

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA2662

Project Name	Skills Development Project (P132698)
Region	SOUTH ASIA
Country	Sri Lanka
Sector(s)	Vocational training (70%), Tertiary education (30%)
Theme(s)	Education for the knowledge economy (70%), Improving labor markets (20%), Social safety nets (10%)
Lending Instrument	Investment Project Financing
Project ID	P132698
Borrower(s)	Ministry Of Finance and Planning
Implementing Agency	Ministry of Youth Affairs and Skills Development
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	11-Feb-2014
Date PID Approved/Disclosed	05-Mar-2014
Estimated Date of Appraisal Completion	28-Feb-2014
Estimated Date of Board Approval	29-May-2014
Decision	

I. Project Context

Country Context

Sri Lanka is a lower middle income country with a GDP per capita of US\$2,923 in 2012 – above that of the South Asia region as a whole but considerably behind the average for middle-income countries. Over the past decade, the country has enjoyed a relatively healthy 5.3 percent economic growth rate. When armed conflict ended in 2009, growth accelerated to an average of 8 percent through 2011. The economy is now transitioning from a predominantly rural, agriculture-based economy to an urban economy centered on services and manufacturing. Between 1977 and 2012, the agriculture share of GDP declined from about 31 percent to 11 percent, the industry share rose from about 29 percent to 31 percent and the services share from about 41 percent to 58 percent. Over the past three decades, Sri Lanka has made significant progress on its human development indicators. Between 2006-7 and 2009-10, the poverty headcount ratio fell from 15 percent to 9 percent and the Gini coefficient from 0.40 to 0.36. Sri Lanka's workforce is the most educated in South Asia: about 96 percent of its citizens complete primary school and 87 percent secondary school, and there is gender parity in school completion.

Despite a large number of educated young workers, Sri Lanka's labor market is characterized by high youth unemployment, high underemployment, and considerable informality. Although the overall unemployment rate declined from 9 percent in 2000 to 4 percent in 2012, about 20 percent

of 15-24 year-olds were still unemployed in 2012. Both underemployment and informal sector employment are also concerns for the Government, since in 2012, 18 percent of employed Sri Lankans were underemployed and 62 percent worked in the informal sector. Emigration has been one way to reduce tensions in the labor market: it is estimated that more than one million Sri Lankans are employed abroad and while most were housemaids or unskilled workers in the past, today an increasing number of skilled workers is looking for job opportunities overseas. The Sri Lankan Government's economic development plan, the Mahinda Chintana (MC), has the ambitious aim of transitioning Sri Lanka to middle-income status by 2016, with per capita income expected to reach US\$4,000 by 2016. The Government's vision rests on diversifying the economy, taking advantage of the country's location to become a hub in Asia in five strategic areas: naval, aviation, commerce, energy, and knowledge. To accomplish this, infrastructure development, improvement in the business environment, including firm competitiveness, and enhancement of workforce quality have become government priorities. Although Sri Lanka's education attainment rates are presently higher than those in neighboring countries, employers are questioning quality and relevance of education and training, and major skills shortages and mismatches are undermining productivity and thus economic growth.

Sectoral and institutional Context

Skills development is a life-long process that proceeds in stages, each building on the previous stage. The foundation is basic cognitive skills, such as literacy and numeracy that children typically acquire in primary school and that are honed in adolescence. Job-specific skills are usually acquired in technical and vocational education and training (TVET) or higher education institutions or through apprenticeships and on-the-job training (OJT). Certain soft skills may be acquired at any point, not only in the education and training system, but also in interactions with family members, peers, or colleagues. An efficient skills development system embraces the entire spectrum and provides opportunities for lifelong learning.

In recent decades, Sri Lanka has made impressive progress in improving access to primary and secondary education, although more needs to be done to improve access to secondary education. By 2000 more than 80 percent of the population had already completed either primary or secondary education. Today the primary net enrollment rate is 99 percent, and there is gender parity in both primary and secondary education. The focus of policy attention has now shifted from access to learning outcomes. Efforts are also being directed to building more complex skills, especially cognitive and soft skills among primary and secondary education students and to improving the job-specific skills of youth through pre-employment skills development.

