



Report and Recommendation of the President to the Board of Directors

Project Number: 42251
March 2014

Proposed Results-Based Loans Democratic Socialist Republic of Sri Lanka: Skills Sector Enhancement Program

CURRENCY EQUIVALENTS

(as of 1 March 2014)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.00763
\$1.00	=	SLRs131.08

ABBREVIATIONS

ADB	–	Asian Development Bank
DLI	–	disbursement-linked indicator
M&E	–	monitoring and evaluation
MYASD	–	Ministry of Youth Affairs and Skills Development
PAP	–	program action plan
RBL	–	results-based lending
SDD	–	Sector Development Division
SDR	–	special drawing right
SSDP	–	Skills Sector Development Program
SSEP	–	Skills Sector Enhancement Program
TVEC	–	Tertiary and Vocational Education Commission
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the Government of Sri Lanka and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

Vice-President	W. Zhang, Operations 1
Director General	J. Miranda, South Asia Department (SARD)
Director	S. Ra, Human and Social Development Division, SARD
Team leader	G. Song, Senior Social Development Specialist, SARD
Team members	D. Ablett, Senior Social Sector Specialist, SARD C. Arora, Senior Procurement Officer, SARD C. Damandl, Senior Counsel, Office of the General Counsel N. Gunasekera, Senior Social Development Officer, SARD A. Inagaki, Principal Social Sector Specialist, SARD T. Molligoda, Senior Private Sector Development Officer, SARD S. Muthugala, Senior Procurement Officer, SARD R. Sabur, Senior Safeguards Specialist, SARD S. Shafiq, Financial Management Specialist, SARD
Peer reviewer	S. Shakil, Senior Education Specialist, East Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROGRAM	1
A. Strategic Context	1
B. Program Rationale	2
C. Program Scope	3
D. Program Results	4
E. Expenditure Framework and Financing Plan	5
F. Capacity Development and Program Action Plan	7
G. Implementation Arrangements	7
III. SUMMARY OF ASSESSMENTS	7
A. Program Technical Assessments	7
B. Program Systems Assessments	8
C. Integrated Risk Assessment and Mitigating Measures	9
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Disbursement-Linked Indicators, Verification Protocols, and Disbursement Schedule	15

PROGRAM AT A GLANCE

1. Project Name: Skills Sector Enhancement Program		2. Project Number: 42251-018	
3. Country: Sri Lanka		4. Department/Division: South Asia Department/Human and Social Development Division	
5. Sector Classification:			
Sectors	Primary	Subsectors	
Education	√	Technical education and vocational skills training	
6. Thematic Classification:			
Themes	Primary	Subthemes	
Social development	√	Human development	
Private sector development		A conducive policy and institutional environment	
Capacity development		Institutional development	
6a. Climate Change Impact No Climate Change Indicator available.		6b. Gender Mainstreaming	
		Gender equity theme (GEN)	
		Effective gender mainstreaming (EGM) √	
		Some gender elements (SGE)	
		No gender elements (NGE)	
7. Targeting Classification:		8. Location Impact:	
General Intervention	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
		National High	
		Rural Medium	
		Urban Medium	
9. Project Risk Categorization: Low			
10. Safeguards Categorization:			
		Environment	B
		Involuntary resettlement	C
		Indigenous peoples	C
11. ADB Financing:			
Sovereign/Nonsovereign	Modality	Source	Amount (\$ Million)
Sovereign	Results-Based Lending	Asian Development Fund	50.0
Sovereign	Results-Based Lending	Ordinary capital resources	50.0
Total			100.0
12. Cofinancing:			
Financier	Category	Amount (\$ million)	Administration Type
Export-Import Bank of Korea	Official-Loan	26.0	Not ADB administered
Germany	Official-Grant	15.4	Not ADB administered
World Bank (2014-2018)	Official-Loan	100.0	Not ADB administered
Total		141.4	
13. Counterpart Financing:			
Source	Amount (\$ Million)		
Government	185.0		
Total	185.0		
14. Aid Effectiveness:			
Parallel project implementation unit		No	
Program-based approach		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed loans to the Democratic Socialist Republic of Sri Lanka for the Skills Sector Enhancement Program (SSEP).¹

2. The SSEP will support the government's Skills Sector Development Program (SSDP), 2014–2020, which aims at building an efficient skills development system to meet labor market demand. The SSDP is the first sector-wide, medium-term development program, incorporating several ministries' training efforts. The SSEP will reorient the technical and vocational education and training (TVET) system to focus on increasing gainful employment of the graduates, thus contributing to human capital development. It builds on the long, extensive experience of the Asian Development Bank (ADB) in supporting Sri Lanka's TVET system.²

II. THE PROGRAM

A. Strategic Context

3. Sri Lanka is a middle-income country with a per capita income of \$2,923 in 2012, which aims to boost to \$4,000 by 2016.³ Economic growth was impressive at an average 7.5% during 2010–2012, after the end of the civil conflict in 2009. These economic achievements provide a significant opportunity to invest in human capital to set the economy on a high growth trajectory and avoid the middle-income trap. Sri Lanka's progress in education is remarkable compared with that of other countries in South Asia. However, a significant mismatch exists between the competencies of graduates and labor market demand. Sri Lankan firms identified lack of skilled labor as one of the key constraints to their business.⁴ Youth unemployment remains very high at 17.3% while the overall unemployment rate is 4.0%.⁵ The skills mismatch has become even more evident during the recent period of economic growth as both education and TVET systems have not been able to adapt to the rapid labor market shifts resulting from the rise of the service sectors.

4. Since 1990, Sri Lanka has developed a good basis for TVET, setting the benchmark for South Asia. Sri Lanka has an apex body, the Tertiary and Vocational Education Commission (TVEC), to regulate the sector; and a focal ministry, the Ministry of Youth Affairs and Skills Development (MYASD), to coordinate key TVET delivery agencies. The TVET system consists of over 1,100 registered public and private providers, which in 2012 enrolled around 148,000 students across 27 vocational subjects.⁶ Sri Lanka has a TVET teacher development university, University of Vocational Technology, which is unique in South Asia. The government has also implemented a highly successful apprenticeship program. Career guidance and counseling services are widely available throughout the school system and TVET provider network.

