Program Implementation Document

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Democratic Socialist Republic of Sri Lanka: Skills Sector Enhancement Program

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Purpose of Program Implementation Document

The developing member country (DMC) is wholly responsible for implementing the program supported by results-based lending (RBL). The Asian Development Bank (ADB) staff support the program implementation.

The program implementation document (PID) consolidates the essential program implementation and administrative arrangements. It is a management tool to effectively and flexibly support program implementation. At Loan Negotiations the borrower and ADB will review the PID and reflect the discussion in the minutes of the Loan Negotiations. The PID is a living document. It is developed throughout the program processing, and refined and updated during the program implementation in close consultation with the DMC. The PID should be discussed with the borrower at Loan Negotiations, and kept up to date during implementation.

ABBREVIATIONS

ADB	–	Asian Development Bank
AGD	–	Auditor General's Department
CEA	–	Central Environment Authority
CIGAS	–	Computerized Integrated Government Accounting System
DLI	–	disbursement-linked indicator
DTET	–	Department of Technical Education and Training
EMP	–	environmental management plan
ERD	–	Economic Relations Division
ESMF	–	environment and social management framework
GIZ	–	Deutsche Gesellschaft fur Internationale Zusammenarbeit
GRM	–	Grievance Redress Mechanism
GSEF	–	gender and social equity framework
ICB	–	International Competitive Bidding
ICT	–	information and communication technology
KPI	–	key performance indicator
LAL	–	Land Acquisition Law
M&E	–	monitoring & evaluation
MIS	–	Management Information System
MLLD	–	Ministry of Land and Land Development
MOFP	–	Ministry of Finance and Planning
MYASD	–	Ministry of Youth Affairs and Skills Development
NAITA	–	National Apprentice and Industrial Training Authority
NCB	–	National Competitive Bidding
NCP	–	National Compensation Policy
NEA	–	National Environment Act
NIRP	–	National Involuntary Resettlement Policy
NVQ	–	national vocational qualification
NYSC	–	National Youth Services Council
PAA	–	project approving agency
PAP	–	program action plan
PCC	–	program coordination committee
PFM	–	public financial management
PPA	–	performance-based partnership agreement
RBL	–	results-based lending
SBD	–	standard bidding document
SDD	–	Sector Development Division
SDR	–	special drawing right
SSDP	–	Skills Sector Development Program
SSEP	–	Skills Sector Enhancement Program
TA	–	technical assistance
TVEC	–	Tertiary and Vocational Education Commission
TVET	–	technical and vocational education and training
UNIVOTEC	–	University of Vocational Technology
VTA	–	Vocational Training Authority

I. PROGRAM DESCRIPTION

1. **Skills Sector Development Program (SSDP)**. *Mahinda Chintana*: Vision for the Future and the National Human Resource Development and Employment Policy (2012) stress the importance of, and the government's commitment to skills development expansion and improvement. To operationalize such commitment, the SSDP (2014–2020) has been developed and coordinated by the Department of National Planning in 2013. SSDP is a transformational program, aiming at building an efficient skills education system to meet the local and foreign labor market demand by 2020. SSDP has been supported by the Public Investment Strategy 2014–2016 shared at the time of the Commonwealth Heads of Government Meeting. SSDP is also the government's response to development partners' request for a government-led platform for better alignment and coordination of assistance in technical and vocational education and training (TVET). Development partners are committed to align their ongoing and future support for the sector with SSDP and closely cooperate with the SSDP coordination mechanism.

2. SSDP sets an overarching objective, five strategic thrusts, key actions, performance targets, indicative financing requirement, and implementation entities. It adopts five-pronged strategies including: (i) improving quality; (ii) improving relevance; (iii) improving access; (iv)improving recognition for vocational training; and (v) improving supportive policies, systems and structures.[1] Building upon the past investment in training infrastructure (national vocational qualification [NVQ] framework and various training institutions), SSDP will reorient the sector investment in quality through: (i) introduction of technology stream to school system, (ii) recruitment of qualified lecturers and continuous professional development of lecturers, (iii) establishment of industrial sector councils and curricula development, (iv) provision of modern equipment, (v) establishment of university colleges and necessary renovation of training centres, and (vi) gradually shifting training institutions into self-financing agencies giving more autonomy.

3. The Asian Development Bank's results-based lending (RBL) modality is the most suitable modality to support SSDP considering its focus on quality and relevance of TVET system. The ultimate measurement of success of TVET system is graduates' gainful employment in the areas where they are trained for. Job-relevant skills can be attained in many different ways. Therefore, the TVET system needs to be reoriented from input-focused, project approach to a more results-based program approach. The government has a strong interest and ownership in the required reforms for the TVET sector and prepared measures to strengthen institutional capacity for implementation. The sector also needs reorganization to overcome fragmentation and lack of performance management of numerous agencies. ADB's financing through RBL can leverage government and other development partners' financing to advance the reforms.

4. **Skills Sector Enhancement Program (SSEP)**. ADB's RBL for the government's sector program is called SSEP, which will support SSDP implementation from 2014 to 2016. The scopes of SSDP and SSEP are summarized in Table 1. The RBL program excludes activities that involve high-value contracts and activities that would be classified as category A under ADB's Safeguard Policy Statement (2009). The scopes of SSDP and SSEP are summarized in Table 1.

[1] Government of Sri Lanka, Ministry of Finance and Planning, Department of National Planning. 2013. *Public Investment Strategy 2014–2016.* Colombo.

Table 1: Program Scope

Item	SSDP	SSEP
Outcome	An efficient skills education system to meet the local/foreign labor market demand	Same as SSDP
Outputs	Improving (i) quality; (ii) relevance; (iii) access; (iv) recognition for vocational training; and (v) supportive policies, systems, and structures	Same as SSDP
Participating ministries and agencies	Ministries and agencies for agriculture, construction, economic development, education, environment, foreign employment promotion, higher education, industry, ports, social services, and youth affairs and skills development.	Same as SSDP[a]
Executing agency	MYASD	Same as SSDP
Expenditure	$961 million	$386 million
Period	2014–2020	2014–2016

MYASD = Ministry of Youth Affairs and Skills Development, SSDP = Skills Sector Development Plan, SSEP = Skills Sector Enhancement Program.

[a] Initially, MYASD, the Department of Technical Education and Training, and six semi-autonomous institutions under MYASD. Subsequently, other ministries and agencies subject to completion of fiduciary capacity assessments and conclusion of agreement with MYASD.

Sources: Department of National Planning and Asian Development Bank.

5. SSEP's impact will be increased employability of the Sri Lankan workforce, particularly the youth. The outcome will be a market-responsive and inclusive TVET system. SSEP's outputs are selected from SSDP's key performance indicators (KPIs). Certain output targets are further developed into annual disbursement-linked indicators (DLIs) of which achievement will set the progressive steps towards SSEP outcome target achievement. Some output targets, which are also important for outcome achievement but difficult to link to disbursement, are included in the program action plan (PAP), which supports the SSDP implementation. The employment rate of TVET graduates is included to measure SSEP outcome achievement (DLI 1). The outputs are summarized below:

Table 2. Key Results and Activities

Result Area	Key activities
Output 1. Improved quality of TVET provision	• Strengthen the quality management system across public and private TVET providers and improve articulation within the vocational qualification framework • Improved trainee assessment, provider registration, and program accreditation • Ensure adequate supply of qualified instructors, assessors, and training managers
Output 2. Enhanced industry partnership for TVET planning and provision.	• Increase private sector participation in training, planning, and provision • Carry out a skills gap analysis for priority economic sectors for industry validation to inform the training planning • Introduce an employment-linked training agreement model to source training providers in critical and emerging skills gap areas, using three-partite partnership agreement among MYASD, training provider (public or private), and employer • Establish at least five 'university colleges' through public-private partnership to offer middle level skills training
Output 3. Increased participation and improved equity in TVET	• Support expansion of TVET provision to increase enrollments • Introducing stipend program to encourage participation of women, the poor, and school leavers in emerging and critical skills gap areas • Upgrade existing workforce's skills by offering flexible training delivery mechanisms and recognition of prior learning

Result Area	Key activities
	• Improve and expand training facilities through selected TVET agencies, especially in underserved area
Output 4. Improved TVET sector management and implement policy, institutional, and operational reforms	• Strengthen sector management and coordination capacity to implement SSDP through establishment of high level inter-ministerial committee and SDD under MYASD • Carry out a TVET system capacity utilization census to determine underutilized training facilities and develop a rationalization plan • Pilot a performance-based financing for public training providers • Improve sector planning, monitoring and evaluation, budgeting, and procurement capacity

MYASD = Ministry of Youth Affairs and Skills Development, SSD = Sector Development Division, SSDP = Skills Sector Development Program, TVET = technical and vocational education and training.
Source: Asian Development Bank.

II. PROGRAM RESULTS

A. Program's Overall Results

6. While ADB disbursement is linked with the achievements of DLIs, the overall program result is an efficient skills education system to meet the local/foreign labor market demand by 2020 (see Annex 1 Program Result Framework).

B. Disbursement-Linked Indicators

1. Description of Disbursement Linked Indicators

7. The DLIs will focus on the results, critical to meet the goals of the government's sector development plan. They are a combination of sector specific reforms, sector performance, and monitoring. They also include required actions to improve on sector governance and management including financial management. Disbursement by ADB will be contingent on the submission of interim unaudited and annual audited financial statements on a timely basis along with request for disbursements. Other key results that are not included in the DLI matrix as well as capacity building improvements are incorporated in the PAP, and monitored by ADB. There are 9 DLIs in the areas of overall program outcome (1), improved quality of TVET provision (2), enhanced industry partnership (2), increased participation and improved equity in TVET (1), and improved system efficiency and management (3).

III. DISBURSEMENT-LINKED INDICATOR VERIFICATION AND DISBURSEMENT

A. Disbursement-Linked Indicator Verification Protocols

1. Description of Disbursement-Linked Indicator Verification Protocols

8. The DLIs and the verification protocols are given in Annex 2.

B. Disbursement

1. General Requirement

9. The disbursement arrangement is designed to promote results-based management by linking disbursements to government's delivery of results. Disbursement by ADB will be subject to achievement of key results of the SSEP result framework as presented in the DLI matrix.

10. ADB loans will be disbursed over 3 years, subject to the achievement and verification of the agreed DLIs. The initial disbursement will be after the loan effectiveness and verification of achievement of the prior results. Financing for prior results will be provided as it will support the government taking actions that are essential to initiate sector reform. These include for instance: (i) approval of the amendment to Tertiary and Vocational Education Commission Act to strengthen quality assurance system; (ii) signing of two memorandum of understanding with private sector institutions to initiate private sector engagement in TVET provision, and (iii) approval of cadre positions for the proposed Sector Development Division (SDD) at the Ministry of Youth Affairs and Skills Development (MYASD) to strengthen sector coordination and management. The subsequent disbursements will be made annually after the achievement of the corresponding DLIs. MYASD will submit a withdrawal application along with the evidence verifying the achievement of the DLIs and unaudited financial statements for the concerned period. Any amounts not disbursed for unmet DLIs will be disbursed once they have been achieved. Selected DLIs allow partial disbursement following mechanisms described in the verification protocol.

11. ADB loan proceeds will be disbursed to the government's consolidated fund from where the resources will be merged with other revenues (see Chart 1). Implementation of SSEP will be financed by regular releases from the consolidated fund. The flow of funds will follow a procedure where ADB disburses directly to one of the government's central revenue accounts (Deposit Account) with the Central Bank of Sri Lanka. The funds from the consolidated fund are released entirely in accordance with government procedures.

12. ADB will review the cumulative sum of eligible expenditures from July 2013 onwards to confirm that the government's eligible expenditures exceed the amount disbursed by ADB, using audited financial statements once they become available every year. Related sources of funds would include funds from ADB, the World Bank, the government, and any other funds executed by MYASD for the purpose of SSEP.

13. The first disbursement will be made after the achievement of the prior results as stated in the DLI matrix. MYASD will submit a withdrawal application along with the evidence verifying the achievement of the DLIs, together with interim unaudited financial statements showing the total amount of eligible expenditures incurred between 1 July and 31 December 2013 and related sources of funds. Disbursement shall be against DLI achievement, capped at the total amount of cumulative eligible expenditures.

14. For the 2014 DLIs which are due for verification in October 2014, MYASD will submit a withdrawal application along with the evidence verifying the DLI achievements and the interim unaudited financial statements showing the total cumulative eligible expenditures incurred between 1 July 2013 and 30 September 2014 and related sources of funds. Cumulative expenditure shall represent sum of audited expenditure up to 31 December 2013 and unaudited expenditure for the 9 months ended 30 September 2014. Any amounts not disbursed for unmet DLIs will be disbursed once they have been achieved. Disbursement shall be against DLI achievement, capped at the total amount of cumulative eligible expenditures less cumulative disbursements from ADB.

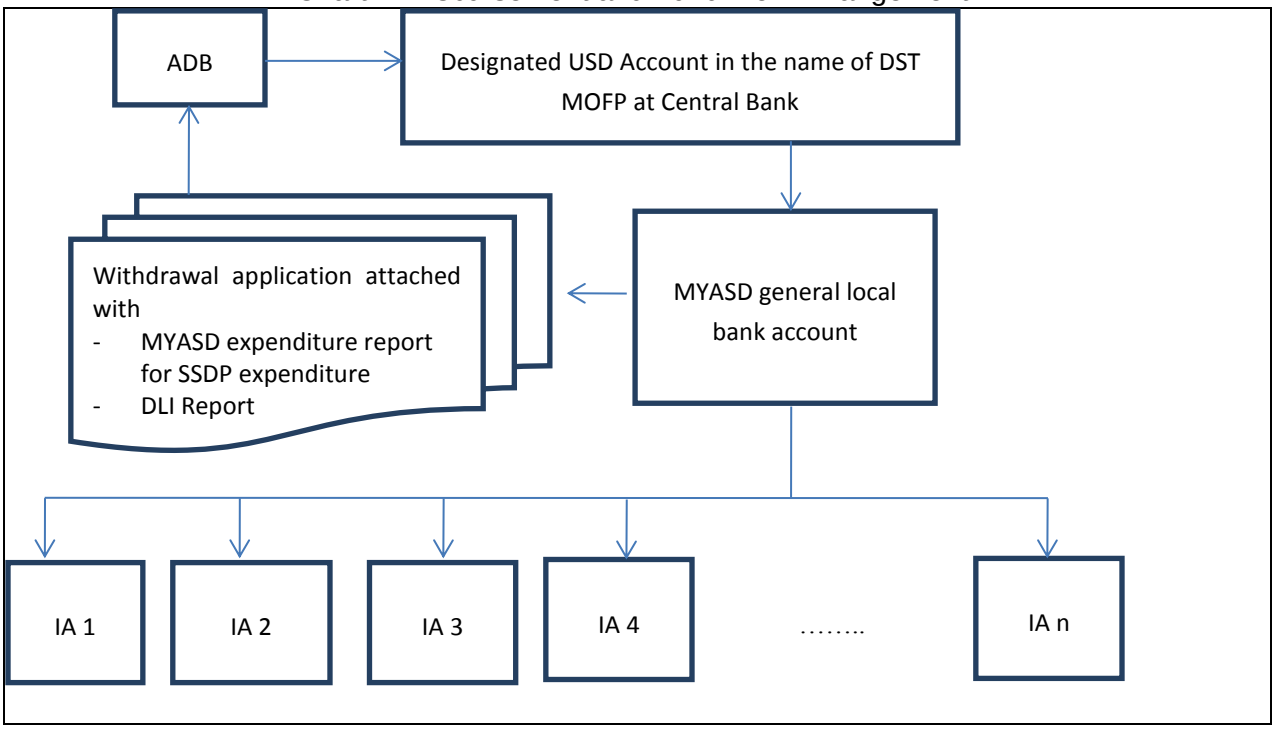
15. For the 2015 DLIs which are due in May 2015, the eligible expenditures incurred between 1 July 2013 and 30 April 2015 and related sources of funds will be captured in the interim

unaudited financial statements. Cumulative expenditure shall represent sum of audited expenditure up to 31 December 2013 and unaudited expenditure for the 16 months ended 30 April 2015. Disbursement shall be against DLI achievement, capped at the total amount of cumulative eligible expenditures less cumulative disbursements from ADB.

16. For the 2016 DLIs which are due in May 2016, the eligible expenditures incurred between 1 July 2013 and 30 April 2016 and related sources of funds will be captured in the interim unaudited financial statements. Cumulative expenditure shall represent sum of audited expenditure up to 31 December 2014 and unaudited expenditure for the 16 months ended 30 April 2016. Disbursement shall be against DLI achievement, capped at the total amount of cumulative eligible expenditures less cumulative disbursements from ADB.

17. ADB funds under RBL will not be applied to the activities described in the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement. The government will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list to activities in the program supported by RBL.

Chart 1: Disbursement and Fund Flow Arrangement



ADB = Asian Development Bank, DLI = disbursement-linked indicator, IA = internal audit, MOFP = Ministry of Finance and Planning, MYASD = Ministry of Youth Affairs and Skills Development, SSDP = Skills Sector Development Program, USD = US Dollar.
Source: Asian Development Bank.

18. Before the submission of the first withdrawal application, the government will submit to ADB the evidence of achievement based on the verification protocols, and evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person.

2. Disbursement Allocation

19. Higher amount is allocated to critical reform areas of quality, relevance, sector management capacity, and adequate financing (Table 3).

Table 3: Pricing of Disbursement-Linked Indicators

Disbursement-Linked Indicators		Disbursement Allocated ($ million)	Share of Total ADB Financing (%)
Outcome	1. Employability of TVET graduates	5	5
Output 1	2. Quality assurance system	12	12
	3. Vocational teacher development	11	11
Output 2	4. Skills gap analysis	9	9
	5. Private sector engagement in TVET delivery	14	14
Output 3	6. Increased enrollment	9	9
Output 4	7. Performance based financing	9	9
	8. Coordination and implementation capacity	14	14
	9. Adequate budgeting and improved spending	17	17
Total		**100**	**100**

ADB = Asian Development Bank, TVET = technical and vocational education and training.
Source: Asian Development Bank.

3. Expected Disbursement Schedule

20. The expected disbursement schedule is given in Annex 2.

IV. PROGRAM EXPENDITURE FRAMEWORK AND FINANCING

A. Expenditure Framework

1. Expected Expenditure Framework

21. **Skills Sector Enhancement Program expenditures**. SSDP expenditures are estimated to be $961 million for all ministries from 2014 to 2020. SSEP will support SSDP's expenditure program implemented by MYASD from 2014 to 2016 as summarized in Table 4.

Table 4: Summary of SSDP and SSEP Expenditure Framework 2014–2016
(in current prices)

	SSEP (2014–2016)			SSDP (2014–2020)		
Item	**Amount** (SLR million)	**Amount** ($ million)	**Share of Total** (%)	**Amount** (SLR million)	**Amount** ($ million)	**Share of Total** (%)
1. Recurrent Budget	**15,741**	**121**	**31**	**38,458**	**296**	**30.8**
Personal cost	3,986	31	8	9,879	76	7.9
Operating expenditure	1,105	9	2	3,084	24	2.5
Transfer to institutions	9,488	73	19	22,639	174	18.1
Subsidies	1,162	9	2	2,855	22	2.3
2. Capital budget	**34,437**	**265**	**69**	**86,502**	**665**	**69.2**
Equipment	5,926	46	12	14,886	115	12
Civil works	10,678	82	21	26,822	206	21
Knowledge enhancement [a]	17,833	137	36	44,793	345	36
3. Total	**50,178**	**386**	**100**	**124,960**	**961**	**100**

[a] Delivery of skills training and professional development of instructors, managers and staff.
Source: Asian Development Bank estimates.

