



Report and Recommendation of the President to the Board of Directors

Project Number: 42278-024
September 2016

Proposed Grant Lao People's Democratic Republic: Second Strengthening Technical and Vocational Education and Training Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 August 2016)

Currency unit	–	kip (KN)
KN1.00	=	\$0.000123
\$1.00	=	KN8,113

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
GDP	–	gross domestic product
Lao PDR	–	Lao People's Democratic Republic
MOES	–	Ministry of Education and Sports
TVED	–	Technical and Vocational Education Department
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the government ends on 30 September. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 September 2016.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 42278-024	
Project Name	Second Strengthening Technical and Vocational Education and Training Project	Department /Division	SERD/SEHS
Country Borrower	Lao People's Democratic Republic Ministry of Finance, Lao PDR	Executing Agency	Ministry of Education and Sports
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Technical and vocational education and training		25.00
		Total	25.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	Gender equity (GEN)	✓
Knowledge solutions (KNS)	Institutional systems and political economy Application and use of new knowledge solutions in key operational areas Knowledge sharing activities		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		25.00	
Sovereign Project grant: Asian Development Fund		25.00	
Cofinancing		0.00	
None		0.00	
Counterpart		1.50	
Government		1.50	
Total		26.50	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Lao People's Democratic Republic (Lao PDR) for the Second Strengthening Technical and Vocational Education and Training Project.¹

2. Building on the lessons of the Strengthening Technical and Vocational Education and Training Project,² the proposed project will continue to support efforts to realign technical and vocational education and training (TVET) with current and future labor market needs by (i) upgrading teaching and learning environments at eight vocational colleges, (ii) strengthening teachers' competencies to deliver student-centered practical training in skill areas that are in demand, and (iii) improving the management of colleges and fostering an environment that demonstrates the principles of entrepreneurship and promotes involvement of companies and communities in TVET. The project will increase poor and disadvantaged students' access to TVET through targeted direct stipends and more dormitory spaces at colleges. The project will also undertake TVET promotion measures to improve the public image of TVET and enhance understanding of TVET products and services among youth, their parents, and communities.³

II. THE PROJECT

A. Rationale

3. **Labor market dynamics.** The Lao economy grew at an annual average of 7% from 2005 to 2015. The services sector is the largest gross domestic product (GDP) contributor (37.9%), employing 19.7% of the labor force. Industry contributed 32.4% to GDP and employed about 8.0% of the labor force. Although about 70.0% of the population continues to derive its income mainly from agriculture, its GDP share fell from about 45.0% in 2000 to 23.1% in 2014. Given a high percentage of the labor force engaged in small farming, more than three-quarters of the labor force is estimated to be involved in informal sector activities. Demographic trends suggest that the labor force will continue to grow until 2025, but the labor market structure will change as more workers shift from agriculture to industry and services. However, business communities in the industry and services sectors have identified the lack of adequate skills among TVET graduates to be a major challenge in finding better-paying jobs.⁴ To accelerate the shift toward the technology-intensive industry and services sectors, a sufficient supply of labor with advanced skills will be essential. This requires aligning TVET services with labor market demands. Currently, only one-third of workers of age 18–27 in nonagricultural jobs have any postsecondary, TVET, or higher education. The 2015 establishment of the Association of Southeast Asian Nations (ASEAN) Economic Community is placing further pressure on the government to improve the performance of TVET to advance productivity and competitiveness of Lao companies. Although the Lao PDR made considerable progress in modernizing the TVET system, it is vital to expand and improve the quality and relevance of TVET to cope with

¹ The Asian Development Bank (ADB) provided project preparatory technical assistance for Preparing the Second Technical and Vocational Education Development Project (TA 8964-LAO).

² ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People's Democratic Republic for Strengthening Technical and Vocational Education and Training Project*. Manila. (Grant 0211-LAO, \$23.0 million, approved on 9 July 2010 and completed in September 2016).

³ The design and monitoring framework is in Appendix 1.

⁴ ADB, International Labour Organization, and German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit reports suggest that skilled labor is needed throughout the industry and services sectors. Manufacturing companies need engineers and workers with advanced skills to operate and maintain machinery, as well as toolmakers, electricians, general mechanics, and information and communication technology staff. In construction-related occupations, quality skills are in demand, including electricians, welders, plumbers, carpenters, and bricklayers. Companies seek graduates with advanced management and administrative skills.

the increasing demand for a competent workforce.