¹ The design and monitoring framework is in Appendix 1.

² ADB provided a program preparatory technical assistance. ADB. 2010. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Technical Education and Vocational Training Sector Development*. Manila.

³ Country Economic Indicators (accessible from the list of linked documents in Appendix 2); Government of Sri Lanka, Ministry of Finance and Planning, Department of National Planning. 2010. *Mahinda Chintana—Vision for the Future*. Colombo.

⁴ World Bank. 2013. *Sri Lanka: Building the Skills for Economic Growth and Competitiveness*. Washington, DC.

⁵ Government of Sri Lanka, Ministry of Finance and Planning, Department of Census and Statistics. 2013. *Quarterly Report of the Sri Lanka Labour Force Survey, First Quarter*. Colombo.

⁶ Tertiary and Vocational Education Commission (TVEC). 2012. *Labour Market Information Bulletin, Vol. 02/11*. Colombo; and TVEC registration information as of November 2013.

5. However, the TVET system has become fragmented and outdated. In the absence of a sector-wide plan that is linked with national development, past government investments and development partner support have been project-driven, only addressing specific issues, resulting in a lack of system cohesion. They also tended to focus on the supply side of the TVET system and were less successful in meeting labor market demand. Key challenges faced by the current TVET system are (i) inadequate capacity to provide skills training opportunities for 326,000 new labor market entrants per year and a large backlog of low-skilled in-service workers, (ii) lack of middle-level skills training programs for technicians, (iii) low market responsiveness and relevance indicated by a 50% TVET graduate employment rate, (iv) limited range of training programs and lack of flexible delivery options, (v) a narrowly defined and outdated national vocational qualification framework that neither provides multiple pathways nor covers higher level skills relevant to industry, (vi) lack of qualified instructors, and (vii) low capacity of TVEC to assure system quality. At the heart of these issues is the weak sector coordination and planning capacity, which fails to align the training efforts and financial resources with industry demand and priority economic growth areas. The role of the private sector has been limited in the largely supply-driven system. Current sector financing is inadequate to overcome the challenges.⁷

6. *Mahinda Chintana* emphasizes the need for a major reconfiguration of skills, abilities, and competencies of young people to meet the demands of the global economy and support the country's transition to a knowledge-based economy (footnote 3). In 2013, the government adopted the first sector-wide, medium-term skills development program, the SSDP. It aims to transform Sri Lanka's TVET into an efficient skills development system to meet rapidly evolving labor market demand by 2020. It has the five strategic thrusts of improving (i) quality; (ii) relevance; (iii) access; (iv) recognition for vocational training; and (v) supportive policies, systems, and structures. Building on past investments in "training assets", the SSDP will focus on investment in "quality" to make the TVET system better serve skill demands for the next decades.⁸

B. Program Rationale

7. ADB has supported Sri Lanka's TVET sector since 1982 through a series of investment projects. As a lead development partner of TVET in Sri Lanka, ADB's assistance has been instrumental in SSDP formulation. Several recommendations from the Technical Education Development Project, 2006–2011 completion report are incorporated in the SSDP design.⁹ Supporting the SSDP, the proposed SSEP will contribute to the government's integrated approach to human capital development alongside the Education Sector Development Framework and Program, which is supported by ADB's Education Sector Development Program.¹⁰ The SSEP is fully aligned with ADB's country partnership strategy, 2012–2016 and is included in the Sri Lanka country operations business plan, 2013–2015.

⁷ Summary Sector Analysis (accessible from the list of linked documents in Appendix 2).

⁸ Government of Sri Lanka, Ministry of Finance and Planning. Department of National Planning. 2013. *Public Investment Strategy*. Colombo.

⁹ ADB. 2012. *Completion Report: Technical Education Development Project in Sri Lanka*. Manila. The recommendations include (i) fundamental institutional reform, (ii) rationalization of teacher recruitment and compensation, (iii) more autonomy to college heads, (iv) improvement of the management information system and labor market information system, (v) gender and social equity, and (vi) rationalization of training facilities.

¹⁰ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loans to the Democratic Socialist Republic of Sri Lanka for the Education Sector Development Program*. Manila. The Education Sector Development Program supports the government's efforts in improving labor market relevance of secondary education by strengthening science, technology, and commerce streams. The SSDP will create pathways for the secondary school leavers and graduates to transit to gainful employment.

8. ADB's results-based lending (RBL) is the most suitable modality primarily because the SSDP aims at a fundamental shift in sector orientation—from the traditional, input-driven model to “employment results.” The SSDP envisages sector-wide reforms involving several institutions to improve the TVET system as a whole and in a sustainable manner, rather than focusing on specific aspects or on one or two institutions only, which was the case in previous investment projects. Such sector-wide reforms would be better achieved through stronger accountability for results than by focusing only on transactions. RBL also uses and strengthens country systems and institutional capacity, which are key to building a market-responsive, dynamic TVET system. ADB's due diligence assessments provide reasonable assurance for effective achievement of results through RBL, with measures to strengthen the country systems.

9. The RBL approach will enhance the predictability and amount of sector financing by motivating the government to adopt a medium-term expenditure framework whereby other development partners can participate with a harmonized approach. The World Bank will provide parallel financing for SSDP implementation using its results-based financing mechanism, similar to RBL. ADB and the World Bank coordinated due diligence assessments, harmonized key disbursement-linked indicators (DLIs) to support the common results framework of the SSDP, and will conduct joint reviews during implementation. Other bilateral partners also expressed strong support to the common sector results framework.¹¹

C. Program Scope

10. The SSEP will support the SSDP by covering activities from 2014 to 2016. The scopes of both programs are summarized in Table 1.¹²

Table 1: Program Scope

Item	SSDP	SSEP
Outcome	An efficient skills education system to meet local and 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 Program, 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 may be added subject to completion of fiduciary capacity assessments, identification of measures to mitigate risks (if any), and conclusion of agreement with MYASD.