B. Program Financing

22. For SSEP, the government will provide $141 million (41%) and contribution from development partners is expected to be $201 million (59%). The government has requested (i) a loan of $50 million from ADB's ordinary capital resources and (ii) a loan in various currencies equivalent to SDR [amount] from ADB's Special Fund resources to help finance the SSEP. The government may request ADB to provide additional financing upon satisfactory implementation of SSEP to bridge any financing gap from 2017 through 2020. The financing plan is summarized in Table 3 below. ADB financing will leverage the government and other development partners' resources, focusing critical results areas of which achievement will lead to the program's outcome. To meet the financing gap, another $100 million additional financing can be considered in 2016 or later upon successful performance, if the government requests.

Table 5: SSEP and SSDP Financing Plan

	SSEP (2014–2016)		SSDP (2014–2020)	
Source	**Amount** ($ million)	**Share** (%)	**Amount** ($ million)	**Share** (%)
Government	185.0	47.9	519.8	54.1
Development Partners	201.4	52.1	441.4	45.9
ADB (OCR) (2014–2016)	50.0	13.0	50.0	5.2
ADB (ADF) (2014–2016)	50.0	12.9	50.0	5.2
World Bank[a] (2014–2018)	60.0	15.5	100.0	10.4
Government of Germany[a]	15.4	4	15.4	1.6
Export-Import Bank of Korea[a]	26.0	6.7	26.0	2.7
Financing gap	0.0	0.0	200.0	20.8
Total	**386.4**	**100.0**	**961.2**	**100.0**

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, SSDP = Skills Sector Development Program, SSEP = Skills Sector Enhancement Program.
[a] Parallel financing supporting the implementation of SSDP.
Source: Asian Development Bank and Ministry of Finance and Planning estimates.

V. PROGRAM SYSTEMS

23. MYASD will be the executing agency for SSEP. MYASD, Department of Technical Education and Training, and six semi-autonomous institutions under MYASD are identified as initial implementing agencies.[2] Other agencies under SSDP will be added as implementing agencies through a formal agreement with MYASD, after fiduciary capacity assessment is completed and measures to mitigate risks, if any, are identified. SSEP will be implemented using the existing country systems with selective enhancements as described in the PAP. In order to enhance MYASD's capacity in coordinating and managing the TVET sector, an SDD was established in 2013.[3] The SDD will (i) coordinate and support implementing agencies to plan, implement, and monitor SSDP activities; (ii) initiate implementation of new initiatives under SSDP; and (iii) undertake timely M&E and reporting of SSDP activities, including DLIs and PAP achievements. A high level interministerial committee consisting of key ministries in skills

[2] The semi-autonomous institutions are Tertiary and Vocational Education Commission, Vocational Training Authority, National Apprenticeship and Industrial Training Authority, University of Vocational Technology, National Institute of Fishery and Nautical Engineering, and National Youth Service Council.

[3] Similar units have been established for education and health sector where medium-term expenditure frameworks are adopted. These units are to build and sustain the ministries' internal capacity, rather than relying on external consultants for implementation.

development will be established to coordinate and monitor the implementation of SSDP.[4] The Ministry of Finance and Planning (MOFP) will ensure adequate budget appropriation and smooth fund flow.

24. SSEP will use government system for program financial management, implementation, oversight, procurement, safeguards and monitoring and evaluation (M&E). Overall responsibility for the implementation of the program rests with the MYASD which will be the executing agency for the program. MYASD, Department of Technical Education and Training (DTET) under MYASD, and six semi-autonomies institutions[5] under MYASD will be the implementing agencies. In order to enhance MYASD capacity in coordination and implementation, a new SDD/MYASD of 35 staff led by the chief executive officer at additional secretary level has been approved by the Management Service Department. The SDD/MYASD will have cadre staff and professionals deployed from both the public and private sector. The SDD/MYASD will (i) coordinate and support implementing agencies to plan, implement, and monitor program activities; (ii) initiate implementation of new initiatives and reforms; and (iii) undertake timely M&E of program activities. An Inter-ministerial Sector Coordination Committee headed by the Secretary, MOFP participated by other key ministries in skills development will be established to coordinate and monitor the implementation of SSDP.[6] A program coordination committee (PCC) will be established to strengthen the coordination among the implementing agencies of the program and carry out oversight functions of the program. The PCC will be responsible for setting policy guidelines and strategic directions for the program and will meet twice a year and as necessary.

A. Monitoring and Evaluation System

25. **Summary of monitoring and evaluation system and actions**. The existing M&E system is fragmented and inconsistently applied across MYASD divisions, departments, and agencies. Key information on quality assurance such as the number of NVQ certificates issued and the number of accredited courses is tracked centrally through the Tertiary and Vocational Education Commission (TVEC) management information system (MIS). However, beyond this set of core information, each MYASD division, department, and agency has developed its own MIS which varies from paper-based systems to computerized systems. Even within an agency, there are sometimes multiple information databases which are not connected. Key data are defined differently making it difficult to aggregate for a sector level reporting.

26. The proposed M&E arrangements for the program will build on the existing institutional systems, standardize data definition and collection methods, and develop a new common MIS to which individual agencies' data can be fed regularly for timely and efficient monitoring and reporting at sector level. The SDD/MYASD being established within MYASD for this purpose will be the focal point responsible for supporting and monitoring performance and implementation of the SSDP. The SSDP has defined a set of targets at the MYASD and at the division, department and agency level which along with the SSEP DLIs will form the key instruments to monitor sector performance. The SDD/MYASD will establish a credible and systematic M&E system, aimed at providing effective feedback to optimize implementation and ensuring accountability of all stakeholders. The SDD/MYASD will also implement a new system for information gathering and

[4] It will be chaired by the Secretary for the Treasury and the members will include ministries included in SSDP. The National Planning and Project Management and Monitoring Department of MOFP will support the committee activities.

[5] Tertiary and Vocational Education Commission (TVEC), Vocational Training Authority (VTA), National Apprentice and Industrial Training Authority (NAITA), University of Vocational Technology (UNIVOTECH), National Institute of Fishery and Nautical Engineering (NIFNE), and National Youth Service Council (NYSC).

[6] Including Ministries of Higher Education, Agriculture, Industry, Construction, Economic Development, Environment, Social Services, Ports, and Foreign Employment Promotion.

data analysis in order to prepare the Annual Sector Performance Report that will outline progress against the SSDP targets and SSEP DLIs. This new system for information gathering will be housed within TVEC.

27. Monitoring most of the DLIs will also be the focus of regular M&E of TVET sector performance, which is the responsibility of TVEC (as the quality assurance body) and MYASD (as sector focal ministry). The achievement of the DLIs will be reported by SDD/MYASD using data from TVEC and MYASD to the Department of Project Management and Monitoring of MOFP for approval and transmission to ADB. Rigorous verification protocol has been established including independent, third-party verification.[7] For example, the outcome DLI (employment rate) will be monitored using an automated graduate tracking system which will be developed by TVEC. An independent tracer study will be commissioned by ADB at the mid-term to confirm the reported employment rate and the credibility of the tracking system.

28. **Assessment of the monitoring and evaluation system**: The M&E system as envisaged would be a significant improvement from the existing system and is required to ensure successful implementation of the SSDP. The proposed M&E system will build on the existing information gathering processes and strengthen these through additional staff, centralized collection of critical system information and clear targets that are cascaded within MYASD.

29. A system of regular reviews at each level of the delivery chain from MYASD down to individual training centers will be reinforced by the signing of performance-based partnership agreements (PPAs) at the division, department, and agency level and the introduction of a business planning process at the training center level. These measures will help significantly improve accountability within the system and aid with managing performance.

30. Independent assessments conducted periodically by ADB and other development partners will help ensure the verification of results and the achievement of targets.

31. **Managing risks and improving capacity**. The availability of reliable and timely information will be critical to the success of the SSDP. The existing information flows within and across the divisions, departments, and agencies of MYASD have not been fully automated or harmonized, making it difficult to aggregate or reconcile data in terms of objectives, definitions, methodology, data fields, frequency of collection, and reporting formats. Hence, the information flows need to be standardized within and across the various entities to establish effective, efficient, and credible M&E of achievement against SSDP targets and SSEP DLIs.

32. The strengthening of the MIS within MYASD and its divisions, departments, and agencies will be an important feature of the SSEP. A central MIS will be established within TVEC to build on the existing quality assurance MIS system. The MYASD divisions, departments, and agencies will be part of the system or will provide interface to feed relevant information to the central MIS. The SDD/MYASD will then rely on the central MIS for preparing progress reports. It is envisaged that eventually all stakeholders including students, TVET delivery agencies under other ministries and private providers will also be provided with an interface from the central MIS to exchange relevant information. Any information not available in the system will be gathered by SDD/MYASD directly from the implementing agencies to monitor, evaluate, and report the progress of relevant activities.

33. Key information on quality assurance such as NVQ certificates issued and accreditation of courses is tracked systematically through TVEC MIS systems. However, beyond this

[7] The verification protocol is in Table 2 of Appendix 3.

information, each TVET agency has developed its own MIS which varies considerably from paper-based to recently computerized systems. The proposed M&E arrangements for the program will strengthen the existing institutional systems for timely and efficient monitoring and reporting. The SDD/MYASD will be responsible for M&E of performance against a set of KPIs that are defined within the SSDP and would also include the DLI targets. This would be formalized through a PPA between MOFP and MYASD and subsequently between MYASD and the TVET training agencies under MYASD. M&E units that will be setup at the implementing agency level will support SDD/MYASD. The SDD/MYASD will also have to implement a new system for information gathering and data analysis in order to prepare the Annual Performance Report that will outline progress against the SSDP targets and DLIs. This new system for information gathering will be housed within TVEC.

34. The KPIs in the design and monitoring framework and DLIs will be the basis for the SSEP monitoring framework. SSEP M&E and reporting activities will include preparation and sharing of: (i) the achievements of overall program results, (ii) DLIs and DLI verification protocols, (iii) covenants in the loan and program agreements, and (iv) PAP implementation. Key reports include: (i) quarterly progress reports on the overall results framework; (ii) periodic DLI review reports; (iii) periodic fiduciary and safeguard review reports (procurement, financial management, environment management, and gender action plan); (iv) annual sector performance reports; (v) periodic PAP implementation progress reports; and (vi) other reports as required by ADB and MYASD. These reports will be shared at all levels and posted in MYASD website after finalization.

35. The annual and midterm reviews will provide the opportunities to jointly assess the implementation performance against SSDP targets and SSEP DLIs. SDD/MYASD will be responsible for preparing quarterly and annual progress reports. It will prepare a quarterly Monitoring Report in cooperation with and defined input from M&E, MIS, and Divisions/Units with technical assistance (TA). The report will detail SSEP implementation and output achievement status based on verification evidence as defined by output indicators. This Monitoring Report will also provide the basis for the semi-annual DLI Achievement Report. This Monitoring Report will serve as the SSEP quarterly report to ADB. The First and Third Quarter Monitoring Reports will include updates of compliance with social and environmental safe guards, policy matrix, and the Gender Action Plan, serving as the semi-annual Program Implementation Status Report.

36. **Program Coordination Committee review.** The PCC will guide report preparation, make recommendations to improve monitoring and reporting systems and processes, and approve reports for MYASD. Prior to submission of reports to ADB, full endorsement of all reports will be undertaken periodically by the PCC. Financial monitoring will be guided by the Procurement and Financial Management PAP with specific time-bound reporting arrangements. Financial monitoring will be undertaken by MYASD through the Finance and Administration Division. In addition, SDD/MYASD will also facilitate preparation of third party review reports.

37. The periodic fiduciary review will supplement the annual review process. The midterm review will be planned during the third year of the program which includes review and revision of the DLIs' targets based on implementation experience and performance. Within 12 months of loan closing of the program, MYASD will produce a program completion report which will be shared with ADB. The PAP includes activities to strengthen the M&E system.

A. Fiduciary Systems

38. **Fiduciary systems.** The program will use the country Public Financial Management (PFM) systems, and as per the RBL policy, the strength of government systems has been assessed to determine whether additional assurances and/or institutional capacity building

measures should be required. The assessment therefore included a review of the government's PFM system including the Auditor General's Department (AGD) as well as agency financial management assessments. The assessment concluded that overall PFM risk is substantial, with high risk from inconsistent budget allocation and delay in budget release. MYASD's absorption capacity is a substantial risk for SSEP too. Internal control, accounting and financial reporting, and external audit were rated as substantial risks. Key mitigating measures include: (i) adequate allocation of budget and spending of funds included as a DLI and (ii) strengthening implementation capacity, especially in planning, budgeting, M&E and procurement. ADB will conduct periodic external fiduciary reviews including procurement and review follow-up of audit recommendations and compliance with internal controls. A detailed Statement of Audit Needs was agreed with the AGD and MYASD to ensure timely financial reporting in accordance with Sri Lankan Accounting Standards. Staffing and training plan for budgeting, reporting, and internal audit is included in the PAP.

1. Financial Management System

a. Summary of the Financial Management System and Actions

39. Since the SSEP will be implemented using the RBL modality, it will use the government's financial management systems for implementation. RBL arrangement is fully aligned with the government's systems and procedures for fund management. The government budget allocated to MYASD will serve as the program budget. The management of funds in support of the program will follow the government's system for budget formulation, execution, accounting, internal control/audit, and external audit. The implementation of SSEP will be entirely funded through the consolidated fund with no requirement to identify which transaction or payment is funded from which source; i.e. all transactions are funded from one single source; the consolidated fund of the government. There will be no requirement for a SDD/MYASD to ring-fence the implementation of ADB-funded program, applying specific accounting and reporting of ADB funding. However, additional support will be provided to strengthen sector management for the implementation of the SSEP, i.e. to strengthen government management capacity rather than for the purpose of complying with ADB specific monitoring and reporting requirements.

40. **Budgeting.** The government budget preparation process is standard for all sectors and is under the control of the MOFP. Sri Lanka uses a modified Program Budgeting System and each ministry and department is treated as a budgetary unit under the Appropriation Act. The legal framework for government finance is in the 1978 Constitution and the Public Finance Act No. 38 of 1971. Rules and procedures on finance are detailed in the Government Financial Regulations (1992) which is amended from time to time through the issuance of government circulars. Public procurement guidelines were updated in 2006 and manuals for its implementation were published by the National Procurement Agency at this time. The total expenditure budget is classified into recurrent expenditure and capital expenditure (development budget). The recurrent expenditure includes all expenditure incurred in carrying out operational activities, while the acquisition, rehabilitation and improvement of capital assets and development of resources are categorized as capital expenditure. It is usual practice to capitalize some costs of training activities if they are funded from external funds as part of a development project. In Sri Lanka, the Program Budgeting System starts with identification of the functions of each ministry and its objectives.

41. A program in the national budget format is a financial unit of appropriation and can contain a small number of projects. When a new project is proposed for inclusion in the national budget, it has to be approved by the Cabinet of Ministers. The Cabinet makes its decisions based on recommendations from the Committee of Development Secretaries and takes into account the

cost of the project in terms of national planning and the national budget. Each project of the program is listed in the national budget in aggregate rather than by object of expenditure. The financing source of the project is also identified in the budget structure. For example, the National Department of Budget in the MOFP has included the Technical Education and Vocational Training Sector Development Project Phase III in the latest draft of the 2014 budget estimates.

42. In the TVET sector, budget preparation processes follow a bottom-up process. The Chief Accountant of the MYASD issues a Budget Preparation call notice to its department and statutory boards. This instruction, in turn, is issued to individual training institutions requesting them to prepare and submit their budget estimates for the following year. Separate budget requests are prepared for capital and recurrent budgets. These initial budget estimates are not made within a specified budget ceiling and therefore have a tendency to be overstated and not prioritized at this stage. As a rule, requests for reductions in overall budget estimates will be made by both the MYASD and the MOFP during the budget negotiation process. Recurrent budgets are prepared on an incremental basis using the previous year's expenditure as a base adding increased expense for expected inflation in salaries and non-training operational and facilities running costs, such as the cost of utilities. Variable budgets are calculated for training activities based on standard costs of training materials multiplied by the volume of planned activities. The finance department of each agency consolidates all internal budget requests for onward submission to the MYASD Chief Accountant. On receipt of budget estimates from DTET and training agencies, the Chief Accountant will consolidate these with the ministry's own budget estimate from its divisions to prepare a draft budget estimate for the entire Ministry using the formats provided by the Department of National Budget for both capital and recurrent expenditure.

43. The MOFP reviews total budget proposals from all ministries in the light of available resources and subsequently provides budget ceilings to the MYASD in order to make adjustments to the proposals for both recurrent and capital budgets to bring into line with the budget ceilings. The MYASD reviews and makes adjustments in consultation with the various department and agency heads. It is usually the case that reductions are needed to original estimates to reach lower targets set by MOFP. Following receipt of amended draft budgets, the Department of National Budget calls a meeting with MYASD officials to negotiate the contents of the budget submission. When negotiating the proposed budget, priority is first given to recurrent budget provisions such as wages and salaries and facility running costs such as the cost of utilities. Variable costs associated with training activities and included in the recurrent budget are considered next and adjustments may be made to the volume of planned activities to constrain estimated costs to budget availability. The capital budget requests are considered on a case to case basis with non-essential items deferred until the following year, where appropriate.

44. The budget negotiation meetings are called by the Secretary of the General Treasury and involve officials from the line ministry including the Ministry Secretary and heads of department. Treasury departments involved are the National Budget, National Planning, External Resources, and the State Accounts Department. The final figure for budget provision is incorporated in the Appropriation Bill prepared by the Department of National Budget for approval by the Parliament. This is in line with the Constitution which requires prior approval from the Parliament before any money can be withdrawn from the Consolidated Fund.

45. There is limited flexibility to add additional budget provision during the financial year. Each line ministry has the authority to make budget virement between budget heads within restrictions which are listed in the Financial Regulations as long as the overall total budget has not exceeded. Restrictions include the exclusion of transferring funds between salary and non-salary budget heads. Transfers between recurrent and capital budgets of the same program are also prohibited.

Funds are not allowed to be transferred to a new project unless the project has prior approval by Parliament. It is also not permissible to transfer savings from a Foreign Aid Financing to the Consolidated Fund, neither is it allowed for funds to be transferred from direct Foreign Funding to Reimbursable Foreign Aid or to a Counterpart Fund. Likewise, savings from Counterpart Funds cannot be transferred to the Consolidated Fund. It is also not allowed to create or increase or transfer savings from provision for grants or subsidies to any specific institution, agency, or individual (F.R 18). It is possible to make a special request to the Secretary of the Treasury for release of additional allocations from the miscellaneous vote of Treasury in the form of supplementary budgets although these are rarely granted. In the case of unforeseen emergency, an advance can be obtained from the Treasury under the Contingency Fund.

