



## Periodic Financing Request Report

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Project Number: 42466-016  
MFF Number: 0081  
November 2016

### People's Republic of Bangladesh: Skills for Employment Investment Program (Tranche 2) and Minor Change to the Facility

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## **CURRENCY EQUIVALENTS**

(as of 7 November 2016)

Currency Unit	–	Taka (Tk)
Tk1.00	=	\$0.01273
\$1.00	=	Tk78.5100

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
FAM	–	facility administration manual
FFA	–	framework financing agreement
KOICA	–	Korea International Cooperation Agency
MFF	–	multitranchise financing facility
MOU	–	memorandum of understanding
NHRDF	–	National Human Resources Development Fund
NSDA	–	National Skills Development Authority
NSDP	–	National Skills Development Policy
SDC	–	Swiss Agency for Development and Cooperation
SDCMU	–	Skills Development Coordination and Monitoring Unit
SDR	–	special drawing right
SEIP	–	Skills for Employment Investment Program
SPS	–	Safeguard Policy Statement
SWAp	–	sector-wide approach
TMS	–	trainee management system
TTC	–	technical training center

## **NOTES**

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 June 2016.
- (ii) In this report, “\$” refers to US dollars

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## CONTENTS

	Page
TRANCHE AT A GLANCE	
I. BACKGROUND	1
II. ASSESSMENT OF IMPLEMENTATION	2
III. PERIODIC FINANCING REQUEST	4
A. Impact and Outcome	4
B. Outputs	4
C. Investment and Financing Plans	5
D. Implementation Arrangements	6
E. Project Readiness	7
F. Advance Contracting and Retroactive Financing	8
IV. DUE DILIGENCE	8
A. Economic and Financial	8
B. Governance	8
C. Poverty, Social, and Gender Dimensions	9
D. Safeguards	9
E. Risks and Mitigating Measures	9
F. Risk Categorization	10
V. ASSURANCES	10
VI. MINOR CHANGE OF MFF- EXTENSION OF THE MFF AVAILABILITY PERIOD	10
VII. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework for Project 2	
2. Loan Agreement	
3. Grant Agreement	
4. Updated Facility Administration Manual	
5. Updated Contribution to the ADB Results Framework	
6. Economic and Financial Assessments for Project 2	
7. Updated Summary Poverty Reduction and Social Strategy	
8. Safeguard Reports	
9. Gender Action Plan	
10. Updated Risk Assessment and Risk Management Plan	

## TRANCHE AT A GLANCE

1. Basic Data		Project Number: 42466-016	
Project Name	Skills for Employment Investment Program - Tranche 2	Department /Division	SARD/SAHS
Country Borrower	Bangladesh People's Republic of Bangladesh	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Technical and vocational education and training		100.00
		Total	100.00
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)	Pilot-testing innovation and learning		
Partnerships (PAR)	Implementation Private Sector		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG4, SDG5		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign MFF-Tranche (Loan): Asian Development Fund		100.00	
Cofinancing		4.50	
Government of Switzerland - Grant		4.50	
Counterpart		28.50	
Government		25.00	
Others		3.50	
Total		133.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

**10. Country Operations Business Plan**

CPS

<https://www.adb.org/sites/default/files/institutional-document/198831/cps-ban-2016-2020.pdf>

COBP

<http://www.adb.org/sites/default/files/institutional-document/175184/cobp-ban-2016-2018.pdf>**11. Tranche Summary**

The Skills for Employment Investment Program (SEIP) supports the government's ambitious skills development initiatives, which aim to enhance the productivity and employability of the growing workforce to reduce poverty and accelerate economic growth. The proposed Project 2 (2017-2021) aims to harness the evolving skills development system by strengthening training partnerships established under Project 1, while expanding the scope of skills training. Horizontally, Project 2 will expand its sectoral coverage of training from six to nine priority industries, bring in additional public and private training partners, and pilot upskilling training for Bangladesh migrant workers overseas. Vertically, Project 2 will upscale mid-level skills training (e.g., quality control personnel and supervisors) and introduce a new industry-specific managerial training program in response to the emerging "middle-management gap." Project 2 will also emphasize women's access to various skilling opportunities to promote their formal-sector employment and gender equality.