Sources: Department of National Planning and Asian Development Bank.

¹¹ The World Bank's proposed project scope is almost identical to the SSEP, with similar DLIs as ADB's DLI 2, 3, 4, and 6. DLI 7 and 9 are fully harmonized. German development cooperation through GIZ supports the whole program by providing long- and short-term technical experts, and Export-Import Bank of Korea supports output 3 by upgrading and rebuilding two colleges of technology for middle-level training in information technology and light engineering.

¹² The SSEP will not cover high-value contracts or activities that would be classified as category A under ADB's Safeguard Policy Statement (2009).

D. Program Results

11. The impact of the SSEP will be increased employability of the Sri Lankan workforce, particularly the youth. The outcome will be a market-responsive and inclusive TVET system. The outputs of the SSEP are selected from the SSDP's key performance indicators. Certain output targets are further developed into annual DLIs, achievement of which will set the progressive steps toward 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).¹³ The employment rate of TVET graduates is included to measure SSEP outcome achievement (DLI 1). The outputs are summarized below:

- (i) **Output 1: Improved quality of TVET provision.** This output will strengthen the quality assurance system covering both public and private TVET providers (DLI 2, PAP 1.2), improve articulation of competencies within the national vocational qualification framework for multiple, flexible pathways (PAP 1.3), and improve trainee assessment for consistency across training providers (PAP 1.4). The capacity of TVEC as sector regulator and quality assurance body will be strengthened to ensure transparency and reliability of TVET certificates to employers and students. A comprehensive vocational teacher development policy and plan will ensure adequate supply of qualified instructors, assessors, and managers through in-service training, revised recruitment requirements, and a performance allowance scheme (DLI 3).
- (ii) **Output 2: Enhanced industry partnership for TVET planning and provision.** This output will increase private sector participation in TVET planning and provision. Skills gap analyses for four priority sectors will be carried out for industry validation to inform the sector training plans (DLI 4, PAP 1.6 and 1.8).¹⁴ At least 2,000 trainees will be trained through a purchasing model, using an employment-linked training agreement (DLI 5).¹⁵ At least three university colleges will be established through public-private partnership (DLI 5, PAP 1.5).¹⁶
- (iii) **Output 3: Increased participation and improved equity in TVET.** This output will increase the number of students enrolled in TVET programs to at least 172,000 (DLI 6), and support at least 18,000 students with a stipend program targeting school leavers, women, and disadvantaged groups for training in emerging and critical skills gap areas (PAP 1.7). Existing workforce skills will be upgraded by offering flexible training delivery mechanisms and recognition of prior learning (PAP 1.4). People in the underserved areas will have increased access to training facilities through selected implementing agencies (PAP 1.8). A sector-wide gender and social equity framework will be developed to guide overall SSDP implementation (PAP 6).

¹³ Program Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁴ These include (i) construction, (ii) tourism and hospitality, (iii) information technology, and (iv) light engineering and manufacturing, identified in the consultation process of ADB's project preparatory technical assistance.

¹⁵ Through the purchasing model, the TVET system can flexibly and quickly respond to skills gaps by using performance-based contracts with a public or private provider, whichever is capable and ready to deliver the results. The employment-linked training agreement with a potential employer will tie training to job placement and can include cost sharing between government and employer.

¹⁶ MYASD will enter into a performance-based, 3-year agreement with private sector entities to develop skilled workers in priority sectors. The agreement will set the roles, responsibilities of, and resources to be provided by government and a private sector entity, with clearly set performance targets.

- (iv) **Output 4: Improved TVET sector management to implement policy, institutional, and operational reforms.** This output will strengthen sector management and coordination capacity for SSDP implementation by establishing a high-level interministerial committee and the Sector Development Division (SDD) in MYASD (DLI 8, PAP 1.1, 1.10). A TVET system capacity utilization assessment will reveal underused training facilities and service gaps, and develop a rationalization plan (PAP 1.8). It will also pilot performance-based financing for public training providers (DLI 7). This output will also improve sector monitoring and evaluation (M&E) (PAP 5), planning and budgeting (DLI 9, PAP 1.9), fiduciary capacity (DLI 8, PAP 2 and 3), and safeguards (PAP 4).

12. Disbursement allocation is summarized in Table 2. Higher amounts are allocated to critical reform areas of quality, relevance, sector management capacity, and adequate financing.

Table 2: Disbursement-Linked Indicators

Disbursement-Linked Indicators		Disbursement Allocated (\$ million)	Share of Total ADB Financing (%)
Outcome			
	1. Employability of TVET graduates	5	5
Outputs			
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.

13. TVEC (as the quality assurance body) and MYASD (as sector focal ministry) are responsible for TVET sector performance monitoring. Using data from TVEC and MYASD, the SDD will report on the achievement of the DLIs to the Department of Project Management and Monitoring of the Ministry of Finance and Planning for approval and transmission to ADB. A rigorous verification protocol has been established and includes independent, third-party verification.¹⁷ For example, the outcome DLI (employment rate) will be monitored using an automated graduate tracking system to be developed by TVEC. An independent tracer study will be commissioned by ADB in early 2016 to confirm the reported employment rate and the credibility of the tracking system.

E. Expenditure Framework and Financing Plan

14. **Program expenditures.** The SSEP will support the SSDP's expenditure framework from 2014 to 2016 as summarized in Table 3.

¹⁷ The verification protocol is in Table A3.2 of Appendix 3.

Table 3: Summary of Expenditure Framework, 2014–2016
(in 2014 prices)

Item	SSEP (2014–2016)		SSDP (2014–2020)	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
1. Recurrent budget	121.5	31.4	295.8	30.8
2. Capital budget	264.9	68.6	665.4	69.2
Equipment	45.6	11.8	114.5	11.9
Civil works	82.1	21.3	206.3	21.5
Training and capacity development	137.2	35.5	344.6	35.8
Total	386.4	100.0	961.2	100.0

SSDP = Skills Sector Development Program, SSEP = Skills Sector Enhancement Program

Source: Ministry of Finance and Planning.