46. **Government fund release process**. After the President has given consent to the proposed national budget, the Minister of Finance signs the General Warrant. MYASD will then prepare its annual cash requirement and submit it to the State Accounts Department in the General Treasury to obtain imprest funding. The cash imprest required by the MYASD is facilitated in three ways by the Treasury:

(i) a bank facility for recurrent expenditure: the bank is notified by the Treasury to honour up to the pre-determined limit;
(ii) by direct cash release to the Ministry bank account in the State Bank for capital expenditure and the payment of loans to public servants in the Ministry;[8] and
(iii) cash is released directly to each bank account opened separately for each foreign-aid funded project.

47. Since the SSEP will be treated as capital expenditure in the national budget, option (ii) will apply and the State Accounts Department will process direct cash release to the MYASD bank account in the State Bank. Those involved in implementing the Ministry's Annual Implementation Plan are informed of the approved budgetary provisions. Cash imprest allocations are released by the MYASD to the training authorities for onward transfer to district offices and training establishments. MYASD departments and agencies submit summaries of expenditure and receipts after making payments for services, procurement, and civil works and these monthly summaries are consolidated into a single summary and submitted to the State Accounts Department. These monthly financial statements serve as cash forecast requests for subsequent monthly release.

48. The financial regulations sets out clear rules for transfers between budget heads to ensure compliance with overall budget allocation objectives. Transfer of savings from a recurrent expenditure head of any program to capital expenditure of the same program, or to the recurrent or capital expenditure of any other program, should be ordered by the Secretary to the Treasury or any officer authorized as provided for in the Appropriation Act. Transfers between programs can be done only if the Appropriation Act provides for such transfers. Transfers between Object Classes of recurrent expenditure (type of expenditures) within projects (subsectors) can only be made if authorized by the Secretary to the Ministry concerned/Chief Accounting Officer. Transfers between Object Classes of a Capital expenditure Project can only be made if authorized by the Secretary to the Treasury/Deputy Secretary to the Treasury or any other officer authorized by Secretary to the Treasury.

[8] The DTET and the Statutory Boards receive their funding notifications directly from the Treasury rather than through the MYASD except in the case of externally-funded projects which are always notified by MYASD.

49. **Accounting.** Expenditure in government ministries and departments is managed through two computerized systems. The Computerized Integrated Government Accounting System (CIGAS) is used for financial reporting and is installed in all ministries and departments. CIGAS is a cash-based accounting system developed by MOFP and used across government for transaction recording and for reporting to MOFP. CIGAS only reports actual transactions and does not incorporate estimates and forecasts which are prepared externally to the system. The other computerized system manages the payroll and is also installed in all ministries and departments. Government statutory boards and agencies such as the National Apprentice and Industrial Training Authority (NAITA), Vocational Training Authority (VTA), Nationalal Youth Services Council (NYSC), TVEC and University of Vocational Technology (UNIVOTEC) are able to either install their own choice of accounting software or operate using manual accounting systems.

50. **Control and audit.** The safe custody of public funds and accountability is governed by a number of methods and techniques identified in Table 6 below.

Table 6: Control and Audit in the Government of Sri Lanka

Method	Details
Financial Regulations	The Financial Regulations code is issued under signature of the Finance Minister. These regulations apply to every public servant who handles public funds and government assets.
Establishment Rules and Regulations	Establishment of rules and regulations mainly concern personnel administration of public servants.
Circular Instructions	Issued by the Treasury and the Ministry of Public Administration.
Internal audit	Each government Ministry, Department, and Agency has an internal audit service.
External audit	The Auditor General reports to Parliament on ministerial matters deemed unsatisfactory.
Parliament's Public Accounts Committee	Constitutionally established to review matters arising from the Auditor General's reports.

Source: Asian Development Bank.

51. **Program financial reporting and auditing.** The annual program expenditure statements will be audited by the AGD. These include audit reports of the above appropriation accounts for MYASD and the TVET training agencies participating in the program. The AGD will issue a consolidated audit report for the SSEP including an audit opinion on compliance with the Financial Regulations and the Appropriations Act and will provide management letters on the consolidated financial reports prepared for the sector.[9] The AGD will also issue audit opinions on the financial statements of the TVET agencies and their compliance with the Sri Lanka Public Sector Accounting Standards. The audited consolidated financial statements in English should be received by ADB within 6 months at the end of the fiscal year. The reports will reflect the entire TVET sector expenditures for all sources of funds including all the appropriation accounts mentioned above. ADB requires all the expenditure for the Program to be disclosed adequately in line with the Sri Lanka Public Sector Accounting Standards. A separate statement of sources of funds shall also be provided. Detailed financial reporting requirements is set out in the statement of audit needs and agreed at loan negotiations (Annex 3). In addition to the statutory opinion, ADB will require the AGD to give specific positive audit assurance with respect to use of the loan proceeds and compliance with financial covenants in the loan agreement. ADB will brief the AGD to ensure that its staff understands the development partner requirements. Participating spending agencies making charges to the SSEP included in the MYASD budget will provide the

[9] Statement of Audit Needs is attached as Annex 3.

auditors with full access to the related documents and records. The government system for resolution and settlement of audit observations will be applicable to SSEP. The government will provide evidence to ADB of the course of action to resolve financial irregularities within 6 months after the date of the audit report. ADB will monitor the timely resolution of any irregularities identified in financial audit reports and follow up on the government's compliance on audit observations. ADB will reserve the right to commission supplementary financial and compliance audits, if required. Any irregular expenditure will be followed up through the government's own accountability procedures. {The template for the program financial statements will be developed before loan effectiveness attached as an annex to the PID.}

52. **Internal and external audit.** Internal and external audit functions in the government sector of Sri Lanka are considered to provide some level of reassurance against financial management risk and the overall risk has been assessed as moderate.

53. **Internal Audit.** The establishment of internal audit units is located across government ministries and departments. These internal audit units are staffed by Sri Lanka Accounting Service cadre personnel ensuring some level of financial training and experience although not specialized in audit training to international standards. The MOFP has a dedicated Department of Management Audit which issues circulars as guidance to internal auditors in ministries and departments and also provides some training to internal audit staff. All internal audit units prepare internal audit plans which are reviewed by the Department of Management Audit. The Department of Management Audit also receives copies of all internal audit reports. In all ministries and departments, the Chief Internal Auditor reports to the head of the organization and not to the Chief Accountant. However, a major weakness reported in the draft Public Expenditure and Financial Accountability is that internal audit functions being conducted are limited to pre-audit of transactions and inspections of financial records for compliance with regulations rather than conducting any form of system audit. There is a small internal audit function in the MYASD and each vocational training authority also has its own independent internal audit function. Therefore, the TVET sector is responsible for its own internal audit function at both central and sub-national levels.

54. Internal audit officers have either finance or management qualifications and generally have adequate experience for their positions. Internal audit responsibilities rest with activities funded through the consolidated fund and do not include externally-funded activities as part of their scope of work. As the proposed program will use RBL and the funding would become part of government budget, internal audit will also cover the program. Performance auditing is conducted in accordance with activities reflected in the Annual Work Plans.

55. The MYASD internal audit unit has a monitoring role for internal audit at the vocational training authorities but does not conduct internal audits itself provided at this level. The MYASD internal audit unit also has an Investigation Unit which may be called in for special cases such as receipt of public complaints. In all TVET agencies, the internal audit is independent of the finance function and reports directly to the head of agency. In all agencies assessed in this financial management assessment, internal auditors prepare an annual audit plan which is approved by the MYASD Secretary or the Board of Directors as appropriate. Frequency of internal audit varies for each agency, for example, Colleges of Technology are subject to internal audits annually by the DTET internal audit function while in the case of VTA the internal audit unit conducts internal audits at district level every six months. It should be noted that there has been an increase in the number of staff vacancies in the internal audit function between the earlier assessment and this update and this should be monitored during implementation in case internal audit departments lose further personnel.

56. **External audit.** The annual external audit of financial statements is carried out each year by the Auditor General in accordance with the Sri Lankan Accounting Standards and Sri Lankan Auditing Standards. There have been no reported delays in the audit of the MYASD or any of the vocational training agencies. The Auditor General also has responsibility for auditing all ADB-financed projects in Sri Lanka. A review of MYASD audit reports for 2010 did not reveal any major audit objections. The Auditor General audits financial statements, human resources employed against approved establishment, and also conducts performance audit in comparison with Annual Work Plans. In the case of the training agencies under MYASD, they can be subject to two audits by the Auditor General. For example, NAITA and NYSC identified they have two inspections by the Auditor General on an annual basis as an entity in their own right and secondly as part of the overall audit of the MYASD.

57. **Auditing and public disclosure.** In ADB, these statements will be disclosed in the ADB website in accordance with ADB's Public Communications Policy (2011). Available from http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications.

58. The PAP includes action to mitigate financial management risks.

2. Procurement System

59. A procurement systems assessment was carried out using ADB's Procurement Capacity Assessment and Procurement Review for Effective Implementation questionnaires. Sri Lanka has a functional public procurement system following the comprehensive National Procurement and Consultant Selection Guidelines that largely follows good practices. Most implementing agencies have reasonable capacity for current volume of work. Anticipating the increase in procurement activities under SSEP, procurement capacity needs to be strengthened and the following areas need to be improved: (i) procurement planning and compliance monitoring, (ii) document management and retrieval systems, (iii) monitoring and tracking of contractual performances, and (iv) complaints-handling mechanism. Mitigating measures are included in a DLI (e.g., follow-up of findings of annual fiduciary review including post procurement review) and PAP. The Guidelines to Prevent or Mitigate Fraud, Corruption, and Other Prohibited Activities in Results-Based Lending for Programs were explained to and discussed with the government.

a. Summary of Procurement System and Actions

60. **Skills Sector Enhancement Program procurement profile.** MYASD is the key implementing agency and the main procuring entity. The procurement will be carried out by MYASD and eight TVET agencies.[10] The procurement aspects under SSEP involve the construction of about 30 new training centers; rehabilitation and improvement of about 100 existing training centers; supply of training equipment, teaching aids, office furniture, laboratory/information and communication technology (ICT) equipment, and vehicles; and engagement of consulting services. About three-fourths of the program procurement will be conducted by MYASD and three TVET agencies (VTA, UNIVOTEC and DTET). About two-thirds of procurement under SSDP will comprise of civil works and training equipment. While majority of civil works (package size $2 to $5 million) will be procured using National Competitive Bidding (NCB) procedures, training equipment (package size $0.5 to $1 million) will be procured using International Competitive Bidding (ICB) procedures. The similar nature of civil works and training equipment would be grouped together and packaged, either at the district level or agency level, to improve overall efficiency and economy. In addition, a few small value procurements will be

[10] TVEC, DTET, UNIVOTEC, VTA, NAITA, NIFNE, and NYSC.

conducted for office furniture, laboratory and ICT equipment, teaching aids, vehicles, etc. using NCB procedures. Procurement of some laboratory and ICT equipment may also pass the current NCB threshold of SLR300 million and use ICB procedures. Such ICB contracts would be handled centrally at MYASD. Small-scale procurements valued up to SLR5 million will follow shopping procedures by inviting minimum five sealed quotations and direct contracting may also be used for small-value contracts valued up to SLR2 million by inviting minimum of three sealed quotations from registered suppliers as indicated in the National Procurement Guidelines.

61. The bulk of the procurement would involve civil works of about 130 new and existing training centers of package size up to $5 million; training equipment of package size up to $2 million; and office furniture, laboratory/ICT equipment, vehicles and consulting services of package size up to $0.5 million. While civil works and consulting services will be procured using NCB procedures, training equipment will be procured using ICB procedures. Some specialized consulting services may be procured using ICB procedures. Civil works and training equipment will be bundled together and appropriately packaged, either at the district level or agency level, to improve overall efficiency and economy in procurement. All consulting services and equipment procurements will be managed centrally at MYASD for overall TVET sector to maximize efficiency.

62. Procurement of all goods, works, and consulting services will be conducted using country procurement system that follows National Procurement Guidelines (2006) and Consultant Selection Guidelines (2007),[11] which are largely in line with sound procurement principles of open competition, economy and efficiency, transparency and fairness. All consultant services and equipment procurements will be managed centrally at MYASD to ensure overall efficiency and economy. All consultants will be recruited through open competition using either quality- and cost-based selection or quality-based selection. The majority of consulting services would be of 'national' nature; however few specialized assignments could be categorized as 'international'. The consulting services assignments would generally be related to skills development issues.

63. **Country-level procurement systems.** The Government of Sri Lanka has a functional public procurement system, based on comprehensive *National Procurement Guidelines*[12] and *National Guidelines on Selection and Employment of Consultants*[13] that are in line with sound procurement principles of open competition, economy and efficiency, transparency, and fairness. In the absence of a codified public procurement statute, these guidelines have the force of law and are legally enforceable. They are supplemented by the detailed manuals on procedural aspects and standard bidding documents (SBDs) and standard request for proposal issued by the 'Institute for Construction Training and Development' for procurement of civil works as well as consultant recruitment. These manuals and SBDs are improved and updated from time to time through various appropriate amendments. Overall, the public procurement in Sri Lanka at central, provincial, and agency level is governed by these national guidelines, manuals, and SBDs. Open competitive bidding is mandatory for all contracts over SLR5 million ($40,000 approximately) for goods and works. Small-scale contracts up to SLR5 million may follow shopping procedures. Each of the procurement is evaluated by a Technical Evaluation Committee comprising at least three members,[14] including at least one subject specialist, and a representative from the concerned ministry. The Technical Evaluation Committee's evaluation report is reviewed and approved by an appointed Procurement Committee in line with the delegation of powers.

[11] Government of Sri Lanka issued National Procurement Guidelines in 2006 and National Consultant Selection Guidelines in 2007. 2012. Colombo.
[12] Government of Sri Lanka. 2006. *National Procurement Guidelines.* Colombo.
[13] Government of Sri Lanka. 2007. *National Guidelines on Selection and Employment of Consultants*. Colombo.
[14] For goods and services contracts valued above SLR5 million and works contracts valued above SLR10 million, the minimum TEC size is five members.

Appointing authorities, composition, and the thresholds for approval authority of procurement committees are well defined in the Procurement Manual and National Procurement Guidelines. In case of recruitment of consultants, similar process as indicated for procurement is clearly indicated in the Consultant Selection Guidelines.

64. While Sri Lanka has well-established functional public procurement system, the findings of the procurement assessment conclude the following key risks relating to procurement for implementation of the proposed program by the MYASD and eight TVET agencies:

(i) weak procurement capacity in smaller TVET agencies;
(ii) inadequate procurement staff strength and associated facilities like office space, computers, printers, etc. to match with enhanced scale of program procurements;
(iii) absence of well-structured capacity building programs in procurement, consultant recruitment, and contract management;
(iv) weak procurement planning and compliance monitoring;
(v) inadequate monitoring and tracking of contractual performances; and
(vi) inefficient complaints-handling mechanism and insufficient document management and retrieval systems.

65. **Program to strengthen procurement capacity.** The capacity of MYASD and TVET agencies will be strengthened through an ongoing Capacity Development Technical Assistance for Human Capital Development and Implementation Support.[15] Special attention will be paid to strengthen the capacity of smaller TVET agencies in procurement planning, budgeting, contract administration, and monitoring at all levels. These capacity building measures would strengthen procurement planning and management at the MYASD and eight TVET agencies. The key mitigating measures with respect to identified procurement risks include:

(i) set up dedicated procurement cell under SDD/MYASD for centralized monitoring and interfacing with TVET agencies on procurement matters;
(ii) timely augmentation of procurement staff strength and associated facilities in procurement units to match with SSDP workload;
(iii) providing well-structured sequenced training to procurement staff on all steps of procurement, consultant recruitment, and contract management to MYASD and TVET implementing agencies;
(iv) grouping of similar works and goods into appropriate contract packages to ensure economy, efficiency, timeliness, and quality in procurement;
(v) wide dissemination of procurement plans, bid invitations, bid documents, contract award data, and status of complaints if any on program-specific online web-link on MYASD's website to enhance transparency; and
(vi) efficient electronic document management and retrieval systems; and
(vii) periodic procurement reviews and audits.

3. Anticorruption System

66. National Procurement and Consultant Selection Guidelines provide ethical standards and general prohibitions on corrupt activities, conflicts of interest, and the acceptance of gifts or inducements. Although the process is not being practiced consistently, these guidelines provide

[15] ADB. 2012. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Human Capital Development Capacity and Implementation Support.* Manila.

procedures for blacklisting. The AGD conducts the external audit. The AGD's recommendations are considered by two parliamentary oversight committees: (i) Committee on Public Expenditure and (ii) Committee on Public Accounts. The guidelines have provisions for debriefing, establishing appeal procedures, and setting-up of an appeal board. The appeal board is established directly under the President of Sri Lanka. For small-value contracts, the appeal procedure is administered by the secretary of the line ministry.

67. The approvals are accorded by the designated procurement committees, and in higher value case, the concerned Secretary or the Cabinet of Ministers. The government requires that all records be kept for at least 5 years. In practice, while records are kept, document management and retrieval systems are suboptimal and could be further improved by training the concerned personnel. All procurements are subject to annual internal audit by the agency internal auditors and to external audit by AGD as part of the annual financial audits. No procurement audits are carried out by the auditor general. In special cases, the AGD conducts field checks and reviews on request. ADB will conduct annual fiduciary reviews covering procurement and financial management, with a focus on higher risk areas identified by the AGD.

68. Transparency International[16] ranked Sri Lanka 91 out of 176 countries on its Corruption Perception Index in 2013. Although Sri Lanka performed significantly better than most of its neighbors in South Asia and several countries in Southeast Asia, with a score of 37/100, anticorruption mechanisms clearly need to be strengthened. The SSEP will help mitigate these risks by providing comprehensive capacity building trainings and creating an online program specific link on MYASD's website to update all procurement-related information including contract awards data, winning bidders, complaints received, if any, and their status, and conducting regular procurement audits with incrementally reduced negative substantial findings.

69. An effective interface will be established between the MYASD and TVET agencies to set out clear and agreed targets for procurement performance, and accordingly protocols will be clearly articulated, including the requirements for strict compliance with national procurement guidelines, submission of regular procurement activity updates, periodic reviews of SSDP procurement activities, participation of staff in the procurement capacity building programs, and adequate financing and releases for SSDP implementation. The support role played by the SDD/MYASD in providing technical support to TVET agencies on procurement matters will also be articulated.

B. Satisfying Procurement Member Country Eligibility Restrictions

70. RBL policy includes provisions to satisfy ADB's member country procurement eligibility restrictions (RBL policy paras. 130–132 copied below). RBL member country procurement verification will be limited to procurement by the DMC specifically for the program.

[16] 'Transparency International', an organization based in Berlin, was established in 1993 to tackle corruption on the regional and global stage. The Corruption Perceptions Index ranks countries based on how corrupt a country's public sector is perceived to be. It is a composite index, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. Scores range from 0 (highly corrupt) to 100 (very clean).

130. **Use of proceeds and procurement**. Proceeds from RBL will be used to finance program expenditures aimed at achieving program results, improving program institutions, and providing needed support for achieving program objectives. ADB financing under RBL is not linked to specific transactions, but is an integral part of program financing as a whole, which may include financing from the DMC's own resources and cofinanciers.

