



Report and Recommendation of the President to the Board of Directors

Project Number: 42466
April 2014

Proposed Multitranche Financing Facility People's Republic of Bangladesh: Skills for Employment Investment Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 March 2014)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.01289
\$1.00	=	Tk77.525

ABBREVIATIONS

ADB	–	Asian Development Bank
ISC	–	industry skills council
MFF	–	multitranches financing facility
NSDC	–	National Skills Development Council
NSDP	–	National Skills Development Policy
PKSF	–	Palli-Karma Sahayak Foundation
SDCMU	–	skills development coordination and monitoring unit
SWAp	–	sector-wide approach

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2013 ends on 30 June 2013.
- (ii) In this report, “\$” refers to US dollars.

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INVESTMENT PROGRAM^a AT A GLANCE

1. Basic Data		Project Number: 42466-014		
Project Name	Skills for Employment Investment Program	Department /Division	SARD/SAHS	
Country Borrower	Bangladesh People's Republic of Bangladesh	Executing Agency	Finance Division, MOF (EA)	
2. Sector	Subsector(s)	ADB Financing (\$ million)		
✓ Education	Technical and vocational education and training		350.00	
		Total	350.00	
3. Strategic Agenda	Subcomponents	Climate Change Information		
Inclusive economic growth	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	Institutional development	Gender equity (GEN)	✓	
Knowledge solutions	Pilot-testing innovation and learning			
Partnerships	Implementation Private Sector			
Private sector development	Public sector goods and services essential for private sector development			
5. Poverty Targeting		Location Impact		
Project directly targets poverty	No	Nation-wide	High	
6. Risk Categorization:	Complex			
7. Safeguard Categorization	No Safeguards Categorization Available			
8. Financing				
Modality and Sources	Indicative Tranches (\$million)			Amount (\$ million)
	I	II	III	
ADB				350.00
Sovereign Loan: Asian Development Fund	100.00	125.00	125.00	350.00
Cofinancing				430.00
To Be Determined-Others	0.00	200.00	200.00	400.00
Swiss Grant (Cofinancing)	10.00	10.00	10.00	30.00
Counterpart				290.00
Government	25.00	75.00	100.00	200.00
Others	3.50	26.50	60.00	90.00
Total	138.50	436.50	495.00	1,070.00
9. Effective Development Cooperation				
Use of country procurement systems	No			
Use of country public financial management systems	Yes			
10. Country Operations Business Plan				
CPS	http://www.adb.org/documents/bangladesh-country-partnership-strategy-2011-2015			
COBP	http://www.adb.org/documents/bangladesh-country-operations-business-plan-2014-2016			
11. Investment Program Summary				
The investment program will support the Government of Bangladesh's reforms in skills development, anchored in the National Skills Development Policy (NSDP), 2011. It will support large-scale private sector involvement and public-private partnership, which is critical to meet existing and future labor market needs and to reduce skills gap. This in turn is crucial for Bangladesh to				

INVESTMENT PROGRAM^a AT A GLANCE

move away from the 'low-skill, low-wage equilibrium' to a 'higher skill, higher wage virtuous cycle' to become a middle-income country. The investment program will help the government scale-up skilling of new entrants and up-skilling of existing workers to contribute to higher growth of priority sectors. It will strengthen skills development in Bangladesh and support transition to a sector-wide approach (SWAp) by establishing a unified funding system and enhancing overall coordination of the currently fragmented system.

Impact and Outcome: The impact (of the facility) is increased income and productivity of the working population aged 15 years and over.

The outcome (of the facility) is increased employment in priority sectors and skills for males and females.

Outputs: (i) institutions strengthened,(ii) effective program management,(iii) market responsive inclusive skills training delivered,(iv) quality assurance system strengthened

Implementation Arrangements: Finance Division, MOF (EA) will be the executing agency/ies.

Project Readiness: - Consultancy packages now under preparation.

- Draft documents for skills development coordination and monitoring unit (SDCMU) staff are being finalized.

- Technical specifications for equipment are also being finalized.

12. Milestones

Modality	Estimated Approval	Estimated Completion ^b
Multitranche financing facility	2014 May 19	2021 June 30
Tranche I	2014 May 23	2017 December 31
Tranche II	2016 May 15	2020 December 31
Tranche III	2018 May 15	2021 June 30

13. Linked Documents

PDS^c <http://www.adb.org/projects/42466-014/main>

^a Multitranche Financing Facility (MFF).

^b For MFF, this refers to the end of the availability period; for tranches, this refers to the tranche closing date.

^c Safeguard documents can be viewed by clicking the Document's hyperlink in the Project Data Sheet (PDS) page.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed multitranche financing facility (MFF) to the People's Republic of Bangladesh for the Skills for Employment Investment Program.¹

2. The investment program will support the Government of Bangladesh's reforms in skills development, anchored in the National Skills Development Policy (NSDP), 2011. It will support large-scale private sector involvement and promote public-private partnership, which is critical to meet existing and future labor market needs and to reduce the skills gap. This in turn is crucial for Bangladesh to move away from the "low-skill, low-wage equilibrium" to a "higher skill, higher wage virtuous cycle" to become a middle-income country. The investment program will help the government to scale-up skilling of new entrants and up-skilling of existing workers to contribute to higher growth of priority sectors. It will also strengthen skills development in Bangladesh and support transition to a sector-wide approach (SWAp) by establishing a unified funding system and enhancing overall coordination of the currently fragmented system.²

II. THE INVESTMENT PROGRAM

A. Rationale

1. Macroeconomic and Sector Context

3. The Bangladesh economy has grown more rapidly at about 6% annually since 2003, up from 5% in the 1990s. The poverty headcount index declined sharply from 57% in 1992 to 31% in 2010. Social indicators have improved significantly, particularly for women. However, despite impressive progress, the 2010 labor force survey indicated that more than 60% of the labor force has either no education (40%) or up to primary education (22.8%); about 2 million young people enter the labor force every year. The average wage per worker has remained low at Tk200 per day for day laborers and Tk3,500 per month for garment workers.

