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PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA16736

Project Name	Skills Development Project (P145309)
Region	AFRICA
Country	Uganda
Sector(s)	Vocational training (100%)
Theme(s)	Education for the knowledge economy (100%)
Lending Instrument	Specific Investment Loan
Project ID	P145309
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Education and Sports, Ministry for Agriculture, Animal Husbandry and Fisheries
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	04-Feb-2015
Date PID Approved/Disclosed	25-Feb-2015
Estimated Date of Appraisal Completion	24-Feb-2015
Estimated Date of Board Approval	07-Apr-2015
Decision	

I. Project Context

Country Context

1. Uganda is one of the fastest growing economies in Africa. Since the early 1990s, the country embarked on a series of structural reform policies and investments designed to free up markets, stimulate private investment and encourage competition. However, the rate of economic expansion decelerated from an average 7.6 percent a year during 2006-10 to 5.5 percent from 2011-13. This slump in growth and the high rate of inflation (averaging 23.5 percent in 2012) were largely a result of the global economic turbulence, higher food and oil prices, together with slippages in fiscal and monetary policy (World Bank, 2013). Nonetheless, the expectation, in the medium-term scenario, is that the rate of growth will exceed the historical rate of 7 percent driven predominantly by oil production , along with productivity gains in agriculture and increased trade with the East African Community (EAC) through greater integration and harmonization (IMF 2013, The World Bank 2013).

2. There has been a broader sectoral shift over the past two decades where the service sector dominates in terms of value-addition and where agriculture’s contribution has been declining. From the 1990s to 2010, agriculture’s contribution to GDP fell from 45 percent to 27 percent while services contributed in the range of approximately 35 percent in the early 1990s to 50 percent in

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2010. Within services, the growing sectors were telecommunication, wholesale and retail trade with a smaller role played by public administration. The industrial sector has also been growing with a boom in construction, and manufacturing playing a smaller role. Industrial sector growth has been helped with better availability of electricity at lower prices as well as public investment in infrastructure which is expected to continue. A key factor in future industrial sector growth will be the indirect economic expansion that will follow the development of oil reserves in Uganda. Agriculture also remains important, not least because it accounts for almost three-quarters of the labor force, but because of its potential for quick gains through enhancing productivity. The Uganda Bureau of Statistics (UBOS) 2010 Census of Business Establishment reports that agribusiness was the fastest growing business sector in the past decade.

3. Despite progress to date, economic growth has been slowing and Uganda is faced with significant challenges to sustain growth such as infrastructure gaps (mainly electricity and transport), low productivity of its labor force, access to finance, high tax rates and corruption. According to the Investment Climate Assessment (ICA) report 2008, Ugandan firms compared poorly with firms in other developing countries with respect to unit labor costs. Although labor costs were low in real dollar terms, productivity was even lower. As a result, unit labor costs (i.e., the ratio of labor costs to value added) were high compared to several other comparable economies in SSA— and especially when compared to unit labor costs in East Asia in the 1970s before that region's rapid growth and expansion. The 2008 report concluded that this would make it hard for Ugandan firms to compete on international markets. In this respect, focus should be on increasing productivity to make unit labor costs more competitive without having to reduce wages. Improving labor productivity encompasses a multitude of factors including improving worker education and skills, advances in technology, as well as access to capital and physical infrastructure. Given the small size of the Uganda economy and its landlocked geographic location, the EAC appears to be an efficient mechanism to lower costs and raise productivity in the medium-term.

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4. With the looming oil production in the country, economic diversification is a priority for the country in order to avoid the Dutch disease effects of oil. Uganda's economic base remains narrow with export-focused industries in primary, agriculture goods that are vulnerable to price shocks. The composition of Uganda's exports has not changed significantly in the last 40 years with coffee and manufactured teas remaining as the main exports. Uganda's exports are also lacking in sophistication. That is, producing coffee, cotton, tea and fish requires far less complex technologies and labor skills than other products. Textiles and metal products constitute the other two main secondary export sectors, and signal the early stages of industrial development in Uganda. By improving on technology and labor skills, there is significant potential to broaden the country's economic base to include agro-processing activities and construction materials clusters .

5. Uganda's labor force consists of 15 million individuals with agriculture accounting for 73 percent of the labor force employed in 2010. When considering the number of people employed by sector currently, about 95 percent of the 11 million people working in agriculture are informal workers. Within the services sector, 80 percent of the jobs in were in the non-wage/informal sector jobs, mainly in low-productivity retail trade. Other sectors that employ relatively large numbers include the manufacturing sector with 500,000 people working in this sector and about 60 percent of these in non-wage manufacturing. Construction accounts for 1.6 percent of the workforce (about 250,000 people), with 90 percent of workers in the wage sector. The challenge facing Uganda is to increase the number of jobs in the more productive sectors, shifting people out of agriculture into services and industry, while at the same time putting in place interventions which will enhance

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productivity in agriculture.