131. To satisfy the Agreement Establishing the Asian Development Bank (the Charter),[52] RBL for programs will require the adoption and implementation of mechanisms and procedures relating to the mandated country procurement eligibility requirement. Such mechanisms and procedures will provide reasonable assurance that the aggregate amount of ADB disbursement proceeds does not exceed the amount of the total program expenditures on goods, works, and services from ADB member countries, including from the borrowing country. Conversely, the total program expenditures excluding the procurement from non-member countries should be at least equal to, or exceed, the amount of ADB financing.

132. At the processing stage, as part of the procurement and financial management system assessments, ADB will take measures to ensure that those systems will provide for competitive and transparent procurement with due consideration for economy and efficiency, and can adequately track and record awards to foreign bidders, particularly those from non-member countries. During implementation, ADB will require the DMC to reflect the aggregate procurement value from ADB's non-member countries in the program's audited financial statements. This data will need to confirm that the amount of total program expenditures on goods, works, and services from ADB member countries (including the borrowing country) is at least equal to, or exceeds, the amount of the ADB RBL disbursements during the relevant reporting period.[53] ADB will reserve the right to audit compliance with this requirement. In certain cases, ADB may, where necessary, also support the DMC in establishing an adequate procurement bidder award recording and reporting system.

C. Safeguard Systems

71. SSEP will entail upgrading and refurbishment of existing training centers and construction of some new buildings in already existing premises or in government-owned land, avoiding new land acquisition or sensitive areas. A program safeguard system assessment confirmed the safeguard categorization for environment (B), involuntary resettlement (C), and indigenous peoples (C) and highlighted the capacity gap in complying with safeguard requirements, especially at training center level. MYASD will adopt an environment and social management framework for SSEP. MYASD will develop a detailed screening checklist and train focal officers from each implementing agency on the required procedures in the framework to ensure that (i) any category 'A' activities are excluded from the program and (ii) no activities involving involuntary resettlement or indigenous peoples issues will be included in the program. MYASD's SDD/MYASD will have a designated safeguard officer to provide support and monitor the framework implementation. Other recommendations from the assessment are included in the PAP.

1. Environmental Impacts and Risks

72. The refurbishment of colleges and the construction of new buildings at college sites could cause the following environmental impacts and risks:

(i) **Site clearance and preparation.** The sites for the extension of TVET centers do not pose any environmental risks regarding site clearance, as they are already in use. In case of new sites, there can be risks such as drain and waterway blocking during site clearance. Vegetation not properly disposed of could also spread invasive species causing environmental degradation. Pools of stagnant water could generate health risks by creating vector populations. Site clearance could also lead to or aggravate soil erosion, especially during the rainy season.

(ii) **Noise generation.** Refurbishment and construction of structures cause noise especially when demolishing buildings and loading and transporting materials.

(iii) **Dust generation**. Demolition of buildings will cause dust. Loading and transportation of debris increase dust level. Transportation and storage of new building material also generate dust. Dust pollution poses health hazard to students and residents in the vicinity.

(iv) **Transport.** Transportation of building material to and from the site will create noise, dust and disturbances, and can cause injury to children and damage college property, if not adequately managed.

(v) **Occupational hazards to construction workers and students.** Construction workers are exposed to occupational hazards, if proper safety procedures are not followed. At TVET centers, some training activities can cause occupational hazards, especially related to the use of sharp objects, hazardous liquids and compounds, and noise generation equipment. Such hazards were noted and pointed out during the field visits.

(vi) **Lack of drainage leading to soil erosion, sedimentation, and health hazards.** Gravel, sand, and soil brought in to sites for building constructions or resulted from demolitions might, if not properly handled, be washed off to nearby streams, paddy lands and low-lying areas, and wetlands. This can cause sedimentation blocking natural flows of water and degrading habitats.

(vii) **Contamination of groundwater and surface water.** Wastewater can contaminate drinking water sources through runoff, if not appropriately channeled into disposal pits or other suitable areas. This risk is particularly high when the waste water comes from school laboratories and toilets. They were noted and pointed out during field visits.

(viii) **Waste generation.** Any construction will generate construction debris which unless disposed appropriately and in a timely manner, will pollute adjoining areas, including potentially sensitive sites and residential areas. The lack of proper construction waste disposal could also block natural drainage systems and create breeding grounds for waterborne diseases. The planned upgrade of science laboratories can also create a risk as they would increase the quantities of hazardous waste and organic waste. However, the estimated quantities will be very low since any hazardous materials will be used only for training purposes. The lack of appropriate mechanisms to dispose hazardous and toxic waste produced during the construction and operation stages of the proposed facilities of the program at TVET centers and municipal levels could lead to the contamination of soil and water resources.

(ix) **Resource extraction.** The planned refurbishment and extension of college physical infrastructure will require materials such as sand, clay for bricks, and timber. This will place a burden on natural resources. However, given the nature of works envisaged, these implications are not likely to be significant.

(x) **Damage to aesthetics of site and/or area.** Refurbishment and extension of college buildings could have some impacts on aesthetic and scenic characteristics of colleges and their environs. Anticipated disturbances to current aesthetics will be temporary and limited to construction phase. At new sites, the risk of damage is high, if new structures are not consistent with college architectural customs.

(xi) **Stressed sanitary conditions.** Inadequate and nonfunctional washing and toilet facilities expose college students to health risks. A shortage of clean drinking water will result in dehydration. During field visits, such risks were noted and college authorities were informed. At new sites, stressed conditions will be accentuated unless the sites are planned to avoid shortages of clean water supply.

(xii) **Lack of adherence to set standards.** During field visits, a limited number of science laboratories were found which do not meet occupational health and safety standards such as provision of adequate safety equipment, and chemical disposal processes. These risks were noted and pointed out to college managers.

(xiii) **Lack of maintenance in developed infrastructure.** The lack of adequate funds to maintain training centers leads to their rapid deterioration.

(xiv) The short-term construction-related impacts and risks and safeguard risks outlined above can be prevented or at least mitigated by adopting standard operational procedures and good construction management practices. Such adoption will require sufficient funds and their proper management. These procedures must be outlined in the Terms of Reference of an Initial Environmental Examination Report. A sample Environmental Management Plan (EMP) covering environmental impacts and corresponding mitigation measures has been prepared to assist the formulation of site specific EMPs.

2. Social Impacts

73. The program will bring distinct and clear benefits to the communities where the colleges are located in particular and to the regions in general.

(i) **Local Development**. The refurbishment and extension of college buildings and the construction of new buildings under the program will not generate some temporary health or access problems to colleges and noise pollution. These adverse impacts will be dealt with through mitigation measures outlined in the EMP of the program. The program-initiated physical infrastructure facilities will benefit students and generate more income sources such as catering food and transportation for local communities. The upgrade of colleges will increase land values and would generate demand for accommodation and other facilities such as bookshops and food centers.

(ii) **Promotion of Social Cohesion**. The program will increase cohesion among different ethnic groups as it will enroll more students from different parts of the country to follow courses.

(iii) **Promotion of Gender Equity.** The program will increase the gender balance since it is designed to encourage both male and female students to enroll in courses at colleges. This is guaranteed by the Women's Charter of the Government of Sri Lanka (1993).

(iv) **Regional equity**. The Program will improve regional equity since it will distribute various courses and skill program packages widely among colleges in all regions of the island.

3. Safeguard Policy and Regulatory Framework

74. In Sri Lanka, policy and regulatory framework applicable to safeguards has two components, namely: (i) environmental protection laws and procedures and (ii) land acquisition law and resettlement and rehabilitation policies and guidelines. These two components interact and share several safeguard principles found in international best practices in safeguard compliance. The 2010 Regulations of the Land Acquisition Act bring together the best practices found in both components pertaining to involuntary resettlement.

a. Environment

75. **Laws and Regulations.** The National Environmental Act (NEA) of 1980 is the main law for environmental protection which was subsequently amended by Act No. 47 of 1980, Act No. 56 of 1988, and Act No. 53 of 2000. In 1983, a provision for conducting an environmental assessment of development projects was included in NEA. The NEA also provides conservation and development guidelines for natural resources, including water, forest, flora, and fauna. The NEA is also supported by the 13th Amendment to the Constitution of Sri Lanka, Pradeshiya Sabha Act

No. 15 of 1987, State Land Ordinance Act No. 13 of 1949, National Water Supply and Drainage Board Law No. 2 of 1974, National Policy for Rural Water Supply and Sanitation 2001, Prevention of Mosquito Breeding Act No. 11 of 2007, Urban Development Authority Law, No. 41 of 1978 (as amended by Act No. 70 and subsequent amendments), Coastal Conservation Act of 1980 and its amendments, Municipal Council Ordinance Act No. 29 of 1947 (amendment Act 18 of 1979 and subsequent amendments), and Urban Council Ordinance 61 of 1939 (Acts 13 of 1979 and subsequent amendments). Other sector-specific environmental policies and laws related to environmental protection such as Water Management Law and Pollution Control Law become applicable depending on specific site situations. The policies, laws, and regulations governing environmental protection provide a satisfactory framework for environmental safeguard compliance of the program.

76. **Enforcement, Review and Grievance Redress.** At the state level, the Central Environment Authority (CEA) is the key approval and enforcement institution of environmental safeguard requirements. The CEA has provincial offices; but they often lack resources to carry out safeguard compliance functions. The CEA appoints a project approving agency (PAA) for each project which falls under the 'prescribed project' list. The PAA will prepare the terms of reference for environmental assessment after holding 'scoping' meetings to determine whether the assessment should be an environmental impact assessment or initial environment examination. The PAA is the government authority responsible for administering the environmental assessment.

77. The CEA is the apex agency which oversees the application of NEA and the adoption of good environmental practices in preventing environmental degradation and pollution in projects and programs. Advice, return of planning documents for revision, demand for more information and data suspension, cancellation, and indictment against polluters are some of the powers that NEA has to deal with safeguard non-compliance.

78. Complaints pertaining to environmental adverse impacts are initially dealt with by project authorities. If project authorities fail to resolve, the complaint is referred to the provincial CEA offices with the help of line department and agencies. Delays in completion of hearings are frequently noted. Resorting to the court system for redress is always an option available to a grieved party. The CEA receives some 10,000 complaints from the public every year. The complaints mainly relate to dust, noise, and water pollution arising from industrial or commercial activities. The CEA has not received any complaint against the TVET system. A few grievances, in each year reach the Court of Appeal for arbitration.

79. A grievance redress mechanism (GRM) is part of any project supported by international and regional development agencies such as the World Bank, International Finance Corporation, ADB and Japan Bank for International Cooperation. The GRM is a bottom-up multi-tiered structure starting from the division level to district and to national level. The local environmental regulatory framework does not provide for an institutionalized GRM other than the web-based compliant window at the Government Information Centre. Complaints are recorded and disposed by district offices and several such complaints are arbitrated by the CEA in Colombo. The proposed environment and social management framework (ESMF) of the program will establish at district level and outline procedures of its establishment, functions, powers, membership, and budget.

80. The environmental policies, acts, and regulations comprise a national framework for environment protection and sustainable development. It provides sufficient and comprehensive legal framework to address and mitigate identified potential safeguard risks associated with the program and to comply with ADB's environmental safeguard policy requirements.

b. Involuntary Resettlement

81. **Policies, laws and regulations.** The key legal instruments pertaining to land acquisition and resettlement are the Land Acquisition Law of 1950 (LAL) and the National Involuntary Resettlement Policy of 2001 (NIRP). In 2008, the Ministry of Land and Land Development (MLLD) formulated the National Compensation Policy (NCP) to recognize several international best practices pertaining to involuntary resettlement such as the payment of market value of property acquired and the entitlement of non-titled land users to receive compensation and resettlement assistance. In 2010, the Parliament of Sri Lanka approved the detailed Land Acquisition and Compensation Regulations which updated regulations of LAL and incorporated resettlement best practices in NIRP and NCP into the procedures of land acquisition, compensation, grievance redress, and resettlement. A recent ADB TA (TA7566) assessed both the 'equivalence' and 'acceptability' of the national land regulatory framework based on NIRP and NCP, LAL, their regulations, and court decisions (which set precedent for future arbitration on land acquisition disputes, compensation, and rehabilitation issues). The MLLD published the new land regulatory framework – Land Acquisition and Implementation of the National Involuntary Resettlement Policy, A Guide for Public Officials on Good Practices. The TA found a high level of congruence (80% to 85%) between the current land regulatory framework and the involuntary resettlement best practices enshrined in the Safeguard Policy Statement (2009). The MLLD will initiate the process to incorporate these policies and regulations into the Land Acquisition Act. Some key areas that need further legal consideration are income improvement of the poor and vulnerable affected persons, monitoring and assessment of resettlement outcomes and their impacts, and disclosure of resettlement planning documents.

82. The TA also conducted several stakeholder workshops to discuss the revised and improved land regulatory framework, identify gaps, if any, in the regulatory framework, share knowledge on how to apply it to development interventions. The new regulatory framework superseded all ad hoc and special compensation and resettlement and rehabilitation packages followed by different Ministries. The Secretaries of Divisional administration took part in special training programs to learn the new regulatory framework, discuss their problems and difficulties in using it in some areas and the budgetary and other resource constraints.

83. **Enforcement, review and grievance redress.** Procedures for land acquisition, compensation payment, and relocation are managed by MLLD, concerned Ministry, Valuation Department, Survey Department, and local government agencies. Both MLLD and CEA review resettlement plans. Land acquisition and compensation programs are initiated and completed at the Divisional (sub-district) level with a few cases on appeal reach the Review Board or courts.

84. A grievance redress mechanism is built into the NIRP and 2010 Regulations. The mechanism is applicable to all project and programs regardless of the sources of finance. As in the case of environment, the GRM is a bottom-up multi-tiered structure from the divisional level to state-level. The membership, powers, and duties of GRM change from project to project. The projects which are sponsored by international or regional development agencies usually display a keen interest in GRM. Records of GRMs are kept and sometimes use in higher level arbitration and court cases. Any grieved party could seek courts' assistance to redress its grievance.

85. While the policy and regulatory frameworks for environmental and social safeguards are satisfactory, weak institutional capacity, particularly among local authorities, is an impediment to effective implementation of safeguard requirements. This issue will particularly be addressed under the program by developing a comprehensive ESMF and through the Action Plan (see Appendix 2). The ESMF will provide guidelines, tools, and assessment methodologies to screen

and identify safeguard impacts of subprojects of the program, prepare appropriate plans, implement them, monitor them, and establish GRMs.

4. Responsibility for Safeguard Compliance of the Program

86. The management of the TVET system including safeguard compliance is the responsibility of MYASD. MYASD and its affiliated institutions have persons who deal with safeguard, particularly environment safeguard issues. At the college level, there are no designated functionaries for safeguard application and compliance. Those who are designated to ensure safeguard compliance are generally dedicated personnel, but their activities are thwarted by the lack of resources and multitude of activities that they attend to daily.

87. There are no systematic training and awareness creation and enhancement programs at any level with regard to safeguard application and compliance. There were some safeguard training of staff under other programs but it remains uncertain what practical and long-term impacts that they have had on daily operations of TVET institutions and colleges.

5. Safeguard Program Actions

88. The Program Safeguard System Assessment shows that national safeguard policy and regulatory frameworks can ensure effective application of environmental and involuntary resettlement safeguards in the formulation and implementation of safeguard planning instruments. However, there is a safeguard planning and implementation risk arising from the low level of awareness and capacity among TVET personnel, teachers, and college managers regarding safeguard principles and their application. These capacity deficiencies and weaknesses in applying safeguards at the national and district levels need to be overcome through the support of the program.

89. The MYASD will establish a ‘safeguard cell’ at its headquarters with at least two qualified and experienced safeguard specialists who will act as the focal persons for safeguard aspects of the program’s subprojects. The safeguard cell will be supported by a safeguard personnel appointed at affiliated institutions and colleges. The safeguard cell will mainstream safeguard requirements for all activities of the program and make critical interventions to facilitate safeguard compliance of all program activities. The cell will formulate outlines of safeguard planning instruments which will be followed by all subprojects, that is, colleges and local government agencies, in applying and approving building permits and implementing enhancement and construction of activities of the program.

90. Screening for environmental and social safeguard impacts and the formulation of appropriate safeguard planning instruments could be outsourced. However, the safeguard cell at MYASD will remain responsible for their quality, implementation, and monitoring. The database at MYASD should hold all important safeguard data which are easily assessable for planning and monitoring of safeguard compliance.

91. A meaningful consultation and interaction between each college and its nearby communities are to be established. The planning of remedies and mitigation measures for environmental impacts can be done in consultation with the communities. This would enhance the ownership of such mitigation measures by the communities. In this regard, the establishment of GRM at each subproject level is also helpful. The proceedings of complaints and the outcome of inquiries are to be recorded and shared with the grieved parties.

92. Knowledge sharing and training programs will be the key vehicle of increasing awareness of safeguards among MYASD, its affiliated institutions, local governments, and colleges. Training programs will be prepared by the 'safeguard cell' in consultation with ADB's resident mission and participating agencies in the program. As part of training, handbooks, manuals, checklists, and safeguard plan templates will be prepared in Sinhala and Tamil and distributed among MYASD, its affiliated institutions, local government offices, and colleges. This activity could be outsourced. It is necessary to update training manuals and handouts periodically by including the safeguard planning and compliance experiences.

93. The lack of coordination between MYASD and private sector is a key issue that needs attention of MYASD and its affiliated institutions. Establishment of a robust arena for such an interaction would facilitate the transfer of current industrial standards from the private sector to TVET sector. Moreover such interaction and coordination would benefit college students who aspire to enter the employment market. Both parties would also benefit from sharing of safeguard best practices and experience in their development programs.

94. A program ESMF will be established as the tool for MYASD to comply with safeguard requirements (ESMF to be developed before loan effectiveness and added as annex).

D. Gender and Social Equity Dimensions

95. The TVET system is open for all, but due to socioeconomic and cultural reasons, women and disadvantaged groups' access to the training opportunities can be hampered. With the recognition of importance of engaging women and disadvantaged groups in skills development as a way to empower them to become socially and economically active, MYASD will develop a ministry-wide gender and social equity framework (GSEF) to make the system more accessible to women and disadvantaged group. A gender officer will be hired to support MYASD/SDD to implement and monitor the progress in GSEF (GSEF to be added as annex). Other gender related actions are summarized in the PAP.

E. Communications Strategy and Information Disclosure Arrangements

96. MYASD's disclosure strategy is to disseminate all financial, procurement, and safeguard information on its website as per the anticorruption plan. In addition, MYASDD will also disclose through its website the sector performance and findings of the reports from SSEP.

F. Development Coordination

97. **Major development partners' strategic foci and key activities.** Since the 1980s, substantial investments have been made in Sri Lanka's TVET with significant support from its development partners, particularly ADB and several bilateral organizations including the British Council, Canadian International Development Agency, Department of Foreign Affairs and Trade, Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ), Indian High Commission, Japan International Cooperation Agency, Korean Eximbank, the Korean International Cooperation Agency, and the United States Agency for International Development. United Nations organizations have also played an active role in supporting the development of the sector, particularly the International Labour Organization. Some international nongovernment organizations including the World University Service of Canada, Save the Children, and Plan International have long supported non-formal education and TVET implementation. Table 1 highlights major development partners in Sri Lanka's TVET sector. With two recent projects

supporting TVET,[17] ADB has had a substantial impact on the performance and policy trajectory of the sector, particularly by supporting the plans of the government to improve the quality and relevance of the TVET system, and strengthening key implementing agencies including the VTA, DTET, and the Tertiary and TVEC. Sri Lanka continues to depend heavily on external financing for TVET, particularly for development activities, as funding constraints have slowed progress and the private sector engagement has been low (Table 7).

