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5 September 2018

Proposed Loan and Administration of Technical Assistance Grant Madhya Pradesh Skills Development Project (India)

1. The Report and Recommendation of the President (RRP: IND 48493-002) on the proposed loan and administration of technical assistance grant to India for the Madhya Pradesh Skills Development Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: India, 2018–2020*, which was circulated to the Board on 12 October 2017 (DOC.IN.399-17).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 26 September 2018), the recommendation in paragraph 35 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Number: 48493-002
September 2018

Proposed Loan and Administration of Technical Assistance Grant India: Madhya Pradesh Skills Development Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communication Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 August 2018)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.0145
\$1.00	=	₹68.8875

ABBREVIATIONS

ADB	–	Asian Development Bank
DOSD	–	Directorate of Skill Development
DTESD&E	–	Department of Technical Education, Skill Development and Employment
GIZ	–	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOMP	–	Government of Madhya Pradesh
GSP	–	Global Skills Park
ITE	–	Institute of Technical Education Singapore
ITI	–	industrial training institute
MPHIDB	–	Madhya Pradesh Housing and Infrastructure Development Board
PAM	–	project administration manual
PMU	–	project management unit
TA	–	technical assistance
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the Government of India and its agencies ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 31 March 2018.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 48493-002	
Project Name	Madhya Pradesh Skills Development Project	Department /Division	SARD/SAHS
Country	India	Executing Agency	Department of Technical Education, Skill Development and Employment, Government of Madhya Pradesh
Borrower	India		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Technical and vocational education and training		150.00
		Total	150.00
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)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Implementation Private Sector		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	Medium
Household Targeting	No	Urban	Medium
SDG Targeting	Yes		
SDG Goals	SDG4, SDG5, SDG8		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign Project (Regular Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		90.00	
Government		90.00	
Total		240.00	
Note: An attached technical assistance will be financed on a grant basis by the Japan Fund for Poverty Reduction in the amount of \$2,000,000.			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to India for the Madhya Pradesh Skills Development Project. The report also describes the proposed administration of technical assistance (TA) to be provided by the Japan Fund for Poverty Reduction for the Madhya Pradesh Skills Development Project, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the administration of the TA.

2. The project will assist the Government of Madhya Pradesh (GOMP) in transforming its technical and vocational education and training (TVET) system to create a skilled workforce that meets the evolving development needs of the state.¹ The project will establish a new advanced TVET institute of international standards to introduce high-quality, technology-oriented skills training for the state's priority sectors. The project will also modernize 10 major industrial training institutes (ITIs) by upgrading training infrastructure and curricula to impart quality, industry-relevant skills. The project aims to increase the employability, productivity, and incomes of the workforce, especially youth, women, and disadvantaged groups.

II. THE PROJECT

A. Rationale

3. Madhya Pradesh, located in central India, is the sixth most populous state with 78 million people. It is a low-income state with per capita income at about 70% of the national average.² During FY2012–FY2018, Madhya Pradesh recorded impressive economic growth averaging more than 8.0%, higher than the national average of 6.9%. Agriculture underpinned the recent growth with near double-digit growth (9.3%), in sharp contrast to the overall trend in India.³ The industry sector has also emerged strong, growing at an average of 7.8% since 2015. The service industry has shown steady growth as well, averaging more than 7.0%. Madhya Pradesh is part of the Delhi–Mumbai Industrial Corridor and hosts numerous industrial growth centers along major city clusters.⁴ The state's industrial promotion policies have boosted large investments in manufacturing, such as automotive and auto components, electronics, and food processing. To convert vibrant investments into sustained economic growth, Madhya Pradesh requires a well-trained workforce to meet current and emerging skill demands across the core industries. The state, however, faces challenges in the supply of skilled workforce.

4. **Skills gap.** A skills gap analysis indicates an overall incremental demand for 5.6 million workers during 2018–2024,⁵ with nearly two-thirds being semiskilled or skilled workers. The

¹ Asian Development Bank (ADB) provided project preparatory TA for the Madhya Pradesh Skills Development Project (TA 9253-IND).

² Government of India. *Open Government Data Platform India*. www.data.gov.in (accessed 15 May 2018).

³ In Madhya Pradesh, agriculture and allied sectors contributed to 41% of the gross state domestic product in FY2016, while the industry sector accounted for 19% and services for 34%. The corresponding sector shares for India overall are 19% for agriculture and allied sectors, 24% for industry, and 48% for services.

⁴ GOMP designated six major city clusters: Bhopal, Gwalior, Indore, Jabalpur, Rewa, and Sagar. There are 19 industrial development parks, 129 industrial areas, 8 integrated development centers, and other industrial zones being developed around these city clusters. During 2012–2017, the number of registered micro, small, and medium-sized enterprises increased from about 20,000 to 87,000. (Sources: Department of Industry Policy and Investment Promotion, GOMP; and Madhya Pradesh Trade and Investment Facilitation Corporation.)

