

## ECONOMIC AND FINANCIAL ANALYSIS

1. This document summarizes the economic and financial analysis conducted for the proposed Equipping Youth for Employment Project (EYE), encompassing (i) international and national evidence on the economic justifications for investing in human capital to promote inclusive growth; (ii) root causes of low internal and external efficiency in Myanmar’s education sector, and identification of cost-effective policy-level and investment support under the project; (iii) incidence of direct project benefits; and (iv) financial sustainability.

### A. Economic Justifications

2. **Human capital and growth.** Economic development research confirms the critical role of human capital in determining the pace and inclusiveness of economic growth (and advancing social development), as well as the large returns on investing in education and training.<sup>1</sup> Human capital is vital in developing countries, as expanding the supply of skilled workers allows the economy and its industries to modernize and climb the technological ladder, attracts foreign investment, increases productivity and competitiveness, and improves responsiveness to shifting opportunities. Evidence from countries with a similar context to Myanmar indicates that economic take-off relies heavily on the availability of workforce entrants with cognitive and non-cognitive foundational skills (“soft skills”, including critical and analytical thinking, problem-solving, and communication skills) and technical and vocation-specific skills (“hard skills”, such as welding, construction, and computer skills).<sup>2</sup> Particularly in countries nearing universal primary education, policy reforms and investments to expand completion of quality secondary education and technical and vocational education and training (TVET) have been vital in unlocking returns on investments in physical capital, driving economic modernization and balanced growth, and promoting inclusiveness of growth.<sup>3</sup> Global evidence also indicates that access is not enough: improving education quality and relevance is critical to advance learning and workforce outcomes, as well as national economic growth.<sup>4</sup>

3. The Asian Development Bank (ADB) analysis for Myanmar, including inclusive growth analysis in preparing the forthcoming country partnership strategy, 2017–2021 identifies human capital as a binding development constraint.<sup>5</sup> The weak flow of human capital into the economy—primarily because of low completion rates and quality and relevance of secondary education sector (SES) and TVET—threatens to trap the economy in a model based on unskilled labor and natural resource exploitation, while leaving the majority of youth with limited prospects for full-time, formal, and productive employment. ADB estimates suggest that just over 50% of working youth aged 18–27 years remain engaged in agriculture (only marginally lower than the share of working adults aged 40–60).<sup>6</sup> Moreover, for job access, only half of working youth aged 18–27 are in formal sector employment; the remainder (52% of females and

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<sup>1</sup> See, for example, D. Cohen and M. Soto. 2007. Growth and Human Capital: Good Data, Good Results. *Journal of Economic Growth*. 12. pp. 51–76.

<sup>2</sup> B. Chin, A. Liu, and S. Ra. 2015. *Challenges and Opportunities for Skills Development in Asia: Changing Supply, Demand, and Mismatches*. Manila: Asian Development Bank.

<sup>3</sup> On the role of secondary education and “medium skills” in driving growth in the People’s Republic of China, see J. Heckman and J. Yi. 2012. Human Capital, Economic Growth, and Inequality in [the People’s Republic of China]. *NBER Working Paper 18100*. Cambridge, MA. The importance of education policy and relevance is stressed in H. Son. 2010. Human Capital Development. *Asian Development Review*. 27. pp. 29–56.

<sup>4</sup> World Bank. 2007. *Education Quality and Economic Growth*. Washington, DC.