6. The overwhelming majority of Ugandans - about 84 percent- in the labor force in 2009/10 were either working in family farms or informal enterprises , or what may be collectively described as the informal sector. Between 1992/93 and 2009/10, more than 1.5 million net non-wage jobs were created in the non-agricultural sector, while over the same period 1.2 million net non-agricultural wage jobs were created (World Bank, 2012). The growth of these small, informal enterprises played a critical role in the transformation of employment towards more non-agriculture jobs, in addition to the creation of private non-farm wage and salary jobs. Wholesale and retail is the predominant activity among informal enterprises, followed by manufacturing. A large number of Ugandans employed in these enterprises work as metal welders, crafts makers, brick makers, tailoring, fish mongers, butchers, food and beverage vendors, street vendors, boda boda (motorcycle taxi) riders and carpenters. The majority of those in manufacturing non-farm informal enterprises were women (53 percent) reflecting the high number of women involved in the production of food and beverages. Even in the non-agriculture wage sector, there has been a rapid expansion in the number of jobs in small firms and by 2010/11, 60 percent of formal jobs in Uganda were in micro enterprises (firms employing less than 5 workers), 18 percent in small firms (employing between 5 and 20 workers) and on 12 percent in large firms.

7. Aside from a large and growing number of new entrants to the labor market, the current labor force is underemployed. In 2010, 90 percent of the labor force were employed but about a quarter of these were dependent on secondary income generating activities, and another quarter worked for no wage or were volunteering.

8. Within this context of a small formal wage sector and large numbers of the labor force that are underemployed, Uganda faces an additional challenge of having one of the youngest and most rapidly growing populations in the world who have limited employment opportunities in the short and medium term. The total fertility rate (TFR) is estimated at 6.7 children per woman according to the government’s data. About half (53 percent) of Uganda’s population is younger than 15, well above Sub-Saharan Africa’s average of 43.2 percent and a world average of 26.8 percent. With an estimated 4 percent workforce growth rate per annum, 500,000 people are expected to enter the labor market annually. Within this demographic context, declining fertility conducive to ensuring that Uganda benefits from the youth dividend is as critical as is improving the quality of labor.

9. A large proportion of the labor force do not have foundational skills of basic literacy and numeracy, with over 50 percent of Ugandans of working age having either no education or having not completed primary education in 2010. Though the numbers of students enrolled in primary and secondary education have increased substantially since the introduction of universal primary education in 1997 and universal lower secondary education in 2007, large dropout rates from primary school coupled with a still relatively low gross enrollment rate in secondary school, result in a large number of individuals that leave school too early without having developed generic skills essential for life and work. Furthermore, there are concerns on the quality of foundational skills gained in Uganda, with the country performing poorly and worse than neighboring Tanzania and Kenya on regional assessments such as the Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ). Aside from foundational skills, the labor-force requires other productivity-enhancing skills such as higher order cognitive skills (such as problem solving and critical analysis); behavioral and socio-emotional skills or soft skills (social skills, self-regulation, and self-confidence); technical or vocational skills (specific to each occupation) and business skills

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(entrepreneurship, managerial skills and financial literacy) , which will be a focus for this project.

10. Uganda is positioning itself to become a middle-income country by 2020 with significant opportunities for growth in certain sectors of the economy (oil and gas, construction, hotels/tourism, manufacturing, agro-processing). Enhancing the skills of the Ugandan labor force both for existing and new entrants will be critical to improving the productivity and competitiveness of priority sectors. During discussions with the Government of Uganda for this project, the target sectors were determined by the following criteria: (i) sectors that employ large numbers of the population; (ii) sectors with potential for value addition and improved productivity; (iii) sectors where foreign direct investment is increasing and/or where significant public finances have been directed. These sectors were determined to be agriculture with a focus on agro-processing, manufacturing and construction. The oil and gas and tourism sectors are being targeted in separate IDA-financed operations described below.

Sectoral and institutional Context

11. Training provision can be broadly be grouped into two categories: (i) institution based training provision; and (ii) enterprise-based training provision.

12. Institution based training in Uganda is within the Business, Technical, and Vocational Education Training (BTVET) subsector with about 131 public training providers and about 670 registered private training providers. Public training providers play an important role to responding to the demand of more costly skills, particularly at the college level (targeted towards technician level skills), though it falls short on the quality of training and a lack of connection with market needs. Public BTVET currently caters to only a small proportion of labor market entrants and there are concerns with gender and socio-economic equity in access. Compared to approximately 500,000 new labor market entrants per year, public BTVET institutions enrolled only 34,000 students in 2009.