⁵ ADB estimates during project preparation based on data from the state's industrial investments, economic development indicators, and employment and unemployment surveys.

highest demand is in construction and manufacturing, followed by trades and repair services, transportation and logistics, and other services. However, more than half (55%) of the current workforce is in agriculture, while 22% are in industry and 23% in services.⁶ The current workforce is largely unskilled, with two-thirds having up to primary education. And only 1.2% of the workforce has undergone any formal vocational training, significantly lower than the national average of 5.4%. The skill levels of the current labor force are, therefore, insufficient to meet the requirements from burgeoning industries. The skills gap is particularly pronounced in manufacturing and services, where the gap widened between 2010 and 2015.⁷ These are the industries where skill requirements increasingly rely on technology applications. In agriculture, the demand for advanced knowledge and skills is also increasing to spur productivity and tap into higher-income opportunities by moving up the value chain.⁸

5. Low employability among young people. Madhya Pradesh has one of the youngest populations in the country, as well as a large population. The working-age population (aged 15–59) will expand from 48 million in 2016 to 56 million in 2026, with 0.8 million potential new entrants into the labor force every year. If these young workers are equipped with education and skills that match the demand from growing industries, the state will be well poised to reap the demographic dividend for sustainable and inclusive development. School enrollments have been improving: gross enrollment ratios reached 80% at the secondary level and 46% at the higher secondary level in 2015. Yet, young people do not seem to have the requisite employable skills. In the age group 18–29, those with secondary or higher secondary education have one of the lowest labor force participation rates, and those with a college education have a higher unemployment rate than the overall working population (8.7% versus 4.3%). The challenges for employment result from limited opportunities to acquire quality skills training. For Madhya Pradesh, improving opportunities for quality TVET is essential in addressing low employability among young people and capitalizing on growing industrial investments in the state.

6. Inadequate quality and industrial relevance of ITI programs. As post-secondary TVET institutes offering 1 to 2 years of skills programs, ITIs are the mainstay for semiskilled and skilled workers in the state. About 220 government ITIs and 817 private ITIs produce about 100,000 graduates a year. Government ITIs enroll about 45,000 trainees per year, but completion rates are only about 50%.⁹ Employment rates vary across government ITIs, but estimates place them below 40%.¹⁰ ITIs face many constraints in meeting the skill requirements of today's industries because (i) most government ITIs have old, inadequate training infrastructure and equipment, unable to expose trainees to actual work settings of industries; (ii) curricula are outdated, so training programs are not aligned with the skill requirements of current or emerging industries; (iii) trainers lack sufficient industry information or experience and hence are unable to adapt training to ongoing skills demands; and (iv) training courses are offered across 62 trades, but two-thirds of enrollments are concentrated in 10 trades, causing inefficiencies in the use and management of resources. An employers' survey reveals that many ITI graduates still require additional training when employed, adding extra burden and costs to employers, particularly small and medium-sized businesses.¹¹ Inadequate training infrastructure and uncertain job prospects also do not

⁶ Ministry of Labour and Employment. 2016. *Report on Fifth Annual Employment-Unemployment Survey, 2015–2016*. New Delhi.

⁷ ADB analysis based on data from the National Sample Survey, 2011–2012 and the Employment–Unemployment Survey, 2015–2016.

⁸ GOMP, Department of Planning, Economics and Statistics. 2016. *Madhya Pradesh Agriculture Economic Survey*. Bhopal.

⁹ Enrollment at private ITIs was 44,000 in 2016–2017, less than one-third of the total intake capacity of 147,000.

¹⁰ This estimate is based on data gathered from selected ITIs during project preparation; job placement data are not collected systematically by all ITIs.

¹¹ A survey of employers was conducted during project preparation as part of demand assessments.

inspire young people to pursue a technical career, causing low demand for ITIs. ITIs with proper infrastructure, equipment, and trainers can offer national certificates according to the 2014 National Council for Vocational Training guidelines, which enable graduates to access higher-wage jobs; yet only 30% of students could obtain such certificates. ITIs need to be invigorated, both in quality and management, to stimulate young people to acquire industry-responsive skills and to enhance their employability.

7. **Lack of advanced TVET.** While ITIs are expected to train semiskilled or skilled workers, Madhya Pradesh lacks advanced TVET institutes where ITI trainees can pursue advanced technical training. Advanced skills are increasingly required in today's manufacturing and modern service industries, as they rely on technology applications such as information technology-based equipment and automated system engineering. Few institutes in the state have the capacity or capability to deliver higher-level training in emerging skills for fast-changing industries. This constrains additional skilling opportunities for ITI graduates and their career pursuits in becoming highly skilled technicians. The state is in need of a quality advanced TVET institute, where young people can obtain higher-level, industry-relevant skill sets and those already working can upgrade their competencies to meet technology-oriented skill requirements.