4. With the approval of the National Education Policy and the NSDP, the government embarked on major education and training reforms. The National Education Policy emphasizes the overall importance of education and training, while the NSDP reinforces the importance of skills development and opens up the sector for major policy and institutional reforms including substantial involvement of the private sector. Bangladesh has achieved gender parity in primary and secondary education participation since 2000. Women's labor force participation grew from 26% in 2003 to 36% in 2010. A major opportunity for the country comes from its declining dependency ratio, from a high of 108% in 1974 to 66% in 2010, leading to an increasing share of the working age population in the next three decades.³ However, this opportunity cannot be capitalized on unless urgent investments are made in much higher quality schooling combined with at least a four-fold increase in skilling and/or up-skilling of the labor force, which is expected to increase from 56.7 million in 2010 to 78 million in 2025.

5. In its Perspective Plan 2021, Bangladesh articulates its vision to achieve middle-income status by 2021, including reducing the poverty rate by half.⁴ To accelerate economic growth

¹ The design and monitoring framework for the investment program is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance: ADB. 2011. *Technical Assistance to the People's Republic of Bangladesh for Preparing the Skills for Employment Project*. Manila.

³ Bangladesh Bureau of Statistics. 2011. *Report on Labour Force Survey 2010*. Dhaka; Bangladesh Bureau of Statistics. 2010. *Statistical Year Book 2010*. Dhaka; Government of Bangladesh, Planning Commission. 2011. *Sixth Five Year Plan. Part 3*. Dhaka.

⁴ Government of Bangladesh, Planning Commission. 2012. *Perspective Plan of Bangladesh, 2010–2021*. Dhaka.

from the current 6% to 8% and above, the government must address the skills shortage—one of the key binding constraints. Skills development requires a two-pronged approach. First, it must be anchored in foundational skills that come from high-quality schooling combined with relevant vocational and technical skills to capitalize on the demographic dividend. Second, it requires scaling up skills training by four to eight times the current annual training capacity to (i) increase labor force productivity to contribute to higher average household income leading to higher gross domestic product, (ii) double exports within 10 years, (iii) double remittances through higher skills leading to higher per capita remittances, and (iv) promote economic diversification including trade facilitation and industrialization. The government will provide subsidies to the industry associations to catalyze the private sector to substantially scale up skills training under the investment program.

6. **Performance of skills development.** The low productivity of the labor force is a function of low educational attainment, negligible vocational training (only 4% of the labor force has vocational training), and limited capacity to provide high-quality training to meet current and future labor market needs. Skills development faces two major challenges: (i) the significant gap between demand and supply of labor, as growing industry demand is far outpacing supply; and (ii) weak technical and vocational education in terms of capacity and quality (poor teaching, large number of teacher vacancies, outdated buildings and equipment, curriculum unrelated to the work place, and lack of engagement with the private sector). The result is a limited supply of low-skilled graduates unable to meet domestic and foreign labor market needs.

7. The skills development system remains highly fragmented with more than 20 ministries and divisions involved in some form of skills training, not well linked with industry and economic development policies. The system currently has the capacity to meet only 20% of the annual training needs (500,000 trainees are currently trained annually), job placement is less than 40% in most training institutions. The skills development system (i) lacks a common institutional and financing framework to coordinate skills development; (ii) has limited funding to scale-up skills training to meet the skills required by industry; (iii) has limited involvement of employers and enterprises to provide market responsive training with high labor market outcomes; and (iv) has limited capacity to monitor system quality, improve recognition of skills acquired, implement high-quality assessment and certification systems, and expand capacity for preparing trainers and qualifications that meet international industry or trade standards.

2. Policy and Strategic Frameworks

8. **Policy framework.** The NSDP provides a solid framework to prepare Bangladesh to move to a “higher skill equilibrium.” Its policy matrix drawn and emerging government’s priorities emphasize (i) establishing and operationalizing a national human resource development fund (NHRDF) by 2015 to substantially scale up high-quality skills training to meet labor market needs; (ii) setting up a new ministry or an authority for skills by 2017 to strengthen coordination by building on the initiatives of the National Skills Development Council (NSDC) chaired by the Prime Minister; (iii) enhancing the quality of skills development in partnership with the Bangladesh Technical Education Board and industry skills councils (ISCs); (iv) catalyzing the private sector to develop and implement high-quality, market-responsive training programs; (v) revitalizing public training providers to better respond to labor market needs through delegation of powers and structured partnerships with the private sector; and (vi) enhancing common monitoring and moving to a SWAp to bring together the key stakeholders to support skills development.⁵

⁵ Policy Matrix (accessible from the facility administration manual in Appendix 2).