In the area of job-specific skills, TVET is the major provider of pre-employment training. In 2012, about 150,000 students, 43 percent of them female, enrolled in TVET courses in a vast network of public and private pre-employment training institutes. In 2013, 2,633 training institutes were registered with the Tertiary and Vocational Education Commission (TVEC), of which 1,175 were public, 1,156 were private, and 302 were managed by NGOs, altogether offering a total of 852 accredited programs. The duration of training varies by the qualification requirements of each institute. Upon completion students receive a national certificate (NVQ1–4) or the national diploma (NVQ5–6). The University of Vocational Technology (UNIVOTEC) offers a bachelor's degree (NVQ 7).

Sri Lanka's highly fragmented public skills development system comprises 33 statutory boards and 15 ministries. The Ministry of Youth Affairs and Skills Development (MYASD) is responsible for the provision of over 70 percent of training in the country. The MYASD is responsible for formulating skills development and youth development policies; coordinating and facilitating the

institutions within its purview; and managing their administration and monitoring and evaluation of their programs. Within the MYASD purview, the numerous support agencies and departments have different modes of operation and degrees of autonomy. Specialized training is also provided by a number of ministries, but the scope and size of their activities are small.

Main achievements in the skills development sector. Over the past 15 years, with the support of the Asian Development Bank (ADB) the Government has undertaken reforms to build a high-quality skills development system, including: (a) upgrading the apprenticeship program; (b) expanding of skills development programs throughout the country to meet employer demand for entry-level skills; (c) introducing a competency-based training and establishing of the National Vocational Qualification (NVQ) framework to provide diversified pathways for skills acquisition and qualification upgrading; (d) setting up a ministry dedicated to skills development and reorganizing the sector to bring most of the public training institutes under its purview; and (e) developing a quality assurance mechanism.

Despite these achievements, Sri Lanka faces serious challenges in skills development sector that jeopardize its goal of becoming a competitive middle-income economy. Among these are: (a) weak management and governance, including weak sector coordination, planning and monitoring and evaluation; (b) the poor quality and relevance of skills development programs; (c) limited access, especially to middle-level skills training programs in priority sectors; and (d) inadequate resources and internal inefficiency.

Sector Management and Governance

The complexity of Sri Lanka's skills development system demands more effective sector coordination and management. However, weak institutional capacity for sector coordination and management undermines sector performance and thus the potential to meet the skills needs of the economy. The following are major challenges for the system:

- Lack of alignment of Sri Lanka's skills development programs with national development priorities. Though in recent years Sri Lanka has made progress in realigning its workforce development strategy with its economic development plan, until recently the Government's skills development programs were not well-integrated with the MC goals, which stress that skills development is vital to economic growth. Preparation of the Government's program through the public investment strategy is a major achievement to address this challenge.
- Insufficient sectoral coordination. To realize government skills development policies, inter-ministerial coordination is necessary but not yet formalized. The proposed Inter-ministerial Coordination Committee, together with the Government's skills development program, would be a major step toward coordinating skills development at the national level.
- Lack of institutional autonomy and accountability for performance. Public training providers are financed mainly by the national budget, but budget allocations are not linked to performance. The central authorities tightly control public training providers, but do not hold them accountable for their performance. Consequently, public institutions have little freedom or incentives to replace obsolete training courses with new ones, change curricula, and involve the private sector in their decision making so as to become more responsive to labor market demand for skills.
- Weak monitoring and evaluation (M&E) capacity. The planning process does not regularly ascertain national and regional demand based on information from the labor market and from employers. Timely and accurate information about current demand for skills and training opportunities is lacking, as are reliable forecasts of emerging needs. Moreover, no regular studies track competencies achieved, and it is not possible to evaluate the performance of skills development institutions directly. Continuous design, development, implementation, and M&E of the skills development process will improve the design and delivery of such programs.