4. **Need for expansion.** The TVET system comprises 23 public vocational colleges under the Ministry of Education and Sports (MOES) and about 40 private training providers. Private TVET institutions are mostly located in urban areas, offering programs related to management, information and communication technology, and business administration, which do not require expensive training equipment. About 26,300 students (of whom about 10,500 are women) are enrolled in public TVET colleges, and about 36,400 are enrolled in private TVET institutions. Considering (i) demographic trends, (ii) the growing demand for skilled labor, and (iii) the increasing number of secondary graduates seeking to acquire technical and managerial skills, the government anticipates that the number of students in public TVET colleges will increase to about 63,000 by 2020. This would require a substantial expansion of the existing TVET capacity. MOES employs about 2,300 TVET teachers. To deal with the increased number of students, MOES expects that more than 1,000 new teachers will be required, and MOES also anticipates that the current facilities at the 23 public colleges will have to be expanded and upgraded. At present, there are about 1,200 classrooms and workshops at public colleges. By 2020, about 2,000 classrooms and workshops will be needed to accommodate students.

5. **TVET financing.** About 15.5% of annual national public expenditure has been directed to education from 2008–2015. This share is expected to increase to 17.0% by 2020. The share of funding provided for TVET within MOES overall budget is relatively small. However, according to MOES' projection, the share of expenditures for TVET will increase from 2.7% in 2015 to 4.0% in 2019, although no reliable estimates can indicate whether the projected increase will be adequate to cover the additional costs for expanding facilities, financing a larger teaching force, and covering operation and maintenance costs for workshops, dormitories, and equipment. Initial estimates of the required capital investments to modernize and expand TVET infrastructure are \$50.0 million for 2017–2020. However, this estimate does not consider the specific and costly equipment that will be needed both to introduce new programs and upgrade existing training programs in technology-driven occupations.

6. **Quality and relevance of TVET.** Key issues in TVET include the low level of involvement of companies in TVET programs and in assessment schemes, and a lack of opportunities for students to gain hands-on experience at college workshops or at company sites. Another challenge is the limited competence of teachers to adopt modern teaching techniques that integrate practical skills training with theoretical content. Outdated and inadequate equipment and workshops hamper teaching and learning at many TVET institutions. Given limited formal employment opportunities, many TVET graduates seek jobs or self-employment in the informal sector. To help graduates to start their own businesses, programs need to consider entrepreneurial approaches to improve the ability of students to identify business opportunities and respond to local market demand.

7. **Access to TVET.** Access to TVET is constrained by negative public perceptions of TVET coupled with a general preference for white collar jobs. This reflects both the perceived low quality of TVET colleges and a lack of understanding of TVET services and job opportunities for TVET graduates. Students and parents have limited information on the changing job market, the careers that will be in demand, salary scales for skilled employment, and the role of TVET in preparing students for emerging opportunities. Where there is demand for TVET courses, economic constraints often hamper access given high poverty rates. About two-thirds of the population lives on less than \$2 per day, and many families cannot afford the direct costs or the opportunity costs associated with sending their children to a full-time residential TVET course.

8. **Government strategy.** The Eighth National Socio-Economic Development Plan 2016–2020 sets out strategies to promote (i) regional and international integration within the ASEAN Economic Community, and (ii) industrialization and modernization of the Lao PDR economy toward becoming an upper-middle-income country. The plan recognizes the importance of human resource development in achieving the country's social and economic objectives and prioritizes improvement of education services. Upgrading TVET is part of the human resource development strategy and the national education sector reforms. MOES endorsed the TVET Development Plan 2016–2020, which aims to increase access to TVET and strengthen the delivery of TVET programs. The project will contribute to achieving the targets to (i) expand the TVET system and (ii) improve the relevance and quality of programs delivered by colleges.

9. **Development coordination.** The Government of Germany supports 12 colleges and provides (i) policy advice to strengthen the overall TVET system, (ii) technical assistance for the development of a National Qualification Framework,⁵ standards, curriculum modules, and design of training programs, (iii) limited funding for scholarships, (iv) infrastructure support to upgrade teaching and learning environments, and (v) assistance to the Vocational Education Development Institute in developing and implementing strategies to advance professional development of teachers. The governments of Switzerland and Luxembourg provide assistance to strengthen TVET for tourism and hospitality and stipends to poor students. The modality of the project's stipend scheme will be harmonized with stipend programs of other development partners.