9. **Skills development road map.** The government recognizes that the low education and skills of the labor force are a major binding constraint to achieving higher economic growth. To address this, it needs to invest heavily in human development, particularly in schooling and skills development. Currently, only 500,000 receive skills training annually against the actual industry need of at least 2 million. Similarly, the total expenditure in skills development is estimated at around \$150 million per year against the need to invest about \$600 million; these numbers will grow as the labor force increases by 40% by 2025. Industry leaders want to participate actively in skilling the work force in priority sectors to exploit the full potential of growth opportunities.

10. **Strategic context.** The investment program is aligned with the Bangladesh country partnership strategy, which identifies the low competitiveness of firms as a key constraint to growth particularly the low skills and low productivity of the workforce.⁶ It is also aligned with the Perspective Plan, 2010–2021 and the Sixth Five-Year Plan, 2011–2015, which emphasize the need to develop “a workforce equipped with contemporary technical skills and knowledge through advanced vocational training,” with a “mechanism to encourage collaboration between training institutes and industry to optimize the utilization of available human resources.”

11. **Lessons.** The investment program builds upon previous Asian Development Bank (ADB) assistance in Bangladesh and elsewhere, and incorporates lessons from these.⁷

3. Key Features

12. **Long-term programmatic approach.** The road map and the comparison matrix strongly justify the need to adopt an MFF to allow the government to (i) establish a credible and sustainable institutional arrangement to develop and coordinate the skills sector; (ii) target priority growth sectors and skill levels⁸ to enhance employability of the working age population informed by a skills-gap analysis, increase average income of the workforce by increasing labor productivity, and improve job placement rates; (iii) gradually shift the large proportion of the workforce currently in the informal sector to the formal sector; and (iv) improve overall monitoring and performance of the skills development sector in a concerted manner.

13. **Focus on outputs, outcome, and strong monitoring.** The investment program will help expand the capacity of the public and private sector to provide market-responsive skills training with an enhanced job placement and/or self-employment rate from less than 40% currently to 70%. Disbursement for training will be based on progress payments against agreed unit costs per course: (i) enrollment, (ii) completion of training, and (iii) job placement of trainees within 6 months after completing training. The evidence will be the certified list of trainees against each milestone maintained by all training providers through a web-based trainee tracking system. The progress payment will be clearly stipulated in the project agreement or contracts between the executing agency and the 32 public training providers, Bangladesh Bank Small and Medium Enterprise Department, industry associations, and Palli-Karma Sahayak Foundation (PKSF) under tranche 1.⁹

14. **Transition to a sector-wide approach.** The NSDP envisages bringing the currently fragmented skills development sector under one coordinated framework, one unified funding window, and commensurate institutional arrangements. The program will help the government

⁶ ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.

⁷ Sector Assessment (Summary): Skills Development (accessible from the list of linked documents in Appendix 2).

⁸ The six priority sectors for tranche 1 are readymade garments, leather, construction, light engineering, information technology, and ship building and maritime. The skill levels are low, semi-skilled, and skilled.

adopt a SWAp to leverage greater funding from the private sector and development partners to implement the NSDP effectively. The SWAp road map proposes developing and implementing a skills development program framework in collaboration with development partners and other stakeholders by developing a costed skills sector development program under a medium-term budgetary framework.

B. Impact and Outcome

15. The impact will be increased income and productivity of the working population aged 15 years and over. The outcome will be increased employment in priority sectors and skills for males and females.

C. Outputs

16. The investment program will be implemented in the first 7 years of the government's 10-year investment program. Project 1, to be implemented during FY2014–FY2018, will help lay the foundation for scaling up high-quality training programs, enhancing quality assurance system that is recognized internationally, strengthening funding and overall coordination, and enhancing the monitoring and evaluation and governance of skills development. The investment program will have four outputs, with the following activities under project 1.

17. **Output 1: Market responsive inclusive skills training delivered.** The program will (a) engage 32 public training providers under three ministries to train about 47,400 people; and nine associations (192,600), PKSf (10,000), and Bangladesh Bank Small and Medium Enterprise Department (10,000) to train more than 200,000 people in six priority sectors, with an average job placement of 70%; and (b) help target 40,000 people from disadvantaged groups including people with disabilities and 40% women, and support pilot targeting mechanisms.

18. **Output 2: Quality assurance system strengthened.** First, the investment program will support development of at least five qualification packages including occupational standards, one for each priority sector; and support registration of all participating training providers. Second, it will train trainers, industry assessors, and principals and managers of the public and private training institutions. Third, it will support improvements of training facilities of participating public training providers; promote partnerships by bringing together public and private training providers to maximize enrollments and share facilities and resources to address the skills needs of industry; and develop criteria and mechanisms to establish centers of excellence in each priority sector. Fourth, it will strengthen the capacity for assessment and certification through partnerships of Bangladesh Technical Education Board and ISCs in each priority sector, and help establish a system to recognize skills already obtained by trainees from different sources.