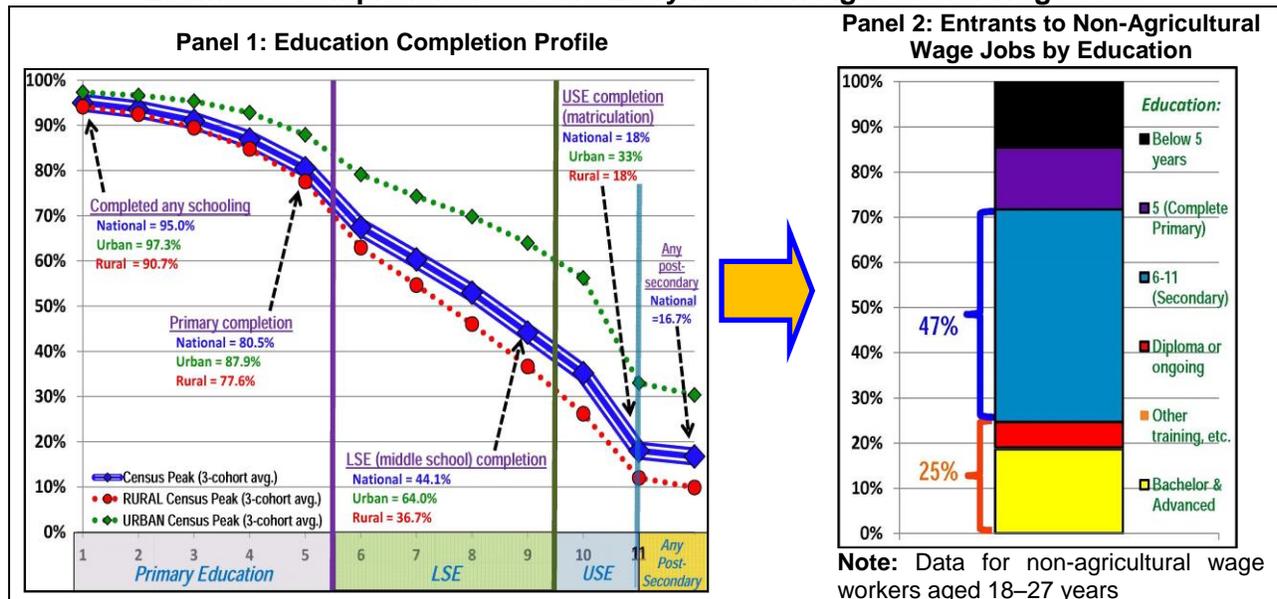
<sup>5</sup> See also (i) S. D’Amico, C. Spohr, and S. Tanaka. 2015. Myanmar Human Capital Development, Employment and Labor Markets. *ADB Economics Working Paper Series*. No. 469. Manila: Asian Development Bank; and (ii) ADB. 2014. *Myanmar: Unlocking the Potential. Country Diagnostic Study*. Manila.

<sup>6</sup> Based on 2014 census dataset, and assumptions on the likely sectoral breakdown of non-responses for industry.

46% of males) are own-account or contributing family workers. While youth unemployment is low (about 5.5% of youth aged 18–27), underemployment and work in low-paying, low productivity jobs are critical issues.

4. Many of these labor market and economic challenges arise from weak human capital, which national and foreign-invested businesses identify as a priority growth constraint.<sup>7</sup> Using data from the Ministry of Education, the 2009–2010 Integrated Household Living Conditions Survey (IHLCS), and other sources, ADB-supported analysis as part of Myanmar’s Comprehensive Education Sector Review (CESR) found SES and TVET to be critical “choke points” for education, the flow of skills into the workplace, and inclusive growth and broader socioeconomic development.<sup>8</sup> SES is where most youth exit the education system.<sup>9</sup> ADB estimates using Ministry of Education data suggest that, of the 1.1 million entrants to grade 1 each year, more than 80% complete primary schooling (grades 1–5), but only about 10% complete upper secondary education (USE) eleven years later, leaving nearly a ‘missing million’ youth without access to many forms of employment, TVET, or higher education. More recent ADB estimates using the 2014 census show similar findings (Figure 1). Meanwhile, SES supplies the largest share (about half) of entrants into modern sector employment. Only 25% of 18–27 year olds are employed in non-agricultural wage jobs, and half (47%) of these have one or more years of secondary education but no post-secondary education or training, while less than 19% have a bachelor’s degree or higher and 6% have a post-secondary diploma (including TVET) or other vocational training.<sup>10</sup>

**Estimated Completion Rates and Entry into Non-Agricultural Wage Jobs**



LSE = lower secondary education, USE = upper secondary education  
 Source: Asian Development Bank staff estimates.