10. **Lessons and ADB support.** The Asian Development Bank (ADB) is the leading development partner in post-basic education in the Lao PDR. ADB has supported the senior secondary, TVET, and higher education⁶ subsectors since 2006 and was instrumental in preparing the national human resource development strategy. The 2010 country assistance program evaluation rated ADB's education sector assistance as successful.⁷ Lessons from ADB's Strengthening Technical and Vocational Education and Training Project include the following: (i) employers need to be involved in planning at the college level to ensure that investments in infrastructure and equipment are relevant and demand-driven, (ii) strong commitment of college leadership is essential to ensure that project investments are sustained and modern teaching approaches are adopted, (iii) the complex design of a training assistance voucher program for poor students was too ambitious in its attempt to create competition among institutions to improve quality while also channeling resources to students, (iv) innovative approaches to professional development for teachers and managers are required to introduce an entrepreneurial culture in managing colleges and program delivery, and (v) sufficient resources need to be allocated to operate and maintain facilities. Based on these lessons, the project was designed with a strong demand-driven approach and with the intention to complement the efforts of other development partners with a major focus on expanding the capacity of and access to TVET and strengthening TVET delivery at the institutional level.⁸

B. Impact and Outcome

11. The impact, which is aligned with the Eighth National Socio-Economic Development Plan and the TVET Development Plan for 2016–2020, will be sufficient skilled labor available to

⁵ A comprehensive National Qualification Framework is not yet in place.

⁶ ADB. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People's Democratic Republic for the Second Strengthening Higher Education Project*. Manila (forthcoming).

⁷ ADB. 2010. *Country Assistance Program Evaluation: Lao People's Democratic Republic—Sustainable Growth and Integration*. Manila.

⁸ This proposed project is included in ADB. 2015. *Country Operations Business Plan: Lao People's Democratic Republic, 2016-2018*. Manila.

maintain inclusive and sustainable development in the Lao PDR. The outcome will be an expanded TVET system aligned with evolving labor market needs.

C. Outputs

12. The project has three outputs: (i) teaching and learning environments at eight TVET colleges upgraded, (ii) quality and relevance of demand-driven programs improved, and (iii) access to TVET institutions for disadvantaged students increased. Based on the lessons from the previous project, the project will adopt a demand-driven approach to upgrading eight TVET colleges that do not receive substantial support from other development partners. To ensure ownership and meet the demands of the local companies and communities, colleges prepare development plans jointly with representatives from firms and communities. The plans identify the key areas of support based on the needs and describe challenges and opportunities of the individual college and include information on student enrollment, teaching force, current training programs, quality and quantity of facilities, budgets, collaboration with communities and companies, and brief assessments of the local labor market.⁹

13. **Output 1: Teaching and learning environments at eight TVET colleges upgraded.** To address urgent infrastructure needs, up to \$4.6 million from grant proceeds may be allocated for civil works at (i) Pakpasak Technical College in Vientiane, (ii) Savannakhet Technical and Vocational College, (iii) Vientiane–Hanoi Friendship Technical and Vocational College, and (iv) the agriculture campus at the Khammouane Technical and Vocational College. These four colleges will prepare detailed proposals for civil works to upgrade their facilities, which may include (i) constructing or renovating existing workshops, (ii) constructing and expanding dormitories, (iii) improving water and sanitation facilities, (iv) constructing or rehabilitating school kitchens and canteens, and (v) improving the overall environment of college campuses toward creating a green and student-friendly atmosphere. The proposals will indicate the availability of adequate funding and competent capacity to effectively manage upgraded facilities. They will include a maintenance plan indicating responsibilities and resources for maintenance tasks. Proposals will also provide a sound rationale for the planned utilization of new and upgraded facilities based on future enrollment projections and training programs that are in demand by local companies and communities. Colleges are developing proposals, and MOES and ADB will endorse them after project effectiveness. In addition, the Polytechnic College of Vientiane may access up to \$400,000 to rehabilitate and build workshops.