19. **Output 3: Institutions strengthened.** First, the investment program will help establish the national human resource development fund under the Ministry of Finance as envisaged in the NSDP to increase funding to substantially increase the capacity for high-quality skills

⁹ In tranche 1, there are 32 public training providers under the Ministry of Education, the Ministry of Expatriates' Welfare and Overseas Employment, and the Ministry of Industry. The nine associations under tranche 1 are Bangladesh Garment Manufacturers and Exporters Association, Bangladesh Knitwear Manufacturers and Exporters Association, Bangladesh Textile Mills Association, Leathergoods and Footwear Manufacturers and Exporters Association of Bangladesh, Bangladesh Association of Construction Industry, Bangladesh Engineering Industry Owners' Association, Bangladesh Association of Software and Information Services, Bangladesh Call Center Operators' Association, and Shipbuilders Association. Palli-Karma Sahayak Foundation and Bangladesh Bank's Small and Medium Enterprise Department are also included.

training. Second, it will support the establishment of a new ministry or an authority for skills with its own medium-term budgetary framework for skills development by building on NSDC's initiatives. Third, it will provide delegation of powers to the participating around 100 public training institutions to mobilize resources, hire trainers and resource persons, offer flexible courses, and enter into partnership with employers and enterprises. Fourth, it will strengthen industry linkages, job placement, and career counseling in partnership with training providers and employers.

20. **Output 4: Effective program management.** First, the investment program will support a robust monitoring and evaluation system to track students and train providers to ensure high-quality training and job placement; and support the NSDC secretariat in common sector monitoring, skills gap analysis, and strengthening of ISCs. Second, it will strengthen sector planning and budgeting for the skills development sector to move toward a SWAp by 2017. Third, it will establish mechanisms to strengthen governance and risk management in skills development in close partnership with the NSDC secretariat. Fourth, it will support effective project management.

21. Project 2 (tranche 2) will be implemented during FY2017–FY2020 and will overlap with tranche 1. It will expand coverage to 10 priority sectors by supporting the full operationalization and strengthening of an additional five ISCs. This phase will expand activities initiated in tranche 1 and help refine models for targeting (vouchers and stipends), assessment and certification, effective use of information and communication technology, sustainable financing (greater contributions from government, development partners, private sector, and users), and effective program management (refinements in output-based financing to link more closely with job placement and job retention with higher incomes, more effective monitoring). A major emphasis will be to support the government to fully implement the SWAp modality.

22. Project 3 (tranche 3) will be implemented during FY2018–FY2021 and will overlap with tranche 2. It will expand coverage to 15 priority sectors by supporting an additional five ISCs. More development partners are expected to join the SWAp and the private sector is anticipated to make larger investments in skills development. This is expected to lead to a vibrant market for skills development, which will in turn spur innovations. The public training institutions will be able to forge partnerships with the private sector. The new ministry or authority for skills is expected to be operating fully during this phase and will help consolidate the skills development sector. The quality assurance system is expected to develop further, ISCs are expected to be fully operating, and several centers of excellence are expected to function effectively.

D. Investment and Financing Plans

23. The investment program is estimated to cost \$1.07 billion, including taxes and duties (Table 1).¹⁰ The government has requested an MFF in an amount up to \$500 million from ADB's Special Funds resources to help finance the investment program. As an initial support, ADB will provide \$350 million comprising three tranches, not exceeding 7 years from the approval date, subject to the government's submission of periodic financing requests, execution of loan agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in the framework financing agreement. The first tranche of the MFF, for \$100 million, will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum throughout

¹⁰ Development partners are anticipated to contribute \$400 million and the private sector \$86.5 million for tranche 2 and tranche 3 once the National Human Resource Development Fund is established by 2015 and the SWAp by 2017. The current program aims to add 1.25 million new entrants to the skilled workforce based on current committed funding. If development partner financing materializes, outputs would be enhanced.

the loan term, and such other terms and conditions set forth in the draft loan agreement. It additionally includes cofinancing of \$10 million equivalent from the Government of Switzerland,¹¹ which will be administered by ADB, to finance a skills development coordination and monitoring unit (SDCMU) and consultancy services costs. Subject to performance, the Government of Switzerland is expected to finance \$10 million for each of the subsequent two tranches under the MFF, which will be administered by ADB. The MFF financing plan is in Table 2. The ADB loan is 32.7% of the total cost and will be used to finance expenditures for skills training, human resources, equipment, furniture, minor civil works, instructional materials, capacity building, and related technical assistance.

Table 1: Investment Program
(\$ million)^a

Item	Amount ^a	
	MFF	Tranche 1
A. Base Cost^a		
1. Market responsive inclusive skills training delivered	574.4	71.6
2. Quality assurance strengthened	90.1	17.9
3. Institutions strengthened	160.2	10.1
4. Effective program management	78.1	12.5
5. Taxes and duties ^b	50.0	10.5
B. Contingencies^c	90.7	11.8
C. Interest Charges during implementation	26.5	4.1
Total (A+B+C)	1,070.0	138.5

MFF = multitranche financing facility.

^a In November 2013 prices.

^b The government will finance taxes and duties.

^c Physical contingency is computed at 3% and price contingency is computed at 6%.

Source: Asian Development Bank estimates.