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13. Although small in size, public BTVET is fragmented across several Ministries. There is significant under-investment in the sub-sector; public expenditure per student in BTVET is lowest among all education sub-sectors, and continues to fall despite being a technically oriented sector that is more expensive than general education in most countries. Management and regulation in BTVET is highly fragmented, involving too many regulatory bodies with partly overlapping responsibilities. There is no overall coordination mechanism to ensure that all players are working towards the same set of goals and priorities. Furthermore, employers and business sector representatives who know best what skills the market requires are neither appropriately involved in planning, implementing, and monitoring BTVET development, nor made part of decision-making structures at national and institutional levels.

14. Private provision of technical and vocational skills in Uganda is significant and there is movement towards more public-private partnerships in the provision of skills. Private providers include nongovernmental organizations (NGOs), faith-based providers and for-profit providers and there is large variance in the type and quality of training offered. Most private training providers in Uganda focus on a narrow range of skills that are relatively inexpensive to develop. Only a fraction of private training providers are actually registered with the MoES/BTVET department. Registration is centralized in Kampala and is a costly exercise. Registration requirements in Uganda are modelled after general education institutions and do not reflect a modern competency-based

training culture. It emphasizes input factors such as land, facilities and academic qualifications of instruction personnel, which can be challenging for smaller providers.

15. Across public and private institutions there are concerns with access, equity, quality and relevance of programs. Most institutions face key issues that need to be urgently addressed including: : (i) outdated curricula organized by semesters or quarters (not by modules of different time duration), lack of attention to soft skills like Occupational Health & Safety and more emphasis on theory than on practice; (ii) inefficient utilization of capacity; (iii) untrained teachers without industry-based in-service training using chalk and talk as a preferred method of instruction in the absence of well-equipped workshops and modern training methods; (iv) no effective student tracking system from graduation to placement and thereafter; (v) weak or non-existing linkages with the employment sector; (vi) poor infrastructure and ill-equipped workshops with obsolete and non-functioning equipment as well as inadequate training materials; and (vii) inadequate and inconsistent funding which is subject to erratic release.

16. Enterprise-based training is an important component in the supply of skills. In the formal wage sector, many firms in Uganda provide training for its workers including: (i) initial training; and (ii) upgrading training. Most medium and large size companies (above 20 employees) interviewed during preparation of this project, provide artisan and craftsmen level workers through initial training with the duration, rigor and formality dependent largely on the nature of the task to be learned and the size of the enterprise. Several companies also invest in continuous training of experienced employees to maintain and improve skills or to impart new skills. Formal apprenticeship training is not prevalent in Uganda. Within small and micro enterprises in the formal sector, there appears to be general resistance to training by employers due to the cost and mobility/poaching of trained workers.

17. Within the informal sector, few operators see the need for, or value of, skills development for themselves or their workers. A 2009 study of informal sector workers in Uganda found that the main challenges faced by operators are related to inadequate capital and lack of a proper worksite (lack of suitable workplace, storage, and challenges with electricity and transport). However if the informal sector is to continue to absorb more people and supply a reasonable return on labor, it is crucial to increase the skills of its workers. Traditional apprenticeship training is the most important source of technical and business skills for workers in the informal sector. Training primarily consists of observing and imitating a master craftsmen and instead of competency-based, it is product specific. While the model is cost-effective, it perpetuates traditional technologies and lacks standards and quality assurance. Support for training of master craftsmen and apprentices can improve standards and raise awareness of new technologies.

Government's strategy

18. The Skilling Uganda strategy aims to transform the BTVET system from an educational sub-sector into a comprehensive system of skills development for employment, enhanced productivity and growth. It emphasizes on a paradigm shift for skills development, which essentially aims at realigning the policy and institutional framework as well as investment in skills development to transform the current supply-driven system to a robust, sustainable and dynamic skills development system that would respond to the skills needs of the growing Ugandan economy. The strategy has five specific objectives: (i) improving the relevance of skills provision to improve productivity and enhance growth; (ii) improving the quality of skills imparted; (iii) increasing access to and equity within the BTVET sector; (iv) improving organizational and management effectiveness; and (v) improving financing and internal efficiency. The MoES has the main

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responsibility for implementing and monitoring of the strategy but other ministries and private sector stakeholders are also involved and assume responsibilities.

