

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

Report No.: PIDA5480

Project Name	Higher Education Reforms Project (P147010)
Region	SOUTH ASIA
Country	Nepal
Sector(s)	Tertiary education (80%), Central government administration (10%), Other social services (10%)
Theme(s)	Education for the knowledge economy (80%), Social safety nets (10%), Other human development (10%)
Lending Instrument	Investment Project Financing
Project ID	P147010
Borrower(s)	NEPAL
Implementing Agency	University Grants Commission
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	15-Oct-2014
Date PID Approved/Disclosed	16-Oct-2014
Estimated Date of Appraisal Completion	30-Sep-2014
Estimated Date of Board Approval	22-Dec-2014
Decision	

I. Project Context

Country Context

Nepal presents unique challenges and opportunities for development. A beautiful country with a rich cultural heritage, Nepal is the home of highest mountains in the world and is situated between two of the world's fastest growing economies (India and China). With per capita Gross National Income at US\$730 (2013), it remains among the poorest countries in the world. At the same time the country is transitioning out of its post-conflict status and stands out for its relatively stable economic performance. Nepal also attained the first Millennium Development Goal, to halve extreme poverty, ahead of time. The percentage of people living on less than \$1.25 per day (the international line for extreme poverty) fell from about 53 percent of the population in 2003/2004 to 25 percent in 2010/2011, in just seven years. However, further efforts are needed for Nepal to effectively make poverty history.

Nepal is facing a youth bulge with significant shifts in its demographics (41% of the population is aged between 10-29 years according to the 2011 Census). Limited skills levels in the labor force prevent people from transitioning into the type of jobs that could lift them out of poverty. A large percentage of youth is migrating to cities and abroad in search of employment. However, the

quality of education and skills is limiting their potential for well-paying employment. Shortage of qualified professionals is also constraining opportunities for domestic and foreign investment in Nepal.

Sectoral and institutional Context

Nepal has been according high priority to school education, as evidenced by the allocation of the largest share of the national budget to the education sector. During the last ten years the average share of education in the national budget has been around 17%. These investments have produced some encouraging results. Net primary enrollment has increased to 95.5% in 2013 from 86.8% in 2005, and the completion rate has reached 77.6%. Gender parity in net enrollment rates has been achieved in school education (grade 1-12). At the higher secondary level (Grades 11 and 12), over 130,000 (about 19.9% of the appropriate age cohort) students complete grade 12 annually. There are still significant challenges in terms of quality, which are being addressed by a Government-led sector wide program supported by 14 Development Partners (including the Bank). The School Sector Reform Program is focusing on improving learning outcomes particularly in basic education (Grades 1-8), especially for children from marginalized groups.

However, the relatively new and small, albeit very fast expanding higher education system has not been able to meet the human resources needs of the economy. Currently, there are nine universities and four health science academies - all receiving public funds on cost-sharing basis. In 2012/13, there were 96 constituent campuses (publicly owned), 429 community campuses (not for profit institutions managed by local communities) and 751 private campuses (managed by promoters/share-holders accounting for about 37%, 30% and 33% of the total higher education enrollment respectively. Tribhuvan University (TU), established in 1959, is the first and largest university with 84.4% of the regular higher education enrollment in Nepal).

Higher education enrollment increased from 173,546 in 2005/06 to 452,571 in 2012/13 (average annual growth rate of 14.7%). The number of graduates increased from 25,900 in 2005/06 to 63,642 in 2012/13. However, weak relevance, low quality, inefficiency, inequity and inadequate financing continue to pose major challenges in the higher education system, as discussed below:

a) **Relevance:** About 84% enrollment is in general programs under faculties of humanities and social sciences, education and management with limited scope for employment or self-employment. On the other hand, despite high demand, only 12.8% of students are enrolled in technical faculties (Medicine 4.2%, Engineering 3.4%, Science and Technology 4.7%, and Agriculture and Forestry 0.5%). In 2012/13, less than 2,000 students graduated with Master's degrees and 15 with Ph.Ds from science and technology programs. At present there is an acute shortage of graduates in some current and emerging areas of critical human resources need like agri-business, energy, ICT based services, tourism, international trade, transportation, S&T teaching, etc.