**Impact:** Income and productivity of the working population aged 15 and over increased.

**Outcome:** Inclusive access to basic, mid-level, and managerial skills training in priority sectors increased.

**Outputs:** Market responsive inclusive skills training delivered, (ii) Quality assurance system strengthened, (iii) Institutions strengthened, and (iv) Monitoring and management for skills development strengthened.

**Implementation Arrangements:** Ministry of Finance will be the executing agency.

**Project Readiness:** For new training partners under Project 2, performance-based training contracts or agreements are under preparation to start implementation from early 2017. The Skills Development Coordination and Monitoring Unit, as the implementing agency, is taking advance actions, following the procedures established for public, private, and nongovernment training partners under Project 1.

**12. Significant Developments in the MFF and Previous Tranches**

The SEIP has adopted the MFF modality to assist the government's strategic road map that intends to equip the workforce with market-relevant skills and boost their productivity. Project 1 was approved in June 2014 for \$100 million equivalent. Project 1 has established large-scale public-private partnerships for skills training with nine industry associations; engaged 33 public training institutes under three different ministries; and works with other nongovernment organizations. Training programs have been delivered since April 2015 through performance-based contracts or agreements. As of October 2016, cumulative awards are at \$58.8 million and cumulative disbursement at \$14.7 million. The framework financing agreement undertakings and the loan agreement covenants are being complied with, including social and safeguard plans and frameworks.

**13. Milestones****Estimated Approval**

29 November 2016

**Estimated Completion<sup>a</sup>**

31 December 2021

**14. Linked Documents**

	Required Document	Disclosure Date
(i) Environment	EARF - Environmental Assessment and Review Framework	
Weblink:	<a href="http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-earf">http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-earf</a>	17-AUG-2016
	IEE - Initial Environment Examination	
	<a href="http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-iee">http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-iee</a>	17-AUG-2016
(iii) Indigenous peoples	IPP - Indigenous Peoples Plan	
Weblink:	<a href="http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-ipp">http://www.adb.org/projects/documents/ban-seip-t2-aug-2016-ipp</a>	17-AUG-2016

<sup>a</sup> For Tranches, this refers to the financial closing date.

## I. BACKGROUND

1. On 19 May 2014, the Asian Development Bank (ADB) approved a multitranche financing facility (MFF) of \$350 million to the People's Republic of Bangladesh, to be funded from ADB's Special Funds resources (Asian Development Fund), for the Skills for Employment Investment Program (SEIP).<sup>1</sup> The framework financing agreement (FFA) was signed on 30 March 2014. The President approved Project 1 (\$100 million equivalent at the time of loan negotiations) on 3 June 2014. The SEIP supports the government's ambitious skills development initiatives, articulated in the 2011 National Skills Development Policy (NSDP) and the Seventh Five-Year Plan for 2016–2020. The SEIP aims at enhancing the productivity and employability of the growing workforce to reduce poverty and move the country onto an accelerated growth path. By initiating large-scale private sector involvement in training, the SEIP helps scale up skilling of new entrants and up-skilling of existing workers to meet emerging demands in domestic and overseas markets.

2. Bangladesh achieved robust economic growth, averaging 6% annually during the last decade. The booming garment sector was a major driving force. However, in further accelerating economic growth, the low level of education and skills of the labor force is a binding constraint. More than half of the current labor force has either no education or only up to primary education. And only 5% of the overall population aged 15 and older has received any vocational training.<sup>2</sup> In response, the government has embarked on major education and training reforms since 2010, producing notable results: primary and secondary school attendance has increased rapidly, while enrollment in technical and vocational education has sharply risen, from 500,000 in 2010 to over 800,000 in 2015.<sup>3</sup> Yet the working-age population (aged 15–59) is expanding fast, from 87 million in 2011 to 119 million in 2026, with 2 million potential new entrants to the labor force every year. Preparing them to become a productive workforce with quality education and skills poses formidable challenges, but it also presents an opportunity to capitalize on the “demographic dividend” to drive the country's future economic development.