8. **The project and ADB's value addition.** The project aims to equip the men and women of Madhya Pradesh with mid- to advanced-level skills to meet emerging demands in the priority manufacturing and service industries, as well as with advanced agricultural skills. To this end, the project will help GOMP transform the state's TVET system to build quality skilling opportunities. It will establish a Global Skills Park (GSP), the first multi-skills park in India, which will impart advanced job-ready skills training of international standards. It will also modernize 10 major ITIs across the state's 10 divisions by upgrading training facilities and skills programs to deliver quality, industry-relevant training.¹² The unique features of the project are as follows:

- (i) **Establishment of a vertical skills path for job-ready skills acquisition.** The project will help build a vertical skills path between the existing 10 ITIs and the new GSP, through which mid- to advanced-level skills can be progressively acquired. The GSP will introduce technology-oriented skills of global standards, targeted at ITI graduates and others with prior technical training, while ITIs will focus on quality mid-level skills programs. Training at the GSP and 10 ITIs will take an industrial cluster approach to develop a range of core skills for strategic priority sectors (e.g., automotive engineering, building technology). This approach will not only meet demand for various skills in each priority sector, but the availability of relevantly skilled workers will also attract further investments to the sector. This will in turn create sustainable employment opportunities for the state's workforce.
- (ii) **Benchmarking training quality to international and national standards.** The project will engage two international TVET partners—the Institute of Technical Education (ITE) Singapore and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)—to support advanced training at the GSP and to uplift the state's TVET quality overall. The partners will bring global best practices in TVET management, training infrastructure, industry cooperation, and quality assurance. For ITIs, courses will be upgraded to offer national certificates, so that ITI graduates can access higher-wage jobs in and outside the state. GSP training will provide internationally recognized certificates and facilitate overseas employment.

¹² Madhya Pradesh is divided into 10 divisions. The 10 ITIs covering these 10 divisions are located in industrial cluster cities or main districts: Bhind, Bhopal, Gwalior, Hoshangabad, Indore, Jabalpur, Rewa, Saga, Shahdol, and Ujjain.

9. The project reflects the priorities of the ADB country partnership strategy, 2018–2022 for India, which aims to reinforce India's efforts toward faster, inclusive, and sustainable economic growth.¹³ ADB supports skills development to improve the employability and productivity of India's growing workforce, which will contribute to the competitiveness and transformation of the Indian economy. The project also incorporates experiences and lessons from ADB's ongoing support for skills initiatives in the states of Himachal, Kerala, and Meghalaya.¹⁴

B. Impact and Outcome

10. The project is aligned with the following impact: employment and income prospects for young men and women in Madhya Pradesh increased.¹⁵ The project will have the following outcome: number of skilled workers with internationally or nationally recognized TVET certificates increased.¹⁶

C. Outputs

11. **Output 1: GSP established for advanced training and TVET support.** The project will establish a new flagship GSP campus in Bhopal with training and other facilities of international standards. The GSP campus is envisaged to be aspirational for the youth of Madhya Pradesh to rebrand the TVET image and encourage their acquisition of technical skills for higher-wage jobs. The GSP will consist of core advanced training institutes—the Center for Occupational Skills Acquisition and the Center for Advanced Agricultural Training—and TVET support services such as entrepreneurship development, training of trainers, and skill-related research. The GSP will serve as the state's central hub for other TVET institutes by demonstrating global best practices in training delivery, industry cooperation, pedagogy, assessment, and certification. Specifically, the project will (i) create modern training workshops to offer authentic industrial experience for job-ready skills acquisition; (ii) deliver advanced training for high-demand skills in the state's priority manufacturing and service industries with support from ITE and GIZ;¹⁷ (iii) forge industry cooperation to develop industry-certified training and upskilling programs; (iv) implement advanced agricultural skills training on smart farming and post-harvest technologies; and (v) promote entrepreneurship by nurturing business ideas and facilitating financing and marketing linkages. About 20,000 trainees and trainers will benefit under this output.

12. **Output 2: Quality and relevance of state ITI programs enhanced.** The project will support the modernization of 10 ITIs across the state by renovating training infrastructure and upgrading skills courses to be aligned with industrial development needs in each division, as well as with national quality standards. The upgraded 10 ITIs will also serve as main resource hubs for about 100 network ITIs across the divisions in order to extend the benefits of improved facilities and TVET support, particularly training of trainers, industry-cooperated training, and career guidance services. To invigorate ITI management, each of 10 ITIs will establish its own results-oriented institutional development plan, which will underpin its performance rating system. Under this output, the project will (i) upgrade training facilities and equipment in all 10 ITIs to deliver quality training aligned with the National Council for Vocational Training requirements; (ii)

¹³ ADB. 2018. *Country Partnership Strategy: India, 2018–2022*. Manila.