14. Up to \$6.0 million is allocated to purchasing training equipment. During the project preparatory phase, all eight project colleges began preparing proposals for equipment to be reviewed and endorsed by MOES and ADB. Proposals have to be based on current and future training programs that reflect labor market needs and enrollment forecasts. College management must demonstrate that (i) proposed equipment requests are in line with ongoing and new training programs that are supported by local employers; (ii) new equipment will be integrated in training programs to support student-centered teaching approaches and increase hands-on training opportunities; (iii) sufficient budget is available for consumables to sustain training programs; and (iv) teachers are able to operate new training equipment, or will be trained. Consultants will help project colleges finalize proposals and prepare the detailed

⁹ The following colleges will be supported under the project: (i) Polytechnic College Vientiane, (ii) Savannakhet Technical and Vocational College, (iii) Pakpasak Technical College (Vientiane Capital), (iv) Dongkhamxang Agriculture Technical School (Vientiane), (v) Technical College of Vientiane Province, (vi) Champasak Technical and Vocational College (Champasak Province), (vii) Khammouane Technical and Vocational College, and (viii) Vientiane–Hanoi Friendship Technical and Vocational College. Skills areas identified by the colleges and local industry include (i) automotive, (ii) basic electrical-electronics, (iii) road and bridge construction, (iv) food processing and agriculture, and (v) IT related skills.

equipment technical specifications to be used for tendering. The final amount for civil works and equipment for each college will vary and depend on the actual situation and needs, which will be determined jointly by college management, MOES, and ADB based on the proposals.

15. **Output 2: Quality and relevance of demand-driven programs improved.** Output 2 will provide resources for all eight project colleges to (i) improve technical and pedagogy skills and knowledge of teachers toward promoting student-centered teaching approaches and increased hands-on training for students, and (ii) strengthen the management capacity of current and future college leaders and administrators toward promoting an entrepreneurial approach in managing colleges. The project will engage individual consultants and a firm to facilitate capacity-strengthening measures with the intent to establish continuous training and coaching opportunities at the colleges based on the needs of teachers and managers. Support for teachers, managers, and administrators could include (i) short technical and managerial training programs, (ii) coaching by senior teachers or industry trainers, (iii) improved inspection and guidance at the colleges, (iv) establishing teacher self-help groups, and (v) apprenticeship schemes at companies. Teachers will also receive training to ensure that equipment purchased under the project is used effectively, integrated in the teaching process, and suitably maintained. Training strategies for teachers will be coordinated with the Vocational Education Development Institute and development partners. The project will also provide \$1.6 million to upgrade the academic qualification of TVET teachers from public colleges to gain bachelor or master's degrees in their field of specialization.¹⁰

16. Based on the first ADB-financed TVET project's success in promoting short-term skills training courses, the project will assist colleges to develop and roll out more of these for out-of-school youth and adults. It will promote entrepreneurial approaches to help young people and adults in the informal sector upgrade their skills to find better-paying jobs or start self-employment. Colleges will prepare course content and delivery methods based on local demand. Considering the high share of women in the informal sector, short courses will particularly focus on local needs that will benefit women. The project will (i) introduce new training programs responding to industry and community demand, and (ii) develop competency-based standards, curriculum modules, and training materials. To help graduates at the project colleges find employment or become self-employed, the project will establish career guidance services for students enrolled at TVET colleges. Career guidance units will establish links with the local business community, provide advice on job opportunities and salary expectations, facilitate internships, and provide entrepreneurship guidance for self-employment.

17. **Output 3: Access to TVET institutions for disadvantaged students increased.** Output 3 will increase disadvantaged students' access to TVET through (i) a \$4.0 million program of targeted direct stipends, and (ii) the development and refinement of TVET promotion strategies to increase demand. The stipend program replaces and streamlines the previous voucher system. The stipend amount set in consultation with MOES is better harmonized with other development partners' stipend programs. The principle is to make regular transfers that cover all costs of attending TVET to minimize the risk of dropping out for financial reasons. To be eligible for the stipend, a student must (i) be poor or disadvantaged, (ii) enroll at one of the eight project colleges, and (iii) be at least 16 years old. MOES will select the recipients using a transparent process, and at least half of them will be women. Adopting an innovation from other

¹⁰ The Technical and Vocational Education Department (TVED) will select teachers. To receive support, teachers should be under 45 years old, supported by their college director, and must have worked at a vocational college for at least 5 years. Selected teachers will sign a binding agreement committing to return to their TVET college after graduation for at least 5 years; otherwise, they have to return the entire scholarship amount. TVED will prepare a contract template for ADB review and endorsement prior to the commencement of the scheme.

existing stipend programs in Lao PDR, payment will be made directly to students' bank accounts on a monthly basis and will be accessible via ATM cards. The total number of students supported will depend on the duration of the courses they select, but may be as high as 4,600.¹¹

18. Output 3 will also refine and implement TVET promotion strategies to improve the public image of TVET and promote enhanced understanding of TVET products and services among youth, including school graduates, their parents, communities, and potential employers. The goal is to increase TVET enrollment. Strategies will include (i) testing and adopting a range of communication for development tools with the aim of developing a common brand for TVET and providing better information to a diverse range of stakeholders on the potential jobs that skilled workers are able to access; (ii) promotion of the stipend program among eligible disadvantaged students; and (iii) building on social marketing plans and products created previously by MOES, which will be expanded through (a) national media and branding activities to promote positive perceptions and build awareness, trust, and credibility of TVET; and (b) the rollout of social marketing activities in the communities in the geographic area of each project college.

