for women and raise their workforce participation rates. Engagement with industry associations, and monitoring and evaluation of the training programs will be strengthened to ensure the long-term relevance and sustainability of the reforms being supported by this project.

8. The project reflects the priorities of the Asian Development Bank (ADB) country partnership strategy for India, 2018–2022, which aims to support India’s efforts in facilitating inclusive growth. Skills development is a major priority of the Government of India, and a key instrument for empowering people.¹⁶ It is aligned with ADB’s Midterm Review of Strategy 2020, which emphasizes the need for ADB to focus on post-basic education and TVET to promote human capital development.¹⁷ The experience gained from ADB’s two ongoing loans in the education sector in India reiterates the importance of good quality counseling and placement services for matching trainees to the right types of training programs and job openings, ongoing coordination with industry associations and sector skills councils to ensure market-relevance, and close monitoring and tracking of training programs.¹⁸

B. Impact and Outcome

9. The project is aligned with the following impact: a more productive workforce created in Himachal Pradesh equipped with market-relevant technical and vocational skills (footnote 15).

¹⁴ Government of India. 2015. *National Policy on Skill Development and Entrepreneurship*. New Delhi. <http://msde.gov.in/National-Policy-2015.html>

¹⁵ Department of Planning, Government of Himachal Pradesh. 2016. *Himachal Pradesh Skill Development Policy*. Shimla. <http://hpkvn.nic.in/download/HP%20Skill%20Development%20Policy.pdf>

¹⁶ ADB. Forthcoming. *Country Partnership Strategy: India, 2018–2022 – Accelerating Inclusive Economic Transformation*. Manila.

¹⁷ This project will contribute to the achievement of Sustainable Development Goals 4 (Quality Education: “ensure inclusive and equitable quality education and promote lifelong learning opportunities for all”); 5 (Gender Equality: “achieve gender equality and empower women and girls”); and 8 (Decent Work and Economic Growth: “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”). ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹⁸ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to India for Supporting Human Capital Development in Meghalaya*. Manila; and ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to India for Supporting Kerala’s Additional Skill Acquisition Program in Post-Basic Education*. Manila.

The project will have the following outcome: employment and livelihood opportunities for the youth of Himachal Pradesh improved.¹⁹

C. Outputs

10. The project will support the following outputs:

11. **Output 1: TVET in Himachal Pradesh improved and aligned to national standards.**

The project will support (i) HPKVN in designing and running a flagship training program for approximately 55,700 youth focusing mainly on short-term, demand-driven vocational courses aligned to NSQF levels 3 and 4;²⁰ and (ii) the Department of Higher Education (DOHE) in offering 3-year bachelor of vocational education courses and employability enhancing skills courses to approximately 8,400 students studying in selected colleges. Depending on the background and aspirations of the trainees and market demand, HPKVN will provide training opportunities for formal wage employment or for livelihood and small business development. The latter type of support will be provided at the city livelihood centers (CLCs) and rural livelihood centers (RLCs) to be established under the project. Introduction of bachelor of vocational education (NSQF level 7) courses in colleges will help to integrate vocational education with higher education and establish a career path. Vocational training will also be provided to third-year college students in trades such as banking, electronics, and retail to make them more employable after graduation. Overall, improved TVET opportunities will be provided to around 65,000 needy youth over the period 2017–2022.

12. **Output 2: Market-aligned skills ecosystem created.** The project will (i) upgrade 11 employment exchanges into model career centers (MCCs) to build awareness among youth about TVET opportunities; (ii) design and operationalize a management information system (MIS) to link HPKVN, the Department of Technical Education, Vocational and Industrial Training (DOTE), DOHE, and the MCCs to India's National Career Services portal; and (iii) support HPKVN in forging partnerships with industry associations and sector skills councils to get demand information, and identify internship and placement opportunities. The MCCs will have career counselors for guiding the youth in selecting relevant TVET programs, aligned with their aspirations and market demand. By linking the MCCs to the National Career Services portal, the MIS will enable the trained and certified youth of Himachal Pradesh to access job opportunities across India.