¹⁴ Sector Assessment (Summary): Education, and Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁵ Government of India, Ministry of Skill Development and Entrepreneurship. 2015. *National Policy for Skill Development and Entrepreneurship*. New Delhi.

¹⁶ The design and monitoring framework is in Appendix 1.

¹⁷ The trades include electronics, information and communication technology networking and system administration, building technology, automotive technology, mechatronics, precision machining, mechanical and electrical technology, and hospitality operations.

rationalize trades and deliver enhanced training courses in 10 ITIs to offer national certificates that lead to better job prospects for graduates; (iii) develop short-term training programs in cooperation with industry and private sector partners, including programs targeted at women and socially disadvantaged groups; and (iv) create a cadre of master trainers from 10 ITIs and upgrade the capacity of trainers from network ITIs by enhancing their pedagogic and technical competencies. About 80,000 trainees and trainers will benefit from enhanced ITI programs.

13. **Output 3: Inclusive and market-aligned TVET access strengthened.** The project will ensure that the improved training in the GSP and 10 ITIs is available to women, socially disadvantaged groups, and physically challenged youth to improve their employment prospects. The project will (i) create women's hostels in four ITIs—Indore, Jabalpur, Rewa, and Ujjain—to encourage women's attendance in ITIs; (ii) use barrier-free designs in all infrastructure facilities to ease attendance by those with disabilities; (iii) undertake periodic mobilization activities to promote TVET participation by rural youth, women, people with disabilities, and other disadvantaged groups; and (iv) operationalize career counseling and placement centers in 10 ITIs and the GSP to advise on TVET courses and career opportunities. For GSP and ITI training overall, the project aims to enroll about 30% women, 6% people with disability, and 50% from socially disadvantaged groups.

14. **Output 4: Institutional capacity for TVET management improved.** The project will strengthen the capacity of executing and implementing agencies, the project management unit (PMU), and ITIs to ensure the effective implementation of project activities and their sustainability. The project will (i) support the creation of the GSP Society and develop its operational guidelines to ensure the sustainability of GSP training beyond the project;¹⁸ (ii) assist the implementation of ITI performance rating systems to transform ITI management practices; (iii) train state officials for improved TVET management and leadership; and (iv) design and operationalize a management information system (MIS) to monitor training and institutional performance, including gender and social inclusion indicators. The project will also provide training in project management, including procurement and financial management.

D. Summary Cost Estimates and Financing Plan

15. The project is estimated to cost \$240 million (Table 1). Detailed cost estimates by expenditure category and by financier are in the project administration manual (PAM).¹⁹

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: GSP established for advanced training and TVET support	106.85
2. Output 2: Quality and relevance of state ITI programs enhanced	64.71
3. Output 3: Inclusive and market-aligned TVET access strengthened	4.68
4. Output 4: Institutional capacity for TVET management improved	33.94
Subtotal (A)	210.18
B. Contingencies^c	16.10
C. Financial Charges During Implementation^d	13.73
Total (A+B+C)	240.00

¹⁸ The GSP will be registered as a Society under the Madhya Pradesh Societies Registration Act, 1973 to facilitate more efficient and effective management of advanced training and operations.

¹⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

ADB = Asian Development Bank, GSP = Global Skills Park, ITI = industrial training institute, OCR = ordinary capital resources, TVET = technical and vocational education and training.

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$27.96 million, of which \$19.54 million will be financed from the ADB loan resources and \$8.42 million will be financed by Government of Madhya Pradesh counterpart funding.

^b In mid-2018 prices as of 10 June 2018.

^c Physical contingencies computed at 5.0% for civil works and equipment and at 3.5% for training, consultancy, and administrative costs. Price contingencies computed at an average of 4.9% on local currency costs and 1.5% on foreign exchange costs on a cumulative basis in line with escalation rates published by ADB at <https://lnadbg1.adb.org/erd0004p.nsf>; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power price parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the OCR loan has been computed at the 5-year forward London interbank offered rate (LIBOR) plus a spread of 0.5%. Commitment charges for the OCR loan are 0.15% per year to be charged on the undisbursed loan amount.

Sources: Asian Development Bank and Government of Madhya Pradesh estimates.

16. The Government of India has requested a regular loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 20-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average loan maturity is 12.75 years, and there is no maturity premium payable to ADB.

17. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, equipment, training costs, consulting services, and capacity building.²⁰

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	150.0	62.5
Government of Madhya Pradesh	90.0	37.5
Total	240.0	100.0

Sources: Asian Development Bank and Government of Madhya Pradesh estimates.