<sup>7</sup> Government of Myanmar. *Indicative Private Sector Development Framework and Action Plan*. Nay Pyi Taw.  
<sup>8</sup> ADB supported 12 technical annexes to the CESR. See: <https://www.adb.org/projects/46369-001/main#project-documents> and <https://www.adb.org/projects/47177-001/main#project-documents>.  
<sup>9</sup> Sector Assessment Summary (accessible from the list of linked documents in Appendix 2).  
<sup>10</sup> The share with bachelor degree or higher is about 12% for males and 30% for females in this age group working in non-agricultural wage labor. Females hold only 39% of these jobs.

5. **Individual-level returns to education.** Human capital accumulation is also a critical determinant of individuals' workforce outcomes. International economic development research demonstrates significant wage returns to education, with most studies finding that one additional year of schooling raises an individual's earnings by 5% to 15%.<sup>11</sup> These results are robust to a more limited number of studies using instrumental variable techniques (IVTs) to control for endogeneity. A leading multi-country IVT study finds that primary and secondary schooling returns are particularly high in less-developed countries, and secondary education appears especially important in rapidly growing economies, including those in Asia.<sup>12</sup> Moreover, conventional estimated returns to secondary education are likely understated (and those for higher education overstated) since they do not capture the pass-through effect. In many countries, failure to complete USE is a major deterrent to pursuing higher education: in Myanmar, for example, nearly all USE completers continue into higher education. Other IVT studies have found that completion of secondary education has a particularly significant impact on females' wages as well as broader workforce outcomes, such as participation in the formal labor market and non-agriculture sectors.<sup>13</sup>

6. Pending the 2017 Myanmar Living Conditions Survey, the country lacks data to support robust estimation of wage returns to education or training. To generate rough estimates, ADB used IHCLS data, which includes data on individual's education and labor force participation (but not wages) and total household consumption. Important caveats include the need to (i) restrict analysis to households with a single worker,<sup>14</sup> (ii) estimate labor earnings as total household consumption minus net savings, and (iii) merge post-secondary forms of TVET and higher education into one category.<sup>15</sup> Table 1 shows estimated returns for completion by level, using specifications excluding and including an indicator variable for urban location.<sup>16</sup> Columns 1–2 give the preferred specification, since migration is part of the outcome: education boosts lifetime earnings partly by enabling youth to migrate and enter better-paying urban jobs.

**Table 1: Indicative Estimates for Returns by Level of Education Completed**

Educational attainment	Coefficient		T-statistic		
	1	2	3	4	
Primary completion	0.103	**	3.430	0.086 **	2.930
Lower secondary completion	0.239	**	7.790	0.204 **	6.410
Upper secondary completion	0.182	**	2.040	0.145 *	1.690
Any post-secondary diploma/degree	0.096		0.920	0.066	0.640
Urban household	n/a		n/a	0.166 **	(4.460)

( ) = negative, n/a = not applicable.

Note: Regressions also included quadratic variables for estimated years of work experience.

Source: Asian Development Bank staff estimates.

7. With the noted caveats, the analysis confirms that education has significant returns, echoing international evidence. The returns to secondary education appear particularly high:

<sup>11</sup> H. A. Patrinos and G. Psacharopoulos. 2004. Returns to Investment in Education: A Further Update. *Education Economics*. 12(2). pp. 111–135.

<sup>12</sup> R. Barro and J. Lee. 2010. A New Data Set of Educational Attainment in the World, 1950–2010. *NBER Working Paper 15902*. Cambridge, MA. This paper estimates that the wages of secondary school graduates are 2.1 times those of primary school graduates in East and South Asia.

<sup>13</sup> C. Spohr. 2003. Formal Schooling and Workforce Participation in a Rapidly Developing Economy: Evidence from "Compulsory" Junior High School in [Taipei, China]. *Journal of Development Economics*. 70(2). pp. 291–327.

<sup>14</sup> As expected, such households are typically smaller and younger. To avoid outliers, the analysis was also restricted to workers aged 18–40 years.

<sup>15</sup> The dataset does not distinguish 3-year post-secondary TVET programs from academic diploma programs.