Quality and Relevance of Skills Development Programs

Major skills mismatches and shortages in the labor market undermine Sri Lanka's competitiveness and growth prospects. As the composition of its GDP has moved from agriculture toward the higher- value-added manufacturing and service sectors, there is also increased demand for high-skilled workers in several sectors (e.g., tourism, health care). The Government's goal of turning Sri Lanka into a regional hub is likely to further accelerate the demand for skills in such sectors as information and communication technology and construction. However, Sri Lanka faces skills shortages and mismatches in skills supply and demand. Firms, asked about barriers to their growth and productivity, identify the quality and supply of skilled labor third after taxes and regulation, and financing. The most serious constraints are faced by firms in modern, higher-value-added industries and firms hiring for higher-skilled occupations.

While demand for job-specific skills has been growing, the quality of skills development programs is considered poor. Though employers consider the TVET system to be critical for providing the educated workers they need, they question the quality and relevance of skills development programs. For example, more than 50 percent of firms state that the system does not produce skills that are relevant. Moreover, about 33 percent consider the lack of adequate skills as one of their major constraints for operating and growing their business. Clearly, the limited supply of adequately educated workers inhibits firm productivity and competitiveness. Several factors contribute to these poor labor outcomes:

- Training standards and curricula need to be updated, taking into account changes in the economy and labor market demand. Sri Lanka has designed and introduced a qualification (NVQ) system in 2005 to help define training standards based on occupational requirements but its implementation is still problematic. The system is mandatory for public institutions but only partially used by the private sector. Its coverage is still limited and some curricula are outdated or developed without adequate input from employers. Nor is there mobility between TVET and tertiary education. In the development of the competency standards, consideration should also be given to the development of soft skills. Recent studies showed that soft skills such as team work, problem solving, computer skills, and languages are increasingly important for the competitiveness of Sri Lanka's workforce as it develops service and value added manufacturing sectors.
- Shortage of qualified teaching staff. There is a shortage of qualified instructors, especially those with industrial experience, and inadequate professional development opportunities drain teacher motivation and make retention difficult. The situation is aggravated by unattractive salaries, lack of performance incentives, and poor conditions of service.
- Instructional materials, equipment, and facilities. Except in a few institutions, instructional materials, equipment, and facilities are not up to par.
- Quality assurance. Although there has been some progress, a large number of private providers are still neither registered nor accredited. There is no systematic mechanism to monitor and improve quality in public institutions, such as program or institutional reviews or self - assessments.
- Inadequate involvement of the private sector in skills development. The Government has moved to make programs more relevant to the labor market by establishing the TVEC—which has members from the private sector—and by creating the national vocational qualification (NVQ) system. Several institutions also cater directly to the needs of employers and have good links with industries. However, in general, the private sector is only minimally involved in the delivery and management of public skills development programs, undermining the quality and relevance of training.

Access to Skills Development

Skills development is assuming greater importance as Sri Lanka transitions to an efficiency-driven

and more competitive middle-income economy. After completing basic education (grade 9), students may end their studies, continue on to senior secondary education, enroll in technical and education or training, or continue on to university (after grade 13). However, student demand for higher education is not being met due to the limited enrollment capacity of higher education institutions; and the successful expansion of general education in recent decades has led to an increase in the number of students completing secondary education. Every year an estimated about 141,000 students join the workforce (mostly informal sector) without having acquired job-related skills. Given the limited capacity of the higher education system, the Government also sees skills development as having a major role in closing the skills gap.

Even though the government has been expanding skills training programs aimed at developing job-specific skills, because some are perceived as a dead-end or last-choice option, student demand for them is low; there is a perception that students are channeled into TVET because they have less academic ability. There are also negative perceptions about its financial payoff, a negative association between training and manual labor, a lack of vertical articulation, and restrictions on upward mobility.