19. Implementation of the strategy requires some critical reforms as well as a major investment program. These reforms include ensuring that the BTVET system is oriented towards labor market needs in order to increase productivity and economic growth; giving BTVET institutions greater autonomy to take actions on their own, reinforced with greater accountability from the institutions; and pulling together different management and regulation functions for skills development into an integrated organization, the Skills Development Authority (SDA). The main reason to establish an independent training authority is to involve stakeholders, especially employers, in directing and evaluating the training system. This cannot be done easily while TVET is the sole responsibility of government. A single training authority can consolidate fragmented units and achieve economies of scale in performing the various functions. It can combine relevant government agencies into one body at the central level for more coherent policymaking and allocation of public funds. In addition, it could better address cross-sectoral issues and requirements. Another reason for a consolidated training agency would be to broaden the scope of attention to all forms of skills development and all types of providers, i.e. not just pre-employment training in public institutions, but enterprise-based training in the formal wage sector and in the informal sector.

20. The strategy also calls for the creation of a National Training Fund (the Skills Development Fund-SDF) to be administered by the SDA. Such a fund would: (a) pool various sources of funding for training, (b) augment the volume of funding for training, and (c) allocate the funds in accordance with priorities. The need for the introductionof the SDF has been included in the BTVET Act of 2008.

21. A Reform Task Force (RTF), with over half of the members represented by the private sector, was established as an interim management unit for four years to coordinate the implementation of the plan until a permanent body, the SDA, and its governing structure is established. The RTF works under the technical guidance of MoES and reports to the Permanent Secretary of the MoES. Other reforms within the Skilling Uganda strategy have by and large been stalled due to a lack of funding.

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II. Proposed Development Objectives

The project development objective is to enhance the capacity of institutions to deliver high quality, demand-driven training programs in target sectors.

III. Project Description

Component Name

Component 1: Institutionalizing systemic reforms in skills development

Comments (optional)

As the Strategic Plan rightly points out systemic reform in the sector is critical to realigning the delivery system without which investment in strengthening training institutions will eventually result in further reinforcing the existing supply driven system. Therefore, systemic reform activities proposed under Component 1 are critical to achievement of the project development objective.

Sub-Component 1.1- Establishing sector skills councils (SSCs).
Sub-Component 1.2- Alignment and strengthening of the assessment system.

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Sub-Component 1.3- Establishing a Management Information System (MIS) for BTVET.
Sub-Component 1.4- Communication and Marketing for the BTVET sub-sector.
Sub-Component 1.5- Developing the foundations of the Skills Development Authority (SDA).

Component Name

Component 2: Improving Quality and Relevance of Skills Development

Comments (optional)

This component seeks to establish 4 Centers of Excellence (CoE) offering high quality competency-based training for artisans (low-level), craftsmen (medium-level) and technicians (higher-level) to equip them with skills demanded by selected trades/occupations in the manufacturing, construction, and agriculture sectors of the Ugandan economy.

Sub-component 2.1: Establishment of Centers of Excellence.
Sub-component 2.2: Support to public vocational training institutes (VIs).
Sub-Component 2.3: Twining Arrangement for establishment of Centers of Excellence and networks.

Component Name

Component 3: Employer-led short-term training and recognition of prior learning

Comments (optional)

This component will be implemented through a Fund mechanism that will support training activities that lead to improved productivity and competitiveness in the formal and informal sectors.

The competitive fund will have four ‘windows’: Window 1 will be addressing skills shortages in the formal sector. Window 2 will assist self-employed and workers in the informal (jua khali) sector, micro and small enterprises, master crafts-people and members of cooperatives. Window 3 deals with innovative skills training. And Window 4 will fund initiatives by private sector/industry organizations interested in participating in the development of a system for certification of skills and competencies acquired through informal and non-formal means.

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Component Name

Component 4: Project Management, Monitoring and Evaluation

Comments (optional)

This component would finance: (i) management of the project including establishment of a Project Coordination Unit within the MoES to manage the project, as well as implementation units within the respective CoEs; (ii) a social marketing campaign to improve the image of the BTVET sub-sector; (iii) monitoring and evaluation under the project including baseline studies, mid and end-term tracer studies, employer satisfaction surveys, mid-term management review, and annual performance audits, (iv) Capacity building for implementing units.

IV. Financing *(in USD Million)*

Total Project Cost:	100.00	Total Bank Financing:	100.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	100.00
Total	100.00

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V. Implementation

Oversight and advisory support will be the responsibility of a multi-sectoral Steering Committee (SC) comprising of members of relevant government Ministries and representatives from the workers associations and employers within the target sectors. The representative of the National Planning Authority will Chair the SC, while the representative of the MoES will act as the Secretariat of the SC.