13. **Output 3: Access to quality training institutes improved.** The project will (i) establish six CLCs and seven RLCs to provide vocational training and business development support to urban and rural poor to improve their livelihood; (ii) assist DOTE in establishing a new polytechnic for women in Rehan, Kangra, as well as a center of excellence for industry-led skilling; and (iii) assist DOTE in upgrading the training equipment for 22 trades in 50 industrial training institutes (ITIs) in line with the 2014 guidelines of the National Council for Vocational Training. The CLCs and RLCs will provide gender-separated hostels to enable trainees from small towns and remote villages to access the livelihood and small business development opportunities. The women's polytechnic in Rehan will offer diplomas in civil engineering, architectural assistantship, electrical engineering, and computer engineering. It will have an annual training capacity of around 720 and hostel facilities for 120 women. By providing new training equipment to 50 ITIs

¹⁹ The design and monitoring framework is in Appendix 1.

²⁰ From 27 December 2016, no central government funding will be provided for TVET programs that are not aligned to the NSQF. All announcements for jobs in the central government, state governments, and public enterprises must define eligibility criteria in NSQF terms. Hence, this project will support the government in aligning all TVET programs to the NSQF so that Himachal Pradesh's youth receive nationally recognized certificates.

across 22 trades aligned with the latest guidelines of the National Council for Vocational Training, the project will ensure that around 19,000 students will obtain nationally recognized certificates from the council. This will make them eligible for jobs in public enterprises and private companies within and outside Himachal Pradesh. Results-oriented institutional development plans will be prepared for these ITIs to ensure that their performance on key indicators such as placement, enrollment of women, and industry engagement improves.

14. **Output 4: TVET institutional structure improved.** The project will (i) build the project management, fiduciary, safeguard, and training capacity of HPKVN and other implementing agencies; (ii) prepare business processes and standard operating protocols for HPKVN staff covering different facets of skilling, including mobilization, counseling, training, assessment and certification, skills-gap analysis, and monitoring and evaluation (M&E); (iii) operationalize an MIS that will draw information from all the implementing agencies to monitor progress with respect to key results indicators in the design and monitoring framework; (iv) provide consulting inputs for project management, quality monitoring of civil works, and M&E of all training; and (v) support training of 50 master trainers in key trades. This support will gradually break silos across implementing agencies, and establish the foundation for a unified skills development mission in Himachal Pradesh.

D. Summary Cost Estimates and Financing Plan

15. The project is estimated to cost \$100 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).²¹

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. TVET in Himachal Pradesh improved and aligned to national standards	34.94
2. Market-aligned skills ecosystem created	6.71
3. Access to quality training institutes improved	31.34
4. TVET institutional structure improved	15.33
Subtotal (A)	88.32
B. Contingencies^c	5.66
C. Financing Charges During Implementation^d	6.01
Total (A+B+C)	100.00

TVET = technical and vocational education and training.

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$5.88 million to be financed from Asian Development Bank (ADB) loan resources. The amount is within the reasonable threshold identified during the country partnership strategy preparations, is not excessive (9% of ADB loan resources), applies only to ADB-financed expenditures, is intended to simplify and expedite disbursement arrangements, and is material and relevant to the success of the project. The Government of Himachal Pradesh will finance taxes and duties of \$1.01 million. ADB may finance local transportation, insurance costs, and bank charges.

^b In end-2016 prices as of March 2017.

^c Physical contingencies computed at 3% for civil works and equipment and at 3.5% for training, consultancy, and administrative costs. Price contingencies are calculated at an average of 5.5% on local currency costs on a cumulative basis in line with escalation rates published by ADB at <https://lnadbq1.adb.org/erd0004p.nsf>; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the OCR loan has been computed at the 5-year forward London interbank offered rate (LIBOR) plus a spread of 0.5%. Commitment charges for the OCR loan are 0.15% per year to be charged on the undisbursed loan amount.

Sources: Asian Development Bank and Himachal Pradesh Kaushal Vikas Nigam estimates.

²¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

16. The Government of India has requested a regular loan of \$80 million from ADB's ordinary capital resources to help finance the project. The loan will have a 20-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, straight line repayment, and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line repayment method, the average maturity is 12.75 years, and there is no maturity premium payable to ADB.²²

17. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works and equipment, training costs, and consulting services and capacity building.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	80.0	80.0
Government	20.0	20.0
Total	100.0	100.0

Note: The financing plan reflects the net financing share of the Asian Development Bank and the Government of Himachal Pradesh. This has been deducted from the gross share to compute the government's net contribution of \$20 million.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. GOHP, acting through DOP, will be the executing agency. HPKVN, DOHE, DOTE, and the Public Works Department (PWD) will be the four implementing agencies. HPKVN will act as the project management unit. DOHE, DOTE, and PWD have already established project implementation units. The funds will be routed by the executing agency through HPKVN to DOHE, DOTE, and PWD for all activities. HPKVN will procure all services of training service providers for vocational training, PWD will be responsible for procurement of civil works and furniture, and DOTE will procure the upgraded training equipment for the selected ITIs. To facilitate coordination, all the consulting firms will report to HPKVN. As support departments, the Department of Rural Development and Department of Urban Development will oversee the livelihood development programs for rural and urban youth in the RLCs and CLCs, the Department of Labour and Employment will support counseling and vocational guidance in the upgraded MCCs, the Department of Economics and Statistics will coordinate with the M&E firm for the tracer studies and surveys, and the Department of Social Justice and Empowerment will assist in undertaking training for people with disabilities. The support departments will coordinate closely with HPKVN and other implementing agencies as required.

19. All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Procurement of civil works, goods and equipment will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 21).

²² This is based on the above loan terms and the government's choice of repayment options and dates.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	December 2017–December 2022		
Estimated completion date	31 December 2022		
Estimated loan closing date	30 June 2023		
Management			
(i) Oversight body	Project steering committee chaired by the chief secretary of the Government of Himachal Pradesh, and comprising the ACS of the Department of Planning and Finance; the ACS, principal secretaries, and secretaries of DOHE, DOLE, DOTE, DOUD, DORD, and PWD; advisor, DOP; engineer-in-chief, PWD; and managing director of HPKVN		
(ii) Executing agency	DOP		
(iii) Key implementing agencies	DOHE, DOTE, HPKVN, PWD		
(iv) Implementation unit	HPKVN, Shimla, Himachal Pradesh staff (30 staff)		
Procurement	National competitive bidding	9 contract packages (works); 15 contract packages (goods)	\$24.13 million \$11.74 million
Consulting services	Quality- and cost-based selection (80:20)	800 person-months; 3 contracts	\$6.58 million
Nonconsulting services	Fixed budget selection	17 packages; training service providers	\$25.94 million
Retroactive financing and/or advance contracting	ADB may, subject to its policies and procedures, allow upon request advance contracting and retroactive financing of civil works, equipment and materials, and consulting services. Retroactive financing will be up to 20% of the ADB loan amount for eligible expenditures of civil works and consulting services incurred prior to loan effectiveness but not earlier than 12 months prior to the signing of the loan agreement.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ACS = additional chief secretary; ADB = Asian Development Bank; DOHE = Department of Higher Education; DOLE = Department of Labour and Employment; DOP = Department of Planning; DORD = Department of Rural Development; DOTE = Department of Technical Education, Vocational and Industrial Training; DOUD = Department of Urban Development; HPKVN = Himachal Pradesh Kaushal Vikas Nigam; PWD = Public Works Department.
Source: Asian Development Bank.

III. DUE DILIGENCE

20. The project has undertaken detailed due diligence and field surveys to improve the design. It has also taken significant advance action to improve implementation readiness.

A. Technical

21. GOHP's strong ownership for the project is borne out by the fact that HPKVN's board of directors is headed by the chief minister of Himachal Pradesh, and comprises relevant ministers and senior civil servants. HPKVN already has 27 full-time staff who have been coordinating well with the other implementing agencies. Around 49% of the project's civil works and goods, 100% of the consulting packages, and 28% of the packages for training service providers will be tendered out by mid-October 2017 as part of advance contracting. Further, since November 2016, HPKVN has been piloting an NSQF-aligned training program for 1,000 trainees with the help of ADB consultants. The experience gained through this pilot program and the advance contracting actions will help expedite project implementation.