3. The SEIP has adopted the MFF modality to assist the government's strategic road map that intends to equip the workforce with market relevant skills. The government is also committed to broadening access to skills training, especially among women and socially disadvantaged groups. The MFF supports the government's skills development initiatives in phases, by focusing on the following. First, national training capacity is expanded by mobilizing the private sector (i.e., industry associations) and revitalizing public training institutes to scale up quality skills training. Second, the content of training is reoriented to closely align with specific industry needs by fostering collaboration between industries and training providers. Third, the quality of training is addressed by improving facilities and equipment, quality assurance mechanisms, and trainers' qualifications based on industry requirements. Fourth, major institutional reforms are undertaken for the skills sector. These include establishing a National Human Resources Development Fund (NHRDF) that will serve as a unified financing mechanism to sustain skills development over the medium- and long-term, and a national skills development authority (NSDA) or ministry to coordinate the highly fragmented training system in the public and private sectors. The SEIP will also facilitate the transition to a sector-wide

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<sup>1</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the People's Republic of Bangladesh for the Skills for Employment Investment Program*. Manila.

<sup>2</sup> Government of Bangladesh, Bangladesh Bureau of Statistics and International Labour Organization. 2015. *Bangladesh Labor Force Survey 2013*. Dhaka.

<sup>3</sup> Government of Bangladesh, Bangladesh Bureau of Educational Information and Statistics. 2016. *Bangladesh Education Statistics 2015*. Dhaka.

approach (SWAp) by bringing together the key stakeholders for concerted support in skills development.

4. Project 1 (2014–2018) has forged large-scale partnerships with public, private, and nongovernmental training providers to deliver mostly entry-level skills training in six industry sectors.<sup>4</sup> The proposed Project 2 (2017–2021) aims to harness the evolving skills development system by strengthening ongoing partnerships, while expanding the scope of training. Horizontally, Project 2 will expand the sectoral coverage of training from six to nine industries,<sup>5</sup> bring in additional public and private training partners, and pilot upskilling training for Bangladesh migrant workers overseas. Vertically, Project 2 will increase mid-level skills training and introduce a new industry-specific managerial training program in response to the emerging “middle-management gap.” Project 2 will ensure women’s access to various skilling opportunities to enhance their formal-sector employment and promote gender equality.

5. ADB received the government’s periodic financing request for Tranche 2 on 9 August 2016 for \$100 million equivalent. Project 2 is included in Bangladesh’s country operations business plan (2016–2018). This report provides an assessment of the Project 1 implementation and the main features of the proposed Project 2.

## II. ASSESSMENT OF IMPLEMENTATION

6. The Project 1 loan agreement was signed on 4 June 2014 and became effective on 24 July 2014. The Government of Switzerland, through the Swiss Agency for Development and Cooperation (SDC), is cofinancing with a \$10 million grant that became effective on 24 February 2015. The government is funding \$25 million, and industry associations are providing \$3.5 million in in-kind contributions. The Finance Division of the Ministry of Finance is the executing agency. The Skills Development Coordination and Monitoring Unit (SDCMU) serves as the implementing agency under the Finance Division, fully financed by the SDC grant. The SDCMU comprises highly experienced managers and skills training experts, who were competitively recruited and mobilized in February 2015 when the SDC grant took effect.

7. To achieve the SEIP outcome of increased skills and employment of men and women in priority sectors, Project 1 laid a solid foundation for the expansion of skills training. Significant effort went into establishing essential mechanisms to forge large-scale partnerships with the private sector and ensure their delivery of market-responsive skills training. One key mechanism was performance-based contracts designed to engage selected industry associations<sup>6</sup> and nongovernment training partners. In the contract, milestone payments are tied to training performance and results: (i) enrollment; (ii) certification; and (iii) employment (at least 70%) within 6 months of training completion and job retention for 6 months. A customized performance-based contract was developed, which ADB approved in December 2014. This unique contract incorporates a detailed business plan on training programs, which are prepared by each industry association (or nongovernment organization) based on skills needs specific to each industry. Public training partners were engaged using a memorandum of understanding

<sup>4</sup> The six sectors are garments and textiles, leather and footwear, construction, light engineering, information technology, and shipbuilding, which are prioritized by the government based on the industry’s contribution to gross domestic product (and exports) and its growth potential with human resource requirements.

<sup>5</sup> The three additional sectors are agro-food processing, nursing and health technology, and tourism and hospitality.