D. Investment and Financing Plans

19. The project is estimated to cost \$26.5 million (Table 1). The government requested a grant not exceeding \$25.0 million from ADB's Special Funds resources to help finance the project; this is equal to 94.3% of the project cost. The government will contribute \$1.5 million or 5.7% of the project cost (Table 2).

Table 1: Project Investment Plan
(\$ million)

Item	Amount
A. Base Cost	
1. Teaching and learning environments at eight colleges upgraded	12.14
2. Quality and relevance of demand-driven programs improved	5.25
3. Access to TVET institutions for disadvantaged students increased	6.61
Subtotal (A)	24.00
B. Contingencies	2.50
Total (A+B)	26.50

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

Notes:

- Contingencies are computed at \$2.5 million to cover inflation-related costs and allow flexibility to adjust funding for equipment and civil works, depending on the demand to be specified during implementation.
- ADB will finance taxes and duties as agreed with the government. This is also consistent with the country partnership strategy, 2012–2016 and agreed for the new country partnership strategy, 2017–2021. ADB. 2011. *Country Partnership Strategy: Lao People's Democratic Republic, 2012–2016*. Manila.

Source: Asian Development Bank estimates.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	25.00	94.3
Government	1.50	5.7
Total	26.50	100.0

Source: Asian Development Bank.

¹¹ The stipend program is summarized in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

E. Implementation Arrangements

20. Based on the implementation arrangements established under the first TVET project, which proved to be efficient, the project will have a similar management structure. MOES will be the executing agency; the implementing agency will be the Technical and Vocational Education Department (TVED). The first project's management unit will continue to facilitate and supervise day-to-day implementation of project activities. Each college will establish a project implementation unit headed by the college principal. A project steering committee will provide overall project guidance and support cross-agency policy dialogue. The MOES vice-minister for TVET will chair the committee, with the TVED director general as committee secretary. Committee members will be representatives from MOES, the Ministry of Finance, the Ministry of Planning and Investment, and from business communities. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.¹²

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2017–December 2020		
Estimated completion date	31 December 2020; closing date is 30 June 2021		
Management			
(i) Oversight body	Project steering committee chaired by vice-minister, MOES Members: MOES, MOF, MPI, representatives from business communities		
(ii) Executing agency	MOES		
(iii) Key implementing agency	TVED		
(iv) Project management unit	TVED, 8–10 staff		
Procurement	ICB	5 contracts	\$5,300,000
	NCB	6 contracts	\$4,850,000
	Shopping	3 contracts	\$290,000
Consulting services	Two firms (QCBS)		\$1,700,000
	362 person-months national consultants		\$905,000
	20 person-months international consultants		\$270,000
Project implementation unit staff	24 person-months international consultants		\$360,000
	172 person-months national consultants		\$478,000
	144 person-months support staff		\$87,000
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, ICB = international competitive bidding, MOES = Ministry of Education and Sports, MOF = Ministry of Finance, MPI = Ministry of Planning and Investment, NCB = national competitive bidding, QCBS = quality- and cost-based selection, TVED = Technical and Vocational Education Department.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

21. The direct beneficiaries will be the 40,000 students enrolled in the project colleges over 4 years of project implementation. They will benefit from improvements of the overall teaching and learning environments. Demand-driven training programs, upgraded training facilities, and practice-oriented training approaches will contribute to improve their skills and enhance their employment and income-earning opportunities after graduation. It is assumed that at least 1,500 adults and out-of-school youths will benefit from short-term skills training courses, which will help them find better-paying jobs or start their own formal sector businesses. Since more than

¹² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

75% of youths and adults participating in training programs belong to low-income families, the project will contribute to reducing poverty. Companies will benefit from improvements in the relevance and quality of training that will result in better-skilled workers, which will contribute to increased productivity. Access to TVET for poor students will be enhanced by the stipend scheme and the expansion of dormitory capacity. The economic internal rate of return is estimated at 17.87%.¹³