B. Economic and Financial

22. **Economic viability.** The economic viability of the project was assessed on the basis of the benefits and costs associated with the investment project.²³ Quantified economic benefits include direct benefits for trainees due to increased employability and higher wages. The major streams of economic costs are direct project costs associated with the four outputs, the private costs of trainees for nominal fees where relevant, and the indirect opportunity cost of their forgone earnings during training. The project is estimated to yield a net present value of \$47.82 million under the base-case scenario, with an economic internal rate of return (EIRR) at 17.37%. The EIRR was tested for sensitivity to various adverse scenarios: (i) capital cost overrun by 20% (EIRR 13.67%), (ii) recurrent cost overrun by 20% (EIRR 15.09%), (iii) starting wages lower by 20% (EIRR 13.15%), and (iv) capital cost overrun by 20% and post-training wages lower by 20% (10.11%). In all cases, the EIRR exceeds the required rate of 9%, suggesting that the investment program is economically robust.

23. **Sustainability of reforms.** TVET will continue to be of high priority for GOHP. The outlay for the project represents around 47% of the state's TVET spending and only 0.3% of total GOHP expenditure over the project period. The GOHP's counterpart commitment for the project as a share of the total education budget (or TVET budget) is projected to increase slightly from 0.32% (6%) in FY2018 to 0.46% (9%) by FY2022, which is reasonable. Himachal Pradesh is expected to receive an additional amount of around \$4 billion during 2016–2020 as a result of the Fourteenth Finance Commission award. GOHP thus, has ample fiscal space to fund the project. Successful project implementation will reduce the high dependence on government jobs among the youth of the state and, eventually, the pressure on the wage bill. Strengthening of the state's TVET institutional framework, convergence across programs run by different departments, reduction of duplication, and better quality of training will yield additional fiscal savings over time.

C. Governance

24. A detailed financial management assessment was conducted for DOP, HPKVN, DOTE, DOHE, and PWD. The overall project risk is moderate primarily because HPKVN is a relatively new organization, which is still in the process of setting up comprehensive systems and processes.²⁴ Several measures have already been taken since its establishment in September 2015, including the preparation of standard operating protocols for core functions; the recruitment of experienced staff to handle training, procurement, finance, and accounts functions; the appointment of internal and external auditors; the approval of its first set of audited financial statements; and the establishment of an audit committee. However, some additional measures proposed in the financial management action plan will be required to manage potential risks as the training programs and related project activities are scaled up. These include (i) preparation of a comprehensive financial and accounting manual; (ii) capacity building of implementing agency staff in project accounting, reporting, and ADB's financial management and disbursement procedures; and (iii) refinement of the MIS. The detailed financial management action plan is given in the PAM, based on which the expected financial management arrangements are expected to be satisfactory.

²³ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

²⁴ Financial Management Assessment, and Governance and Institutional Structure: Himachal Pradesh Skills Development Project (accessible from the list of linked documents in Appendix 2).

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Government of India and the state's DOP. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty, Social, and Gender

26. The project is pro-poor and gender-focused. The target trainees are the needy urban and rural youth of Himachal Pradesh, and those enrolled in government colleges, ITIs, and polytechnics. Training will focus on trades for which demand is growing, such as pharmaceuticals, food processing, and light manufacturing in the secondary sector, and on retail, tourism and hospitality, banking and financial services, and health care in the tertiary sector. Support will be provided to boost the livelihoods of the urban and rural poor through a package of training and business development support at the CLCs and RLCs. By locating the new polytechnic in Rehan, Kangra, the project will improve access for girls who reside in the hilly northern districts of Himachal Pradesh. Provision of hostel facilities in the CLCs will enable girls of small towns and rural areas to access good-quality training. Production centers in some of the RLCs will support local small businesses. Gender-sensitive counseling and outreach material will be prepared. These measures will ensure that the women workforce participation rate does not decline with the urbanization of Himachal Pradesh's economy.²⁵ All relevant output and outcome indicators have separate targets for women and for people with disabilities. Given these significant gender targets and features, the project is categorized as gender equity theme (GEN).

E. Safeguards

27. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows:²⁶

28. **Environment (category B).** GOHP has assured ADB that the proposed new training facilities will be built within premises owned by it. The potential environmental impacts identified are generally site-specific, reversible, and will mostly occur during construction when mitigation measures can be readily implemented.