Table 2: Financing Plan
(\$ million)

Source	Tranche 1	Tranche 2	Tranche 3	Total	Share of Total (%)
Asian Development Bank					
Special Funds resources (loan)	100.0	125.0	125.0	350.0	32.7
Government of Switzerland	10.0	10.0	10.0	30.0	2.8
Government of Bangladesh	25.0	75.0	100.0	200.0	18.7
Other Development Partners ^a		200.0	200.0	400.0	37.4
Private Sector	3.5	26.5	60.0	90.0	8.4
Total	138.5	436.5	495.0	1,070.0	100.0

^a Several development partners are expected to cofinance tranche 2. The parallel contributions from the International Development Agency and Korea International Cooperation Agency are for the sector and not for tranche 1.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

24. The Finance Division under the Ministry of Finance will be the executing agency, and the SDCMU headed by an additional secretary with the rank of executive project director will help the Finance Division coordinate program implementation. The implementing agencies are the Ministry of Education, the Ministry of Expatriates' Welfare and Overseas Employment, the Ministry of Industry, the Bangladesh Technical Education Board, the National Skills Development Council Secretariat, and Bangladesh Bank's Small and Medium Enterprise Department. Nine industry associations¹² and PKSF will be contracted using single-source selection method. An interministerial program steering committee led by the secretary of the

¹¹ Through the Swiss Agency for Development and Cooperation.

¹² Once the ISCs are incorporated and functioning, they will replace the associations as tranche 2 partner agencies.

Finance Division will oversee implementation, approve annual operation plans, review achievements against annual targets, and ensure compliance with fiduciary oversight arrangements. An implementation committee led by the executive project director will coordinate implementation by all partner agencies, review implementation progress, and recommend approval of annual work plans and budgets. The implementation arrangements are summarized in Table 3 and described in detail in the facility administration manual.¹³

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2014–June 2021		
Estimated completion date	Physical completion of the investment program will be 30 June 2021. Physical completion of project 1 will be 31 December 2017.		
Management			
(i) Oversight body	Program steering committee chaired by the Finance Division secretary		
(ii) Executing agency	Finance Division under the Ministry of Finance		
(iii) Key implementing agency	SDCMU along with 3 ministries and Bangladesh Bank SME Department		
(iv) Implementation unit	SDCMU		
Procurement	National competitive bidding	13 contracts	\$8.20 million
Consulting services	Quality- and cost-based selection	5 packages	\$11.19 million
	Quality-based selection	6 packages	\$5.20 million
	Consultant qualification selection	4 packages	\$1.20 million
	Individual	Several (TBD)	\$7.70 million
	Single-source selection	12 packages	\$53.08 million
Retroactive financing and advance contracting	The loan, under each tranche, may finance eligible expenditures of up to 20% of the loan amount. Advance contracting is allowed for recruiting consulting services.		
Disbursement	Loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, SDCMU = skills development coordination and monitoring unit, SME = small and medium-sized enterprises, TBD = to be decided.

Source: Asian Development Bank.

25. **Procurement.** The government will procure all goods, works, and consulting services for the investment program. Goods and civil works will be procured in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). Goods valued at more than \$1 million and works valued at more than \$2 million will be procured using international competitive bidding and ADB's standard bidding documents, and be subject to prior review. Goods and works valued below the international competitive bidding threshold will be procured using national competitive bidding in accordance with the government's Public Procurement Act (2006) and its Public Procurement Rules (2008), subject to modifications agreed by the government and ADB. All consultants will be selected using ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Since the investment program is being financed by ADB's Special Funds resources and ADB will also be administering cofinancing to be provided by the Government of Switzerland, ADB's member country eligibility restrictions will not apply to this investment program. Up to nine industry associations and PKSF will be contracted by the executive agency using single-source selection to deliver skills training in agreed sectors and skills areas.

¹³ Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

III. DUE DILIGENCE

A. Economic and Financial

26. **Economic viability.** The economic viability of project 1 was assessed based on the benefits and costs associated with the investment program. Economic benefits include (i) direct benefits for students with increased employability and higher wages, (ii) direct benefits for employers in terms of improved productivity and returns on investment, and (iii) improved internal efficiency for reducing system wastage caused by low completion rate. The three major streams of economic costs are (i) direct project costs associated with the four outputs, (ii) private costs of trainees for participation and indirect opportunity cost of their foregone earnings during training, and (iii) costs shared by training institutions. Project 1 is estimated to yield a net present value of \$142 million under the base case scenario. The economic internal rates of return were calculated for three scenarios assuming a discount rate of 12%: (i) base case: 22.89%, (ii) optimistic case: 31.15%, and (iii) pessimistic case: 15.93%. This suggests that the investment program will be a sound investment.

27. **Fiscal sustainability.** Fiscal sustainability will depend on (i) availability of resources, especially success of the government's revenue mobilization efforts; (ii) priority assigned to skills development; and (iii) at least partial recovery of costs from trainees and employers. Since skills development is emerging as a major sector, the government will mobilize resources from at least four sources: (i) its own resources to leverage other sources of funds, (ii) funds from development partners, (iii) private sector contributions initially through cost sharing and drawing on corporate social responsibility, and (iv) promotion of cost recovery where feasible from tranche 2. The long-term sustainability of the program will depend on (i) increasing the quality of skills training to meet high labor market outcomes, (ii) increasing labor force productivity leading to higher returns on business investment, and (iii) gradual increasing wages to induce more investments from individuals in skills training.