There are two implementing agencies within the GoU, the MoES and the Ministry of Finance, Planning and Economic Development (MoFPED).

a. The MoES will be responsible for the implementation of: (a) Component 1 through the Skills Development Authority (SDA) when established, and in the interim period, the Technical Vocational Education and Training (TVET) Reform Task Force (RTF) housed within the MoES; and (b) Components 2 and 4 through a Project Coordination Unit (PCU1) accountable to the MoES, whose organization, staffing, attributions and responsibilities are fully described further down; and

b. The MoFPED will be responsible for the implementation of Component 3 and 4 (under a shared responsibility with the PCU1 of the MoES) through the Private Sector Foundation of Uganda (PSFU) housed in the MoFPED and supported by a Project Coordination Unit (PCU2), different to the PCU1, whose organization, staffing, attributions and responsibilities are fully described further down.

A Project Coordination Unit (PCU1) accountable to the Permanent Secretary of the MoES or his/her designee, financed by the USDP, will be established in the MoES with the fundamental aim of supporting all education projects financed through IDA. The PCU1, will be headed by the Commissioner of Planning at the MoES and will be responsible and accountable for day-to-day project management and implementation of the IDA portfolio (including the Albertine Region Sustainable Development Project (ARSDP), the GPE-financed Teacher and School Effectiveness Project (UTSEP), the USDP and any other forthcoming IDA project).

The PCU1 will include: (i) One Project Coordinator (PC), a senior officer seconded from the MoES under terms of reference satisfactory to IDA and one Deputy Project Coordinator (DPC) per IDA-operation, financed by the Project; and (ii) a support unit comprising of a financial management unit, a procurement unit, safeguards unit, civil works unit; communications unit and a monitoring and evaluation unit. Each one of these units will be headed by a qualified consultant selected according to ToRs satisfactory to IDA following the selection procedures set for in the SDP financial agreement. The DPC recruited for the USDP will be in charge of the day-to-day management of Component 2.

Component 1 will be implemented by the RTF and subsequently by the SDA when it becomes operational. The fiduciary and safeguard support of Component 1 will be provided by the PCU1.

The MoES will implement Component 2, including its three sub-components, through the PCU1 according to the following implementation arrangements. Sub-component 2.1 will be implemented by the four selected public training colleges to be transformed into centers of excellence - Elgon, Lira, Bushenyi and Bukalasa – under the close coordination and monitoring of the USDP PC and DPC in the PCU1 and with the intensive technical support of qualified international competitive-based training providers selected and retained under a twinning partnership arrangement attuned to

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terms of reference satisfactory to IDA. Sub-component 2.2 will be coordinated by the DPC/USDP and supported by the PCU1, and implemented by 12 vocational training institutes (VTIs) to be selected in a competitive fashion following selection criteria and procedures set for in the USDP Operational Manual. Sub-component 2.3 will be coordinated by the DPC/USDP and supported by the PCU1 and implemented by reputable technically qualified institutions to be selected through international competitive process following the procedures set for in USDP Financial Agreement and the USDP Operational Manual. These institutions will act as twining partners responsible for providing all necessary support to help: (a) the training colleges under sub-component 2.1 to grow into “center of excellence (COE)” with the operational characteristics listed in annex 2 of the PAD and enable each COE perform its critical functions; and (b) the 12 VIs under sub-component 2.2 to appropriately and timely respond to the needs and opportunities of the labor market, including delivery of short-term training courses, and improve the quality of the training being offered.

Under Component 3, a private sector dominated Grant Committee, to be appointed by the Permanent Secretary of the MoFPED, will be the oversight body of the Fund. The Committee will approve the operational details of the Fund, including eligibility criteria, and oversee the progress of the Fund’s operations. The MoFPED has delegated the PSFU to be the executing agency for the component through an existing PCU2, which was established in early 2015 under the IDA-financed CEDP II project.

The PCU2 is accountable to the MoFPED through the Grant Committee. The PSFU will enter framework contracts with selected eligible consultancy companies or organizations to be identified through public tendering to assist with (i) services related to technical reviews/evaluations of proposals received for funding; (ii) verification of activities, financial control (auditing) and results monitoring of grants during the course of implementation. The PCU2 will be also responsible for the managing of Component 4 as applicable to activities under component 3 in a shared coordinated and management arrangement with the PCU1.

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VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	✕	
Natural Habitats OP/BP 4.04		✕
Forests OP/BP 4.36		✕
Pest Management OP 4.09		✕
Physical Cultural Resources OP/BP 4.11	✕	
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12	✕	
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

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