22. The project should be financially sustainable as the bulk of expenditures is expected not to carry on beyond the end of the project. Recurrent expenditures such as facility and equipment maintenance cost will be absorbed by government funding. Colleges will earn additional income through student fees and tailored training for enterprises. The TVET Development Plan 2016–2020 indicates that the budget for TVET is expected to rise, which will provide additional funding to cover recurrent expenditures. Efficiency gains in the eight project colleges will be realized in part through increased enrollment and the resulting higher utilization of facilities and equipment, and by adopting an entrepreneurial approach in managing colleges more efficiently. The government's commitment to the project as a percentage of the 2016 TVET budget is 0.3% per year and is expected to decline because of the increase of the overall TVET budget. The government's annual commitment is, therefore, deemed affordable.

23. Incremental operating costs will be associated with the new dormitory, workshops, and training equipment financed under the project. The total investment in facility upgrading is \$11 million. Assuming that operating costs, repairs, and maintenance equal 4.0% of the investment, the incremental recurrent cost will be \$440,000 annually beginning in FY2019, which amounts to less than 1.5% of the TVET budget. In succeeding years, this proportion is likely to fall as the government TVET budget rises. This, plus the fact that upgraded facilities will enable TVET institutions to offer services and start small production of goods to earn additional income, suggests that the project's incremental operating costs are sustainable.

B. Governance

24. Assessment of financial management and procurement capacity found that TVED has sufficient capacity to carry out the project. TVED effectively implemented the previous ADB-financed TVET project and other projects financed by development partners. The financial management assessment found sufficient capacity and staffing in the accounting and finance section of MOES to support TVED. The project management unit established under the first TVET project will continue to manage the project activities, including preparing financial reports to be submitted to ADB, the Ministry of Finance, and MOES. Consultants will support the unit to carry out procurement and disbursement activities in a timely and effective manner and provide training on financial planning, accounting, and establishing and maintaining a performance-based planning and budgeting system. The unit will be supported by the Financial Department of MOES. Accounting and financial reporting systems, financial information systems, and auditing arrangements were assessed by the State Audit Office, which confirmed that the financial management capacity to operate the project was appropriate. The project will support the TVED to supplement procurement capacity, including training in the preparation of bid documents for civil works and bid evaluations, and site management and monitoring of civil

¹³ The Economic Internal Return of Rate (EIRR) is calculated based on the projected rise in TVET students as a result of the expansion of the selected TVET colleges, the improved employability of graduates as a result of quality improvements of the teaching and learning process, and the increased income of TVET graduates. Cost factors include investment costs, recurrent costs and opportunity costs. Cost-benefit analysis over 25 years yielded an EIRR of 17.87%, which is higher than the EIRR of the first TVET project (15.2%). The detailed Financial and Economic Analysis is accessible from the list of linked documents in Appendix 2.

works implementation. The project will establish a website that will disclose information related to disbursement, procurement, and project progress. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the project administration manual.

C. Poverty and Social

25. Based on the national poverty line, the poverty incidence in the Lao PDR fell from 27.6% in 2008 to 23.4% in 2013. The rate of poverty reduction has been slow relative to the high rate of GDP growth, which has not translated into commensurately high growth in consumption. Inequality has increased, two-thirds of the population continues to live on less than \$2 per day, and many households remain vulnerable to falling into poverty. The national average improvements in welfare mask significant differences between regions and socioeconomic groups. In 2013, the poverty incidence was highest among those households whose head had no formal education (42.0%) or only some primary (36.0%), and lowest among those households whose head had a university degree (4.0%) or had completed vocational training (6.0%). This shows the direct link between TVET and improved welfare. The stipend scheme will benefit up to 4,600 students, of whom at least half will be young women. By promoting equitable access to improved quality TVET, including through stipends targeted to the poor and vulnerable, the project will directly contribute to poverty reduction. Equipped with better skills, young people will have access to better jobs, earn higher incomes, and be the drivers of inclusive growth.