B. Governance

28. The financial management assessment shows that the government's framework for public financial management is under transition and a number of improvements have been made in recent years. Although the overall system remains weak and associated with substantial fiduciary risks, the executing agency is associated with lower risks. Specific weaknesses of government and nongovernment entities relevant to program implementation include budget preparation; accounting; internal control; and timing and quality of financial reporting, internal audit, and external audit.¹⁴ The financial management assessment of the government entities specifically noted shortcomings regarding the staffing of the accounts departments. The assessment found that overall fiduciary risks of sector associations are substantial, and that shortcomings relevant for the program relate especially to planning and budgeting, internal control, grant management, resolution of external audit observations, and staffing. For the investment program, key risks include the inability of training providers to manage their working capital requirements as well as accumulated uncleared advances. The associated fiduciary risks can be treated in the short term by the use of safeguards and in the longer term through effective financial management (and anticorruption) reform programs. The time for reforms to reduce risk is likely to be medium to long term (5–10 years), which corresponds with the planned overall program time frame. Risk mitigation measures include

¹⁴ Audits undertaken by the Foreign Aided Projects Audit Directorate generally are deemed satisfactory regarding both quality and timing.

progress payments linked to unit cost analysis, instituting a tracking system to track the progress of all trainees, validating unit costs, managing advances to nongovernment entities, monitoring the implementation of financial management action plans for the involved government and nongovernment entities, undertaking rigorous annual fiduciary reviews, and supporting relevant external audit mechanisms. Key elements of the financial management action plan include tracking of advances using the advances tracking module under the government's integrated budgeting and accounting system, requiring close monitoring of advances and working capital of each of the training providers by the SDCMU, and capacity building initiatives in financial reporting and budgeting.

C. Poverty and Social

29. Shortage of productive and remunerative employment is a major cause of poverty and vulnerability. While the total labor force increased from 46.3 million in FY2003 to 53.5 million in FY2010, the overall labor force participation rate of 59.3% remains low by international standard. However, the growth in labor force participation of 2.81% during FY1974–FY2011 has outpaced the population growth rate of 1.86%. This increase is largely coming from the accelerated rate of female participation in recent years, although the female labor force participation rate of 36% is less than half that for males (82%). Furthermore, the participation of women in the labor force is largely concentrated in the informal and low wage sectors. There is still a significant gap in women's share in the skilled labor force, especially in technical and vocational employment. A bigger challenge has been that employment growth has been slower than total labor force growth, and underemployment is the most serious challenge afflicting over 25% of the workforce. The investment program will support NSDP implementation, which prioritizes targeting the poor and vulnerable groups including women as part of supporting high-growth priority sectors with the potential for creating more and better jobs.

D. Safeguards

30. Under project 1, only existing facilities will receive support for minor adjustment or renovations to cater to training activity needs. No acquisition of land or relocation of people is planned. Accordingly, project 1 is category C for environment and involuntary resettlement safeguards. The investment program will reach and include unskilled residents of remote areas and members of disadvantaged groups, including indigenous peoples. Project 1 is expected to have positive impacts and is classified category B for indigenous peoples safeguards in accordance with ADB's Safeguard Policy Statement (2009).¹⁵ A small ethnic community planning framework was developed to guide the executing and implementing agencies in assessing the presence of indigenous peoples in the project area and conducting separate consultations to elicit their views, identify the need for culturally compatible mechanisms for their participation, and ensure incorporation of adequate measures in project activities. The executing agency through the SDCMU will monitor these activities closely and ensure necessary actions.

E. Risks and Mitigating Measures

31. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁶

¹⁵ Environmental Assessment Review Framework; Resettlement Framework; and Small Ethnic Community Planning Framework (accessible from the list of linked documents in Appendix 2). These were disclosed in December 2013.

¹⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Weak capacity may slow the pace of reforms for funding and coordination	The policy matrix is anchored on the NSDP, which provides a set of key reforms directly associated with the investment program. Targeted technical assistance included in the design along with close coordination with key stakeholders provides an inclusive platform for ensuring high-level support for unified funding and strong coordination.
Change in government may delay implementation of critical reforms	This is expected to be limited to a short duration. Consultation with key stakeholders confirmed universal support for scale-up skills training as a strategic pillar to accelerated inclusive economic growth. The strong leadership of the Finance Division and contractual staff in the SDCMU will reduce the impact of change in government.
Meeting job placement target may be difficult for several institutions	The program design includes strong support for establishing and ensuring an effective monitoring and tracking system to track trainees up to job placement. There is targeted support to institutions for social marketing, career counseling, and linkages with employers.
Fiduciary risks in procurement and financial management including clearing advances	The program design includes financial management action plans for government and nongovernment entities focusing on technical actions and support (to improve planning and budgeting, budget execution and grant management, accounting, internal control, financial reporting and internal audit, and clearance of advances), carrying out quarterly and annual fiduciary reviews, validating unit costs of all entities, conducting post-procurement reviews, and ensuring comprehensive external audits.

ADB = Asian Development Bank, NSDC = National Skills Development Council, NSDP = National Skills Development Policy, SDCMU = skills development coordination and monitoring unit.

Source: Asian Development Bank.

IV. ASSURANCES

32. The government and the Ministry of Finance have assured ADB that implementation of the investment program 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 facility administration manual and loan documents. The government and the Finance Division have given ADB certain undertakings for the MFF, which are set forth in the framework financing agreement. Specific covenants agreed by the government and the Finance Division with respect to individual tranches under the MFF are set forth in the loan agreement for the respective tranches.