15. **Program financing.** The government will provide \$185 million (47.9%) and contribution from development partners is expected to be \$201.4 million (51.1%). 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 SDR32,600,000 from ADB's Special Funds resources to help finance the SSEP. The loan terms and conditions are set out in para. 30. The government may request ADB to provide additional financing upon satisfactory implementation of the SSEP, to bridge any financing gap from 2017 through 2020. The financing plan is summarized in Table 4.

Table 4: Program Financing Plan

Source	SSEP (2014–2016)		SSDP (2014–2020)	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Government	185.0	47.9	519.8	54.1
Development partners	201.4	52.1	441.4	45.9
Asian Development Bank				
Ordinary capital resources (loan) (2014–2016)	50.0	13.0	50.0	5.2
Special Funds resources (loan) (2014–2016)	50.0	12.9	50.0	5.2
World Bank (2014–2018) (loan) ^a	60.0	15.5	100.0	10.4
Government of Germany (grant) ^a	15.4	4.0	15.4	1.6
Export-Import Bank of Korea (loan) ^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

SSDP = Skills Sector Development Program, SSEP = Skills Sector Enhancement Program.

^a Parallel financing supporting the implementation of the SSDP.

Source: Estimates by Asian Development Bank and the Ministry of Finance and Planning.

16. **Disbursement arrangements.** 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 prior results. Financing for prior results will be provided to support government actions that are essential to initiate sector reform, such as (i) approval of the amendment to the Tertiary and Vocational Education Commission Act to strengthen the quality assurance system, (ii) signing of two memorandums of understanding with private sector institutions to initiate private sector engagement in TVET provision, and (iii) approval of cadre positions for the SDD to strengthen sector coordination and management. The subsequent disbursements will be made annually after 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 period concerned. Any amounts not disbursed for unmet DLIs will be disbursed once they have been achieved. Partial

disbursement is allowed for DLI 9 (ii) as described in the verification protocol. The loan proceeds will be disbursed to the government's consolidated fund.

F. Capacity Development and Program Action Plan

17. A PAP has been developed to complement the DLI matrix (footnote 13). It includes key actions in specific technical areas, fiduciary management, M&E, safeguards, and gender and social equity to ensure that achievement of key SSEP results strengthen the country systems, thus making the program results more sustainable. As the country systems are assessed as robust at policy and regulatory levels, the PAP will focus on implementation capacity.

G. Implementation Arrangements

18. MYASD will be the executing agency for the SSEP. MYASD, the Department of Technical Education and Training, and six semi-autonomous institutions under MYASD are selected as initial implementing agencies.¹⁸ Other agencies under the SSDP will be added as implementing agencies through a formal agreement with MYASD, once a fiduciary capacity assessment is completed and measures to mitigate risks, if any, are identified. The SSEP will be implemented using the existing country systems with selective enhancements as described in the PAP. To boost the capacity of MYASD in coordinating and managing the TVET sector, the SDD was established in 2013. It will (i) coordinate and support implementing agencies to plan, implement, and monitor SSDP activities; (ii) initiate implementation of new initiatives under the SSDP; and (iii) undertake timely M&E and reporting of SSDP activities, including DLI and PAP achievements. A high-level interministerial committee consisting of key ministries in skills development will be established to coordinate and monitor SSDP implementation.¹⁹ The Ministry of Finance and Planning will ensure adequate budget appropriation and smooth fund flow.

19. ADB will support the government in SSDP implementation through ongoing capacity development technical assistance.²⁰ The assistance provides technical inputs to help the SDD achieve the annual DLIs and implement the PAP, complementing other development partners' technical assistance.²¹ It will also support independent verification of DLIs and annual fiduciary reviews as described in the DLI verification protocol.

III. SUMMARY OF ASSESSMENTS

A. Program Technical Assessments

20. Several sector assessments concluded that Sri Lanka's TVET system needs to (i) improve quality and relevance to the job market at home and abroad; (ii) step up private sector engagement; (iii) invest in upgrading and expanding qualified instructors; (iv) introduce more flexible approaches to vocational qualification and training delivery; (v) streamline institutional arrangements; (vi) improve performance management through better planning,

¹⁸ The semi-autonomous institutions are TVEC, Vocational Training Authority, National Apprenticeship and Industrial Training Authority, University of Vocational Technology, National Institute of Fisheries and Nautical Engineering, and National Youth Services Council.

¹⁹ Chaired by the Treasury secretary, the committee will include ministries involved in the SSDP. Two departments (national planning, and project management and monitoring) of the Ministry of Finance and Planning will support the committee activities.

²⁰ ADB. 2012. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Human Capital Development Capacity and Implementation Support*. Manila

²¹ Development Coordination (accessible from the list of linked documents in Appendix 2).

M&E, and financing allocation; and (vii) increase participation, especially by women and disadvantaged groups.²² These conclusions underpin the five strategic thrusts, key actions to be taken, and performance indicators of the SSEP. The DLIs are carefully selected, prioritized, and sequenced to ensure that the government achieves reform results in the most crucial areas.

21. The implementation planning and expenditure framework requires further strengthening through at least two to three iterations of the annual planning and budgeting exercise. The SSDP is the first medium-term sector development program that the government undertook, and it is not yet fully incorporated into the regular work program and budget. The SSDP should be fully integrated into MYASD's regular work program. A technical action is included as a DLI to improve 5-year strategic planning, 3-year rolling budgeting, and annual work planning at implementing agencies, to fully incorporate the SSDP into their regular programs over the next few years. To strengthen coordination between budget planning and expenditures and to achieve program results, performance partnership agreements between the Ministry of Finance and Planning and MYASD, and between MYASD and its departments and agencies, will specify performance targets and related budget amounts to support implementation.

