SUMMARY OF PROGRAM PERFORMANCE

A. Background

1. The Skills Sector Development Program (SSDP) is the first comprehensive sector development program to improve the employability of Sri Lankans, particularly the youths, through a market-responsive and inclusive technical and vocational education training (TVET) system. The program includes a well-devised results framework and medium-term expenditure framework aligned with key activities for 7 years from 2014 to 2020. The SSDP expenditure framework amounts to $874 million.[1]

2. The Skills Sector Enhancement Program of the Asian Development Bank (ADB) consists of results-based lending to support the government's SSDP for the first 3 years, from 2014 to 2016. Aligned with the SSDP, the ADB program outcome is a market-responsive and inclusive TVET system, and the outputs are (i) improved quality of TVET provision; (ii) enhanced industry partnership for TVET planning and provision; (iii) increased participation and improved equity in TVET; and (iv) improved TVET sector management to implement policy, institutional, and operational reforms. The ADB program finances the SSDP expenditure framework with up to $50 million from ordinary capital resources (Loan 3119), and SDR32.6 million from the Asian Development Fund ($50 million equivalent, Loan 3120). The World Bank's International Development Association credit of $101.5 million is a results-based financing support for the same SSDP results framework using disbursement-linked indicators (DLIs) that are largely harmonized with the ADB program. Several other development partners also aligned their support with the SSDP. The Ministry of Skills Development and Vocational Training (MSDVT) is the executing agency, and eight public TVET agencies are designated as implementing agencies.[2]

B. Performance of the Program

3. The ADB program is performing well given (i) its progress in achieving the results indicators set in the design and monitoring framework (DMF) and the DLIs; (ii) its successful risk management; and (iii) its on-track performance rating. The assessment is detailed below:

4. **Delivery of expected results**. The program made good progress in achieving outcome and output targets. The employment rate of TVET graduates (outcome) has increased from 50% in 2012 to 57% in 2015, exceeding the target of 55% as per an independent tracer study. Out of 17 output targets, 12 were fully achieved or exceeded in end of 2017, two are on track for full achievement by March 2018, and one will be achieved by end of 2018. The achievement of the DMF performance indicators is summarized below:

(i) Output 1: TVET centers with a quality management system increased from less than 1% in 2013 to 15% by October 2017. National vocational qualification (NVQ-accredited training programs increased from 13% in 2012 to 66% in 2016. A comprehensive human resource development plan was developed and implemented, and the instructor vacancy ratio decreased from 44% in 2014 to 32% in May 2017, while cadre positions increased from 3,418 in 2014 to 4,213 in 2017. With ongoing recruitment efforts, the target of 30% will be met by March

[1] This was adjusted at the midterm, reflecting the actual expenditures during 2014–2016 and removing other ministry expenditures that are not monitored by MSDVT. The original expenditure framework amounts to $961 million.

[2] The executing agency, the Ministry of Youth Affairs and Skills Development, became the MSDVT in 2015.

2018. The completion rate of TVET trainees reached 72% (76% among female) in 2015, but dropped to 68% (both men and women) in 2016.

(ii) Output 2: Three industry sector skills councils had been established as of 2016, and two sector training plans are being finalized. A mechanism to outsource training and employment services to the private sector was introduced and will provide employment-oriented training opportunities for 4,000 students by March 2018. In 2015, three university colleges were established through public–private partnerships, delivering training programs at diploma level for construction, health sciences, and information technology.

(iii) Output 3: TVET sector capacity has increased from 148,131 seats in 2012 to 188,764 seats in 2016 (target: 187,000), of which 41.1% were for women.[3] As of December 2016, 25,878 people (21.8% women) got certified through recognition of prior learning, against the target of 12,500. Between 2014 and 2016, over 47,000 students received a stipend to encourage their enrollment and completion of TVET, against a target of 18,000 students. In 2017, the government introduced a three-month allowance scheme for 10,000 students who attend construction skills training in the construction industry.

(iv) Output 4: A sector program was introduced and coordination and monitoring mechanisms were established. A performance-based financing model was piloted at 41 training centers, including 20 Vocational Training Authority centers, and performance partnership agreements were struck between MSDVT and the implementing agencies to ensure better accountability on results and alignment of annual agency work plans and budgets with the SSDP focus. MSDVT also adopted a ministry-wide gender equity and social inclusion framework and allocated budget for its implementation from 2017.

5. As of December 2017, 30 out of 33 DLI targets were achieved and $87.0 million out of $96.1 million (90.5%) was disbursed. Three DLI targets were not fully achieved by 30 June 2017, which was the original loan closing, but have progressed well for full achievement given more time. The delay was mainly caused by the institutional changes and high turnover of leadership and staff at the executing agency and implementing agencies after the political events in 2015.[4] The status of these four DLI targets, as well as actions and a timeline for

[3] Tertiary and Vocational Education Commission. 2017. *Labour Market Information Bulletin, Vol. 02/2016*. Colombo.