<sup>6</sup> The industry associations selected under SEIP are globally known entities unique to the six sectors and are registered as not-for-profit trade organizations under the Trade Organization Act, 1961 (amended). Their main objective is to serve the interest of its member enterprises for increased growth and competitiveness, of which human resource development is a common priority.



(MOU), which also included a business plan. Another important mechanism established was an online trainee management system (TMS) that tracks and monitors trainees' real-time progress by requiring inputs from training providers. The SDCMU—with coordinators for each of industry, public, and nongovernment training partners—uses the TMS to monitor the performance of training providers and employment outcomes of skills programs, as well as to verify milestone reporting by training providers. Building on these mechanisms, specific progress so far in Project 1 is as follows.

8. **Output 1: Market responsive inclusive skills training delivered.** To expand skills training nationwide, the SDCMU since 2015 has engaged nine industry associations,<sup>7</sup> 33 public training centers across three different ministries,<sup>8</sup> and other organizations. The training began in April 2015; as of June 2016, about 54,000 people (26% of them women) have obtained job-specific skills training, against the target of 260,000 under Project 1. Of those who completed training, 54% have been employed. The reported employment rate is yet to reach the 70% target, because sufficient time has not elapsed for many graduates who recently completed training. Training programs (3–6 months in duration) largely focus on entry-level skills across six priority sectors. A detailed skills gap analysis has been carried out for the priority sectors during 2016 to refine training programs and further align them with labor market demands.

9. **Output 2: Quality assurance system strengthened.** To improve the quality of training, Project 1 has supported industry associations (and industry skills councils where possible) to adopt national competency standards or to develop new competency standards if no national standards are available yet. The SDCMU assists training partners in designing training courses, developing teaching and learning materials, and assessing trainees. Industry specialists have also been engaged to assess the industry relevance of trainee skills. Consulting firms have been recruited to develop additional competency standards, train trainers and managers, and conduct monitoring and evaluations. These activities all aim to raise the quality and market relevance of skills training.

10. **Output 3: Institutions strengthened.** Project 1 initiated two major institutional reforms to support sustainable financing and enhanced coordination for skills development. The NHRDF—which will mobilize diverse funding sources for market-responsive and performance-based skills training in the public and private sectors—has been endorsed by the government and is waiting for cabinet approval. The government is currently discussing to establish a human resource development division or a NSDA to improve coordination and effectiveness of skills development across the public and private sectors.

11. As of October 2016, 68% of loan proceeds had been contracted and additional 15% had been committed for contract award by December 2016. The cumulative disbursement for the loan is \$14.7 million, which is expected to increase to \$19.9 million by the end of 2016. Disbursement has been relatively slow, as disbursements in performance-based training contracts are tied to milestone achievements such as job placement and retention, which may

<sup>7</sup> The SDCMU signed contracts with the following industry associations: Association of Export Oriented Shipbuilding Industries of Bangladesh; Bangladesh Association of Call Center and Outsourcing; Bangladesh Association of Construction Industry; Bangladesh Engineering Industry Owners Association; Bangladesh Association of Software and Information Services; Bangladesh Garment Manufacturers and Exporters Association; Bangladesh Knitwear Manufacturers and Exporters Association; Bangladesh Textile Mills Association; and Leather Goods and Footwear Manufacturers and Exporters Association of Bangladesh.

<sup>8</sup> These consist of 20 technical training centers under the Bureau of Manpower, Employment and Training, Ministry of Expatriates' Welfare and Overseas Employment; nine technical school and colleges under the Department of Technical Education, Ministry of Education; and four Bangladesh Industrial and Technical Assistance Centers under the Ministry of Industries.

require up to 1 year after training completion. From 2017, disbursement is expected to improve as large numbers of training programs finish and trainees enter the job market.

12. The FFA undertakings and Project 1 loan agreement covenants are being complied with, including social and safeguard plans and frameworks.

13. The government has requested to extend the Project 1 completion date from December 2017 to December 2018, given the start of training in April 2015 and the prolonged time required to verify job placement and retention. The government has also requested an extension of the MFF availability period from the current 7 years to 10 years. Tranche 3 is proposed for 2020–2024 to continue efforts toward achieving the SEIP objectives.

### III. PERIODIC FINANCING REQUEST

#### A. Impact and Outcome

14. The impact will be increased income and productivity of the working population aged 15 and over, aligned with NSDP.<sup>9</sup> The outcome will be increased inclusive access to basic, mid-level, and managerial skills training in priority sectors.