E. Implementation Arrangements

18. The executing agency will be the Department of Technical Education, Skill Development and Employment (DTESD&E). The implementing agencies will be the Directorate of Skill Development (DOSD) and the Madhya Pradesh Housing and Infrastructure Development Board (MPHIDB). MPHIDB will be responsible for the procurement and supervision of civil works for 10 ITIs. All other project activities will be implemented by DOSD. The PMU will be under DOSD, headed by a project director and consisting of managers and experts in training and quality assurance, procurement, and finance. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 19).

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	December 2018–December 2023
Estimated completion date	31 December 2023

²⁰ ADB financing will cover taxes and duties that (i) are within the reasonable threshold identified during the country partnership strategy preparation, (ii) do not represent an excessive share of the investment plan (13% of the loan), (iii) apply only to ADB-financed expenditures, and (iv) are considered relevant to the project's success.

Aspects	Arrangements		
Estimated loan closing date	30 June 2024		
Management			
(i) Oversight body	Project steering committee chaired by chief secretary, with members consisting of principal or additional secretaries from the departments of urban development, finance, commerce and industries, rural development, water resources, agriculture, higher education, and MPHIDB.		
(ii) Executing agency	DTESD&E		
(iii) Key implementing agencies	DOSD, MPHIDB (responsible for procurement and supervision of upgrading works at ITIs)		
(iv) Implementation unit	Project management unit under DOSD		
Procurement	International competitive bidding	1 contract (works) 1 contract (goods)	\$54.94 million \$24.17 million
	National competitive bidding	3 contracts (works) 10 contracts (goods)	\$44.21 million \$16.59 million
	Shopping	TBD	\$3.80 million
	Consulting services	Quality- and cost-based selection Single source selection Quality based selection Individual	2 contracts 3 contracts 1 contract 9–12
Retroactive financing and/or advance contracting	Applicable for civil works, equipment and materials, and consulting services, following ADB policies and procedures. Retroactive financing will be up to 20% of eligible expenditures incurred prior to loan effectiveness but not earlier than 12 months prior to the signing of the loan agreement.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, DOSD = Directorate of Skill Development, DTESD&E = Department of Technical Education, Skill Development and Employment, ITI = industrial training institute, MPHIDB = Madhya Pradesh Housing and Infrastructure Development Board, TBD = to be determined.

Source: Asian Development Bank estimates.

19. To implement advanced training at the GSP, ITE and GIZ will be engaged through single source selection based on their previous technical cooperation with GOMP in TVET development.²¹ Their demonstrated experience in carrying out similar assignments in India and other countries also supports their engagement. Their services will include developing industry-aligned curricula and learning contents for GSP training, building the capacity of trainers, establishing industry links, and setting up credible assessment and certification systems.

III. ATTACHED TECHNICAL ASSISTANCE

20. The attached TA is estimated to cost \$2.2 million, of which \$2.0 million will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The TA will build the capacity of executing and implementing agencies by supporting start-up activities during the initial 2 years. The TA will assist in (i) preparing operational guidelines and setting up the GSP Society; (ii) developing implementation plans for ITI reform initiatives, such as performance-linked incentive schemes; (iii) conducting a tracer study of TVET graduates to establish baseline data; (iv) designing information technology-based TVET and career guidance modules; and (v) organizing knowledge-sharing workshops on skills and TVET management. The state government will provide counterpart support in the form of counterpart staff, office accommodation and supplies, and other in-kind contributions.²²

²¹ The single source selection was approved by ADB on 16 April 2018 as part of advance contracting.

²² Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

IV. DUE DILIGENCE

A. Technical

21. Training programs in the GSP and ITIs were selected based on skills-gap analysis, demand assessments, consultations with industry groups, and discussions among ITI principals. Training facilities at ITIs were designed with inputs from TVET, architectural, and engineering experts to follow international and national standards in technology-oriented training and trade-specific industry requirements. TVET expert inputs will continue during implementation to ensure that all new training facilities meet the required building certification and expected standards for advanced quality training. Although the project is rated *low* in climate risk assessment, the amount for climate change financing and the level of carbon dioxide emission reduction will be estimated when building designs for the GSP are finalized.

B. Economic and Financial

22. **Economic viability.** The economic internal rate of return was estimated at 12.9%. The main benefits considered in the analysis were wages earned after completing training at the GSP and ITIs. The main costs are civil works; equipment; private costs of trainees (i.e., training costs and opportunity costs); equipment replacement costs; and recurrent costs to sustain the quality of training programs. Sensitivity analysis was carried out with a 10% cost overrun (capital and recurrent costs) and a 10% lower wage increase. In all cases, the economic internal rate of return exceeds the required rate of 6%, suggesting that the project is economically viable.

