

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2018

<b>Project Name</b>	Skills Development Project (P132698)
<b>Region</b>	SOUTH ASIA
<b>Country</b>	Sri Lanka
<b>Sector(s)</b>	Vocational training (70%), Tertiary education (30%)
<b>Theme(s)</b>	Education for the knowledge economy (70%), Improving labor markets (20%), Social safety nets (10%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P132698
<b>Borrower(s)</b>	Ministry Of Finance and Planning, Ministry of Finance and Planning
<b>Implementing Agency</b>	Ministry of Youth Affairs and Skills Development, Ministry of Youth Affairs and Skills Development
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	26-Nov-2013
<b>Date PID Approved/ Disclosed</b>	12-Feb-2014
<b>Estimated Date of Appraisal Completion</b>	28-Feb-2014
<b>Estimated Date of Board Approval</b>	29-May-2014
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Sri Lanka is a lower middle income country with a GDP per capita of US\$2,923 (current 2012 US \$). The country enjoyed a healthy 5.3 percent economic growth over the past decade with a growth rate accelerating to 8.2 percent over the 2010-2011 period, but slowing to 6.4 percent in 2012. This was accompanied by impressive progress in reducing poverty rates and consumption inequality in a short period of time. The poverty headcount ratio fell from 15 percent to 9 percent between 2006-7 and 2009-10, and the Gini coefficient fell from 0.40 to 0.36 during this period. The economy has transitioned away from agriculture based to services and manufacturing based between 1977 and 2010, while agriculture's share of GDP declined from 30.7 percent to 12.8 percent, industry share rose from 28.7 percent to 29.4 percent, and services share rose from 40.6 percent to 57.8 percent.

Sri Lanka's labor market is characterized by a low unemployment rate, high underemployment and large informal sector. While the unemployment rate declined from 9 percent in 2000 to 4 percent in 2012, youth unemployment remained high with approximately 20 percent of 15-24 year olds unemployed in 2012. Both underemployment and informal sector employment present a concern for the Government since 18 percent of the employed population was underemployed and 62 percent worked in the informal sector in 2012. Additional challenges arise from increasing dependency ratios as population growth is slowing down, and from an increasing number of people leaving to work abroad. Moreover, labor force participation of women is low at only 31 percent.

The Sri Lankan Government's economic development plan, the Mahinda Chintana (MC), has an ambitious aim of transitioning Sri Lanka to middle-income country status by 2016. The MC lays out the country's economic development goals of reaching the status of a middle income economy and increasing the per capita income to US\$ 4,000 by 2016, and becoming a regional hub in strategic economic areas. The MC stresses the importance of improving education and training sectors to achieve these ambitious development goals, transforming these sectors into modern and state of the art systems, and improving labor productivity through enhancing the skills of the population.

### **Sectoral and Institutional Context**

The Sri Lankan education system – predominantly publicly financed - has made significant progress over recent decades. By 2000, already more than 80 percent of the population had completed either primary or secondary education. Today the primary net enrollment rate is 99 percent, there is gender parity in both primary and secondary education and only a small number of students (15,600) drop out at grade 11. The focus of policy attention has now shifted from increasing access to improving quality, especially in areas such as mathematics, science and English which are critical to the support of a knowledge-based economy. Efforts are also directed at developing a more complex set of skills, in particular, thinking and non-routine skills among primary and secondary education students.

Sri Lanka is also working towards enhancing access and quality in higher education through the diversification of higher education programs and the establishment of new institutions (the Sri Lanka Institute of Advanced Technological Education (SLIATE), Advanced Technological Institutes (ATIs), and external degree programs). Around 140,000 students are enrolled in higher education institutions. Yet the student demand for tertiary education is not being met, partly due to the successful expansion of general education over the past decades, resulting in substantial increases in the number of students completing secondary education. In both general and higher education, the World Bank is supporting the Government's strategy and efforts through two ongoing education projects (TSEP and HETC).