#### B. Outputs

15. **Output 1: Market responsive inclusive skills training delivered.** Project 2 will continue to support current public, private, and nongovernment training partners, along with new partners, to achieve a new target of skilling 240,000 people (30% of them women). Project 2 will expand the number of training partners and the scope of training as follows: (i) skills training will cover additional three industry sectors; (ii) 11 public institutes under the Directorate of Youth Development in the Ministry of Youth and Sports will be supported to train youth; and (iii) upskilling training will be provided to low-skilled Bangladesh workers overseas to raise their skill levels and obtain higher-pay jobs.<sup>10</sup>

16. To address skills gaps in priority sectors, Project 2 will increase mid-level skills training (e.g., quality control personnel and supervisors) from the current share of 22% to at least 30% of total trainees. In addition, industry-specific middle managerial training programs will be created for selected sectors through collaboration between industries and universities. This new initiative aims at improving the technical, managerial, and soft skills of middle-level managers, who can play an important role in enhancing industry performance through innovation and helping Bangladesh move up the global value chain. About 2,000 industry representatives and selected university graduates (with the ratio of 70:30) will receive the managerial training. This output will also ensure that training is accessible to the poor, the disadvantaged, and women by extending special stipends to 25% of target trainees from 15% under Project 1.

17. **Output 2: Quality assurance system strengthened.** Output 2 will continue efforts to strengthen quality assurance for training programs and to improve the qualifications of trainers and assessors. The key activities include: (i) development of additional competency-based skills standards and assessment tools; (ii) training of trainers, industry assessors, and school managers to upgrade their pedagogic, technical, and managerial skills; (iii) advanced industry-

<sup>9</sup> Government of Bangladesh, Ministry of Education. 2011. *National Skills Development Policy 2011*. Dhaka.

<sup>10</sup> Training of Bangladesh overseas workers in ADB non-member countries will be financed by the Government of Bangladesh.

specific training for master trainers, including overseas training; and (iv) overseas training for government officials to learn about international best practices in quality assurance systems.

18. **Output 3: Institutions strengthened.** Output 3 will support (i) the NHRDF by developing operational guidelines and establishing its administrative and managerial structure; (ii) establishment of a new human resource development division or a NSDA as a regulatory and coordination body for skills training; (iii) National Skills Development Council Secretariat and selected industry skills councils, as needed, for the NSDP implementation; and (iv) efforts toward SWAp by implementing a skills development framework with government stakeholders and development partners.

19. To improve the training capacity of core public institutions, Output 3 will finance the modernization of three technical training centers (TTCs) under the Bureau of Manpower, Employment and Training by upgrading facilities and equipment.<sup>11</sup> The upgraded TTCs will offer quality mid-level skills training to meet emerging market needs, improve entrepreneurship opportunities, and impart specialized training for overseas employment. This output will also produce an investment plan for two priority sectors that will establish a network of public and private institutions as centers of excellence to address advanced skills needs, particularly for the growth of small- and medium-sized enterprises, through industry-academic cooperation and technology-based skills development and innovation.

20. **Output 4: Monitoring and management for skills development strengthened.** This output will enhance the information management system built under Project 1, including (i) the TMS to track training and its outcomes; (ii) tracer studies to assess the relevance and effectiveness of skills training for employment; and (iii) periodic in-depth analysis of skills gaps in key industries to help sector planning and financing for skills training. This output will also support the implementation of fiduciary risk management plans for training partners to ensure effective management and governance of skills development systems.

### C. Investment and Financing Plans

21. The tranche is estimated to cost \$133.0 million inclusive of taxes, duties, interest, and other charges (Table 1).<sup>12</sup>

22. The government has requested a loan in various currencies equivalent to SDR72,585,000 (\$100 million equivalent) from ADB's Special Funds resources (Asian Development Fund) to help finance Project 2. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum throughout the loan term, and such other terms and conditions to be set forth in the draft loan agreement.

<sup>11</sup> The modernization of three TTCs will be carried out in collaboration with the Korea International Cooperation Agency (KOICA) through parallel cofinancing. KOICA will support the development of curricula, training of trainers and managers, and implementation of new training programs.