23. **Financial sustainability.** The project's sustainability will depend primarily on (i) the government's ability to allocate adequate budget to TVET over time and (ii) the successful operation and efficient management of the new GSP. The GOMP has prioritized scaling up its skills initiatives, and TVET expenditure has increased significantly from ₹2.9 billion in FY2012 to ₹9.3 billion in FY2018. After project completion, incremental recurrent costs (about ₹734 million or \$11.5 million per year) are estimated to account for about 5.1% of the total TVET budget in FY2024. In view of the state's strong economic growth and improved tax revenue, GOMP will be able to maintain its high commitment to TVET expenditures. Also, an autonomous GSP Society will be set up to take charge of GSP operation and management after project completion. The project will support the formulation of operational and business plans for the GSP in ways to maximize its efficient management and long-term financial sustainability.

C. Governance

24. **Financial management.** The financial management risk is *moderate* mainly because the executing agency (DTESD&E) and implementing agencies (DOSD and MPHIDB) have experience in managing externally funded projects and are familiar with financial management and other fiduciary requirements by development partners. However, the project is the first ADB-financed project for the executing or implementing agencies. An experienced finance officer has been appointed to oversee the project and professional accountants will also be engaged for the PMU. The project will support training on ADB's financial reporting, project accounting, disbursement procedures, and audit requirements during implementation. While the implementing agencies follow the established Madhya Pradesh financial rules, they have limited internal audit functions. An independent audit firm will be engaged to undertake internal audits and strengthen fiduciary controls.

25. **Procurement.** The procurement capacity assessment shows that DOSD and MPHIDB have adequate capacity to carry out the project activities, given their experience in handling works for public housing and ITIs. Since DOSD will procure relatively large civil works and equipment for the GSP, the PMU will engage experienced procurement staff. Project management consultants will provide additional technical support and monitoring. All procurement of works, goods, and services will follow ADB's Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).²³

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Government of India and the state's DTESD&E. The specific policy requirements and supplementary measures are described in the PAM (footnote 19).

D. Poverty, Social, and Gender

27. Poverty in Madhya Pradesh had declined since 2004 but was still high at 32% in 2011 compared to the national average of 22%.²⁴ The state has high percentages of scheduled tribes (21%) and scheduled castes (15%), whose human capital indicators lag other groups. Also, significant gender differences exist in literacy (79% for men and 59% for women), labor force participation (60% for men and 15% for women), and unemployment (7.2% for men and 15.7% for women) among those aged 18–29. The project includes targeted measures to improve training and employment prospects for these groups. The project is categorized as *effective gender mainstreaming*, and a gender equality and social inclusion plan was prepared. The key measures include (i) targeting 30% female enrollment for the GSP and ITI training, (ii) improving the skills of women trainers, (iii) constructing women's hostels in four ITIs and the GSP, and (iv) recruiting women as security guards for the women's hostels. The target trainees at the GSP and ITIs will include 50% from disadvantaged groups (21% scheduled tribes, 15% scheduled castes, and 14% other marginal groups combined); 30% women; and 6% people with disabilities.

E. Safeguards

28. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²⁵

29. **Environment (category B).** For civil works at the GSP and ITIs, potential environmental impacts will be site-specific, reversible, and occur mostly during construction. During operation, training facilities will require adequate water and waste management. Initial environmental examination reports, including environmental management plans, were prepared for each of the project sites and disclosed on the ADB website. The implementation status of environmental management plans will be monitored and reported to ADB semiannually.

30. **Involuntary resettlement (category C).** No land acquisition or resettlement impacts are expected. All civil works will take place on government-owned land or within existing premises.

31. **Indigenous peoples (category B).** Given the high proportion of scheduled tribes and scheduled castes in the state, an indigenous peoples plan was prepared to ensure their access to training in the GSP and ITIs. No adverse impacts are envisaged for these groups; rather, measures in the plan will facilitate their access to better training and employment opportunities.

²³ The concept paper for the project was approved in December 2016. GOMP will be informed on the availability of the new procurement framework (2017).

²⁴ Government of India, Planning Commission. 2013. *Press Note on Poverty Estimates, 2011–2012*. New Delhi.

²⁵ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

F. Summary of Risk Assessment and Risk Management Plan

32. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁶

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Enrollment in new advanced training at the GSP does not reach the expected level.	(i) TVET social marketing and mobilization drives will promote GSP training throughout the state, (ii) ITIs and other TVET institutes will organize students' exposure visits to the GSP to increase awareness and provide career guidance, and (iii) training support schemes will be offered to eligible students for new GSP programs.
Fiscal constraints may undermine the sustainability of advanced training at the GSP.	GOMP will create the GSP Society with budget allocation for recurrent expenditures, which will enable more efficient and effective management of GSP operations. During project implementation, the attached technical assistance will support the development of governance structures, operational guidelines, and solid business plans for the GSP Society to ensure its long-term sustainability.
Lack of internal audit functions at implementing agencies.	An internal audit firm of chartered accountants will be recruited. The firm will perform the internal audit of DOSD and MPHIDB and all project activities under the GSP and ITIs to improve overall fiduciary controls.