[4] The ADB program started with a very good performance: all prior results and year 1 results were met in time until 2014. However, the program's implementation was significantly undermined by institutional changes following major political events in 2015. After the presidential election in January 2015, the skills development portfolio was moved to the Ministry of Highways, Higher Education, and Investment Promotion, and the budget allocated for 2015 became available for activities only from May/June 2015. Being a small portfolio compared with other areas under the ministry, skills development could not garner enough attention from the ministry leadership. For the first half of 2015, all ministries were focusing on the government's 100-day program as a top priority, paying less attention to other programs. The program director was transferred to the Ministry of Finance and Mass Media in early 2015, and so was the program manager by mid-2015. Program director and program manager positions were vacant until September 2015. After the general election in August 2015, a reshuffle of cabinet ministers resulted in reinstating a dedicated ministry for skills development (MSDVT), and a new minister and a secretary were appointed and assumed duty in September 2015. The heads and chairpersons of institutions (implementing agencies) were also all replaced by the end of 2015. It took some time for the new leadership to understand the results-based lending modality and rationale of different results required under the program. In addition, a circular issued in March 2016 raised staff levels of the program management unit, the Skills Sector Development Division, requiring higher qualifications and experience. This resulted in non-renewal of annual contracts and large staff turnover by December 2016. It was only in March 2017 that most of the key positions, including the program manager, were filled with staff competitively recruited from the market, and the program director (additional, secretary-level) assumed duty in May 2017.

follow-ups agreed by the government, are summarized in the table below. To allow full achievement of these targets, the loans were extended till March 2018.

Table 1: Summary of Outstanding Targets and Agreed Actions

Indicative Timeline	Target Value	Disburse-ment ($ million)	Status and Agreed Actions
DLI 3: Increased availability of effective teaching staff in priority and emerging skills shortage areas			
May 2016	Across all IAs, on average, at least 70% of needed vocational teacher positions filled	$3 million	67% of positions filled across 7 IAs Recruitment is ongoing, which would reach around 75% of the approved cadre positions by March 2018. *IAs to complete the proposed recruitment of additional instructors before end of March 2018*
DLI 4: TVET provision based on skills gap analyses			
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	$3 million	ISSCs developed new training programs to address skills shortages, and some of the training commenced Include industry working groups in EA's annual work plan and budget process *MSDVT to develop two sector training plans for IA implementation by March 2018*
DLI 5: Private sector engagement in TVET delivery strengthened			
May 2016	ETAs signed between SSDD and private sector training providers in priority skill areas for additional 2,000 trainees, targeting at least 65% job placement rate, and training commenced	$4 million	Additional bidding process for additional trainees under ETA was initiated in September 2017. *To monitor training progress to achieve additional 2,000 trainees commencing training by March 2018*

DLI = disbursement-linked indicator, EA = executing agency, ETA = employment training agreement, IA = implementing agency, ISSC = industry sector skills council, MSDVT = Ministry of Skills Development and Vocational Training, SSDD = Skills Sector Development Division.

6. **Successful management of risks**. Despite the various institutional changes, the government's commitment to prioritizing skills sector development remains firm. In addition, use of results-based lending helped MSDVT and implementing agencies focus on key results areas, despite high turnover in leadership and staff at MSDVT and implementing agencies. The ADB program adopted several DLIs and a strong program action plan to mitigate the risks identified in results, expenditure and financing, and fiduciary management capacity. A comprehensive human resource development policy and its implementation contributed to an increase in cadre positions, introduction of contractual instructor positions, and a significant reduction in technical instructor vacancies. The establishment of the Skills Sector Development Division (SSDD) was critical in strengthening MSDVT's capacity for coordinating SSDP implementation and ensuring monitoring and evaluation. DLI 9 contributed to better alignment between SSDP results and budget allocation. Staff capacity in procurement and financial management increased, and MSDVT is committed to continuing investing in staff training and adopting good practices in procurement and financial management. It is commendable that MSDVT adopted and

implemented an environmental and social management framework and is on track in most safeguard-related actions identified in the program action plan. There are no outstanding safeguard issues or grievances that need to be addressed.

7. **On-track rating**. The performance rating of the ADB program has been on track, except for the third quarter (Q3) and Q4 in 2015, and Q3 in 2017, when disbursement was delayed. The performance rating was back on track in Q4 2017. The delayed DLI targets will be achieved given more time, and the loans were extended till 31 March 2018. In the beginning of 2017, the government replaced the SSDD staff with new staff with higher qualifications and experience, recruited from market. With a stronger capacity, implementation progress is being accelerated.

C. Conclusion

8. The proposed additional financing is warranted considering that the program is performing well, and it will help the ongoing program to scale up the activities that aim to increase the development results of the program.[5] The additional financing will support the SSDP expenditure framework, extending it from the current 2014–2016 period ($257 million) to 2020 ($874 million).

9. The midterm review of the SSDP confirmed that the program scope and key interventions remain technically sound. The continued improvement of the TVET system remains a top priority of the government, as reflected in the Public Investment Program, 2017–2020. The additional financing will help the government reach higher performance targets in outcome (at least 62% of TVET graduates employed) as well as outputs. It will also include new additional indicators to seek higher value addition to the SSDP implementation, building upon the achievements under the current program. Under the additional financing, 51 new DLI targets are proposed to (i) encourage continuous TVET system improvement and expansion, (ii) deepen ongoing reform actions and encourage new reforms, and (iii) help institutionalize key interventions for sustainability.

[5] The expanded design and monitoring framework and the DLIs for the additional financing period (2017–2020) are accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President.