<sup>12</sup> ADB financing will cover taxes and duties for Project 2. ADB will finance taxes and duties that (i) are within the reasonable threshold identified during the country partnership strategy preparation; (ii) do not represent an excessive share of the investment plan (5.5% of the loan); (iii) apply only to ADB-financed expenditures; and (iv) are considered relevant to the success of Project 2.

**Table 1: Tranche 2 Investment Plan (\$ million)**

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Market responsive inclusive skills training delivered	84.8
2. Quality assurance strengthened	6.3
3. Institutions strengthened	20.1
4. Monitoring and management for skills development strengthened	10.1
<b>Subtotal (A)</b>	<b>121.3</b>
<b>B. Contingencies<sup>c</sup></b>	<b>7.5</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>4.2</b>
<b>Total (A+B+C)</b>	<b>133.0</b>

<sup>a</sup> Includes taxes and duties of \$7.53 million in total, of which \$5.5 million is to be financed by ADB loan and \$2.0 million by the government in cash; the government financing will cover taxes and duties for SDC expenditures (\$30,000).

<sup>b</sup> In June 2016 price.

<sup>c</sup> Physical contingencies are computed at 8.3% for civil works and equipment. Price contingencies are computed at 1.5% on foreign exchange costs and 6.1% on local currency costs; include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Financing charges include interest charges on the ADB loan (\$4.1 million) and administration fees on the SDC cofinancing grant (\$0.1 million). Interest of 2% is applied to the ADB loan during implementation.

Source: Asian Development Bank estimates.

23. The financing plan is in Table 2. The government will provide \$25 million equivalent. The Government of Switzerland (through SDC) will provide a cofinancing grant of \$4.5 million, which will be administered by ADB.<sup>13</sup> Industry associations will also provide \$3.5 million in in-kind and cash contributions. Detailed cost estimates are in the updated facility administration manual (FAM, Appendix 4).

**Table 2: Financing Plan (\$ million)<sup>14</sup>**

Source	Amount	Share of Total (%)
Asian Development Bank	100.0	75.2
Government of Switzerland	4.5	3.4
Private sector (industry associations)	3.5	2.6
Government of Bangladesh	25.0	18.8
<b>Total</b>	<b>133.0</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## **D. Implementation Arrangements**

24. Project 2 will follow the same implementation arrangements established under Project 1. The Finance Division under the Ministry of Finance will be the executing agency. The SDCMU in the Finance Division, headed by the executive project director, will serve as the program management unit, which is responsible for facilitating, coordinating, and monitoring all project activities. The national project director in the Finance Division will provide policy advice, review funding, and release funds. An inter-ministerial project steering committee, chaired by the secretary of the Finance Division, will provide high-level policy advice and oversight, including approval of annual operation plans, review of achievements against targets, and ensuring compliance with fiduciary oversight arrangements. The implementation arrangements are summarized in Table 3 and described in detail in the FAM.

<sup>13</sup> Proceeds of the SDC grant may be used to pay for ADB's administration fees based on the cofinancing agreement.

<sup>14</sup> Parallel cofinancing is to be provided by KOICA for Output 3 and by other development partners to support the move to SWAp. The cofinancing amount will be reflected upon confirmation on collaborative cofinancing.

25. For skills training in three new priority sectors, Project 2 will engage the Palli Karma-Sahayak Foundation and three industry associations through single-source selection, using the same performance-based contract and business plans developed under Project 1. For the nine industry associations that were contracted under Project 1, a contract variation will be signed based on updated business plans for a new target of trainees to be delivered under Project 2.<sup>15</sup> For new industry-specific managerial training programs to be implemented by selected universities, MOUs will be signed following the established procedure for engaging public training institutions. Since Project 2 is financed by ADB's Special Funds resources and ADB will also administer cofinancing from the Government of Switzerland, ADB's member country procurement eligibility restrictions will not apply.<sup>16</sup>