With the demand for job-specific and soft skills growing across the world, skills development is taking greater importance for Sri Lanka as it transitions to an efficiency-driven and increasingly competitive middle income economy. One of the goals outlined by the MC is to provide general, technical and soft skills for the whole population. The National Human Resources and Employment Policy for Sri Lanka (NHREP) (2012) estimates that every year about 140,000 students in Sri Lanka leave general education without job-specific skills. Since the capacity of the higher education system is limited, the Government envisions using the technical and vocational education and training (TVET) sector to close most of the country's skills gaps, producing job-specific skills to

meet the needs of the labor market. At present the system enrolls 150,000 students, 43 percent of them women.

Despite impressive results in primary and secondary education, Sri Lanka faces serious challenges in skills development which jeopardize its goal of becoming a competitive middle-income economy. While the Government, with the support of ADB and several other development partners (e.g., ILO, GiZ), has implemented a series of reforms in the skills development sector since 1999, much remains to be done. The recently completed World Bank study on skills development in Sri Lanka which undertook a detailed analysis of enterprise and labor force surveys finds that there serious skills mismatches and shortages in the labor market exists, which constrain Sri Lanka's growth and competitiveness. A large proportion of manufacturing firms report experiencing skills constraints and 60 percent of employers indicate that workers in high-skilled occupations need to have completed technical or vocational education and training, and 24 percent think similarly about low-skilled workers.

These skill shortages and mismatches arise from: (1) governance inefficiencies and lack of coordination within the sector. The system comprises 33 statutory boards and 15 ministries. The main player is the Ministry of Youth Affairs and Skills Development (MYASD) which oversees activities of 14 agencies (some of them statutory boards) and is responsible for about 70 percent of training activities in the country; (2) lack of reliable information on what the labor market needs to guide skills development policy and lack of evaluation on effectiveness of programs; (3) lack of performance incentives for institutions; (4) inadequate quality and relevance of the TVET training, with duplication of courses, outdated curricula and equipment; (5) shortage of qualified teaching staff; (6) lack of employers' input into training curricula and delivery; (7) insufficient attention to skills development efforts in the informal sector; (8) low access to training programs, especially for women and rural populations; and (9) low social demand for TVET, to name a few.

### **Relationship to CAS**

The proposed Project is fully consistent with the World Bank Group's Country Partnership Strategy (CPS FY13-FY16). The CPS seeks to deepen the World Bank Group's support to Sri Lanka in addressing its emerging middle-income country agenda. The CPS will provide support to address the challenges to achieving the Mahinda Chintana's three goals, i.e., (i) doubling per capita income through investment; (ii) shifting the structure of the economy; and (iii) improving living standards and social inclusion. The second pillar of the CPS recognizes the importance of investment in education, skills, and research and innovation to support structural shifts in the economy. It considers education as "important not only for direct increases in productivity but also as a prerequisite for innovation and technology adaptation" (p.21). In addition to the ongoing lending activities in the secondary and higher education sub-sectors, the CPS plans to support the Government's efforts to shift toward a knowledge based, globally integrated and competitive economy through investment in skills development and research and innovation. Accordingly, the proposed Skills Development Project would directly address those objectives by aiming to enhance the quality and relevance of training programs to meet the needs of the labor market in a growing economy. The proposed Project, by focusing on the training opportunities available to disadvantaged youth, would also directly support the Government in its objective of inclusive growth under Pillar 3.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The Project's development objective is to improve quality and relevance of, and increased access to quality skills training provision.

### **Key Results (From PCN)**

Progress towards the PDO will be measured by the following indicators:

- Percentage of trainees in priority sectors, who are employed and/or enrolled in continuing education three/six months after completion of training;
- Number of trainees in market-driven training courses established, registered and accredited in training institutions (disaggregated by public and private sector institutions);
- Earnings gains of TVET graduates; and
- Employer satisfaction index.

## **III. Preliminary Description**

### **Concept Description**

Program Scope and Description. A comprehensive Sri Lanka skills development plan is being finalized by the Ministry of Finance and Planning (MOFP). The plan identifies key challenges in the skills development sector, policy directions and key implementation activities by implementing agency. It will serve as the foundation for World Bank support. It stresses the importance of engaging employers to play an active role in managing the sector, of leveling the playing field between the public and private sector in training provision, of enhancing the productivity of the informal sector, and of making a wider and more systematic use of monitoring and evaluation (M&E) to improve the quality and efficacy of the training programs.