<sup>16</sup> In the absence of valid instruments, results used ordinary least squares estimation, based on a standard mincerian formulation from Barro and Lee (2010) cited in footnote 12 and other studies.

completing lower secondary education (LSE) is associated with a 23.9% rise in wages and USE completion is associated with an 18.2% rise, corresponding to average wage increases of about 6.0% per year of LSE and 9.1% per year of USE. This is consistent with evidence that secondary education is a choke point for skill accumulation (para. 4), and thus commands a high premium in the labor market. Improvements in SES quality and relevance (a major focus of EYE) would be expected to further elevate the returns to secondary education.<sup>17</sup> Data is not available to rigorously assess TVET returns in Myanmar, particularly accounting for planned reforms to align TVET with industry skill needs. However, initial evidence from ongoing tracer studies for the ADB-supported pilot test of competency-based modular short courses (CBMSCs) shows that trainees (i) are rapidly hired (63% were employed within 1 month of training), (ii) found more regular employment (average working hours per week rose from 22 to 35), and (iii) roughly doubled monthly income from \$49 to \$102 per month.<sup>18</sup> Alongside evidence from other countries, such results suggest that completion of higher quality, labor market-responsive secondary education and TVET will significantly impact individuals' ability to access higher-paying modern sector employment opportunities. As in other countries, the returns to education and training are likely to be highest for disadvantaged youth.

8. **Broader socioeconomic returns.** Particularly in developing countries, education also delivers broader socioeconomic benefits. Studies indicate that secondary education has a strong gender equalizing effect, with education conveying larger wage returns for females than for males, as well as broad and cross-generational benefits: education empowers girls and women, raises age at marriage and lowers fertility, promotes household saving behaviors, and increases investments in the next generation, thus helping to break longer-term poverty traps (footnote 11). International evidence on TVET is more mixed but suggests that well-designed and targeted programs can expand females' participation in higher-paying formal sector employment. Such social benefits represent important positive externalities and spillover effects, providing strong justification for investment by the Government of Myanmar.

## B. Cost-Effectiveness Analysis

9. **Strategic alignment.** The analysis suggests that narrow interventions will be unable to address the noted challenges, including the 'missing million', low internal efficiency (high dropout), and low external efficiency in meeting employers' soft and hard skill demands. To address a legacy of fractured policy and under-investment, cost-effective approaches have been designed to provide linked policy and investment support for cohesive SES and TVET reforms, to strategically align the subsectors in meeting rapidly evolving skill demands.<sup>19</sup> Though relying on private service provision is not a viable option for SES and TVET in the near-term, EYE supports government–industry engagement to ensure relevance to skill needs.<sup>20</sup>

10. **Secondary education sector.** Investing in quality-improving SES reforms alongside interventions to improve access was assessed as more cost effective than investments focused principally on access. Analysis of supply and demand constraints demonstrates the need to

<sup>17</sup> For evidence on the role of quality and relevance, see ADB. 2015. *Key Indicators for Asia and the Pacific 2015 Special Chapter—A Smarter Future: Skills, Education, and Growth in Asia*. Manila.

<sup>18</sup> A forthcoming CBMSC Trainer Tracer Study Report will consolidate results from multiple tracer study rounds conducted as part of ADB support for CBMSC pilot testing. ADB. 2014. *Technical Assistance to the Republic of the Union of Myanmar for Support for Skills Development for Inclusive Growth*. Manila.

<sup>19</sup> The TVET subsector focuses largely on USE graduates, and does not provide a viable pathway for the more than 600,000 primary completers who exit education without completing USE each year.

<sup>20</sup> While Myanmar is preparing a Private Education Law, there are very few private schools, and these focus on affluent urban clients. Only 9% of employers train their own staff, suggesting challenges for apprenticeship models.

prioritize reforms of outdated, rote-based curricula, pedagogy, and assessment.<sup>21</sup> First, microeconomic analysis of IHLCs data identified “lack of interest” as the lead reason for SES dropout, largely reflecting perceived irrelevance to finding decent employment. Second, education costs (the next main reason for dropout) also indicate outdated curriculum, pedagogy, and assessment, which necessitate private tutoring. Tutoring fees comprise the largest share (42%) of household spending on schooling in Myanmar, and rise in LSE and USE. ADB staff analysis suggests that USE is the most expensive level of education per child enrolled: the cost per grade 11 student was roughly equivalent to \$200 (more than 40% of average per capita expenditure) in 2009–2010, and this cost has likely since risen. Third, quality reforms will be vital to address the high matriculation exam failure rate (71% in 2016) of grade 11 students, which reflects weak learning outcomes and represents a huge wastage of government and household investment in education. Finally, the project will address broader demand and supply factors that depress completion rates and learning outcomes. This includes EYE upgrading of incomplete SES schools (lowering transport costs to enable youth to complete LSE and/or USE) and pilot testing dorms at SES school sites, as evidence from other countries suggests dorms have strong potential to increase completion rates and lower cost burdens.<sup>22</sup>