**Table 3: Implementation Arrangements**

Table 6: Implementation Arrangements			
Aspects	Arrangements		
Implementation period	January 2017–December 2021		
Estimated completion date	31 December 2021 (Loan closing on 30 June 2022)		
Management			
(i) Oversight body	Inter-ministerial Project Steering Committee chaired by the secretary of the Finance Division		
(ii) Executing agency	Finance Division, Ministry of Finance		
(iii) Key implementing agency	SDCMU		
(iv) Implementation unit	SDCMU		
Procurement	International competitive bidding	1 package	\$6.50 million
	National competitive bidding	4 packages	\$12.30 million
Consulting services	Quality- and cost-based selection	4 packages	\$1.56 million
	Quality-based selection	1 package	\$0.41 million
	Consultant's qualification selection	1 package	\$0.70 million
	Fixed-budget selection	1 package	\$0.06 million
	Individual	Several (TBD)	\$0.67 million
	Single source selection	5 packages (new)	\$5.45 million
		12 packages (contract variation)	\$47.67 million
Retroactive financing and advance contracting	The loan may finance eligible expenditures of up to 20% of the loan amount. Advance contracting is allowed for training packages and consulting services.		
Disbursement	The loan and grant proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2015, 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.

Source: Asian Development Bank.

## E. Project Readiness

26. Training contracts and MOUs with new training partners for Project 2 are being prepared for implementation from early 2017. The SDCMU is taking advance actions, following the procedures established under Project 1. A feasibility study is being carried out to develop specific curricula for each TTC to be upgraded and to prepare detailed technical designs and bid documents.<sup>17</sup> The initial environmental examination and environmental management plans related to upgrading works for TTCs have been prepared.

<sup>15</sup> All contract variations will be subject to ADB's prior review and endorsement.

<sup>16</sup> ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

<sup>17</sup> The feasibility study is being carried out in collaboration with KOICA.

## F. Advance Contracting and Retroactive Financing

27. The government has requested advance contracting to procure new training packages and related consulting services, and retroactive financing in an amount not exceeding 20% of the loan amount and the grant amount, respectively, for eligible expenditures incurred during the period of 12 months before the signing of the loan agreement and the grant agreement. The government has been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the proposed Project 2.

## IV. DUE DILIGENCE

### A. Economic and Financial

28. **Economic viability.** The economic viability of Project 2 has been assessed based on the project's economic benefits and costs.<sup>18</sup> Economic benefits include direct benefits for trainees in the form of higher wages resulting from the enhanced relevance of their training. The major costs are (i) direct project costs associated with the four outputs; (ii) private costs of training participation by trainees and opportunity costs of their foregone earnings during training; and (iii) costs shared by training institutions. The analysis shows that Project 2 is a sound investment: it yields an economic internal rate of return of 22.3% for the base case scenario. The rate of return ranges from 13.9% to 34.7% with different scenarios.

29. **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) partial recovery of costs from trainees and employers. According to the government's medium-term budget framework, budget allocation for ministries with technical and vocational training programs will expand steadily for the next few years. In addition, the establishment of NHRDF will enable the government to mobilize additional resources and sustain skills development activities. In the medium- to long-term, enhanced employability of youth and their higher wages will also expand the tax base for government revenues.

### B. Governance

30. According to financial management assessments conducted for existing and new training partners for Project 2, as well as fiduciary reviews by ADB, the overall risk remains substantial. A number of mitigation measures have been undertaken, including the SDCMU's development of a financial management manual to be used by all public and private training providers. For performance-based contracts, it is important to ensure consistency between training providers' reports on milestones and actual training outcomes. For this purpose, the TMS has been established by SDCMU, requiring all training providers to input data for each trainee; additional monitoring activities are carried out to validate the TMS data and verify financial reports from training providers. These practices will continue for Project 2. ADB will also continue independent fiduciary reviews, including post-procurement reviews, to assess compliance with the financial management and procurement action plan. For the procurement of civil works in Project 2, the SDCMU will further enhance its contract management capacity by recruiting an engineer and hiring a supervision consulting firm during construction.

31. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the government, including the SDCMU and the Finance Division of the Ministry of Finance. The specific policy requirements and supplementary measures are described in the FAM.

<sup>18</sup> The analysis follows the same methodological approach used for Project 1.