V. RECOMMENDATION

33. I am satisfied that the proposed multitranches financing facility would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the multitranches financing facility in an aggregate principal amount not exceeding the equivalent of \$380,000,000, which includes (i) the provision of loans from ADB's Special Funds resources with interest to be determined in accordance with ADB's applicable policies relating to Special Funds resources, and (ii) the administration of cofinancing, both to the People's Republic of Bangladesh for the Skills for Employment Investment Program, as set forth in para. 23 and subject to such other terms and conditions as are substantially in accordance with those set forth in the framework financing agreement presented to the Board.

Takehiko Nakao
President

24 April 2014

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Design Summary	Performance Targets and Indicators with Baselines ^a	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased income and productivity of the working population aged 15 years and over (NSDP 3) ^b	By 2025, 70% of incremental GDP growth is from labor productivity growth GDP per household doubled (baseline 2010: \$3,300) to \$6,600 by 2025 Exports in priority sectors doubled (baseline 2012: \$24 billion) to \$48 billion by 2025 Remittances increased by 75% (baseline 2012: \$14 billion) to \$24.5 billion by 2025	For all indicators National accounts publication HIES Labor force survey Special surveys Bangladesh Bank publications Export Promotion Bureau	Assumption High economic growth is sustained to generate demand for higher skilled workers in priority growth sectors.
Outcome Increased employment in priority sectors and skills for males and females (NSDP 2 and 3)	Employment increased in formal sector (baseline 2010: 12.5% [M: 14.5%, F: 7.7%]) to 20% by 2021 (M: 22%, F: 16%) (NSDP 2, 3, 5, and 17) Youth unemployment decreased (baseline 2010: 8.7% [M: 7.8%, F: 9.2%]) to 7.2% by 2021 (M: 7%, F: 7.5%) Share of vocational training in labor force increased (baseline 2010: 4% [M: 76%, F: 24%]) to 12% (M: 65%, F: 35%) by 2021 (NSDP 17 and 22)	For all indicators HIES Labor force survey Tracer studies M&E reports Special surveys	Assumption Government is committed to implementing the approved NSDP. Risk Slow progress in addressing legal issues and binding capacity constraints slow NSDP implementation.
Outputs 1. Market responsive inclusive skills training delivered	By 2021, 1.25 million new entrants and existing workforce trained (F: 30%) By 2021, 70% of trained participants (F: 30%) employed and self-employed within 6 months (baseline 2013: less than 40%) By 2021, 200,000 poor and disadvantaged (F: 40%) granted financial support	For all indicators: M&E reports Special surveys BTEB QMS reports Training providers including NGO monitoring reports	
2. Quality assurance system strengthened	By 2021, 15 training packages (standards, learning materials, and assessment tools) aligned with the NSDP requirement implemented By 2021, 1.19 million certificates issued (F: 30%) By 2021, 150 courses and training materials endorsed by BTEB By 2021, 100 public training providers registered with BTEB By 2021, 3,000 trainers and 1,000 industry assessors certified (F: 25%) By 2017, TOT facilities development plan, including PPP and twinning arrangement, developed	For all indicators: M&E reports Special surveys BTEB database TOT facilities development plan	Assumption BTEB and ISCs are willing and able to collaborate to implement quality assurance as per the NSDP. Risk Weak capacity and partnerships between industry, regulatory bodies, and training providers may lead to slow implementation.

Design Summary	Performance Targets and Indicators with Baselines ^a	Data Sources and Reporting Mechanisms	Assumptions and Risks
	By 2021, 50,000 persons (F: 30%) certified through RPL		
3. Institutions strengthened	<p>By 2017, a new ministry or authority for skills established</p> <p>By 2017, MTBF for skills development implemented</p> <p>By 2015, the NHRDF established and by 2018 fully operating with diversified funding (vouchers, student loan, stipends, taxes and/or levies)</p> <p>By 2018, 90% of skills training fund channeled through the NHRDF</p> <p>By 2020, at least 15 ISCs in priority sectors fully functioning (baseline: 9 ISCs formed)</p> <p>By 2020, 100 public training institutions granted delegation of powers</p> <p>By 2021, job placement system fully operational at all levels (training providers and proposed new ministry or authority for skills)</p>	<p>For all indicators:</p> <p>Gazette notification and circulars</p> <p>MTBF and ADP publications</p> <p>M&E reports</p> <p>Special surveys</p> <p>External audit reports</p>	<p>Assumption</p> <p>The government and private sector share commitment to work together to ensure strong coordination and unified funding of skills development.</p> <p>Risk</p> <p>Slow process in establishing coordination and sustainable financing leads to continued fragmentation and inadequate financing.</p>
4. Effective program management	<p>By 2017, MTBF guide completed</p> <p>By 2017, sector MIS system functioning</p> <p>By 2014, a robust tracking system established at the SDCMU</p> <p>By 2021, results disseminated from three tracer studies, three employer satisfaction surveys, and three skills-gap analysis in each sector by 2021</p> <p>Financial management and procurement action plan implemented annually based on lessons learned</p>	<p>For all indicators:</p> <p>M&E reports</p> <p>Annual sector performance report</p> <p>Special surveys</p> <p>Unified annual MTBF guide</p> <p>NSDC database</p> <p>AFR report</p>	<p>Risk</p> <p>Working capital from advances and milestone payments does not meet physical targets.</p>
<p>Activities with Milestones</p> <p>1. Market responsive inclusive skills training delivered</p> <p>1.1 Training and business plan for identified training providers finalized by June 2014 and upgraded later to ensure agreed targets (1.25 million by 2021)</p> <p>1.2 Operations manual approved by June 2014 to deliver market responsive and ISC-endorsed training packages by involving ISCs, BTEB, NSDC, and training providers</p> <p>1.3 Awareness campaign targeting prospective trainees, training providers, and employers designed and contracted by December 2014; implemented nationwide</p> <p>1.4 Targeted financial support scheme developed in 2014, piloted in 2015, replicated nationwide based on evaluation of pilots, and expanded in 15 sectors by 2021</p> <p>2. Quality assurance system strengthened</p> <p>2.1 An operations manual with roles and responsibilities developed and implemented to (i) develop CBT courses, (ii) define steps to be followed by</p>			<p>Inputs</p> <p>Loan</p> <p>ADB: \$350 million</p> <p>Government of Bangladesh: \$200 million</p> <p>Grant</p> <p>Government of Switzerland: \$30 million</p>