11. **Technical and vocational education and training.** EYE supports national reforms to reorient TVET to industry needs and replicate CBMSCs by using excess space at TVET schools in areas with high skill demand. This will be more cost effective than building new TVET schools or expanding TVET programs, which are often low quality and inequitable. Many TVET programs (which largely target USE graduates) are outdated and overly theoretical. Moreover, ADB analysis of IHLCs and census data confirm that less than 1% of youth are able to access training in areas such as construction or industrial skills. As a result, more than 80% of employers feel TVET and academic education fail to provide the needed skills.<sup>23</sup> Initial results from the CBMSC pilot (para. 7) confirm that competency-based approaches are highly cost effective in equipping disadvantaged youth with the skills immediately demanded by employers.

12. **Geographical dimensions.** While project support for structural and quality-related reforms will be national in scope, geographic targeting of certain investments (upgrading incomplete SES schools and replicating CBMSCs) used geographic information system analysis of data from IHCLS and the 2014 census to maximize cost effectiveness.<sup>24</sup> Site prioritization incorporated factors such as the concentration of poverty, SES dropouts, and employment in target industries (as a proxy for skill demand). As part of an evidence-based approach to ensure cost effectiveness of future investments, geographic targeting also provided the basis for a rigorous impact evaluation of SES school upgrading and dorm provision.

### C. Beneficiary Analysis

13. EYE policy-level and investment support will facilitate national reforms for system building and aligning SES and TVET to evolving skill demands. The longer-term total benefits of such reforms are difficult to quantify but clearly substantial. For example, EYE-supported reforms will enhance system efficiency by directing budget funds to more effective and complementary programs while improving external efficiency by ensuring SES and TVET meet employers’ evolving skill needs. Reforms to improve SES quality and relevance will increase the flow of soft skills into the labor force, supporting more rapid and diversified growth (particularly

<sup>21</sup> This is consistent with international evidence. See International Initiative for Impact Evaluation. 2016. *The Impact of Education Programmes on Learning and School Participation in Low- and Middle-Income Countries*. London.

<sup>22</sup> Where private boarding facilities are available, they cost about MK500,000 per year.

<sup>23</sup> ADB staff analysis of data from the 2014 World Bank Myanmar Enterprise Survey.

<sup>24</sup> Geographic analysis and targeting are outlined in a supplementary document, available upon request.

in modern service sectors), while reforms to improve SES access will reduce wastage (and improve equity) by reducing dropout and high household costs while enabling more children to complete higher-quality LSE and USE. EYE-supported TVET reforms will strengthen external efficiency of TVET and (in the longer term) promote increased private investment in TVET, accelerate growth (particularly in construction and manufacturing sectors) by increasing the flow of hard skills into the workplace, and promote more inclusive growth by allowing disadvantaged youth and unskilled workers to improve skills and employment prospects through new TVET programs.

14. The remainder of this section focuses on the project's immediate-term beneficiaries, and likely considerably understates EYE's eventual and indirect benefits.

15. **Youth and households nationwide.** More than 4.4 million youth are expected to directly benefit from project interventions during implementation. Most of these will be youth benefiting from new, more relevant SES textbooks (about 45 million), teacher adoption of student-centered learning, and reformed student assessment. Moreover, reforms are predicted, by the project end, to increase the number of youth completing LSE each year by 150,000 and the number completing USE each year by about 285,000. Meanwhile, household expenditure burdens are expected to reduce with a decreased need for private tutoring. In addition, at least 24,000 disadvantaged youth (including 10,000 females) who would not likely have access to training will benefit from completion of free-of-cost CBMSCs, resulting in better-paying skilled employment. EYE support for areas such as upgrading of incomplete SES schools is expected to generate further benefits, though these are difficult to estimate.