There are also inequities in access to skills development programs. Individuals from wealthier households are more likely to complete technical education and vocational training. Students from urban areas are on average more educated and more likely to complete pre-employment training programs than rural residents. Moreover, while there is gender parity in general education, women are less likely (16 percent) than men (18 percent) to finish education and vocational training programs. Additionally, women tend to enroll in traditionally female occupations with low levels of participation in technology-related courses which could potentially lead to better paying jobs.

To address these challenges, the Government is working to increase awareness of the usefulness of job-related skills for upward social mobility, and to promote its potential as a pathway to higher education studies and wider career options.

Sector Financing

Public spending on skills development has been severely constrained by limited fiscal space. In 2012, the total financial effort for the sector amounted to about 1.5 percent of general government expenditures; the MYASD budget itself represented 0.4 percent of total government recurrent expenditures and 0.8 percent of capital expenditures. Until recently, there was no overall skills sector development program which would be consistent with the budgetary framework. Inadequate investment in skills development undermines not only the sector's current efforts to improve the quality and relevance of existing programs, but also the design and implementation of reforms to expand access to quality programs, especially in priority and emerging sectors.

Government Skills Development Program

Sri Lanka plans to implement a comprehensive education and training plan over the next seven years (2014-2020). The Government's economic plan recognizes the importance of education and training to achieve its ambitious development goals, transforming priority sectors into state-of-the-art systems and improving labor productivity. Recognizing skills development is much broader than just training, the plan envisions investment in human capital in an integrated manner at all levels of education-- from early childhood development through higher education. The Government has already been implementing programs in both general and higher education, supported by the World Bank and other development partners. In the area of skills development, the Government has therefore requested technical and financial support from development partners, including the World Bank, for the design and implementation of a skills development plan capable of meeting the needs of a competitive middle-income country and assistance in the country's transition to a knowledge-based economy. Building on the vision and strategic directions of the Mahinda Chintana, the Government has adopted sector-wide, medium-term program to transform Sri Lanka's TVET sector

into an effective skills development system capable to meet the local and foreign labor market skills demand by 2020. To ensure financing for the program, the Government has requested from development partners, including the World Bank, and inserted the financing plan within the country's medium term budgetary framework (MTBF).

II. Proposed Development Objectives

The Project Development Objective is to expand the supply of skilled and employable labor by increasing access to quality and labor market relevant training programs.

III. Project Description

Component Name

Program Financing

Comments (optional)

Component Name

Innovation

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	650.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			434.00
International Development Association (IDA)			100.00
Asian Development Bank			100.00
GERMANY German Technical Assistance Corporation (GTZ)			16.00
Total			650.00

V. Implementation

Institutional and Implementation Arrangements

The implementation arrangements have been designed to take into consideration the complex organizational nature of the skills development sector, the weak implementation capacity, and coordination challenges within the sector. Implementation arrangements for the Project will rely on the existing institutional set up of the sector, but will be further strengthened by establishing several coordination committees and a new Skills Development Division (SDD) within the MYASD – the main implementing ministry.

Sector Coordination. The NSDP will be overseen by a national Inter-Ministerial Sector Coordination Committee (IMSCC). The IMSCC will be the highest body for dialogue between the Government, its partners and wider stakeholders on skills sector policy and reform issues. The IMSCC will oversee overall progress of the NSSDP and use of government and development partner-supported projects funds. The IMSCC will be chaired by the Secretary to the MFP and will include members from MYASD, MFP and Secretaries of all relevant ministries, government departments/agencies, and civil society organizations.

Project Implementation. The overall responsibility for the implementation of the proposed Project lies with the MYASD. The focal person for the Project will be the Secretary of the MYASD. A Project Steering Committee (PSC), chaired by the Secretary to the MYASD, will be established before Project effectiveness. It will review progress, approval annual work plans and budgets, and take timely decisions relating to project implementation and monitoring and evaluation. The following MYASD departments or agencies are expected to participate in the Project: MYASD (including DTET), TVEC, VTA, NAITA, NIFNE, NYSC, CGTTI, and UNIVOTEC. Each will appoint a point person to coordinate with the MYASD and development partners on activities agreed under the Government's sector plan.