26. The project includes a gender action plan to promote women's increased participation in project benefits. Fewer women are enrolled in secondary and tertiary education than men, highlighting that women still face challenges in completing a full cycle of education to the tertiary level. The gender gap in favor of men is more pronounced among the poor, with disparities highest in the north and in rural, remote, and ethnic areas, as well as among those whose mothers have no education. Key project targets include: (i) by 2020, 90% of both female and male TVET college graduates find employment or start their own business in the area they have been trained in within 6 months of graduation; (ii) 50% of the new dormitory spaces are reserved for female students; (iii) dormitories have separate spaces and facilities for women and men; (iv) all female managers and teachers at the project colleges will participate in pedagogy, technical, and management training; (v) 35% of teachers of the academic upgrading program are women; (vi) skills standards manuals, new TVET curriculum, and training programs developed under the project are gender-sensitive and provide positive images of women; (vii) 50% of students in apprenticeship schemes in companies are women; (viii) 50% of students in short-term training courses for out-of-school youth are women; (ix) 30% of career counsellors are women; and (x) 50% of stipend assistance is provided to women.

D. Safeguards

27. The involuntary resettlement category is C, as civil works are limited to upgrading existing facilities and constructing new buildings within the boundaries of the respective colleges, which will not require land acquisition or resettlement. The indigenous peoples' categorization is C. The project is not expected to have any negative impacts on indigenous peoples, and will not discriminate against them or other marginalized groups. The environmental categorization is B. An initial environmental examination was carried out and an environment management plan was developed.¹⁴ The operation of workshops will ensure proper disposal of waste. During construction, the contractor will keep noise and dust within locally acceptable

¹⁴ Initial Environment Examination (accessible from the list of linked documents in Appendix 2).

levels, as well as manage fill, excavated material, and solid waste in a manner that does not create a permanent impact.

E. Risks and Mitigating Measures

28. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁵ The major risks are that the government fails to keep its commitment to increase funding for TVET, the supply of appropriately trained teachers is not adequate to improve TVET quality, and the poor social perception of TVET means that employers and potential students are not interested in TVET. These risks are addressed under the project. The benefits and impacts are expected to outweigh the risks.

Table 4: Summary Risks and Mitigating Measures

Risks	Mitigating Measures
Failure to provide sufficient funding to expand TVET services and sustain quality of TVET provision	The government has endorsed the TVET Master Plan 2016–2020, and is committed to gradually increasing the allocation to TVET to expand the system. The project will contribute to the investment plan by financing the expansion of TVET facilities at eight colleges.
Inadequate supply of trained teachers will frustrate the ability to improve TVET.	The government is in the process of strengthening the pre-service training of new teachers. The project will complement efforts of the government and other development partners to improve the capacity of the existing teaching force.
Poor social perception of TVET will limit potential trainees' interest in TVET.	The project will provide resources for a TVET promotion campaign, which will contribute to students', parents', and communities' increased understanding of the value of TVET products and services.
Lack of sufficient funds to ensure O&M of workshops and training equipment	The Ministry of Education and Sports will ensure that O&M arrangements are reflected in annual budget plans to ensure sufficient funding. The project includes training for college managements and teachers to understand the need for O&M provisions and ensure that appropriate technical and financial measures for O&M are included in the annual plans and budgets.

O&M = operation and maintenance, TVET = technical and vocational education and training.

Source: Asian Development Bank.

IV. ASSURANCES

29. The government has assured ADB that implementation of the project will conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and grant documents. The government has agreed with ADB on certain covenants for the project, which are set out in the grant agreement.

V. RECOMMENDATION

30. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$25,000,000 to the Lao People's Democratic Republic from ADB's Special Funds resources for the Second Strengthening Technical and Vocational Education and Training Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

27 September 2016

¹⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned With			
Sufficient skilled labor available to maintain inclusive and sustainable development in the Lao PDR (<i>Eighth National Socio-Economic Development Plan and the TVET Development Plan for 2016–2020</i>) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome TVET system expanded and aligned with evolving labor market needs	a. By 2020, 90% of both female and male TVET college graduates find employment or start their own business in areas where they have been trained within 6 months of graduation. Sex-disaggregated data (2015 baseline: 80%) b. Enrollment in project colleges increases from 16,300 in 2015 to 25,500 in 2020; 45% of students are women (2015 baseline for women at project colleges: 41%) c. Companies and business associations express satisfaction with graduates from project colleges (baseline: not applicable)	a. Tracer studies conducted by colleges annually and compiled by TVED b. TVED education information system c. Annual college development plans and results of a survey among local companies that will be conducted in 2020	Government provides insufficient funding for TVET
Outputs 1. Teaching and learning environments at eight TVET colleges upgraded 2. Quality and relevance of demand-driven programs	1a. Facilities are upgraded, based on approved proposals within the first 2 years of the project (baseline: not applicable) 1b. New equipment is integrated in ongoing training programs by 2018 (baseline: not applicable) 1c. Dormitories are well maintained and provide healthy and student-friendly living environments. 50% of new dormitory spaces are reserved for female students (baseline: 0) 2a. 1,000 TVET teachers and managers participate in training measures during the	1a. Approved college development plans 1b. TVED progress reports published annually 1c. Progress reports from project colleges and TVED 2a. TVED progress and training reports	Lack of sufficient funds to ensure O&M of workshops and training equipment