16. **Teachers and managers.** At least 90,000 SES teachers (almost all SES teachers nationwide) will benefit from new textbooks and teacher guides, as well as in-service teacher training conducted yearly prior to introducing the new grades 6–12 curriculum. SES teachers will also benefit from reforms to teacher deployment and use. Multi-stage, multi-modal capacity building will benefit 150 TVET teachers and school managers. In addition, SES and TVET subsector management capacity building programs will directly benefit at least 120 officials at national and local levels.

17. **Targeted interventions.** While benefitting fewer individuals, EYE's pilot test initiatives will target particularly disadvantaged groups with important interventions. In particular, geographically targeted interventions under output 2 (supporting SES) will benefit 48 townships with high levels of poverty and SES dropout by upgrading incomplete SES schools and introducing dorms (public SES school dorms do not exist in Myanmar), both of which should dramatically increase completion rates and lower transport and boarding costs. At least 5,000 youth from poor households in remote villages (including at least 50% girls, and prioritizing ethnic group youth) are expected to benefit from free boarding by the project end. Under output 3 (supporting TVET), at least 9,000 CBMSC trainees (including at least 80% ethnic group youth and 50% females) will benefit from cash stipend support and free dorm boarding (along with free meals, uniforms, and protective gear provided to all CBMSC trainees). These initiatives will be evaluated for potential scale-up using government budget and/or expected follow-up ADB assistance, multiplying EYE's ultimate impact.

#### **D. Financial Sustainability**

18. **Accelerated growth and rising government revenues.** Following decades of isolation, in 2011, Myanmar began sweeping reforms supporting integration into the regional and global economy. Such reforms have helped accelerate the country's economic growth, with real gross

domestic product growth rising from an average of 5.3% annually during FY2009–FY2011 to nearly 7.9% during FY2012–FY2015, with projected annual real growth rates above 8.3% in FY2016–FY2017 (Table 2). Economic and revenue growth from strengthened tax collection, energy resource exports, and other sources has also enhanced the government’s fiscal position, reflected in rising total Union (national) government expenditures, with trends expected to continue improving.<sup>25</sup> Development partners (ADB and the World Bank) are also supporting the government to improve efficiency of budget spending across and within sectors.<sup>26</sup>

**Table 2: Economic Growth and Education Budget Trends and Projections, 2009–2017**

Measure	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (\$ billion)	38.1	49.6	56.0	55.6	56.7	63.1	65.8	71.3	79.0
Real GDP growth rate (%)	5.1	5.3	5.6	7.3	8.4	8.5	7.2	8.4	8.3
Total Union Government Budget (\$ billion)	3.3	4.4	5.9	7.5	8.1	10.5	10.5	11.3	12.3
Education budget (\$ billion)	0.2	0.3	0.4	0.9	1.1	1.3	1.3	1.5	1.7
Education budget as share of GDP (%)	0.7	0.8	0.8	1.6	1.8	2.0	2.0	2.1	2.1
Education budget as a share of total Union Government Budget (%)	6.6	6.1	6.9	10.1	12.7	12.0	12.4	13.3	13.4

GDP = gross domestic product.

Note: Years denote the year in which the fiscal year starts.

Sources: Asian Development Bank. 2016. *Asian Development Outlook*. Manila; International Monetary Fund. 2015. Myanmar: Staff Report for the 2016 Article IV Consultation. Washington; Government of Myanmar. 2016. Union Budget 2016. Nay Pyi Taw; World Bank. 2015. Myanmar Public Expenditure Review 2015. Washington, DC; and Asian Development Bank staff estimates.

**19. Increased education budgeting.** Following prolonged under-investment in the education sector, the government redoubled investment in education in 2011, with public education expenditure more than doubling as a share of the total budget (rising from an average of 6.5% during FY2009–FY2011 to 13.2% in FY2016). Alongside rapid growth of the overall budget, this yielded a more than quadrupling of the education budget, which rose 4.3-fold from FY2011 to FY2016. Myanmar’s new government has reemphasized education, and is expected to further increase education financing. Substantial increases are expected starting from the FY2017 budget (the first to be developed by the new government).<sup>27</sup> Public financing for education remains low by international standards, but the National Education Law (2015) commits the government to progress towards 20% of the total budget, though it does not set a binding timeline. In 2016, the government also began channeling revenues from new taxes on mobile phone charges to the education sector. In addition, the education sector is expected to attract increased development partner organization (DPO) and private sector investment, with a draft Private Education Law under preparation.