22. A study in Sri Lanka estimated an average wage premium of 17% for TVET, which indicates a large income gain from TVET for individuals (footnote 4). SSDP enrollment targets, graduation and employment, the average wage premium, and the SSDP expenditure framework were used to compute the incremental benefits and costs. The economic analysis resulted in a sound internal economic rate of return of 15.3%. A sensitivity analysis revealed that varying the wage premium affects the return on investment more than other variables, implying that elevating the overall skills profile of the workforce would bring a higher return on investment.

23. Currently, a large number of women are enrolled for training in traditionally female occupations, but women's participation is low in technology-related courses that would lead to higher-paying jobs. Women's labor force participation is the lowest among South Asian countries, and the unemployment rate is high among young, educated women. The SSEP aims to increase women's participation in TVET and improve their employment rate, especially in the four priority sectors (footnote 14). The government is committed to developing a system-wide gender and social equity framework and a targeted stipend program. Specific targets for women in employment, enrollment, stipend program, and instructor training are set in the PAP.

B. Program Systems Assessments

24. **Monitoring and evaluation systems.** An M&E system assessment was done for MYASD and other implementing agencies. The central system is robust, but agency level systems are fragmented and inconsistent and therefore need to be consolidated. The SSEP will improve and consolidate the systems for timely and efficient monitoring and reporting. The SDD will be responsible for performance monitoring against a set of key performance indicators that are defined within the SSEP, including DLIs and PAP targets. An M&E unit at each implementing agency will collaborate with the SDD. The SDD will develop a new, computerized management information system for preparing quarterly and annual sector performance reports that will outline progress against the SSEP targets. This new system will be housed within TVEC, and implementing agencies will be able to access it online.

²² Government of Korea, Ministry of Strategy and Finance. 2012. *Policy Agenda for Sri Lanka in Growth, Finance, Industry and Trade*. Seoul; ADB. 2012. *TVET Sector Development Project*. Consultant's Report. Manila (TA-7746); ADB. 2013. *Sri Lanka Country Report on TVET*. Consultant's Report. Manila (RETA-6337); World Bank. 2013. *Sri Lanka: Building the Skills for Economic Growth and Competitiveness*. Washington, DC.

25. **Fiduciary systems.** The program will use the country public finance management system and, as per the RBL policy, the strength of country systems has been assessed to determine whether additional assurances and/or institutional capacity-building measures are required. The assessment reviewed the government's public finance management system, including the Auditor General's Department and specific agencies. The assessment found weaknesses in predictability of budget allocation and timeliness of budget release. MYASD's absorption capacity, internal control, accounting and financial reporting, and external audits were rated as substantial risks. Key mitigating measures included as DLIs are (i) adequate allocation of budget and spending of funds and (ii) strengthening of the financial management capacity of MYASD, especially in planning, budgeting, internal control, and financial reporting. ADB will conduct periodic external fiduciary reviews to spot-check sample procurements and review follow-up of audit recommendations and compliance with internal controls. A detailed Statement of Audit Needs was agreed with the Auditor General's Department and MYASD to ensure timely financial reporting in accordance with Sri Lankan accounting standards.

26. A procurement system 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 in line with comprehensive national procurement and consultant selection guidelines that largely follow good practices. Most implementing agencies have reasonable capacity for the current volume of work. Anticipating the increase in procurement activities under the 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., a staffing and training plan and follow-up of annual audit findings) and the 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.²³

27. **Safeguard systems.** The SSEP will entail upgrading and refurbishing training centers and constructing some new buildings in already existing premises or on government-owned land, avoiding new land acquisition and sensitive areas. A program safeguard system assessment confirmed the safeguard categorizations for environment (B), involuntary resettlement (C), and indigenous peoples (C) and highlighted the capacity gap in complying with safeguard requirements, especially at training centers. MYASD will adopt an environmental and social management framework for the 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. Recommendations from the assessment are in the PAP (e.g., a designated safeguard officer at the SDD to provide support and monitor framework implementation).

C. Integrated Risk Assessment and Mitigating Measures

28. Major risks and mitigating measures are described in Table 5.²⁴

²³ ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila. (Guidelines to Prevent or Mitigate Fraud, Corruption, and Other Prohibited Activities in Results-Based Lending for Programs, Appendix 7).

²⁴ Integrated Risk Assessment and Mitigating Measures (accessible from the list of linked documents in Appendix 2).

Table 5: Summary of Integrated Risk Assessment and Mitigating Measures

Risks	Ratings	Key Mitigating Measures
Results		
Difficulties in recruiting qualified teaching staff	Substantial	TVET agencies can flexibly increase teaching staff hiring from industry. UNIVOTEC will have twinning with international institutes to provide master trainers.
Current capacity is limited to implement a larger sector-wide program with several new initiatives and reform agenda	Substantial	SDD is established to plan, coordinate, and facilitate implementation of SSDP, and monitor progress for corrective actions and reporting. Development partners will provide TA for complex reform agenda.
Expenditures and financing		
Inadequate budget allocation, delay in fund release, and weak absorption capacity may undermine results achievement	High	MYASD and Ministry of Finance and Planning will rationalize the medium-term expenditure framework for SSDP, establishing a clearer result chain of inputs, process, output, and outcome. A DLI is included to incentivize adequate budget allocation and spending.
Fiduciary		
Existing capacity of internal audit, accounting, and procurement staff is weak	Substantial	Staff capacity development plans including training and additional staff recruitment will be implemented. Annual external fiduciary review will be conducted to advise MYASD to strengthen the fiduciary aspects.
Overall RBL program risk	Substantial	

DLI = disbursement-linked indicator, MYASD = Ministry of Youth Affairs and Skills Development, RBL = results-based lending, SDD = Sector Development Division, SSDP = Skills Sector Development Program, TA = technical assistance, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology.

Source: Asian Development Bank.

IV. ASSURANCES

29. The government and the Ministry of Youth Affairs and Skills Development have agreed with ADB on certain covenants for the RBL program, which are set forth in the loan agreements.