Table 7: Major Development Partners

Development Partner	Name of Operations	Duration	Amount
ADB	Education Sector Development Program	2013–2018	$200.0 million
British Council	TVET Support Program	2007–2013	$0.6 million
CIDA	Skills for Employment Program	2008–2014	$12.0 million
GIZ	Vocational Training in the North	2012–2015	€11.4 million
	Peace Building through Vocational Training of Youth in the East Project		€2.8 million
ILO/EU	TVEC Provincial Skills Plans	2013–2015	€1.2 million
KEXIM	Establishment of Colombo Vocational Training Center and Gampaha College of Technology Project	2013-2016	$26.0 million
KOICA	Automotive Industry training Support Program	2013–2015	$3.0 million
World Bank	Proposed Loan to support SSDP	2014–2018	$100.0 million
WUSC	Assessment Center Establishment and RPL	2009–2014	$7.7 million

€ = Euro, $ = U.S. Dollar, ADB = Asian Development Bank, CIDA = Canadian International Development Agency, DFAT = Department of Foreign Affairs and Trade, EU = European Union, GIZ = Deutsche Gesellschaft fur Internationale Zusammenarbeit, ILO = International Labour Organization, KOICA = Korean International Cooperation Agency, RPL = recognition of prior learning, SFE = Skills for Employment, SSDP = Skills Sector Development Plan, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, WUSC = World University Service of Canada.
Source: Asian Development Bank.

98. **Institutional arrangements and processes for development coordination.** All official development assistance is coordinated by the External Resources Department (ERD) under MOFP while sector focal ministries coordinate technical aspects of development coordination. MYASD's TVET Division has historically managed development coordination in the TVET sector. However, with the wide array of institutions involved and with a project-driven approach to financing and implementation, the effectiveness of coordination has been mixed. The consolidation of TVET implementation agencies into MYASD, which was only completed in 2010, improves capacity for monitoring of results and coordination of activities within an overarching government policy framework.

99. SSDP (2014–2020), provides a single platform through which the government can effectively direct domestic and external development financing towards meeting the strategic objectives of the government. SSDP will be monitored and coordinated by the National Planning Department in MOFP with implementation support provided through a dedicated division, SDD within MYASD. ERD will coordinate with development partners and coordinate alignment of their investment activities within the government's overall SSDP framework. Progress reporting will be to an Inter--ministerial Sector Coordination Committee chaired by MOFP who will update SSDP and monitor sector financing linked with performance and achievement of result indicators. The National Planning Department will be supported with overall coordination across government

[17] ADB. 1999. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Skills Development Project*. Manila. and ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Technical Education Development Project*. Manila.

ministries and agencies by SDD/MYASD and through the TA on Human Capital Development Capacity and Implementation Support.[18]

100. Initial systems will need to be developed to support a sector-wide approach including: (i) a common management information system and (ii) a common performance monitoring mechanism that can accommodate the activities of each major stakeholder of SSDP and ensure their accountability (MOFP, SDD/MYASD, other ministries involved in delivery of TVET services, and the responsible TVET agencies) for achieving results and the clearly-defined SSDP targets and/or indicators. Under SSDP, TVET programs will have to align with TVEC quality assurance requirements under the NVQ system and address employability requirements to improve TVET relevance. The benefit of adopting the RBL program is that it provides the government with increased opportunity to harmonize and coordinate development partner activities within the framework of SSDP. This will enable development of a common results framework with development partners and build capacity and ownership across the TVET system by the many agencies involved in TVET service provision.

101. **Achievements and issues.** Until 2012, Sri Lanka did not have an integrated, unified skills development strategy which has resulted in a lack of cohesion between various development partner-supported approaches and systems. This has produced some degree of agency level protectionism and has shifted attention towards agency building and not towards achieving national development objectives. System accountability and responsiveness measures in meeting industry needs or other government policy objectives has been lagging. The adoption of SSDP in August 2013 enables establishment of a single framework for TVET agencies to align their work programs and activities, together with a common performance monitoring mechanism where each institution's accountability (MOFP, SDD/MYASD, and various TVET agencies) for achieving results are clearly defined. The government has encouraged development partners to align investment with SSDP to support achievement of SSDP objectives.

102. The governments of Germany, Australia, Canada, and the International Labour Organization have actively supported the development of SSDP. They have undertaken review missions and have actively contributed to ADB's design by completing peer reviews and appraisal of documents prepared during the project preparatory technical assistance. They have actively reviewed draft versions of SSDP and have contributed towards its completion. The Australian and Canadian governments joined key ADB missions and provided invaluable TA and input to the sector assessment and the SSEP design. Both Australia and Canada have also conducted sector assessment and dialogue with the government and are currently considering options to assist implementation of SSDP but will not be able to confirm support until July 2014. The World Bank will support SSDP implementation with parallel financing of $100 million beginning 2014, using results-based financing modality. GIZ will also cofinance in parallel (€11.4 million) SSDP through its projects in the Northern and Eastern Provinces. GIZ will further support MYASD with TA to strengthen SDD/MYASD planning and SSDP program management.

103. Implementation of SSDP would require stronger capacity at MYASD and MOFP to coordinate different stakeholders' contributions. Coordination functions at different level have been defined (high-level inter-ministerial committee, TVEC sector coordination committee, and SDD/MYASD), and capacity will be built through SSDP and development partner support.

[18] ADB. 2012*. Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Human Capital Development Capacity and Implementation Support.* Manila.

104. **Summary and recommendations.** Development partners have supported the TVET sector for many years. However, this support has been project-driven and fragmented. Key development partners are supporting the move towards a sector-wide approach that focuses on sector-wide reforms and achievement of results. ADB and the World Bank's financing will support the government's sector program and expenditure framework, linking disbursement to the achievement of certain results. ADB and the World Bank closely worked with the government to develop a set of common and complementary DLIs, reinforcing the government's motivation to focus on results. The collaboration will also reduce substantial transaction costs to the government through joint monitoring and reporting. SSDP provides a framework for government to harmonize development partner-funded initiatives and to better coordinate sector development effort. It is recommended that the government continues the move towards a sector-wide approach by (i) ensuring necessary budget for the whole government implementation of SSDP; (ii) ERD and NDP continue to ensure that development partner programs are aligned with the SSDP result areas; and (iii) that management information systems, monitoring, and reporting are harmonized between TVET agencies and ministries within the framework of SSDP result areas. It is further recommended that MYASD co-chair the Skills Working Group with key development partners to strengthen engagement with SSDP implementation and future TVET strategy development.

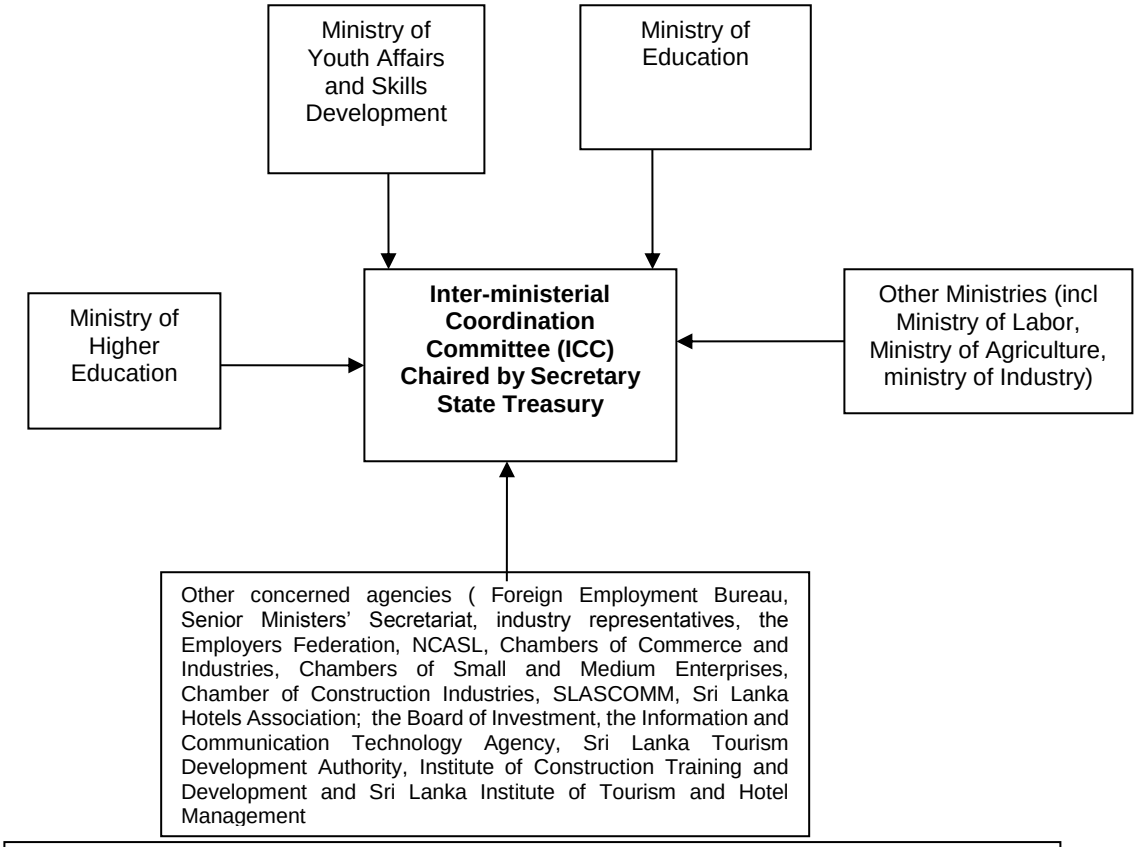
105. Building on the experiences of the major developmental partners, the SSEP aims to achieve a programmatic approach by (i) financing the government's sector development program; (ii) using DLIs linked to the government's SSDP targets; (iii) using country systems for fiduciary management, and strengthening these through capacity building measures; and (iv) supporting SDD/MYASD in MYASD to manage the transition from a project approach towards implementation of SSDP, where MYASD takes the lead in the sector and coordinates the activities of development partners under SSD.

G. Key Program Organization Structure

106. The SDD/MYASD will be set up under an Additional Secretary (SDD), directly reporting to the Secretary of MYASD and consist of a total number of 35 staff including one additional secretary as the head, six managers, 12 deputy managers, 10 development officers and five minor staff members, as of 30 November 2013, approved by the Management Services Department. Further smaller M&E units would be setup at the division, department and agency level that would support the SDD/MYASD. In order to link financing arrangements with achievement against the SSDP, a PPA will be signed between MOFP and MYASD and subsequently between MYASD and its divisions, departments, and agencies. The SDD/MYASD will closely collaborate with the MYASD divisions, departments, and agencies to implement these PPAs including TVEC, VTA, NAITA, DTET, UNIVOTEC, Ceylon German Technical Training Institute, NYSC, and the National Institute of Fisheries and Nautical Engineering.

107. The detailed activities of the SDD/MYASD will include: (i) coordinating the SSDP activities across divisions, departments, and agencies of MYASD; (ii) supporting implementation of new innovations planned within the SSDP including the new business planning process and sector skills councils; (iii) prepare, publish, and disseminate periodic progress review reports in relation to division, department, and agency performance against PPAs; (iv) prepare, publish, and disseminate periodic progress review reports in relation to SSDP targets and SSEP DLIs; (v) prepare, publish, and disseminate Annual Performance Report; and (vi) prepare, publish, and disseminate other periodic program review reports as required by MYASD, ADB, and other development partners (e.g. procurement, financial management, environment management, and gender actions).

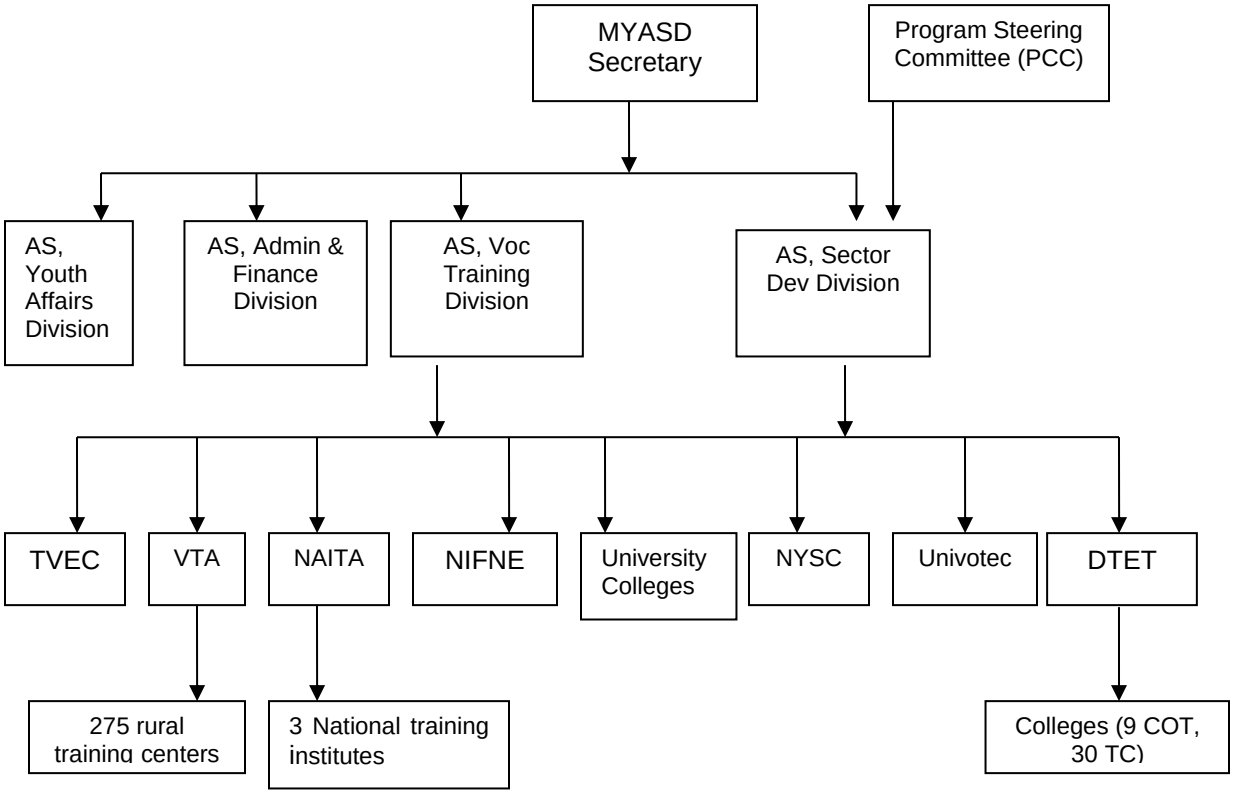
Chart 2: National Skills Sector Development Program Coordination



The main task is to coordinate TVET-related ministries and agencies. Specific tasks include

a. Guide the implementation of SSDP
b. Help resolve planning, budgeting and financial management issues
c. Ensure that activities implemented are in accordance with SSDP

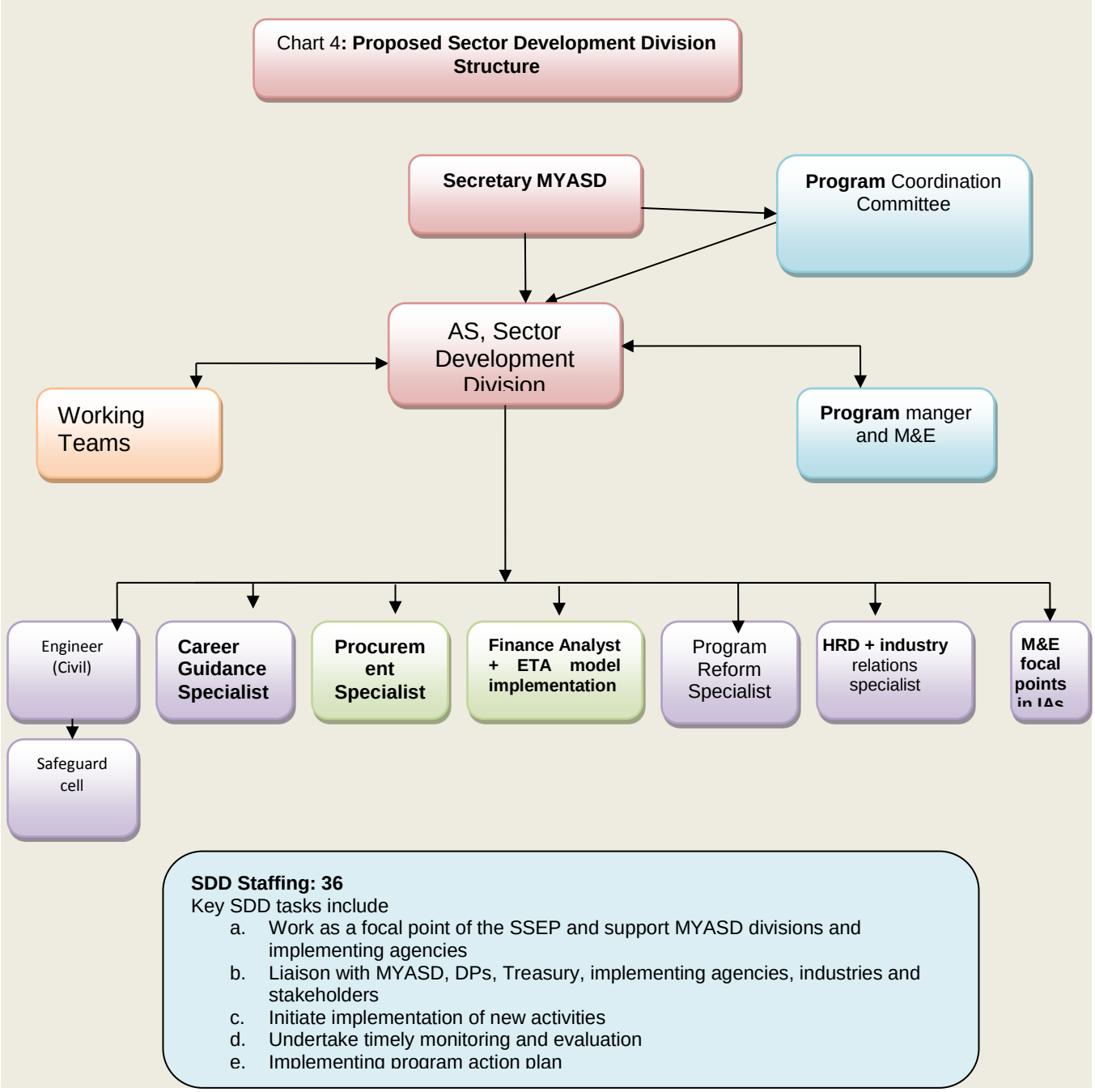
Chart 3: MYASD Proposed Management Structure



Functions of PCC: The main task is to oversee the SSEP implementation. Specific tasks include:

a. help resolve policy related issues
b. approve annual work plan and budget of all implementing agencies
c. approve all monitoring reports including DLI report

Chart 4: Proposed Sector Development Division Structure



H. Key Persons Involved in Implementation

1. Initial Arrangements

108. {Only list the executing agency officer and ADB division director and mission leader. Update as changes occur.}

Executing Agency	
Ministry of Education and Sports	Officer's Name Position Telephone Email address Office Address
ADB	
Social and Human Development	Staff Name: Sungsup Ra Position: Director Telephone No.: +63-2-632-4444 Email address: sungsupra@adb.org
Mission Leader	Staff Name: Gi Soon Song Position: Senior Social Development Specialist Telephone No.: +63-2-632-6902 Email address: gssong@adb.org

2. Changes during Implementation

109. (Monitor and record changes during implementation of ADB program mission leader and key EA staff. Indicate the new names, titles, and dates for changes, and reasons for the changes.)