In order to strengthen the implementation capacity of the MYASD, the SDD has been established within the MYASD to coordinate and monitor Program activities, working closely with implementing departments and agencies. The SDD, led by an Additional Secretary, will consist of technical staff in the areas of FM, procurement, M&E, industry relations, purchase model implementation, and communication, plus support staff. The Project Operational Manual (POM) will provide more detailed information about implementation arrangements.

Partnership arrangements. At present, the World Bank and ADB plan to support implementation of the Government's program through parallel financing mechanisms. Several bilateral development partners (e.g., Australia, Canada, Germany, South Korea) are also interested, but details of their support are not yet available. World Bank and ADB teams worked closely during project preparation and agreed to coordinate and integrate efforts to support the Government's priorities as articulated in its sector plan to the extent possible through harmonization of reporting requirements, DLIs, results frameworks, and implementation arrangements. Joint implementation support missions will be carried out.

The World Bank has also been collaborating with the International Finance Cooperation (IFC) to increase involvement of employers in the delivery of skills provision. With support of IFC, consultations were held with industry (e.g., tourism and hospitality) representatives to discuss the design of the purchase model and, increase employer involvement in program design and delivery. IFC plans to provide further support in the area of skills gap analysis in selected sectors during the implementation of the Project and the establishment of the ISSCs (or equivalent).

B. Results Monitoring and Evaluation

The assessment carried out by the team revealed that monitoring and evaluation across different agencies under MYASD is characterized by multiple MIS in varying degrees of functionality, uneven capacity, and most critically, a lack of information on labor market outcomes of TVET graduates and labor market demand for skills. Internal needs for information collection and monitoring motivated some agencies (NAITA and VTA) to develop their own management information systems (MIS) using in-house resources. Other agencies are either using EMIS systems developed by the ADB funded projects (DTET) or relying on paper based information collection method (NYSC). The fragmentation of the system makes it difficult to consolidate the data from different agencies and obtain consistent quality information on timely basis. The Project will support strengthening of the overall MYASD M&E system capacity, enhancing MIS systems of all agencies to a similar standard building on the existing capacity, streamlining information flows across MYASD and strengthening labor market information system.

The government program has numerous indicators to measure sector outcomes, outputs, processes, and inputs. Responding to the areas where World Bank engagement is focused, a results framework with a subset of these indicators is presented in Annex 1. Additionally, surveys and evaluations will be carried out on sector performance and its determinants; MYASD will contract with independent firms to conduct third-party evaluations. Similarly, evaluations will be designed and conducted for new initiatives as needed.

The SDD will be responsible for monitoring and reporting the data necessary for monitoring DLIs and Results Framework Indicators. TVEC will be responsible for collecting, compiling and aggregating data from the agencies, and performing labor market analysis. An M&E unit in each implementing agency will collaborate with TVEC and SDD.

C. Sustainability

Both skills survey results and consultations with employers showed that there is heavy demand for skilled labor, suggesting the need to improve the quality and relevance of current skills training programs and expand access to skills training. The sustainability of the proposed Project will be enhanced by several factors: (i) the fact that the Project uses country systems and processes rather than introducing parallel mechanisms; (ii) the high level of government ownership and commitment to the program; (iii) the fact that the Government has adopted a Medium Term Budgetary Framework, to support the implementation of its sector development program, which shows sustained funding for the sector; (iv) the fact that IDA contribution to the sector budget is less than 15 percent, thereby reducing the risk to financial sustainability when IDA supports ends; (v) the fact that interventions initiated by the project are not likely to generate substantial additional post-project costs (except for the operations and maintenance costs of new infrastructure for the new university colleges and salaries of new teaching staff; (vi) the significant financial savings that strengthening system efficiency and improving the quality and relevance of skills training should bring making sustainability more likely; and (vii) the possibility for the sector to mobilize additional resources through the growth of private sector provision, which would promote diversity and excellence (Annex 6).

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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