DOSD = Directorate of Skill Development, GOMP = Government of Madhya Pradesh, GSP = Global Skills Park, ITI = industrial training institute, MPHIDB = Madhya Pradesh Housing and Infrastructure Development Board, TVET = technical and vocational education and training.

Source: Asian Development Bank.

V. ASSURANCES

33. The Government of India, GOMP, and DTESD&E have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

34. The Government of India, GOMP, and DTESD&E have agreed with ADB on certain covenants for the project, which are set forth in the draft loan and project agreements.

VI. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$150,000,000 to India for the Madhya Pradesh Skills Development Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 20 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

3 September 2018

²⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with By 2026, employment and income prospects for young men and women in Madhya Pradesh increased (National Policy for Skill Development and Entrepreneurship 2015) ^a			
Results Chain	Performance Indicators with Targets and Baseline	Data Sources and Reporting Mechanisms	Risks
Outcome Number of skilled workers with internationally or nationally recognized TVET certificates increased	By 2024: a. At least 18,000 youth received internationally recognized certificates from the GSP for advanced, job-ready skills (30% women) (2017 baseline: 0) b. At least 90% of graduates from 10 ITIs certified with NCVT (2017 baseline: 30%)	a–b. MIS project reports of DOSD	Fiscal constraints may undermine the sustainability of advanced training at the GSP
Outputs 1. GSP established for advanced training and TVET support	By 2023: 1a. At least 60 advanced training workshops or laboratories constructed at the GSP for industrial-setting learning experience (2017 baseline: not applicable) 1b. New advanced training for 10 trades implemented at COSA with international partnerships (2017 baseline: not applicable) 1c. At least 3,000 youth trained for advanced agricultural skills at CAAT (at least 30% women) (2017 baseline: not applicable) 1d. At least 500 applicants receive support for entrepreneurship and mentoring from Center for Innovation and Entrepreneurship (30% women) (2017 baseline: not applicable)	1a–1d. Quarterly progress reports of DOSD, MIS reports, and DOSD annual reports	Enrollment in new advanced training at the GSP does not reach the expected level
2. Quality and relevance of state ITI programs enhanced	By 2023: 2a. Training facilities and equipment at 10 ITIs upgraded to meet NCVT requirements (2017 baseline: not applicable) 2b. At least 25,000 students enrolled in CTS in 10 ITIs for NCVT certificates (30% women) (2017 baseline: 8,500) 2c. At least 35,000 youth trained in industry-led, short-term courses for upskilling and/or reskilling (35% women) (2017 baseline: 0) 2d. Job placement rate of 10 ITIs improved by 30 percentage points from the baseline (2017 baseline: below 40%) ^b	2a–2e. Quarterly progress reports of DOSD, MIS reports, and DOSD annual reports	

Results Chain	Performance Indicators with Targets and Baseline	Data Sources and Reporting Mechanisms	Risks
	2e. A cadre of 320 master trainers from 10 ITIs created and 600 trainers from network ITIs trained with upgraded pedagogic and technical competencies (at least 25% women) (2017 baseline: 0)		
3. Inclusive and market-aligned TVET access strengthened	<p>By 2023:</p> <p>3a. At least 1,500 youth with disability are trained in the GSP and 10 ITIs (2017 baseline: 420)</p> <p>3b. All facilities constructed or upgraded with barrier-free designs for people with disability^c (2017 baseline: not applicable)</p> <p>3c. Women's hostels established in four ITIs (Indore, Jabalpur, Rewa, and Ujjain) (2017 baseline: 0)</p> <p>3d. At least two TVET mobilization drives per year implemented, targeted at women, people with disability, and other disadvantaged groups (2017 baseline: not applicable)</p>	3a–3d. Quarterly progress reports of DOSD, MIS reports, and DOSD annual reports	
4. Institutional capacity for TVET management improved	<p>By 2023:</p> <p>4a. At least 40 officials from DOSD and other skills agencies completed TVET management and leadership training (2017 baseline: 0)</p> <p>4b. Results-oriented institutional development plans for 10 ITIs implemented (2017 baseline: not applicable)</p> <p>4c. GSP Society registered under the Madhya Pradesh Societies Registration Act, 1973, with its operational guidelines ready for implementation (2017 baseline: not applicable)</p> <p>4d. MIS, including gender equality and social inclusion indicators, designed and operationalized (2017 baseline: not applicable)</p>	4a–4d. Quarterly progress reports of the project, MIS reports, and DOSD annual reports	

Key Activities with Milestones

1. GSP established for advanced training and TVET support

- 1.1. Develop detailed designs of the GSP campus and issue bid documents for its construction (Q3 2018–Q1 2019).
- 1.2. Conduct industry consultations on internship and cooperation programs for GSP training, and finalize cooperation memorandums of understanding (Q3 2018–Q4 2019).
- 1.3. Finalize training implementation plans for COSA and CAAT, including selection of trainees and trainers, curriculum designs, and certification and assessment procedures (Q3 2019).
- 1.4. Recruit trainers, conduct training of trainers, and commence trainee recruitment (Q1–Q4 2020).