VI. INTEGRATED RISKS AND MITIGATING MEASURES

A. Description of Key Risks and Mitigating Measures

110. Major risks and mitigating measures are described in Table 8.

Table 8: Integrated Risk Assessment and Mitigating Measures

Risks	Rating Without the Mitigating Measures	Key Mitigating Measures
Results		
Quality—difficulties in recruiting qualified teaching staff, especially in emerging economic sectors	Substantial	Most implementing agencies can hire contractual teaching staff from industry with higher salary. MYASD will develop a comprehensive vocational teacher development policy and plan to revise recruitment requirement for industry experience, introduce performance-based allowance scheme, and improved in-service training. UNIVOTEC will have twinning arrangements with two internationally renowned polytechnic institutions to provide master trainers for training of trainers.
Quality—quality assurance system not improved, expanded, or consistently applied	Moderate	TVEC's role in quality assurance has been strengthened through a revised act, which specifies that all public institutions have to comply with a revised NVQ-QMS. Government funding to be progressively linked to compliance with NVQ-QMS is supported by the SSDP and program DLIs.
Relevance—training in low-relevance areas continued due to lack of information on market demand and lack of participation of private sector and employers in	Moderate	MYASD will focus training activities in 2014 and 2015 on proven areas with large skills shortages, such as tourism and construction, where employment opportunities are high and industry associations are relatively well organized and committed to participating in TVET. Once the skills gap analysis becomes available, the SDD

Risks	Rating Without the Mitigating Measures	Key Mitigating Measures
TVET policy, planning, and training delivery process		under MYASD should ensure that annual training plans are informed by the analysis results. These results are to be validated by industry working groups that MYASD will establish at TVEC to engage private sector employers and professional associations.
Sector program planning—the program will require a more integrated annual planning exercise to ensure coherence between (i) annual agency plans and the overall SSDP targets; and (ii) plan and budget estimation.	Substantial	The SDD will issue an annual planning guidance note to implementing agencies in the second quarter of the year, to help them develop their annual plan and budget submissions on time. The SDD will coordinate and adjust the agency plans to fit within the framework of the SSDP, ensuring strong focus on DLI areas. Over time, within the RBL program period, MYASD's and TVET agencies' 5-year strategic planning and the 3-year rolling expenditure framework will be fully in line with the SSDP.
Implementation capacity—the program is increasing MYASD's skills development budget and this will strain the ministry's and TVET agencies' implementation capacity.	Substantial	MYASD established the SDD with 35 cadre and professional staff led by an additional secretary to expedite and coordinate implementation of SSDP. Most implementing agencies have flexibility in hiring contractual teaching and operation staff, and can quickly expand training capacity to meet labor market requirements if funding is available.
Implementation capacity in new areas and reform agenda—the program covers several new areas and a reform agenda where MYASD has little experience, and mechanisms should be detailed with clear implementation plans.	Substantial	MYASD already began detailing the mechanisms for a purchasing model and a business planning process for performance management. DLIs are constructed to set logical paths for achieving the reform results, with built-in review and improvement process. Development partners (World Bank and German development coordination through GIZ) will deploy technical experts and long-term advisors to MYASD to support implementation in complex reform agendas and new initiatives.
Expenditure and financing		
Inadequate budget allocation - Asian Development Bank financing will not be used to enhance the TVET sector outputs, and will partially or entirely replace existing government funding.	Substantial	Detailed analysis was performed of TVET budgetary requirements against historical and forecast budget allocations, and releases in prior years. Based on this, the required allocations and releases, as reflected in the DLI Matrix to ensure donor funds, represent adequate additionality to the government budget. Furthermore, accounting staff's capacity will be built in the areas of budget preparation.
Delay in budget release and low absorption capacity - The efficiency of the expenditure framework is affected by the evolving MTEF for the skills development sector, with limited commitment by the	High	The RBL program preparation process initiated an exercise to rationalize the MTEF for the skills sector, establishing a results chain of inputs, process, output, and outcome, with the provision of DLI as an incentive to follow the MTEF in budget allocation, release and spending.

Risks	Rating Without the Mitigating Measures	Key Mitigating Measures
Ministry of Finance and Planning to allocate the required amounts and ensure timely release of funds, and low absorptive capacity of the implementing agencies.		
Fiduciary		
Weak internal audit capacity - Noncompliance with policies and uneven implementation of key controls can lead to misuse of funds or assets, or low value for money.	Substantial	Internal audit department of each TVET agency involved to be strengthened through implementation of a recruitment and training plan. In addition, external periodic fiduciary reviews will be conducted.
Weak financial reporting - Use of funds will not be reported transparently in line with international best practice to allow for optimal decision making.	Substantial	Agreement struck with MYASD and the Auditor General's Department on detailed Statement of Audit Needs, incorporating the preparation of financial statements in line with international accounting standards and for timely submission. In addition, accounting staff's capacity will be built in the areas of financial reporting.
Weak procurement capacity - Smaller TVET agencies have weak capacity to carry out procurement along procurement rules and regulation.	Substantial	Almost 75% of procurement (civil works and equipment) will be carried out by DTET, MYASD, UNIVOTEC, and Vocational Training Authority. Smaller agencies will be supported by the SDD, while the larger agencies will hire additional staff and conduct staff training to strengthen implementation capacity.
Weak procurement capacity - Existing procurement staff may be strained because the RBL program will double the procurement requirements.	Substantial	The SDD will provide technical support to implementing agencies to carry out procurement activities. Implementing agencies' capacity, especially on procurement, will be strengthened by recruiting additional staff and providing training.
Overall RBL program risk	**Substantial**	

DLI = disbursement-linked indicator, DTET = Department of Technical Education and Training, MTEF = medium-term expenditure framework, MYASD = Ministry of Youth Affairs and Skills Development, NVQ = national vocational qualification, QMS = quality management system, RBL = results-based lending, SDD = Sector Development Division, SSDP = Skills Sector Development Program, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology.
Note: Risk factors are assessed against two dimensions: (i) the likelihood that the risk will occur, and (ii) the impact of the risk on the outcome. Rating scale: low = low likelihood and low impact; moderate = substantial-to-high likelihood but low-to-moderate impact; substantial = low-to-moderate likelihood but substantial-to-high impact; high = high likelihood and high impact.
Source: Asian Development Bank.

VII. CAPACITY DEVELOPMENT PROGRAM ACTION PLAN AND TECHNICAL ASSISTANCE

111. SSEP capacity development strategy is summarized in the PAP. A PAP has been developed to complement the DLI matrix. The PAP includes key actions in specific technical areas, fiduciary management, M&E, safeguards, and gender and social equity to ensure achievements of key results in SSEP and strengthen the country system, thus making the program results more

sustainable over time. As the country systems are assessed as robust at policy and regulatory level, the PAP will focus on implementation capacity.

A. Program Action Plan and Implementation Status

Table 9: Program Action Plan

Actions	Responsible Agency	Time Frame for Implementation
1. Program Technical Aspects		
1.1 MYASD will coordinate and monitor implementation of SSDP	MYASD	During program period
1.2 Quality assurance system to be updated and TVEC's implementation capacity to be strengthened: (i) Provider registration and accreditation requirements are reviewed and strengthened. (ii) TVEC's human resources will be strengthened to deliver the revised quality assurance mechanism.	TVEC	By December 2016
1.3 Articulation and credit transfer arrangements are specified in the revised national vocational qualification-level descriptors and the updated qualification accreditation system by TVEC: (i) Progression between levels is clearly specified to support multiple entries and pathways. (ii) Articulation and credit transfer system to reflect occupational skills competencies in application.	TVEC	By June 2015
1.4 Skills assessment including RPL is strengthened to ensure consistency between training providers and training agencies. (i) Revised assessment system to be applied to all TVEC-accredited training courses. (ii) At least 12,500 people to obtain skills certificates through RPL by 2016 (of which at least 30% women).	TVEC and other IAs	 By December 2016 By December 2016
1.5 Five public–private partnership model "university colleges" will be operational to provide required middle-level skills to industry in priority sectors. College governance, administrative autonomy, business plan, and financing agreement will be developed and implemented to meet SSDP targets.	MYASD and UNIVOTEC	By December 2016
1.6 Industry working groups will be established in at least four priority sectors to guide training provision that will support industry development and improve workforce productivity.	TVEC	By December 2015
1.7 A targeted stipend program will be developed to ensure increased participation of women, disadvantaged groups (including people with disabilities or from ethnic minority groups), and rural residents in the TVET system. The stipend program will also include support for increased training enrollment in skills shortage areas.	MYASD	Stipend program operations manual approved by July 2014 Progress monitored and reported in ASPR
1.8 Rationalization plan will be developed based on the facility utilization assessment. Selected TVET agency services can be expanded to ensure national coverage in areas of local economic relevance identified through skills-gap analysis. Existing facilities can be merged or converted, or new facilities built, to provide training where facility shortfalls are identified.	MYASD	Rationalization plan to be developed by December 2016
1.9 MYASD's SDD and implementing agencies will have adequate staff and operational resources to ensure the achievement of SSDP results and objectives, and MOFP will allocate sufficient budget for SDD's activities by adding a separate budget item for SDD operation in MYASD's annual budget, and for implementing agencies if required as part of AFR.	MOFP and MYASD	Staffing and operational resources agreed by ADB by June 2014. Actions completed by August 2014 and annually thereafter

Actions	Responsible Agency	Time Frame for Implementation
1.10 MYSAD will conduct a capacity assessment of participating agencies before memorandums of understanding are signed.	MYASD	As such agencies are nominated
2. Financial Management		
2.1 Overall financial reporting requirements are met in line with the Statement of Audit Needs.	AGD and MYASD	Audit report available by end of June every year for previous year
2.2 AFR is conducted satisfactorily.	ADB and MYASD	
2.3 Recurrent budget spending is at least 95% of the approved recurrent budget	MYASD	AFR to be conducted in April 2015, April 2016
2.4 Internal audit—develop and approve a recruitment–training plan that would include certification of key staff as "certified internal auditors"	MYASD and IAs	Recruitment–training plans by June 2014
2.5 Accounting and planning staff—develop and approve a recruitment–training plan that would include training for ADB disbursement procedures, preparation of financial statements in line with national reporting and accounting standards, and preparation of a budget	MYASD and IAs	Audit follow-up review as part of AFR SDD/MYASD already established. FM specialist position to be filled by March 2014
2.6 Reporting of resolution of external audit recommendations	MYASD and IAs	
2.7 Establishment of the SDD, which includes an FM specialist	MYASD	
3. Procurement		
3.1 Establishment of an adequately staffed dedicated procurement unit equipped with associated facilities under MYASD's SDD to facilitate overall program procurement functions and filling up vacant procurement posts in agencies	For all actions except AFR, MYASD and IAs (monitored by SDD)	By June 2014
3.2 Development and adoption of simplified bidding documents and program operational manual for all IAs.		By December 2014
3.3 Timely preparation and wide dissemination of procurement plans, bid invitations, and bid documents online on the websites of MYASD and TVET agencies to improve transparency		By June 2014
3.4 Aggregate bid packaging to cluster similar works at nearby locations so as to maximize economy and efficiency	SDD–MYASD and IAs	Every year
3.5 Assessment of agency-specific training needs and formulation of a well-structured, comprehensive capacity development plan, including training on procurement, consultant recruitment, and contract management	SDD–MYASD and IAs	By June 2014
3.6 Electronic document management and retrieval system		By December 2015
3.7 Publication of contract award data on MYASD website and in print media, including complaints-handling process, timelines, updated status of complaints review.		Starting from June 2014 onwards In April 2015 / April 2016
3.8 Annual procurement reviews by ADB as part of AFR.	MYASD and ADB	
4. Safeguards		
4.1 Adoption and implementation of an SSDP ESMF to ensure that upgrading and development of TVET facilities are consistent with ADB's Safeguard Policy Statement (2009). The ESMF will include safeguard screening, assessment, monitoring indicators and management criteria, processes and templates to guide relevant program activities, and clear and easy-to-follow grievance redress mechanism.	MYASD	Prior action—final ESMF to be incorporated in PSSA and submitted to ADB prior to ADB board approval
4.2 Establishment of a safeguard cell in MYASD to coordinate safeguard training of personnel and safeguard compliance of the program by recruiting at least one qualified and experienced safeguard specialist on full-time basis.[a]	SDD–MYASD and IAs	Recruitment of 1 safeguard officer by loan effectiveness
4.3 Safeguard cell within SDD will ensure that the program will exclude any activities involving (i) any involuntary resettlement or impacts on indigenous peoples in anticipation	Safeguard cell–SDD	Training of agency focal persons and training

Actions	Responsible Agency	Time Frame for Implementation
of, or prior to, handing over land to the program; and (ii) any significant environmental impacts.		institutes' focal persons starts in October 2014 and continues on rolling basis
4.4 Train an official at each training institute as the safeguard focal person to ensure timely and proper application of the ESMF to all new construction activities	Safeguard cell–SDD	
4.5 Awareness module on social and environmental safeguards developed and introduced	Safeguard cell–SDD	Annual review of ESMF implementation included in ASPR
4.6 Construction-related courses will include the environmental codes of practices developed by the Institute for Construction Training and Development.	MYASD and IAs	
5. Monitoring and Evaluation		
5.1 Review of current M&E systems and data collection mechanism, and development of improved M&E systems and implementation arrangements	SDD–MYASD	By December 2014
5.2 M&E systems implemented and regular analytical reports produced to inform policy and planning (annual sector performance report, including DLI verification)	SDD–MYASD and TVEC	Starting from May 2015, ASPR published on MYASD website.
6. Gender and Social Equity		
6.1. Outcome: Verify the baseline for employment rate of female TVET graduates (in 2011, 34.8%) and establish employment rate targets for female graduates by 2015 and monitor progress toward the target.	SDD, TVEC, and other IAs	GSEF officer at MYASD and IA focal persons to be appointed by June 2014
6.2. Output 1—at least 30% trained vocational teachers are women		GSEF to be developed and approved by December 2014
6.3. Output 3—on average, 50% of additional enrollment and at least 50% of stipend recipients will be women by 2016		
6.4. Output 4—adoption and implementation of a MYASD-wide GSEF to guide the TVET provision to be more inclusive and equitable		Biannual review of implementation against key indicators by June and December 2015 and 2016
6.5. MYASD to have a cadre position to support the implementation and monitoring of GSEF; and IAs to appoint focal points at agency level for coordination.		
6.6. Capacity development and institutional changes required for framework implementation to be included in GSEF		MYASD cadre position approved in February 2014. Annual report of the GSEF in SDD–MYASD-coordinated ASPR (by March every year for previous year's implementation)
6.7. Develop gender-sensitive training materials		
6.8. Gender-sensitive facility operation (e.g., separate sanitation facilities for men and women, flexible operation hours)		
6.9. Social marketing and career counseling will better target vulnerable groups for their increased participation in TVET.		
6.10. Establish a new MIS with sex-disaggregated data for M&E of SSDP performance in implementing GSEF		
6.11. Establish organizational targets for female trainers, female staff, managers and directors of institutions, and female board members and agency management members (director level), and monitor progress toward the targets		

ADB = Asian Development Bank, AFR = annual fiduciary review, AGD = Auditor General's Department, ASPR = annual sector performance report, DLI = disbursement-linked indicator, ESMF = environmental safeguards management framework, FM = financial management, GSEF = gender and social equity framework, IA = implementing agency, M&E = monitoring and evaluation, MIS = management information system, MOFP = Ministry of Finance and Planning, MYASD = Ministry of Youth Affairs and Skills Development, PSSA = program safeguard system assessment, RPL = Recognition of Prior Learning, SDD = Sector Development Division, SSDP = Skills Sector Development Program, TVEC = Tertiary And Vocational Education Commission, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology.

[a] The Gender Specialist will take the responsibility of monitoring social safeguard issues.

Source: Asian Development Bank.

B. Technical Assistance

1. Description

112. ADB will support the government in SSEP implementation using an ongoing capacity development technical assistance.[19] The TA will provide technical inputs to assist SDD/MYASD in achieving the annual DLIs and PAP, complementing other development partners' TA. It will also provide consultant inputs for ADB's independent verification activities and annual fiduciary review as described in the DLI verification protocol.

2. Consulting Service Requirement

113. To be identified during the implementation.

VIII. ACCOUNTABILITY MECHANISM

114. People who are, or may in the future be, adversely affected by the program may submit complaints to ADB's Accountability Mechanism (2012). The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted operations can voice and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures.

115. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems and/or issues by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, they approach the Accountability Mechanism.[20]

116. RBL operations will be subject to the Accountability Mechanism Policy.[21] The RBL will not alter ADB's role in problem solving. On compliance review, as no operations manual on RBL will be produced during the piloting stage, the compliance review will be carried out in accordance with the Accountability Mechanism Policy and the RBL policy (footnote 1).

IX. RECORD OF CHANGES IN PROGRAM SCOPE AND IMPLEMENTATION ARRANGEMENTS

117. Changes of scope and implementation arrangement during the course of implementation (including both major and minor changes) are recorded in Table 10 to provide a chronological history of changes in scope and implementation arrangement for the program.

Table 10: Changes in Scope and Implementation Arrangements

As of June 2017

	Changes and Key Reason	Date	Document
1	Added CGTT as IA per MSDVT's request. CGTTI signed a PPA with MSDVT to achieve some DLIs.	23 November 2015	Minor change approved by ADB
2	Modified wording of DLI 9 targets relating to the PPA to ensure that budget allocation aligns with SSDP requirements, and agencies commit to monitoring progress.	23 November 2015	Minor change approved by ADB

[19] ADB. 2012. *Technical Assistance to Sri Lanka for Human Capital Development Capacity and Implementation Support*. Manila

[20] For further information see: http://www.adb.org/Accountability-Mechanism/default.asp.

[21] ADB. 2012. *Review of the Accountability Mechanism Policy*. Manila.

	Changes and Key Reason	Date	Document
3	Dropped the graduate tracking system as a verification protocol for DLI 1, as it has not been put in place. The independent tracer study was retained to verify the DLI.	9 December 2016	Minor change approved by ADB
4	Extended the closing dates of Loans 3119 and 3120 from 30 June 2017 to 31 March 2018 to achieve outstanding DLIs, and ensure continuity until the additional financing becomes effective.	30 June 2017	Loan extension approved by ADB

ADB = Asian Development Bank, CGTTI = Ceylon-German Technical Training Institute, DLI = disbursement-linked indicator, ETA = employment training agreement, IA = implementing agency, MSDVT = Ministry of Skills Development and Vocational Training, PPA = performance partnership agreement
Source: ADB.