V. RECOMMENDATION

30. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) a loan in various currencies equivalent to SDR32,600,000 to the Democratic Socialist Republic of Sri Lanka for the Skills Sector Enhancement Program, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) a loan of \$50,000,000 to the Democratic Socialist Republic of Sri Lanka for the Skills Sector Enhancement Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 26 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

4 March 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased employability of the Sri Lankan workforce, particularly youth	Unemployment rates for youth (15–24 year olds) reduced from 17.3% (14.0% male, 23.5% female) in 2012 to 14% in 2020	Department of Census and Statistics, annual labor survey	Assumption The economy continues to create jobs and require new and higher-level skills, and overseas demand for Sri Lankan workforce continues
Outcome A market-responsive and inclusive TVET system	By 2016, 55% of graduates (at least 40% of female graduates) are employed 6 months after training completion (2011 baseline: 47.5% —male: 55.8%, female 34.8%)	Student tracking system at TVEC Third-party validation (tracer study) report at midterm	Assumption The government sustains its commitment to developing a skilled workforce and provides adequate resources for the SSDP
Outputs 1. Improved quality of TVET provision	By 2016 (for all indicators): At least 15% TVET providers of NVQs 1–6 have established QMS (baseline: less than 1% in 2013) Revised NVQ framework applied to all TVEC-accredited programs and registered training providers 72% of TVET enrollees, both male and female, graduate (Baseline: 71.3% in 2012—male 70.8%, female 71.9%) A comprehensive vocational teacher development policy and plan implemented	TVEC reports on provider registration TVEC reports on program accreditation SDD ASPR and third-party validation SDD ASPR and third-party validation	Risks Varying degree of commitment to key reform agenda among sector stakeholders, especially TVET agencies, may slow down sector reforms Adequate number of qualified instructors and assessors not available for recruitment, especially in priority sectors Slow change in perception among youth (especially young women), parents, and industry about the value of TVET
2. Enhanced industry partnership for TVET planning and provision	By 2016 (for all indicators): At least two sector training plans developed from industry-validated sector skills gap analyses At least 4,000 people trained using employment-linked training agreements Three university colleges established through PPP	SDD ASPR and third-party validation Agreements executed, SDD ASPR, and third-party validation UNIVOTEC affiliation or accreditation of three	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	to deliver mid-level skills	institutions, SDD ASPR, and third-party validation	
3. Increased participation and improved equity in TVET	<p>By 2016 at least 187,000 students (50% women) enrolled in quality-assured TVET (Baseline: 148,131 students in 2012, of which 45.3% female)</p> <p>By 2016, at least 12,500 existing workers (at least 30% to be women) assessed and certified through recognition of prior learning</p> <p>By 2016, at least 18,000 students from poor, disadvantaged groups benefit from targeted stipend program to bridge critical skills gap (50% to be women)</p>	<p>SDD ASPR</p> <p>SDD ASPR</p> <p>MYASD-approved guidelines for scholarship, SDD ASPR, and third-party validation</p>	
4. Improved TVET sector management to implement policy, institutional, and operational reforms	<p>A national skills development strategy adopted by the high level interministerial committee by 2015</p> <p>Annual plans and monitoring reports produced by SDD under MYASD from 2015 and onward</p> <p>TVET capacity rationalization plan approved by 2016</p> <p>At least 80% of annual budget for the SSDP expended by 2016</p> <p>Performance partnership agreement between MOFP and MYASD established by September 2014 and updated annually</p> <p>Performance-based financing piloted for at least 20 VTA centers by 2016</p> <p>MYASD-wide gender and social equity framework operational by 2016</p>	<p>National skills development strategy, and regular progress reports available on MOFP website</p> <p>SDD ASPR and ADB review missions</p> <p>MYASD secretary's approval letter attached to rationalization plan and SDD ASPR</p> <p>MOFP annual report (expenditure analysis section)</p> <p>Signed performance partnership agreement, annual budget estimates published on MOFP website, and SDD ASPR</p> <p>SDD ASPR and third-party validation</p> <p>SDD ASPR and third-party validation</p>	

<p>Key RBL Program Actions</p> <p>Output 1: Improved quality of TVET provision</p> <p>1.1 Provider registration and accreditation requirements are reviewed and strengthened to ensure industry relevance and consistent application.</p> <p>1.2 NVQ level descriptors are revised, including articulation and credit transfer arrangements, to allow multiple entries, pathways for upskilling, and recognition of other internationally and industry-recognized qualifications.</p> <p>1.3 Human resource development policy includes allowances to recruit and retain qualified instructors, professional development to upgrade the qualification of existing staff, and performance management mechanisms.</p> <p>Output 2: Enhanced industry partnership for TVET planning and provision</p> <p>2.1 Skills gap analysis will be conducted in priority sectors by 2015. An industry working group will be established in at least four priority sectors to guide training provision to support industry development and improve workforce productivity.</p> <p>2.2 Purchasing model implementation manual developed, implemented, reviewed at midterm, and improved.</p> <p>2.3 For public-private partnership university colleges, college governance, administrative autonomy, business plan, and financing agreement will be developed and implemented to achieve targets specified in the SSDP.</p> <p>Output 3: Increased participation and improved equity in TVET</p> <p>3.1 Selected TVET agencies will increase enrollment in skills gap areas where employment opportunities are high.</p> <p>3.2 Skills assessment, including recognition of prior learning, is strengthened to ensure consistency between training providers and training agencies.</p> <p>3.3 Targeted stipend program will be developed and approved by MYASD to ensure increased participation of women, disadvantaged groups, and rural residents in the TVET system. The stipend program will also include support for increased training enrollment in skills shortage areas.</p> <p>Output 4: Improved TVET sector management to implement policy, institutional, and operational reforms</p> <p>4.1 A facility utilization census will identify provision duplication or gaps throughout the country to inform a rationalization plan whereby facilities can be merged or converted, or new facilities built where provision is inadequate.</p> <p>4.2 Budget allocation and expenditures to be monitored over time to ensure adequate financing of SSDP implementation.</p> <p>4.3 Performance partnership agreements will be made between (i) MOFP and MYASD and (ii) MYASD and implementing agencies on key performance indicators from the SSDP, attached with annual implementation plan and budget estimation, within the overall SSDP framework in terms of activities and expenditures.</p> <p>4.4 A gender and social equity framework will be developed, and equitable and adequate human and financial resources will be allocated to support the implementation of the framework.</p>	<p>Financing</p> <p>Government of Sri Lanka: \$185 million</p> <p>ADB: \$100 million (loans)</p> <p>World Bank: \$100 million (2014–2018) (loan)</p> <p>Government of Germany: \$15.4 million (grant)</p> <p>Export-Import Bank of Korea: \$26 million (loan)</p>
---	---