<p>training providers in developing and implementing CBT courses, and (iii) define steps to be followed by ISCs to endorse courses.</p> <p>2.2 Training packages developed and endorsed by ISCs, approved by industries and disseminated: 5 training packages by 2017 and 15 by 2021; course materials designed and developed.</p> <p>2.3 Capacity development plan for training providers and key institutions developed and implemented within a devolved quality assurance framework of BTEB by 2020</p> <p>2.4 100 public training institutions registered by BTEB as RTO by 2021</p> <p>2.5 Agencies for training of trainers, assessors, and managers identified and outsourced starting in 2014; 3,000 teachers, 1,000 industry assessors, and 200 managers trained and certified by 2020</p> <p>2.6 RPL system designed and approved in 2014 and first batch of RPL training and assessment completed in 2015 to cover 20,000 trainees by 2017 and 50,000 by 2021</p> <p>3. Institutions strengthened</p> <p>3.1 Activities to establish a new ministry or skills authority initiated in 2014 by reviewing roles of existing institutions; the new ministry or authority established by 2017 and fully operating by 2020</p> <p>3.2 Activities to establish the NHRDF initiated in 2014; the NHRDF established with its own governance structure by 2015 and fully operating by 2017</p> <p>3.3 Costed SDPF for the NSDP developed and approved; implementation initiated in coordination with potential development partners by 2017</p> <p>3.4 Capacity development plan developed and implemented for 5 ISCs by 2017 and for at least 15 ISCs by 2021</p> <p>3.5 The government issues a circular to delegate powers to 32 public training institutions by June 2014 and extended to cover around 100 public institutions by 2021</p> <p>4. Effective program management</p> <p>4.1 Costing of the NSDP completed by 2015, MTBF for the skills sector developed by 2018 and fully operating by 2020</p> <p>4.2 MIS for the skills sector established by 2017 and fully functioning by 2020</p> <p>4.3 SWAp road map and framework agreed by 2017; implementation initiated from 2018 and operating by 2020</p> <p>4.4 Four tracer studies, four employer satisfaction surveys, and four skills-gap analysis in each sector completed and results disseminated by 2021</p> <p>4.5 Baseline data established for all indicators by 2014</p> <p>4.6 Risk mitigation plan fully implemented based on program lessons</p>	<p>Other development partners: \$400 million</p> <p>Private sector: \$90 million</p>
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ADB = Asian Development Bank, ADP = annual development plan, AFR = annual fiduciary review, BTEB = Bangladesh Technical Education Board, CBT = competency-based training, F = female, GDP = gross domestic product, HIES = household income and expenditure survey, ISC = industrial skills council, M = male, M&E = monitoring and evaluation, M/F = male/female, MIS = management information system, MTBF = medium-term budgetary framework, NGO = nongovernment organization, NHRDF = National Human Resource Development Fund, NSDC = National Skills Development Council, NSDP = National Skills Development Policy, PPP = public-private partnership, QMS = quality management system, RPL = recognition of prior learning, RTO = registered training organization, SDCMU = skills development coordination and monitoring unit, SDPF = skills development program framework, SWAp = sector-wide approach, TOT = training of trainers.

^a A baseline survey will be undertaken in year 1 to firm up baselines for all indicators. Some of the targets will be revisited to explore higher targets for females, such as female trainees and trainers.

^b Government of Bangladesh. 2011. *National Skills Development Policy, 2011*. Dhaka. Each number refers to the policy objective.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

(<http://www.adb.org/Documents/RRPs/?id=42466-014-3>)

1. Framework Financing Agreement
2. Periodic Financing Request for Project 1
3. Sector Assessment (Summary): Skills Development
4. Facility 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. Environmental Assessment and Review Framework
12. Resettlement Framework
13. Small Ethnic Communities Planning Framework
14. Risk Assessment and Risk Management Plan

Supplementary Documents

15. Expanded Economic and Financial Analysis
16. Procurement Capacity Assessment
17. Detailed Financial Management Report
18. Lessons Learned and Innovative Features
19. Comparison of the Multitranche Financing Facility and the Project Loan