### C. Poverty, Social, and Gender Dimensions

32. Project 2 will expand its targeted support for the poor and disadvantaged groups by providing special stipends to approximately 60,000 trainees (25% of the total target trainees). Given high levels of underemployment and informal activities in the workforce, increasing access to job-specific skills training, combined with targeted financial support, will promote formal sector employment. Project 2 is categorized with gender equity theme to ensure women's benefits from nationwide skilling efforts and to encourage their proactive involvement in various training programs. In addition to the overall target of 30% female participation in SEIP, Project 2 includes specific targets for women in mid-level skills and newly introduced managerial training programs. The project will also include a target for female trainers. Proposed activities and targets are included in the gender action plan (Appendix 9).

### D. Safeguards

33. Project 2 is categorized B for environment under ADB's *Safeguard Policy Statement* (SPS) (2009), given the civil works involved in upgrading three TTCs. Potential environment impacts are likely to be site-specific and short-term during construction that can be mitigated. The initial environmental examinations and environmental management plans have been prepared according to the SPS and the Environment Assessment Review Framework. Project 2 is categorized B for indigenous peoples safeguards under the SPS. It will not have any negative impacts on small ethnic communities but will generate positive impacts through increased training opportunities and targeted financial support. The small ethnic community peoples plan has been prepared in compliance with the SPS. Project 2 is categorized C for involuntary resettlement, since neither land acquisition nor relocation of the people is foreseen; all TTC upgrades will take place within the existing premises.

### E. Risks and Mitigating Measures

34. Major risks and mitigating measures are summarized in Table 4 and described in detail in the updated risk assessment and risk management plan (Appendix 10). The overall benefits and impacts are expected to outweigh the costs.

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Limited institutional capacity may slow the pace of reforms and NSDP implementation	SDCMU facilitates close coordination among key stakeholders (Finance Division, BTEB, and NSDC-S) and high-level meetings to address the risk. The NHRDF is in the advanced stage of government approval. A new human resource development division or a NSDA is about to be endorsed; its operation will further facilitate the full implementation of NSDP.
Meeting job placement targets may be challenging for some trades and/or training institutions	Project 2 will emphasize the preparation of training programs in close alignment with concrete skills demands across industries, including the creation of customized skills training programs. Targeted support programs (e.g., job placement officers) will help strengthen industry-training linkages and improve job placement targets.
Limited financial management capacity among training partners may raise fiduciary risks.	The financial management manual will guide training partners to improve financial management capacity. SDCMU will conduct capacity building activities, and ADB will continue fiduciary reviews of all training partners. Financial management and procurement action plans are being updated on a regular basis, based on fiduciary reviews. External audits will be carried out annually for all implementing partners.

ADB = Asian Development Bank, BTEB = Bangladesh Technical Education Board, NHRDF = National Human Resources Development Fund, NSDA = National Skills Development Authority, NSDC-S = National Skills Development Council Secretariat, NSDP = National Skills Development Policy, SDCMU = Skills Development Coordination and Monitoring Unit.

Source: Asian Development Bank.

## **F. Risk Categorization**

35. Project 2 is categorized as low risk as: (i) the loan amount does not exceed \$200 million; (ii) ADB has a record of previous experience in the education and training sector; (iii) the executing agency has reasonable capacity to administer an externally-financed project; and (iv) safeguard categorization is other than A.

## **V. ASSURANCES**

36. The government and the Ministry of Finance 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 FAM and loan documents.

37. The government and the Ministry of Finance have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

## **VI. MINOR CHANGE OF MFF – EXTENSION OF THE MFF AVAILABILITY PERIOD**

38. The MFF is envisaged to comprise three tranches. Under the FFA, the current MFF availability period is until 31 December 2021. To ensure the full implementation of Tranche 3 (anticipated to be processed in 2019 for implementation during 2020–2024), it is requested that the availability period of the MFF be extended until 18 May 2024.

## **VII. RECOMMENDATION**

39. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$350,000,000 to the People's Republic of Bangladesh for the Skills for Employment Investment Program, it is recommended that the President approve the:

- (i) proposed tranche as described in para. 22 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement for the proposed tranche; and
- (ii) administration by ADB of the grant not exceeding the equivalent of \$4,500,000 to the People's Republic of Bangladesh, as described in para. 23, for the proposed tranche of the Skills for Employment Investment Program, to be provided by the Government of Switzerland.

40. It is further recommended that the President approve the minor change of multitranche financing facility as described in para. 38 to extend the availability period of the Skills for Employment Investment Program from 31 December 2021 to 18 May 2024.