ADB = Asian Development Bank, ASPR = annual sector performance report, MOFP = Ministry of Finance and Planning, 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, VTA = Vocational Training Authority.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=42251-018-3>

1. Loan Agreement: Asian Development Fund
2. Loan Agreement: Ordinary Capital Resources
3. Country Economic Indicators
4. Summary Sector Analysis: Technical and Vocational Education and Training
5. Program Soundness Assessment
6. Program Results Assessment
7. Program Results Framework
8. Program Expenditure and Financing Assessment
9. Program Monitoring and Evaluation System Assessment
10. Program Fiduciary Systems Assessment
11. Program Safeguard System Assessment
12. Integrated Risk Assessment and Mitigating Measures
13. Program Action Plan
14. Contribution to the ADB Results Framework
15. Development Coordination
16. Summary Poverty Reduction and Social Strategy
17. Program Implementation Document

Supplementary Documents

18. Financial Management Assessment
19. Procurement Capacity Assessment
20. Economic Analysis
21. Additional Information to Program Safeguard System Assessment

DISBURSEMENT-LINKED INDICATORS, VERIFICATION PROTOCOLS, AND DISBURSEMENT SCHEDULE

Table A3.1: 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 DLI 4: TVET provision based on skills gap analyses	Strategic skills gap analysis is not available to support informed		Skill gap analysis terms of reference approved by	Skills gap analyses on at least 2 priority	All IAs commenced training to meet the	All IAs commenced training to meet the	All IAs commenced training to meet 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
	TVET provision		TVEC	sectors, validated by Industry working groups and endorsed by high level interministerial committee	targets aligned with the two sector training plans which are developed from the skills gap analyses	targets aligned with the four sector training plans (cumulative) which are developed from the skills gap analyses	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
Sector Management DLI 7: Increased efficiency in utilization	No mechanism to monitor		A performance based financing model is	The performance based	The performance based	The performance based	The performance based

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
of TVET sector resources through performance based financing	performance and allocate financing to encourage quality and efficiency of training		approved by MYASD	financing model are piloted in at least 10 VTA centers	financing model assessed, revised, and implemented in at least 20 VTA centers (cumulative)	financing model expanded to at least 50 TVET training institutions (cumulative)	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 interministerial 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 appropriation bill	Performance partnership agreement concluded between (i) MOFP and MYASD and (ii) MYASD and TVET agencies for 2015 in line	(i) Both recurrent and capital budget for 2015 is allocated in accordance with the performance partnership	(i) Both recurrent and capital budget for 2016 is allocated in accordance with the performance partnership agreement	(i) Both recurrent and capital budget for 2017 is allocated in accordance with the performance partnership agreement	(i) Both recurrent and capital budget for 2018 is allocated in accordance with the performance partnership agreement

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
			with medium term expenditure framework, committed workplan including new initiatives to diversify TVET provision	agreement (ii) At least 75% of 2014 budget allocations for skills development initiatives have been spent	(ii) At least 80% of 2015 budget allocations for skills development initiatives have been spent	(ii) At least 85% of 2016 budget allocations for skills development initiatives have been spent	(ii) At least 90% of 2017 allocations for skills development initiatives have been spent

AGD = Auditor General's Department, DLI = disbursement-linked indicator, ETA = employment-linked training agreement, FY = fiscal year, IA = implementing agency, MOFP = Ministry of Finance and Planning, MOU = Memorandum of Understanding, MYASD = Ministry of Youth Affairs and Skills Development, NVQ = national vocational qualification, QMS = quality management system, SDD = sector development division, SSEP = Skills Sector Enhancement Program, SSDP = Skills Sector Development Program, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, VTA = Vocational Training Authority.