29. **Involuntary resettlement (category C).** No new land will be acquired, nor will anyone be displaced in anticipation of ADB funding. It will be ensured that the subproject sites are encumbrance free and have no squatters or livelihood issues.

30. **Indigenous peoples (category C).** Lahaul Spiti and Kinnaur are two districts in the northern part of Himachal Pradesh where tribal members are the majority. Given their high altitude, inhospitable terrain, harsh winters, sparse population, and poor connectivity, no civil works are planned in these districts. Hence, the project will have no adverse effect on tribals.

31. Sixteen sites identified by the GOHP were screened and cleared by environmental and social safeguard consultants. An environmental and social management framework has been prepared to guide the civil works. Initial environmental examination reports and corresponding environmental management plans have already been prepared for several subproject sites. The implementing agencies' staff were sensitized about the policies and procedures of ADB's Safeguard Policy Statement. They will participate in the periodic capacity-building workshops organized by ADB's India Resident Mission on environmental and social safeguards.

²⁵ In 2011–2012, Himachal Pradesh's labor force participation rate was 63% for rural women but only 28% for urban women. It was 87% for rural men and 73% for urban men.

²⁶ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

F. Summary of Risk Assessment and Risk Management Plan

32. Significant 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	Mitigation Measures
Job opportunities within Himachal Pradesh may remain limited owing to the state's narrow manufacturing base.	The project will fund a menu of short-term and long-term vocational training and livelihood development programs in growth areas to expand job opportunities for all youth. Ongoing consultations with industry associations and sector skills councils will ensure that the training programs are relevant and aligned to market demand.
Some of the trained students, especially those from rural areas, may not want to migrate out of the state even when offered placement.	The RLCs and CLCs to be established under the project will widen choices for rural youth in terms of relevant livelihood and business development support to improve their earning opportunities within Himachal Pradesh. Career counseling and placement services will be improved through the model career centers to meet the varying aspirations of the state's rural and urban youth, and to link them to relevant job opportunities.
Systemic challenges such as weak capacity of training service providers and assessment agencies	Two consulting firms (for project management, and monitoring and evaluation) will be mobilized under the loan to assist the implementing agencies in planning, executing, and tracking the performance of the training service providers and assessment agencies.

Source: Asian Development Bank.

IV. ASSURANCES

33. The Government of India and DOP 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 PAM and loan documents.

34. The Government of India, DOP, and HPKVN have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement.

V. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan of \$80,000,000 to India for the Himachal Pradesh Skills Development Project, from ADB's ordinary capital resources, in regular terms, 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 project agreements presented to the Board.