The proposed Project would support the above government program through two components: (i) Program Support; and (ii) Innovation.

Component I - Program Support (tentatively about US\$90 million). The comprehensive skills development plan to be implemented by MYASD will serve as the foundation for IDA support. The strategic pillars/themes of the program to be supported would be: (i) strengthening governance and management; (ii) enhancing quality and relevance of skills development programs; and (iii) increasing access to quality skills development program.

Pillar 1. Strengthening Sector Governance and Management Under this pillar, the program would aim to improve the governance and management of the sector, through better sector coordination, key improvements in labor market analysis (supply and demand for skills) and monitoring of the performance of training providers. In M&E, efforts would be geared not only to establishing a functioning and sustainable M&E system, but also to improving the capacity of policy makers to use the system and the information provided for decision-making.

Another area of possible support would be changes in funding modalities that would provide incentives for quality improvements and support well-performing institutions. Once piloted and evaluated, those new modalities could be implemented on a larger scale with proper adjustments as needed.

Pillar 2. Improving Quality and Labor Market Relevance. There has already been progress towards the development of the Sri Lanka National Vocational Qualifications (NVQ) Framework to address industry needs and facilitate accreditation of training institutions. However, the NVQ system has not

yet been fully implemented, and there is a continuous need to update the system in response to changes in the economy and industry requirements for a more complex set of skills. The program would thus support the simplification, periodic update and development of the NVQ system as well as the establishment of effective pathways between the NVQ and the Sri Lanka Qualifications Framework (SLQF) developed by the Ministry of Higher Education to permit students' mobility across the education and training system, and open more career options.

The program would also support: (i) appropriate changes in teacher/instructor recruitment criteria that would bring more flexibility in the choice of skill-mix of instructors (professional and practical experience vs. academic qualification) and improve the quality of the training imparted; and (ii) the establishment of effective mechanisms to involve employers more directly and encourage their active participation in management of institutions. Particular attention would be given to those sectors that are likely to expand, are export-oriented and will be the engines of growth over the next decade.

Pillar 3. Expanding Access to Quality Skills Development Programs. Lack of awareness about available training opportunities and their potential benefits, stigma attached to certain occupations, and the limited supply of training courses are constraints to the expansion of the training sector. The program would propose to address these issues through: (i) developing and disseminating information to provide career guidance; (ii) funding mechanisms to foster increased provision of training by private and public providers conditional on meeting certain strategic criteria (such as adequate monitoring, high employability rate, participation of employers in management); (iii) removing barriers to training for informal workers and disadvantaged groups; and (iv) expansion of market-driven middle-level technician training programs through the establishment of university colleges. Under this pillar, efforts will also be made to review and revise curricula to ensure the provision of market relevant skills, including soft-skills.

Component II – Innovation (tentatively US\$10 million). This component would cover specific technical assistance and training needs for program implementation and monitoring and evaluation (including third party validation, surveys, and impact evaluations. Financing could also be provided for new initiatives on a pilot basis (e.g., a competitive grant mechanism to finance public and private training institutions in selected priority sectors), the provision of specialized training carried out by public training institutions, and technical assistance to foster dialogue between public and private sectors. The design of this component and the estimated budget will be finalized during pre-appraisal after needs are identified.

Project Financing. The proposed Project would be financed through a US\$100 million Specific Investment Credit (SIC) and would have two components: Program Support (tentatively US\$90 million) and Innovation (tentatively US\$10 million) The Program Support component would use a Results Based Financing (RBF) modality to support the implementation of the Government's skills development plan over a period of five years. Disbursements would be made against selected (eligible) key budget line items of the MYASD's annual budgets referred to as Eligible Expenditure Programs (EEPs), up to a capped absolute amount. Disbursements would be conditional on pre-specified results, as measured by Disbursement-Linked Indicators (DLIs). Under the Innovation Component, IDA funds will be based on regularly updated procurement and training plans, which would be reviewed by the World Bank.

**IV. Safeguard Policies that might apply**

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
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	

**V. Financing (in USD Million)**

Total Project Cost:	650.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
<b>Financing Source</b>		<b>Amount</b>	
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	

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