Annex 1

PROGRAM RESULTS FRAMEWORK

Results Indicators	DLI (Yes / No)	Baseline Value	Baseline Year	Target Values of Results Indicators						
				2014	2015	2016	2017	2018	2019	2020
Outcome: An efficient skills education system to meet the local/foreign labor market demand by 2020										
80% of enrolled students graduates	No[c]	71.3%[a]	2012							80
70% of graduates are placed into gainful employment within 6 months of course completion	Yes	50%[b]	2011							70
Output 1. Improving Quality										
1.1 % of TVET graduates obtain NVQ certificates	No[d]	13.9%	2012			35%				70%
1.2 Number of mutual recognition agreements for labor qualifications with key labor migration destination	No	0	2013					4		
1.3 (i) % of public and private training providers registered with TVEC comply with the revised QMS requirements (ii) assessment system revised and number of assessment centers established	(i) Yes (ii) No[d]	(i) 0 (ii) no revisio n/0	2013							(i) 100% public & 50% private (ii) 25 centers
1.4 (i) Comprehensive HRD plan adopted and (ii) number of teachers, industry trainers, assessors and managers trained	Yes	(i) None (ii) 0	2013	(i) adopted in 2014 and implemented for all TVET agencies by 2020 (ii) 400 teachers are trained annually						
Output 2. Improving Relevance										
2.1 Number of ISCs operational (cumulative)	No[d]	0	2013		4	4	4	4	4	4
2.2 Number of sectoral training plans developed based on skills gap analysis	Yes	0	2013	4	4	6	6	8	8	9
2.3 (i) % of TVET graduates (NVQ3 or above) and % of teachers subject to up-skilling program completed mandatory OJT (ii) Number of industry trainers and assessors trained	(i) No (ii) Yes	(i) N.A. (ii) N.A.	2013	(ii) 250	(ii) 250	(i) 100% (ii) 250	(i) 100% (ii) 250	(i) 100% (ii) 250	(i) 100% (ii) 250	(i) 100% (ii) 250

Results Indicators	DLI (Yes / No)	Baseline Value	Baseline Year	Target Values of Results Indicators						
				2014	2015	2016	2017	2018	2019	2020
2.4 Number of in-service workers benefited industry-based training (cumulative)	Yes	N.A	2013					At least 10,000		
2.5 Number of PPP university colleges established (cumulative)	Yes	2	2013				4	5		
3. Improving Access										
3.1 Number of additional enrollment at selected TVET agencies (cumulative)	Yes	0	2012	9,450	24,825	41,300	59,150	77,000	87,000	97,000
3.2 Number of upgraded training centers	No	0	2013	25	40	50				
3.3 (i) Number of university colleges established incl. 5 PPP ones (cumulative) (ii) Number of students enrolled at university colleges	No	(i) 0 (ii) 0	2012		(i) 13 (ii) 1,500	(i) 19 (ii) 3,000	(i) 25 (ii) 4,500	(i) 25 (ii) 6,000	(i) 25 (ii) 6,000	(i) 25 (ii) 6,000
3.4 Number of additional students enrolled in NVQ7 (bachelor) program at UNIVOTEC (cumulative)	No	345	2013					400		600
3.5 Number of purchasing model agreements	Yes	0	2013		At least 2	At least 5	At least 7	At least 10	At least 12	At least 15
3.6 % students availed flexible delivery for NVQ5, 6, 7 programs	No	N.A.	2013					25%		
3.7 Number of in-service workers assessed and certified through RPL (cumulative)	No[d]	N.A.	2013	5,000	10,000	12,500	15,000	20,000	22,500	25,000
3.8 (i) Number of business development and student service centers established (cumulative) (ii) Number of students supported with SEPI loan scheme	No	N.A.	2013	(i) 10 (ii) 150	(i) 20 (ii) 150	(i) 30 (ii) 150	(i) 40 (ii) 150	(i) 50 (ii) 150	(i) 50 (ii) 150	(i) 50 (ii) 150
4. Improving Recognition for Vocational Training										
4.1 % of employers satisfied with TVET graduates	No	37%	2007							75%
4.2 Number of teachers and staff of 125 TVET centers trained in career guidance, counseling and industry linkages (cumulative)	No	0	2013							250 teachers and 250 staff

Results Indicators	DLI (Yes / No)	Baseline Value	Baseline Year	Target Values of Results Indicators						
				2014	2015	2016	2017	2018	2019	2020
4.3 Number of students availed targeted stipend program (50% should be women)	No[c]	0	2013							45,000
5. Improving Supportive Polices, Systems and Structures										
5.1 Number of annual technology stream graduates obtained credits recognized by NVQ	No	0	2013			7,500	5,000	5,000	5,000	5,000
5.2 Number of TVET centers to develop business plans for performance based financing	Yes	0	2013		10	10	10	50	115	135
5.3 (i) % of private sector training providers registered with TVEC (ii) % of training courses accredited by TVEC	No	N.A.	2013					(i) 80% (ii) 50%		
5.4 Establishment of an inter-ministerial coordination committee and a sector development division at MYASD for implementation	Yes	None existed	2012	(i) National Skills Development Strategy by 2014 and annual monitoring report from 2015 (ii) Annual Sector Performance Report published from 2014						
5.5 Strengthened MIS	No[c]	Fragmen-ted systems	2013	(i) Integrated MIS implemented from 2015						

% = percentage, DLI = disbursement-linked indicators, HRD = human resource development, ISC = Industry Skills Councils, MIS = management information systems, MYASD = Ministry of Youth Affairs and Skills Development, N.A. = not applicable, NVQ = national vocational qualification, OJT = on-the-job training, PPP = public–private partnership, QMS = quality management systems, RPL = Recognition of Prior Learning, SEPI = Self Employment Promotion Initiative, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology.

[a] Based on the students enrolled in TVEC registered public and private training providers (male: 70.8% / female: 71.9%) .

[b] A tracer survey conducted by TVEC Planning Division for NVQ certificate recipients in 2011 where 10,000 NVQ graduates were contacted for around 34% response rate.

[c] This will be monitored by the same students/graduates tracking system as the employment rate.

[d] These are incorporated in the program action plan.

Sources: Ministry of Finance and Planning and Ministry of Youth Affairs and Skills Development.

Annex 2

DISBURSEMENT-LINKED INDICATORS, VERIFICATION PROTOCOLS, AND DISBURSEMENT SCHEDULE

Table 1: Disbursement-Linked Indicators

Disbursement Linked Indicators	Baseline Value and Year	Target Values for SSEP				Tentative targets under SSDP for subsequent years	
		Prior results	October 2014	May 2015	May 2016	May 2017[a]	May 2018[a]
Outcome							
DLI 1: Employability of graduates from quality assured TVET programs increased	The employment rate of TVET graduates with NVQ certificates was 50% in 2011				Employment rate for TVET graduates increased to 52%	Employment rate for TVET graduates increased to 55%	Employment rate for TVET graduates increased to 60%
Outputs							
Quality DLI 2: Improved quality assurance mechanism	In 2013, only 8 training providers of NVQ 5-6 have established QMS	Cabinet has approved amendment to TVEC Act	Revised quality assurance system and implementation plan for TVEC approved by the TVEC Board and MYASD	5% of training providers of NVQ 1-6 established QMS	15% of training providers of NVQ 1-6 established QMS	30% of training providers of NVQ 1-6 established QMS	60% of training providers of NVQ 1-6 established QMS
DLI 3: Increased availability of effective teaching staff in priority and emerging skill shortage areas	No vocational teacher development policy and plan to address shortage of qualified teaching staff.		Vocational teacher development policy developed by MYASD and teacher development plans developed by all IAs.	New recruitment criteria and performance based allowance scheme under the vocational teacher development policy are implemented by at least 5 IAs.	Across all IAs, on average, at least 70% of needed vocational teacher positions filled	Across all IAs, at least 80% of needed vocational teacher positions filled	Across all IAs, at least 90% of needed vocational teacher positions filled
Relevance	Strategic skills gap analysis is not		Skill gap analysis terms of	Skills gap analyses on	All IAs commenced	All IAs commenced	All IAs commenced

Disbursement Linked Indicators	Baseline Value and Year	Target Values for SSEP				Tentative targets under SSDP for subsequent years	
		Prior results	October 2014	May 2015	May 2016	May 2017[a]	May 2018[a]
DLI 4: TVET provision based on skills gap analyses	available to support informed TVET provision		reference approved by TVEC	at least 2 priority sectors, validated by Industry working groups and endorsed by high level interministeri al committee	training to meet the targets aligned with the two sector training plans which are developed from the skills gap analyses	training to meet the targets aligned with the four sector training plans (cumulative) which are developed from the skills gap analyses	training to meet the targets aligned with the six sector training plans (cumulative) which are developed from the skills gap analyses
DLI 5: Private sector engagement in TVET delivery strengthened	No model exists to increase private sector participation in TVET planning and delivery.	Two MOUs for training delivery signed between MYASD and private sector entities and training commenced.	Employment-linked Training Agreement (ETA) model is approved by MYASD	ETAs signed between SDD and private sector training providers in priority skill areas for at least 2,000 trainees targeting at least 65% job placement rate and training commenced.	ETAs signed between SDD and private sector training providers in priority skill areas for additional 2,000 trainees with at least 65% job placement rate and training commenced.	ETAs signed between SDD and private sector training providers in priority skill areas for additional 2,000 trainees with at least 70% job placement rate and training commenced.	ETAs signed between SDD and private sector training providers in priority skill areas for additional 2,000 trainees with at least 70% job placement rate and training commenced.
Increase in participation DLI 6: Enrolment of students in TVET programs increased	148,131 were enrolled at public and private sector training institutes registered by TVEC in 2012	University colleges development commenced.		Total enrolment increased to 157,000 or more	Total enrolment increased to 172,000 or more	Total enrolment increased to 187,000 or more	Total enrolment increased to 204,000 or more

Disbursement Linked Indicators	Baseline Value and Year	Target Values for SSEP				Tentative targets under SSDP for subsequent years	
		Prior results	October 2014	May 2015	May 2016	May 2017[a]	May 2018[a]
Sector Management DLI 7: Increased efficiency in utilization of TVET sector resources through performance based financing	No mechanism to monitor performance and allocate financing to encourage quality and efficiency of training		A performance based financing model is approved by MYASD	The performance based financing model are piloted in at least 10 VTA centers	The performance based financing model assessed, revised, and implemented in at least 20 VTA centers (cumulative)	The performance based financing model expanded to at least 50 TVET training institutions (cumulative)	The performance based financing model expanded to at least 100 TVET training institutions (cumulative)
DLI 8: Coordination and implementation capacity strengthened	Insufficient institutional capacity for coordinating sector program and inadequate procurement capacity to support SSEP.	(i) SSDP approved (ii) High level interministeri al committee is established (iii) Cadre positions for SDD approved	Procurement capacity development plan approved	At least 50% of the training targets (in terms of number of people trained) under the capacity development plan are achieved.	At least 90% of the training targets (in terms of number of people trained) under the capacity development plan are achieved, and at least 70% of agreed critical audit findings from AGD's FY 2014 audit of MYASD are resolved.	At least 80% of agreed critical findings from AGD audit for FY 2015 are resolved	At least 90% of agreed critical findings from AGD audit for FY 2016 are resolved
DLI 9: Improved medium term skills sector budgeting and expenditure	In 2013, MYASD budget does not reflect the medium term sector development targets.	3-year medium term expenditure framework included in the amended 2014	Performance partnership agreement concluded between (i) MOFP and MYASD and (ii)	(i) Both recurrent and capital budget for 2015 is allocated in accordance	(i) Both recurrent and capital budget for 2016 is allocated in accordance with the	(i) Both recurrent and capital budget for 2017 is allocated in accordance with the	(i) Both recurrent and capital budget for 2018 is allocated in accordance with the

Disbursement Linked Indicators	Baseline Value and Year	Target Values for SSEP				Tentative targets under SSDP for subsequent years	
		Prior results	October 2014	May 2015	May 2016	May 2017[a]	May 2018[a]
		appropriation bill	MYASD and TVET agencies for 2015 in line with medium term expenditure framework, committed workplan including new initiatives to diversify TVET provision	with the performance partnership agreement (ii) At least 75% of 2014 budget allocations for skills development initiatives have been spent	performance partnership agreement (ii) At least 80% of 2015 budget allocations for skills development initiatives have been spent	performance partnership agreement (ii) At least 85% of 2016 budget allocations for skills development initiatives have been spent	performance partnership agreement (ii) At least 90% of 2017 allocations for skills development initiatives have been spent

DTET = Department of Technical Education & Training, FY = fiscal year, HRD = human resource development, KPI = key performance indicators, MOFP = Ministry of Finance and Planning, MOU = Memorandum of Understanding, MYASD = Ministry of Youth Affairs and Skills Development, N/A = not applicable, NVQ = national vocational qualification, PPP = public–private partnership, SDD = sector development division, SSEP = Skills Sector Enhancement Program, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training.

[a] Targets for 2017 and 2018 are indicative only, drawing from the SSDP sector results framework. If the government requests additional financing from ADB, ADB will support a midterm review of SSDP in 2016 to examine the progress made in the key results and set targets in same results areas or new areas.

Source: Asian Development Bank.

Table 2: Verification Protocols

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
Outcome			
DLI 1: Employability of graduates from quality assured TVET programs increased	May 2016: Employment rate for TVET graduates who obtained TVEC certificates from 1 October 2014 to 30 September 2015 increased to 52%. ["Quality assured TVET programs" mean TVEC accredited programs delivered by a TVEC registered public or private training provider.]	TVEC student / graduate tracking system and third party tracer study Data collated in March 2016	By August 2014, TVEC will establish a graduate tracking system where graduates' contact details are collected. Employment rate will be based on the results from the tracking system's electronic survey (e.g. by SMS or email) of graduates 6 months after completing the training program. The SSDP MTR in 2016 will review the employment rates of graduates generated from the tracking system and compare it with the data from the third party tracer study commissioned by ADB to test the reliability of the graduate tracking system.
Output			
DLI 2: Improved quality assurance mechanism	Prior result: Cabinet has approved amendment to TVEC Act [The approval is for legal drafting to commence. The amendment will further strengthen TVEC's role as TVET sector regulator by strengthening its quality assurance system under which all public and private training providers should register with TVEC.] October 2014: Revised TVEC quality assurance system and implementation plan approved by the TVEC Board and MYASD. [Quality assurance system is a set of processes and standards that TVEC will apply to register training providers and accredit training programs.] [The implementation plan will include a staffing plan for additional staff requirements and in-service training to	Cabinet approval MYASD approval	SDD / ADB will verify the Cabinet decision published online by the Office of Cabinet Ministers of Sri Lanka. SDD / ADB mission in October 2014 will verify revised TVEC quality assurance system manual and implementation plan are place. SDD / ADB mission in May 2015 and May 2016 will verify the ratio of training providers which established QMS by (i) reviewing TVEC QMS record and (ii) visiting randomly selected training providers with QMS. ADB will hire experts to conduct third party review of the quality assurance system in first quarter of 2016.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	upgrade assessors, auditors, and other types of staff to implement the updated quality assurance system.] May 2015: 5% of registered training providers of NVQ 1-6 established QMS. [QMS is a set of processes and standards the training providers will establish within their organization to maintain the quality of their training program, complying with TVEC registration and accreditation requirements. Training providers will adopt ISO or other QMS approaches recognized by TVEC] May 2016: 15% of registered training providers of NVQ 1-6 established QMS.	TVEC QMS records	
DLI 3: Increased availability of effective teaching staff in priority and emerging skill shortage areas	October 2014: Vocational teacher development policy is approved by MYASD and each IA develops teacher development plans. [The vocational teacher development policy should include new mechanism or practices for recruitment, deployment, retention, allowance scheme, in-service training opportunities, career progression, and succession plans to ensure availability of adequately qualified teachers (including regular, contractual, and part time teaching staff)] [The agency level teacher development plans should include recruitment and training plans for teaching staff] [IAs are DTET, MYASD, NAITA, NIFNE, NYSC, UNIVOTEC, and VTA] May 2015: New recruitment criteria and performance based allowance scheme under the vocational teacher development policy are implemented by at least 5 IAs.	MYASD Secretary approval letter attached with the plan SDD ASPR	SDD/ADB mission in October 2014 will verify that vocational teacher development policy and the IA teacher development plans are in place, and adequate measures are included to address teacher shortage issues. SDD/ADB mission in May 2015 will verify that at least 5 IAs are implementing the revised recruitment criteria and performance based allowance by checking recruitment record and interviewing vocational teachers at randomly selected institutions. SDD/ADB mission in May 2016 will verify that across all IAs at least 70% of needed vocational teacher positions are filled by new teachers or retained existing teachers.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	May 2016: Across all IAs, on average, at least 70% of needed teacher positions (as specified in the IA teacher development plans) are filled.	IA teaching staff records compiled by SDD – annual	
DLI 4: TVET provision based on skills gap analyses	October 2014: The skill gap analysis terms of reference approved by TVEC [The skills gap analysis ToR will be used to hire a qualified and experienced research and/or labor market information firm] [The terms of reference should require that the ensuing skills gap analysis should include extensive employer surveys, analysis of survey data, validation process by engaging industry working groups, and inclusion of any strategic human resource development to support government's industrial policy. It should also include labor market and skills training issues specific to women and disadvantaged groups (e.g., access, affordability of training, and employer perception and requirements for hiring women or the people from disadvantage groups) to inform training plans to address those issues.] May 2015: Industry working groups validated and high level interministerial committee endorsed the skills gap analyses on at least 2 priority sectors. [Industry working groups will be formed by TVEC to engage industry representatives and large private sector employers to ensure TVET provision is aligned with industry demand] [Priority sectors include construction, tourism and hospitality, information technology, light engineering/manufacturing, and any other sector where high employment opportunities for skilled workforce.]	TVEC approval letter TVEC report published in its website. Meeting minutes	SDD/ ADB will review the draft terms of reference for technical soundness (efficiency, effectiveness and sustainability of the skills gap analysis methodology and process) prior to TVEC approval. SDD / ADB mission in May 2015 will verify the industry validation and government endorsement of the skills gap analyses results by reviewing the minutes of industry working groups and the high level committee meetings.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	May 2016: All IAs commenced training to meet the targets aligned with the two sector training plans which are developed from the skills gap analyses. [Within 2015, two sector training plans for 2016 and onwards will be developed by SDD to address the identified skill gaps, and each IA will set agency level training targets aligned with the sector training plans]	MYASD approved sector training plans and IA training plans	SDD ASPR by April 2016 will present a table showing the skills gap areas in comparison with existing TVET provision, highlighting the degree of alignment of annual training plan with the skills gap analysis results. ADB mission in May 2016 will verify that the IA training plans reflect the sector training plan targets and are being implemented in skills gap areas.
DLI 5: Private sector engagement in TVET delivery strengthened	Upon loan effectiveness (prior results): Two MOUs for training delivery signed between MYASD and private sector entities and training commenced. [The MOUs define roles and responsibilities of MYASD and private entities in delivering training to meet pre-agreed training targets in quality and enrolment number, as part of MYASD's plan for university colleges using PPP model.] October 2014: Employment-linked Training Agreement model is approved by MYASD. [The ETA model will define the roles and responsibilities of SDD, training provider and potential employers of the trained graduates in providing training linked with job placement. The model may include, but not limited to (i) identification and proposal to address skills gap area; (ii) selection of training providers; (iii) cost sharing; (iv) trainee selection; (v) training delivery plan, including on the job training and assessment;(vi) job placement strategy and, (vii) management, audit, and reporting system; and (viii) financial proposal based on unit cost. The model should include a standard template of performance based financing agreement, with job-placement rate as one of the key performance criteria, based on which performance bonus or penalty can be applied.]	Signed and officially sealed MOUs MYASD secretary approval letter attached with ETA model document and ETA template	MYASD / ADB. Signed MOUs have been provided by MYASD to ADB. ADB mission before loan effectiveness will visit the training programs supported by MOU to confirm that training is being conducted as envisaged by the MOU. SDD / ADB mission in October 2014 will verify that the ETA model is satisfactory to ADB.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	May 2015: ETAs signed between SDD and private sector training providers in priority skill areas for at least 2,000 trainees targeting at least 65% job placement rate and training commenced. [Priority skills areas are where there are large skill gaps where industry requires skilled labor, but the current TVET system does not provide enough number and quality of workers.]	Signed ETAs	SDD / ADB mission in May 2015 will review the signed ETAs for at least 2,000 trainees with the job placement target at 65% or more, and verify the commencement of the training by visiting selected training programs.
	May 2016: ETAs signed between SDD and private sector training providers in priority skill areas for additional 2,000 trainees with at least 65% job placement rate.	Signed ETAs	SDD / ADB mission in May 2016 will review the signed ETAs for at least another 2,000 trainees with the job placement target at 65% or more, and verify the commencement of the training by visiting selected training programs.
Increase in Participation DLI 6: Enrolment of students in TVET programs increased	Upon loan effectiveness (prior results): University college development implementation commenced. [University colleges are a new government program to expand enrolment in NVQ 5 and 6 programs to meet the market demand for middle level skills. MYASD commenced the implementation by developing some curricula and beginning the civil work in 2013. The government allocated budget to support the establishment under MYASD implementation.]	Cabinet approval letter, 2013 unaudited financial statement, ADB's field visit report.	MYASD / ADB will verify the Cabinet approval, budget allocation and implementation status to confirm the prior result by checking official letters and MYASD expenditure report from 2013 as well as visit the selected locations where development is ongoing before loan effectiveness.
	May 2015: total enrolment in TVET programs in public and private providers registered with TVEC is increased to 157,000 or more. [The enrolment will include all trainees under different training modalities offered by public and private training providers registered by TVEC and special initiatives introduced by SDD. The enrolment data will be disaggregated by male/female, NVQ level, trade, and province.]	SDD ASPR	SDD ASPR will report in May 2015 and May 2016 the enrolment data collected by TVEC MIS from public and private training providers registered with TVEC. Based on a ToR jointly developed by SDD and ADB, ADB will engage a third party reviewer in 2016 to confirm the enrolment data by comparing selected training providers' enrolment record and TVEC record.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	May 2016: total enrolment in TVET programs in public and private providers registered with TVEC is increased to 172,000 or more.	SDD ASPR	
DLI 7: Increased efficiency in utilization of TVET sector resources including performance based financing	October 2014: Performance based financing model is approved by MYASD. [The performance based financing model will include detailed performance criteria in, but not limited to, (i) quality, (ii) relevance to labor market, (iii) efficiency in delivery; and (iv) equity aspect (regional balance, access by disadvantaged groups), as well as detailed operational procedures for VTA and its pilot centers to follow. Business plans will be developed by the pilot training centers to analyze their business environment (both supply and demand side), set their targets for the performance criteria, and specify implementation plan and resource requirements to achieve those targets. Adequate budget will be allocated to support the business plan implementation. Upon successful implementation, the training institute will be given some extra resources for further development (human resources, additional equipment or upgrading facilities). The performance incentives which will be described in the performance based financing manual developed by SDD.] May 2015: Performance based financing model piloted in at least 10 VTA TVET centers. [By December 2015, SDD and ADB and other development partners will assess the results of the pilot implementation to recommend any improvements to performance based financing model.]	SDD ASPR	SDD / ADB mission in October 2014 will verify that performance based financing model is satisfactory. By April 2015, SDD will submit a monitoring report of the pilot implementation results based on the pilot centers key performance indicator achievements. ADB mission in May 2015 will verify the pilot status by reviewing the monitoring report and visiting at least 3 pilot centers. By April 2016, SDD will submit a monitoring report of the pilot implementation results based on the