Stephen P. Groff
Vice-President

6 September 2017

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

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
A more productive workforce created in Himachal Pradesh equipped with market-relevant technical and vocational skills (Himachal Pradesh Skill Development Policy [<i>Him Kaushal</i>]) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Employment and livelihood opportunities for the youth of Himachal Pradesh improved	By 2023:^b a. At least 80% of all trainees who complete the training courses under the project are successfully certified (2016 baseline: 0; target: at least 70% of women trainees and people with disabilities who complete the training courses are successfully certified) b. Of those who are successfully certified, at least 50% should get wage employment within 6 months of completing training, with 40% of the remaining being gainfully self-employed (wage employment target for women: 30%) ^c	a. MIS project reports prepared by HPKVN and implementing agencies b. Surveys undertaken by HPKVN	Job opportunities within Himachal Pradesh may remain limited owing to the state's narrow manufacturing base and hilly terrain. Some of the trained and certified students may not want to migrate out of the state even when offered placement.
Outputs 1. TVET in Himachal Pradesh improved and aligned to national standards	By 2022: 1a. 55,700 youth provided National Skills Qualification Framework-aligned training by HPKVN ^d (2016 baseline: 1,000; girls 30%; target: at least 35% of the trainees are girls and 1% are people with disabilities) 1b. 8,400 students enrolled for graduate employability and bachelor of vocational education programs across government colleges ^e (2016 baseline: 0; target: at least 35% of those enrolled are women) 1c. 300 students enrolled in the new women's polytechnic in Rehan, Kangra	1a. MIS project reports prepared by HPKVN and implementing agencies 1b. Annual report of HPKVN (with inputs from the Department of Higher Education) 1c. Inputs provided by the Department of Technical Education, Vocational and Industrial Training	Systemic challenges such as weak capacity of training service providers and assessment agencies may affect the quality of training and assessment.
2. Market-aligned skills ecosystem created	By 2022: 2a. Counseling and placement services offered at the 11 MCCs (2016 baseline: 0; at least 1 trained career counselor appointed in each MCC) 2b. Project MIS at HPKVN, providing sex-disaggregated data on relevant indicators and linked to the National Career Services portal of India, made operational (2016 baseline: not applicable)	2a–2b. Annual report of HPKVN	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Access to quality training institutes improved	<p>By 2022:</p> <p>3a. Six city livelihood centers made operational to provide a package of training-cum-business development support to urban youth (2016 baseline: 0)</p> <p>3b. Seven rural livelihood centers made operational to provide a package of training-cum-business development support to rural youth (2016 baseline: 0)</p> <p>3c. New women's polytechnic made operational in Rehan, Kangra, in northwest Himachal Pradesh¹ (2016 baseline: one dedicated polytechnic for women located at Kandaghat in south Himachal Pradesh)</p> <p>3d. Training equipment in 22 trades across 50 industrial training institutes upgraded in line with the revised 2014 syllabus of the National Council for Vocational Training (2016 baseline: 0)</p> <p>3e. 11 employment exchanges converted into MCCs (2016 baseline: 0)</p>	<p>3a–3e. Annual report of HPKVN (with inputs from relevant departments)</p> <p>3a–3e. MIS project reports of HPKVN and relevant departments</p>	
4. TVET institutional structure improved	<p>By 2022:</p> <p>4a. Project MIS at HPKVN, providing sex-disaggregated data on relevant indicators, made operational (2016 baseline: no such MIS)</p> <p>4b. Periodic M&E surveys conducted</p>	<p>4a–4b. Annual report of HPKVN (with inputs from implementing agencies)</p>	

Key Activities with Milestones

1. TVET in Himachal Pradesh improved and aligned to national standards

- 1.1 HPKVN launched its pilot training program for 1,000 youth in November 2016. It is funded by the state government, but designed and executed with the help of consultants engaged under the project preparatory technical assistance.
- 1.2 Standard bidding documents for engaging training service providers prepared (completed in mid-March 2017).
- 1.3 Prepare National Skills Qualification Framework-aligned and market-oriented TVET training protocols for formal employment, rural livelihoods development, and entrepreneurship (by September 2017).
- 1.4 Design course curriculum for graduate employability and bachelor of vocational education programs to be offered in selected colleges (by September 2017).
- 1.5 Initiate training programs (with effect from September 2017).

<p>2. Market-aligned skills ecosystem created</p> <p>2.1 Revised skill development policy for Himachal Pradesh issued in September 2016.</p> <p>2.2 Prepare protocol for converting employment exchanges into MCCs (June 2018).</p> <p>2.3 Sign memoranda of understanding with industry associations and sector skills councils (ongoing).</p> <p>3. Access to quality training institutes improved</p> <p>3.1 Standard bidding documents for civil works and equipment prepared (completed in January 2017).</p> <p>3.2 Procure training equipment for 50 industrial training institutes (tenders issued on 24 February 2017; supply expected to start from February 2018).</p> <p>3.3 Prepare architectural designs for city livelihood centers, rural livelihood centers, MCCs, and women's polytechnic (by November 2017).</p> <p>3.4 Tendering of civil works (started in March 2017).</p> <p>3.5 Initiate construction work (from January 2018, then phased out over the project period).</p> <p>4. TVET institutional structure improved</p> <p>4.1. Notify establishment of the project steering committee, state-level project monitoring and implementation committee, project management unit within HPKVN, and project implementation units within other implementing agencies (Department of Higher Education, Department of Technical Education, Vocational and Industrial Training, PWD) issued (completed).</p> <p>4.2. Staff recruited in HPKVN to handle skills training, quality assurance, M&E, financial management, procurement, and safeguards (completed in February 2017).</p> <p>4.3. Prepare business processes covering key functions—finance, administration, procurement of training service providers and assessment agencies, training guidelines, and M&E framework (completed).</p>
<p>Project Management Activities</p> <p>Mobilization of project management consulting firm and M&E consulting firm (by November 2017)</p> <p>Mobilization of civil works (quality assurance firm) (by January 2018)</p> <p>Project MIS designed and tendered (by December 2017); full operationalization (by January 2019)</p>
<p>Inputs</p> <p>ADB: \$80 million (loan)</p> <p>Government of Himachal Pradesh: \$20 million</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>