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>improved</p> <p>3. Access to TVET institutions for disadvantaged students increased</p>	<p>implementation phase of the project; all female managers and teachers at the project colleges will participate in pedagogy, technical, and management training (baseline: 0)</p> <p>2b. 50% of trained teachers adopt student-centered teaching methods in 2018. Sex-disaggregated data (2015 baseline: 10%)</p> <p>2c. At least 80% of the lesson plans confirm integrated theory and practical training approaches. (2015 baseline: 10%)</p> <p>2d. At least 50 teachers (20 women) have commenced academic upgrading programs by 2018 (baseline: 0)</p> <p>2e. Increased number of students in apprenticeship schemes in companies. 50% are women (baseline: 0)</p> <p>3a. Criteria and mechanism for selecting poor students for stipends is in place within the first 6 months of the project; 50% of the applicants are women (baseline: not applicable)</p> <p>3b. At least 1,000 students from low-income families received stipends from the project and enroll in vocational schools (50% women) by 2018 (baseline: 0)</p> <p>3c. Awareness campaigns have contributed to enhance the reputation of TVET and the understanding of job opportunities for skilled workers. Surveys collect and report sex-disaggregated data (baseline: not applicable)</p>	<p>2b. TVED progress reports published annually and feedback from students</p> <p>2c. Lesson plans prepared by project colleges</p> <p>2d. Enrollment certifications issued by TVED</p> <p>2e. Training records of colleges published by TVED</p> <p>3a. Criteria and selection mechanism published by TVED</p> <p>3b. TVET statistics and reports on stipend utilization published by TVED annually</p> <p>3c. Surveys and campaign reports conducted and prepared by the consulting firm and TVED</p>	

<p>Key Activities with Milestones</p> <p>1. Teaching and learning environments at eight TVET colleges upgraded</p> <p>1.1 Establish project implementation units at each project college (Q1 2017)</p> <p>1.2 Prepare civil works at five project colleges (Q1 2017)</p> <p>1.3 Commence civil works (Q3 2017)</p> <p>1.4 Prepare and approve plans for procuring training equipment jointly with companies (Q2 2017)</p> <p>1.5 Initiate process to procure equipment and tendering starts (Q3 2017)</p> <p>1.6 Integrate the use of new equipment in training plans (SY 2017/2018)</p> <p>2. Quality and relevance of demand-driven programs improved</p> <p>2.1 Prepare training plan for teachers and managers and approve training strategy (Q3 2017)</p> <p>2.2 Start training programs (Q3 2017)</p> <p>2.3 Select areas for developing new curriculum and teaching materials jointly with companies and prepare new training material and course content starts (Q1 2018)</p> <p>2.4 Select first batch of teachers for academic upgrading (Q3 2017)</p> <p>2.5 Start upgrading of academic programs (Q1 2018)</p> <p>3. Access to TVET institutions for disadvantaged students increased</p> <p>3.1 Approve criteria for selecting poor students under the stipend scheme (Q1 2017)</p> <p>3.2 Deliver stipends to disadvantaged students (SY 2017–2018)</p> <p>3.3 Prepare and ready draft strategy for the TVET campaign (Q2 2017)</p> <p>3.4 Start project-financed promotion activities (Q3 2017)</p>
<p>Inputs</p> <p>Asian Development Bank: \$25,000,000 (grant)</p> <p>Government of the Lao PDR: \$1,500,000</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>

Lao PDR = Lao People's Democratic Republic, Q = quarter, SY = school year, TVED = Technical and Vocational Education Department, TVET = technical and vocational education and training.

^a Government of the Lao PDR. 2016. *Socio-Economic Development Plan, 2016–2020*. Vientiane; and Government of the Lao PDR. 2015. *TVET Development Plan for 2016–2020*. Vientiane.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=42278-024-3>

1. Grant Agreement
2. Sector Assessment (Summary): Education
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial and Economic Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Initial Environmental Examination
11. Risk Assessment and Risk Management Plan