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	May 2016: Performance based financing model is assessed for effectiveness in implementation, and revised model is implemented in at least 20 VTA centers (cumulative).		pilot centers key performance indicator achievements. ADB mission in May 2016 will verify the pilot status by reviewing the monitoring report and visiting at least 6 pilot centers.
DLI 8: Coordination and implementation capacity strengthened	Upon loan effectiveness (prior results) (i) Skills Sector Development Program approved [by MOFP] (ii) High level interministerial committee is established [by MOFP] (iii) Cadre positions for SDD approved [by Management Service Department]	(i)/(ii) MOFP approval letter (iii) Management Service Department approval letter	MOFP and MYASD will provide the copies of the approval letters and attachments for ADB to confirm the prior results.
	October 2014: A capacity development plan for procurement function at MYASD and IAs approved. [The capacity development plan will include the targets for recruitment of additional staff and training of existing staff for effective and efficient procurement functions as recommended by capacity assessment carried out by ADB in 2013. It will also include training of internal auditors of MYASD and IAs on procurement audit.]	MYASD approval	SDD / ADB mission in October 2014 will verify the adequacy of the capacity development plan based on the findings of the procurement capacity assessment and financial management capacity assessment carried out by ADB in 2013.
	May 2015: At least 50% of the training targets (in terms of number of people trained) under the capacity development plan are achieved.	MYASD approval / SDD ASPR	SDD / ADB mission in May 2015 will verify that at least 50% of target staff are trained according to the capacity development plan.
	May 2016: At least 90% of the training targets (in terms of number of people trained) under the capacity development plan are achieved, and at least 70% of agreed critical audit findings from AGD's FY 2014 audit of MYASD are resolved.	SDD	SDD / ADB mission in May 2016 will verify that at least 90% of target staff are trained according to the capacity development plan and that 70% of the agreed critical audit findings from FY 2014 audit by AGD is resolved.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	[Critical audit findings will be identified jointly by MYASD and ADB from the findings of AGD's audit report for FY2014 based on the materiality, frequency, exposure as well as whether the findings are caused by systematic weaknesses. MYASD and ADB will agree on the critical audit findings within 1 month from the final audit report from AGD for FY 2014]		
DLI 9: Improved medium term skills sector budgeting and expenditure	Upon loan effectiveness (prior results): 3-year medium term expenditure framework is included in the amended 2014 appropriation bill [the 3-year medium term expenditure framework is the 2014 budget estimates and 2015 and 2016 projections] October 2014: Performance partnership agreements signed between (i) MOFP and MYASD and (ii) MYASD and IAs for 2015 work plan and budget. [The performance partnership agreements will include the DLIs and other KPIs for SSDP implementation, with detailed workplan with activities contributing to the achievements of DLIs and KPIs, and adequate financing plan to support the activities within the medium term expenditure framework.] May 2015: (i) Both recurrent and capital budget for 2015 is allocated in accordance with the performance partnership agreement and (ii) at least 75% of 2014 budget allocations for skills development initiatives have been spent [The budget allocation for skills development initiatives is defined as MYASD budget as approved by the amended appropriation bill.] [Spending rate will be determined by the total amount expended by MYASD and its TVET agencies against	Amended 2014 appropriation bill For all years: Executed performance partnership agreements, budget circulars, appropriation bill or amendment to it, MYASD and IA accounting records.	MYASD will submit to ADB the amended 2014 appropriation bill showing MYASD budget estimates for 2014 and projections for 2015 and 2016. ADB mission in October 2014 will verify that the performance partnership agreements are developed and signed for 2015 against the definition. ADB mission in May 2015 will verify (i) that budget appropriation for MYASD for 2015 adequately reflects the agreed resource plan in the performance partnership agreement and (ii) that the spending for FY2014 was at least 75% of the budget allocation.

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	the allocated budget through the appropriation bill. The unaudited expenditure reports from CIGAS (for MYASD and DTET) and TVET agencies will be used for the calculation.] [By October 2015, the performance partnership agreements for 2016 will be signed] May 2016: (i) Both recurrent and capital budget for 2016 is allocated in accordance with the performance partnership agreement and (ii) at least 80% of 2015 budget allocations for skills development initiatives have been spent. [For the spending rate DLI, partial disbursement allowed: a. If achievement is lower than or same as 70% for FY 2014 expenditures, no disbursement will be made. If the achievement is more than 70% but less than 75%, 50% of the amount specified in the Table 3 of DLI matrix will be disbursed. b. If achievement is lower than or same as 75% for FY 2015 expenditures, no disbursement will be made. If the achievement is more than 75% but less than 80%, 50% of the amount specified in the Table 3 of DLI matrix will be disbursed.]		ADB missions in May 2016 will verify (i) that budget appropriation for MYASD for 2016 adequately reflects the agreed resource plan in the performance partnership agreement and (ii) that the spending for FY2014 was at least 80% of the budget allocation.

ADB = Asian Development Bank, AGD = Auditor General Department, ASPR = annual sector performance report, CIGAS = comprehensive Integrated Accounting Software package for Government Accounting of Sri Lanka, DLR = disbursement-linked results, DTET = Department of Technical Education & Training, ETA = employment-linked training agreement, IA = implementing agency, KPI = key performance indicators, MOU = Memorandum of Understanding, MTR = midterm review, MYASD = Ministry of Youth Affairs and Skills Development, NAITA = National Apprentice and Industrial Training Authority, NIFNE = National Institute of Fisheries & Nautical Engineering, NVQ = national vocational qualification, NYSC = National Youth Services Council, PCA = procurement capacity assessment, PPA = performance-based partnership agreement, PREI = procurement review for effective implementation, SDD = sector development division, SDP = Skills Development Plan, SMS = short message service, TOR = Terms of Reference, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology, VTA = Vocational Training Authority.
Source: Asian Development Bank.

Table 3: Expected Disbursement Schedule
($ million)

Disbursement-Linked Indicators	Total ADB Financing Allocation	Share of Total ADB Financing (%)	Financing for Prior Results	October 2014	May 2015	May 2016
DLI 1: Employment rate of graduates from quality assured TVET programs increased	5	5%	0	0	0	5
DLI 2: Improved quality assurance mechanism	12	12%	5	2	3	2
DLI 3: Increased availability of effective teaching staff in priority and emerging skill shortage areas	11	11%	0	4	4	3
DLI 4: Skills gap analysis informs TVET provision	9	9%	0	2	4	3
DLI 5: Private sector engagement in TVET delivery strengthened	14	14%	2	4	4	4
DLI 6: Enrolment of students TVET programs increased	9	9%	0	0	5	4
DLI 7: Increased efficiency in utilization of TVET sector resources	9	9%	0	2	4	3
DLI 8: TVET sector coordination and implementation capacity strengthened	14	14%	(i) 5 / (ii) 1 / (iii) 2	2	2	2
DLI 9: Budget for MYASD and TVET agencies is adequately allocated and timely disbursed	17	17%	5	(i) 2 / (ii) 2	(i) 2 / (ii) 2	(i) 2 / (ii) 2
Total	**100**	**100%**	**20**	20	30	30

DLI = disbursement-linked indicators, MYASD = Ministry of Youth Affairs and Skills Development, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training.
Source: Asian Development Bank.

Annex 3

STATEMENT OF AUDIT NEEDS

A. BACKGROUND

1. The sector program that Government of Sri Lanka (GOSL) and the Asian Development Bank (ADB) are jointly financing is a major public expenditure in the technical and vocational education and training (TVET) sector. GOSL and ADB funds will both be channeled through government systems of budgetary allocations and accountability. This program relies heavily on government systems and therefore incorporates planning and monitoring of the contributions of GOSL and development partners as well as institutional capacity building measures. This will be the second results-based lending (RBL) of its kind in Sri Lanka funded by ADB. Proceeds from RBL will be used to finance program expenditures aimed at achieving program results, improving program institutions, and providing needed support for achieving program objectives. ADB financing under RBL is not linked to specific transactions but is an integral part of program financing as a whole, which will include financing from GOSL's own resources and cofinanciers.

2. As a part thereof, ADB shall be requesting the submission of audited annual financial statements of the program prepared in accordance with international best practices in auditing and financial reporting.

B. PROGRAM DEVELOPMENT OBJECTIVES

3. The proposed RBL will finance the government's Skills Sector Enhancement Program (SSEP). The Ministry of Youth Affairs and Skills Development (MYASD) will be the executing agency for the SSEP, and the implementing agencies will be the MYASD and participating TVET agencies including the Department of Technical Education and Training (DTET), Tertiary and Vocational Education Commission, Vocational Training Authority of Sri Lanka, National Apprentice and Industrial Training Authority, University of Vocational Technology, National Institute of Fisheries and Nautical Engineering and the National Youth Services Council. The implementation period is expected to be from 2014–2016.

4. The impact of SSEP will be increased employability of the Sri Lankan workforce, particularly youth. The outcome will be market responsive, inclusive, and quality TVET system operational. The four inter-related results areas that define the ADB-financed program will contribute to the achievement of the Skills Sector Development Program outcome and are aligned with the government's skills sector development plan, and support the following:

1. Audit Report

(i) Financial statements separately for (a) the Central Appropriation Accounts of the MYASD and the DTET and (b) each of the six TVET agencies involved (Tertiary and Vocational Education Commission, Vocation Training Authority, National Apprentice and Industrial Training Authority, University of Vocational Technology, National Youth Services Council, and National Institute of Fisheries and Nautical Engineering). The Appropriation Accounts of the MYASD and DTET, which are already prepared by the Ministries and audited by the Auditor General's Department to meet the statutory requirements, shall be supplemented by additional narrative notes and other disclosures to align them to Sri Lankan Public Sector Accounting Standards. Additional notes showing Eligible Expenditure categories may be included to meet cofinanciers' requirements. Similarly, the

statutory audited financial statements prepared in line with Sri Lankan Financial Reporting Standards shall meet ADB's audit needs. No additional special purpose financial statements shall be prepared for the purpose of the program, and ADB shall rely on the statutory audited financial statements of the Ministry/participating agencies. The auditor will review that the funds received from all sources and expenditures incurred during the reporting period are as per agreed terms and conditions. This will include all expenditure to the extent that it relates to the activities of the MYASD supporting the TVET sector in Sri Lanka. This will not reflect stand-alone discrete projects. This will include all expenditure incurred. The Auditor General's Department (AGD) shall perform the audit and express his opinion on the Appropriation Accounts of MYASD and DTET as well statutory financial statements of the participating agencies as of December 31 each year.

(ii) Audited financial statements in English are received by ADB within 6 months of the end of the fiscal year.

(iii) Financial statements are prepared in accordance with the Sri Lankan Public Sector Accounting Standards or Sri Lankan Financial Reporting Standards as relevant.

(iv) A complete set of financial statements for each of the eight entities is received which includes, and is limited to:

a. Cover Letter from AGD and/or MYASD;
b. Financial statement/Appropriation Account along with the Audit Opinion on whether the financial statements give a true and fair view of the receipts and payment/ statement of affairs as at December 31 each year;
c. Audit Opinion on Specific Donor Requirements (Section D below); and
d. Management Letter (paragraph G below).

(v) ADB reserves the right to commission supplementary audit, if AGD considers it unfeasible to satisfy specific donor audit needs as part of its constitutional statutory audit.

C. SPECIFIC NEEDS

5. The audit is carried out in accordance with Sri Lankan Auditing Standards, which are based on International Standards on Auditing or International NTOSAI Standards.

6. The audit would cover the entire program i.e., covering all sources and application of funds. The Financing Arrangement as currently agreed with ADB does not include any Direct Project Aid i.e., no part of the program financing would be in the form of ADB making any program expenditure on behalf of the recipient. In case this form of financing is agreed any time over the program duration, the Program Director shall provide all pertinent information to the Auditors including preservation and use of resources procured and its reflection in the program accounts, so as to facilitate comprehensive audit coverage. The audits should be carried out annually from commencement of the program on 1 January 2014. The audit for the first year should also cover transactions, which occurred before the commencement of the program, i.e., all transactions relating to the program for the fiscal year ended 31 December 2014.

7. An assessment by the auditors of compliance with provisions of the financing agreement with ADB will be provided, especially those relating to accounting and financial matters. This may inter alia include verification that:

(i) All funds have been used in accordance with the conditions of the loan agreements, with due regard to economy and efficiency, and only for the purposes for which the funds were provided.
(ii) MYASD and participating agencies were in compliance as at [insert date] with all financial covenants of the loan agreement.

8. ADB would expect that the auditors should advise a calendar for discussion/review of audit observations (particularly the serious financial irregularities) through tri-partite meetings and review meetings to facilitate executive follow-up on audit observations and recommendations. Moreover, ADB would need a review of actions taken on the recommendations presented in the previous audit report on the progress made.

9. As part of its capacity development technical sssistance, ADB would provide support to AGD staff assigned to the audit of SSEP to provide guidance on complying with donor specific requirements.

D. PROGRAM FINANCIAL STATEMENTS

10. The program annual financial statements shall be prepared separately by the MYASD for the two Central Appropriation Accounts. Annual Financial Reports for the five participating TVET agencies shall be prepared separately. All sets of financial statements shall include:

(i) Sources and Consolidated Uses of Funds showing the funds received and expended from development partners and GOSL for the TVET Sector Development Program;
(ii) Statement of Budget Vs. Actual showing expenditure for the current year, for the prior year and cumulative year to date; and
(iii) Detailed notes to the financial statements including significant accounting policies, breakdown of by program outputs, as well as economic activity.

11. The program financial statements must also reflect the aggregate procurement value from ADB‘s non-member countries. This disclosure will need to confirm that the amount of total program expenditures on goods, works, and services from ADB member countries (including the borrowing country) is at least equal to, or exceeds, the amount of ADB RBL disbursements during the relevant reporting period. ADB will reserve the right to audit compliance with this requirement. The government will need to adequately track and record contract awards to foreign bidders, particularly those from non-member countries to ensure that this information is readily available for disclosure in the audited financial statements.

E. MANAGEMENT LETTER

12. In addition to the audit report, ADB will require a separate management letter in which the auditor has:

(i) Given comments and observations on the notes to the accounts, accounting records, systems, and internal controls that were examined during the course of the audit;
(ii) Identified specific deficiencies and areas of weakness in systems and internal controls and make recommendations for their improvement including MYASD/ TVET agencies response to the identified deficiencies;
(iii) Communicated matters that have come to attention during the audit which might have a significant impact on the implementation of the program; and brought to the government and development partner attention any other matters that the auditor considers pertinent.

(iv) Where possible, include auditee responses.

13. Note that serious issues, which affect the auditor's opinion as to whether the financial statements give a true and fair view, should be referred to in the audit opinion. The Management Letter should include only those issues which do not affect the fairness of the financial statements.

F. GENERAL

14. In case an external auditor needs to be commissioned for a supplementary audit, the auditor should be given access to all legal documents, correspondences, and any other information associated with the commission and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding with ADB, the government, etc.

15. The auditor may examine the semi-annual financial reports prepared during the years to assess the methods used to compile them to ascertain that the information on these reports accurately reflects the underlying records and documents to ensure that there are no material misstatements.

16. The auditor should also make a follow-up of audit recommendations to their conclusion.

Note: This is a statement of audit needs of ADB and does not in any way intend to limit the scope of the statutory audit.