ADB = Asian Development Bank, HPKVN = Himachal Pradesh Kaushal Vikas Nigam, M&E = monitoring and evaluation, MCC = model career center, MIS = management information system, PWD = Public Works Department, TVET = technical and vocational education and training.

^a Government of Himachal Pradesh, Department of Planning. 2016. *Himachal Pradesh Skill Development Policy*. Shimla. <http://hpkvn.nic.in/download/HP%20Skill%20Development%20Policy.pdf>

^b In India, the outcomes, outputs, and cost benchmarks for all government-funded training programs have to be aligned to the 2016 Report of the Common Norms Committee, Ministry of Skill Development and Entrepreneurship, Government of India, with the required adjustments in line with the specific needs and constraints of a state. Hence, the benchmarks shown in this design and monitoring framework have been modified based on Himachal Pradesh's socioeconomic and demographic profile, and the extra constraints it faces because of its hilly terrain.

^c According to the 2016 Common Norms, in the case of wage employment and recognition of prior learning, candidates should be placed in jobs that provide wages at least equal to minimum wages prescribed, and such candidates should continue to be in jobs for a minimum period of 3 months from the date of placement in the same or a higher level with the same or any other employer. In the case of self-employment, candidates should have been employed gainfully in livelihood enhancement occupations, which are evidenced in terms of trade license or setting up of an enterprise or becoming a member of a producer group, or proof of additional earnings (bank statement) or any other suitable and verifiable document as prescribed by the state government. The M&E consulting firm to be engaged under the loan will assist HPKVN and other implementing agencies in tracking the outcomes of the training programs by undertaking surveys and studies.

^d HPKVN launched a pilot program for training 1,000 youth in 2016. Hence, the baseline is 1,000.

^e The 2016 baseline is 0 since bachelor of vocational education courses will be introduced under this project.

^f The Rehan polytechnic will raise annual training capacity by 720 and have hostel facilities for 120 trainees. The Kandaghat polytechnic for women offers diplomas in pharmacy, electronics, and computers. It has an annual training capacity of 400 and hostel accommodation for 210.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49108-002-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Education
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination: City Livelihood Center at Mohal Sidhbari, Kangra
12. Initial Environmental Examination: City Livelihood Center at Nahan, and Rural Livelihood Centers at Pragati Nagar and Chopal, Shimla
13. Initial Environmental Examination: City Livelihood Centers at Shamshi and Sunder Nagar, and Rural Livelihood Center at Sadyana, Mandi
14. Initial Environmental Examination: Model Career Center at Hamirpur
15. Initial Environmental Examination: Construction of Women's Polytechnic in Rehan, Kangra
16. Environmental and Social Management Framework
17. Risk Assessment and Risk Management Plan

Supplementary Documents

18. Financial Management Assessment
19. Procurement Capacity Assessment of Executing and Implementing Agencies of the Proposed Himachal Pradesh Skills Development Project
20. Governance and Institutional Structure: Himachal Pradesh Skills Development Project
21. Technical and Vocational Education and Training Reforms in Himachal Pradesh
22. Proposed City Livelihood Centers and Rural Livelihood Centers in Himachal Pradesh
23. Aspiration Survey of Himachal Pradesh Youth
24. Management Information System and Model Career Centers in Himachal Pradesh
25. Introduction of Bachelor of Vocational Education and Graduate-Employability Programs in Selected Colleges of Himachal Pradesh
26. Communication Strategy
27. Additional Information to Economic and Financial Analysis
28. Counseling and Communication Modules