**20. More efficient education sector resourcing.** Alongside budget increases, since 2012, the government has adopted an evidence-based approach to sector planning, which will be important to ensure increased budgets translate into improved sector performance and internal and external efficiency. This has included engaging DPOs to complete the CESR—the first rigorous assessment of the sector since 1992—and to formulate an evidence-based National Education Strategic Plan, 2016–2021 (NESP). The NESP provides a roadmap for reforms and a unified framework for increased government and DPO investment in the sector.<sup>28</sup> The

<sup>25</sup> ADB. 2016. *Asian Development Outlook*. Manila.

<sup>26</sup> World Bank. 2015. Myanmar Public Expenditure Review 2015. Washington, DC.

<sup>27</sup> The new government’s emphasis on investing in education and strengthening human capital is reflected in Government of Myanmar. 2016. *Economic Policy of the Union of Myanmar*. Nay Pyi Taw.

<sup>28</sup> Ministry of Education. 2016. *NESP (2016–2021) Policy and Programme Framework*. Nay Pyi Taw.

government has enhanced interagency coordination to better align education with soft and hard skill needs, and has established foundations for sector reforms (including in SES and TVET), including the new basic education curriculum framework and pilot testing of CBMSCs.

21. **Sustainability of project investments.** EYE investments are set against the backdrop of expected continued strong economic growth, government fiscal space, and increased and more efficient budgetary allocations to the education sector under the NESP and beyond. The project directly supports the NESP (with a focus on SES and TVET), as well as the government's agenda of increased, more efficient sector resourcing. Project design also prioritizes cost efficiency and sustainability. The project-associated costs—one-off investments made during implementation, and related incremental recurrent costs from project investments (e.g., operation and maintenance of civil works and equipment provided and periodic textbook replacement)—are assessed as very modest when considering a likely expanding sector budget. Table 3 shows the expected project investment and incremental recurrent costs against conservative projections for the total education budget. Regarding fiscal burden, the project-related costs (investment and recurrent) have a peak value of 1.0% of the total education budget mid-project and fall below 0.2% post-project, which is deemed modest and sustainable.

**Table 3: Project Costs as a Share of Projected Government and Education Budgets**

Measure	2016	2017	2018	2019	2020	2021	2022
Nominal GDP (\$ billion)	71.3	79.0	85.3	92.1	99.5	107.5	116.1
Union Government Budget (\$ billion)	11.3	12.3	13.6	14.7	15.9	17.2	18.6
Education Budget (\$ billion)	1.5	1.7	1.9	2.2	2.4	2.8	3.1
EYE Costs as a Share of Total Union Budget		0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EYE Costs as a Share of Education Budget		0.7%	1.0%	0.9%	0.7%	0.7%	0.6%

GDP = gross domestic product, EYE = Equipping Youth for Employment Project.

Source: Asian Development Bank staff estimates.

22. **Systemic efficiency gains.** The analysis in paras. 18-21 largely takes a static view of the SES and the education sector, without considering systemic benefits of EYE-supported reforms and institutional capacity building. As noted in para. 14, such benefits are impossible to precisely estimate but are expected to include sizeable efficiency gains. If successful, EYE-supported interventions have the potential to largely offset the incremental costs identified and yield long-term gains. For example, for internal efficiency, SES dropout constitutes a major wastage of public and household investments in education. The failure of more than one-third of LSE entrants to successfully complete LSE and two-thirds of grade 11 USE students to pass the matriculation exam each year (leaving them without a USE diploma) takes a huge toll on the education sector, households, and the economy. Similarly, SES and TVET suffer low external efficiency because of a mismatch in skills needed in the economy. The project's policy-level and investment support directly target such challenges, and even modest improvements could substantially improve the efficiency of education resources during and well after implementation.