<p>1.5. Complete the civil works, set up training workshops, and install equipment (Q4 2020–Q1 2021).</p> <p>1.6. Commence GSP training courses with technical support from ITE and GIZ (Q1 2021).</p> <p>2. Quality and relevance of state ITI programs enhanced</p> <p>2.1. Commence the upgrading civil works for 10 ITIs (Q4 2018).</p> <p>2.2. Complete institutional development plans for ITIs and the DOSD performance rating system (Q3 2019).</p> <p>2.3. Finalize implementation plans for NCVT-aligned CTS programs, training of trainers, and short-term training with industry collaboration (Q1 2020).</p> <p>2.4. Establish a pool of master trainers from 10 ITIs and assessors, and conduct training of trainers in partnership with national and international institutions (Q2 2019–Q3 2020).</p> <p>2.5. Select trainers from network ITIs based on trades and eligibility criteria for upgrading training programs in pedagogic and technical competencies (Q1–Q4 2020).</p> <p>2.6. Complete the upgrading works, set-up workshops, and install equipment (Q4 2020).</p> <p>2.7. Commence CTS programs with NCVT and short-term training aligned with the National Skills Qualification Framework (Q3 2020).</p> <p>3. Inclusive and market-aligned TVET access strengthened</p> <p>3.1. Conduct periodic social marketing and mobilization drives for training at the GSP and ITIs, with special attention to women and socially disadvantaged groups (Q2 2019–Q4 2020).</p> <p>3.2. Monitor all construction works to ensure women-friendly and barrier-free designs at the GSP and 10 ITIs (Q1 2019–Q4 2020).</p> <p>3.3. Operationalize career counseling and job placement centers at the GSP and 10 ITIs to reach out to women and disadvantaged groups (Q4 2020).</p> <p>3.4. Carry out periodic training programs for GSP and ITI trainers on disability, cultural training and awareness, sign language, and pedagogic methods (2021–2023).</p> <p>3.5. Implement recognition of prior learning programs in coordination with state support schemes (2021–2023).</p> <p>4. Institutional capacity for TVET management improved</p> <p>4.1. Finalize work plans for TVET leadership and management training, and commence training for DOSD and PMU officials with ITE (Q1–Q2 2019).</p> <p>4.2. Undertake project management, financial management, procurement, gender, and safeguard monitoring training for all PMU and GSP staff (Q1–Q4 2019).</p> <p>4.3. Establish a robust MIS and monitoring and evaluation manuals to monitor project performance at the GSP and ITIs (Q4 2019).</p> <p>Project Management Activities</p> <p>Establish a full staffed PMU (Q3–Q4 2018).</p> <p>Prepare and submit quarterly progress reports (from Q1 2019).</p>
<p>Inputs</p> <p>Asian Development Bank: \$150 million (OCR regular loan)</p> <p>Government of Madhya Pradesh: \$90 million</p> <p>Japan Fund for Poverty Reduction: \$2 million (TA grant)</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>

CAAT = Centre for Advanced Agricultural Training, COSA = Center for Occupational Skills Acquisition, CTS = Craftsmen Training Scheme, DOSD = Directorate of Skill Development, GIZ = Deutsche Gesellschaft für Internationale Zusammenarbeit, GSP = Global Skills Park, ITE = Institute of Technical Education Singapore, ITI = industrial training institute, MIS = management information system, NCVT = National Council for Vocational Training, OCR = ordinary capital resources, PMU = project management unit, Q = quarter, TA = technical assistance, TVET = technical and vocational education and training.

^a Government of India, Ministry of Skill Development and Entrepreneurship. 2015. *National Policy for Skill Development and Entrepreneurship*. New Delhi.

^b This estimate is based on data gathered from selected ITIs during project preparation because no systematic baseline data are available from all relevant ITIs. A tracer study, to be conducted under the attached technical assistance, will establish a baseline job placement rate.

^c Barrier-free designs include ramps with specified width, inclusion of elevators in all buildings, proper signage, adequate width for lift doors, and suitable locations and space requirements for toilets.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48493-002-3>

1. Loan Agreement: Regular Loan
2. Project Agreement
3. Sector Assessment (Summary): Education
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan
11. Attached Technical Assistance Report
12. Gender Equality and Social Inclusion Plan
13. Initial Environmental Examination: Global Skills Park
14. Initial Environmental Examination: Upgradation of 10 Divisional Industrial Training Institutes and Construction for Global Skills Park–City Campus
15. Indigenous Peoples Plan

Supplementary Documents

16. Demand Analysis (Summary)
17. Financial Management Assessment
18. Procurement Capacity Assessment