^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 A3.2: 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 upgrade assessors, auditors, and other types of staff to implement the updated quality assurance system.]	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
	<p>May 2015: 5% of registered training providers of NVQ 1-6 established QMS.</p> <p>[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]</p> <p>May 2016: 15% of registered training providers of NVQ 1-6 established QMS.</p>	TVEC QMS records	
DLI 3: Increased availability of effective teaching staff in priority and emerging skill shortage areas	<p>October 2014: Vocational teacher development policy is approved by MYASD and each IA develops teacher development plans.</p> <p>[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)]</p> <p>[The agency level teacher development plans should include recruitment and training plans for teaching staff]</p> <p>[IAs are DTET, MYASD, NAITA, NIFNE, NYSC, UNIVOTEC, and VTA]</p> <p>May 2015: New recruitment criteria and performance based allowance scheme under the vocational teacher development policy are implemented by at least 5 IAs.</p> <p>May 2016: Across all IAs, on average, at least 70% of needed teacher positions (as specified in the IA teacher</p>	<p>MYASD Secretary approval letter attached with the plan</p> <p>SDD ASPR</p> <p>IA teaching staff records</p>	<p>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.</p> <p>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.</p> <p>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.</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	<p>are developed from the skills gap analyses.</p> <p>[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]</p>	sector training plans and IA training plans	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	<p>Upon loan effectiveness (prior results): Two MOUs for training delivery signed between MYASD and private sector entities and training commenced.</p> <p>[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.]</p> <p>October 2014: Employment-linked Training Agreement model is approved by MYASD.</p> <p>[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.]</p> <p>May 2015: ETAs signed between SDD and private sector training providers in priority skill areas for at least</p>	<p>Signed and officially sealed MOUs</p> <p>MYASD secretary approval letter attached with ETA model document and ETA template</p> <p>Signed ETAs</p>	<p>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.</p> <p>SDD/ADB mission in October 2014 will verify that the ETA model is satisfactory to ADB.</p> <p>SDD/ADB mission in May 2015 will review the signed ETAs for at least 2,000 trainees with the job</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	<p>2,000 trainees targeting at least 65% job placement rate and training commenced.</p> <p>[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.]</p> <p>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.</p>	Signed ETAs	<p>placement target at 65% or more, and verify the commencement of the training by visiting selected training programs.</p> <p>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.</p>
<p>Increase in Participation</p> <p>DLI 6: Enrolment of students in TVET programs increased</p>	<p>Upon loan effectiveness (prior results): University college development implementation commenced.</p> <p>[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.]</p> <p>May 2015: total enrolment in TVET programs in public and private providers registered with TVEC is increased to 157,000 or more.</p> <p>[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.]</p> <p>May 2016: total enrolment in TVET programs in public and private providers registered with TVEC is increased</p>	<p>Cabinet approval letter, 2013 unaudited financial statement, ADB's field visit report.</p> <p>SDD ASPR</p> <p>SDD ASPR</p>	<p>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.</p> <p>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.</p> <p>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.</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	to 172,000 or more.		
DLI 7: Increased efficiency in utilization of TVET sector resources including performance based financing	<p>October 2014: Performance based financing model is approved by MYASD.</p> <p>[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.]</p> <p>May 2015: Performance based financing model piloted in at least 10 VTA TVET centers.</p> <p>[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.]</p> <p>May 2016: Performance based financing model is assessed for effectiveness in implementation, and revised model is implemented in at least 20 VTA centers (cumulative).</p>	SDD ASPR	<p>SDD/ADB mission in October 2014 will verify that performance based financing model is satisfactory.</p> <p>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.</p> <p>By April 2016, SDD will submit a monitoring report of the pilot implementation results based on the pilot centers key performance indicator achievements. ADB mission in May 2016 will verify the pilot status by reviewing the monitoring report and visiting at</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
			least 6 pilot centers.
DLI 8: Coordination and implementation capacity strengthened	<p>Upon loan effectiveness (prior results)</p> <p>(i) Skills Sector Development Program approved [by MOFP]</p> <p>(ii) High level interministerial committee is established [by MOFP]</p> <p>(iii) Cadre positions for SDD approved [by Management Service Department]</p> <p>October 2014: A capacity development plan for procurement function at MYASD and IAs approved.</p> <p>[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.]</p> <p>May 2015: At least 50% of the training targets (in terms of number of people trained) under the capacity development plan are achieved.</p> <p>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.</p> <p>[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</p>	<p>(i)/(ii) MOFP approval letter</p> <p>(iii) Management Service Department approval letter</p> <p>MYASD approval</p> <p>MYASD approval / SDD ASPR</p> <p>SDD</p>	<p>MOFP and MYASD will provide the copies of the approval letters and attachments for ADB to confirm the prior results.</p> <p>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.</p> <p>SDD/ADB mission in May 2015 will verify that at least 50% of target staff are trained according to the capacity development plan.</p> <p>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.</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	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	<p>Upon loan effectiveness (prior results): 3-year medium term expenditure framework is included in the amended 2014 appropriation bill</p> <p>[the 3-year medium term expenditure framework is the 2014 budget estimates and 2015 and 2016 projections]</p> <p>October 2014: Performance partnership agreements signed between (i) MOFP and MYASD and (ii) MYASD and IAs for 2015 work plan and budget.</p> <p>[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.]</p> <p>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</p> <p>[The budget allocation for skills development initiatives is defined as MYASD budget as approved by the amended appropriation bill.]</p> <p>[Spending rate will be determined by the total amount expended by MYASD and its TVET agencies against 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.]</p>	<p>Amended 2014 appropriation bill</p> <p>For all years: Executed performance partnership agreements, budget circulars, appropriation bill or amendment to it, MYASD and IA accounting records.</p>	<p>MYASD will submit to ADB the amended 2014 appropriation bill showing MYASD budget estimates for 2014 and projections for 2015 and 2016.</p> <p>ADB mission in October 2014 will verify that the performance partnership agreements are developed and signed for 2015 against the definition.</p> <p>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.</p> <p>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.</p>

Disbursement-Linked Indicators	Definition and Description of Achievement and Verification Timeframe	Information Source and Frequency	Verification Agency and Procedure
	<p>[By October 2015, the performance partnership agreements for 2016 will be signed]</p> <p>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.</p> <p>[For the spending rate DLI, partial disbursement allowed:</p> <p>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.</p> <p>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.]</p>		

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, DLI = disbursement-linked indicator, DTET = Department of Technical Education and Training, ETA = employment-linked training agreement, FY = fiscal year, IA = implementing agency, KPI = key performance indicators, MIS = management information system, MOFP = Ministry of Finance and Planning, 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 and Nautical Engineering, NVQ = national vocational qualification, NYSC = National Youth Services Council, PPP = public-private partnership, QMS = quality management system, SDD = sector development division, SMS = short message service, SSDP = Skills Sector Development Program, 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 A3.3: 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: Employability 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: TVET provision based on skills gap analyses	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 in TVET programs increased	9	9%	0	0	5	4
DLI 7: Increased efficiency in utilization of TVET sector resources including performance based financing	9	9%	0	2	4	3
DLI 8: Coordination and implementation capacity strengthened	14	14%	(i) 5 / (ii) 1 / (iii) 2	2	2	2
DLI 9: Improved medium term skills sector budgeting and expenditure	17	17%	5	(i) 2 / (ii) 2	(i) 2 / (ii) 2	(i) 2 / (ii) 2
Total	100	100%	20	20	30	30

ADB = Asian Development Bank, DLI = disbursement-linked indicators, MYASD = Ministry of Youth Affairs and Skills Development, TVET = technical and vocational education and training.

Source: Asian Development Bank.