b) **Quality:** Much of the curricula, learning material, delivery, and assessments, especially in conventional programs at TU, are in need of urgent review and revision. Not much attention is paid to communication or analytical/problem-solving skills. The quality assurance and accreditation system, initiated in 2008, is in its infancy. Generally, research, innovation and pursuit for excellence are not yet seen as integral part of the teaching-learning process or for faculty development. Only 5% full time faculty members hold PhD degree.

c) Efficiency: High failure rate in the examinations, particularly in programs with centralized annual examinations and offered in a large number of campuses, is a major issue. For example, at TU, the average pass rate was 28% in 2012/13. Most programs with high failure rates do not follow an announced academic calendar. As a result, admissions, classes, examinations, and results publication are often delayed by 6-10 months leading to huge wastage. The academic management of institutions is highly centralized.

d) Access and Equity: In spite of the relatively high Gross Enrolment Ratio (GER) of 17.1%, it is less than 4% for students from the bottom two consumption quintiles. Students from rural and remote areas have very limited access to higher education. Also, while the overall female participation has reached 47%, it is less than 20% in S&T programs.

e) Financing: Public higher education is funded through government grants and student fees. Government of Nepal (GON) also funds community campuses in a limited way. The level of government funding varies widely between institutions from about \$40 to \$1,800 per student per year for different universities. Allocations are subject to extensive negotiations and not linked to performance. Over the years, this has led huge inefficiency of the system.

Second Higher Education Project (SHEP), which closed on June 30, 2014, addressed some of the above mentioned issues but on a limited scale: (a) A Quality Assurance and Accreditation (QAA) system is established and 12 campuses were accredited; (b) four TU campuses were granted autonomy; (c) 28 new market oriented programs were introduced; (d) over 700 research grants were made on a highly competitive basis; (e) performance based grants were awarded to 89 community campuses covering all 75 districts; (f) three universities opted for formula-based funding; (g) 14,583 students from poor families, mostly from remote areas, received grants for higher secondary education and higher education through a poverty targeted selection process. SHEP also facilitated nation-wide consultations to prepare a Higher Education Policy (HEP).

The University Grants Commission (UGC) has prepared a National Program for Higher Education Reform and Development (NPHRD) to implement recommendations of the HEP. A major component of the NPHRD is dedicated to higher education reforms. Proposed key reforms are: examination reforms including adherence to academic calendar; expansion of autonomy agenda to include academic autonomy of affiliated campuses; expansion of formula-based funding including performance-based funding; expansion of quality assurance and accreditation; continuation of poverty targeted scholarships; and expansion of academic programs and research in areas of priority for national development. The proposed Higher Education Reforms Project (HERP) will selectively support the Higher Education Reforms and Regular Program components of NPHRD.

The proposed Project is fully consistent with the Bank's Country Partnership Strategy (CPS 2014-18). The CPS plans to increase economic growth and competitiveness (Pillar 1) and increase inclusive growth and opportunities for shared prosperity (Pillar 2) by assisting in achieving Outcome 2.2: More equitable access to education and skills development, of higher quality and relevance. The Project will support major institutional reforms in Nepal's higher education sector to improve quality and relevance of the skills acquired by graduates to better respond to market needs. The poverty targeted financial assistance to under-privileged students in the proposed Project would also contribute to improved social protection. Additionally, the Project would address the cross-cutting dimensions of the CPS – (a) public sector capacity and governance - through systemic

reforms in public universities; and (b) gender – through improved access of women to quality higher education.

II. Proposed Development Objectives

To support reforms in selected institutions for improving quality, relevance, and efficiency of higher education; and to assist under-privileged students for equitable access.

III. Project Description

Component Name

Implementation of Reforms

Comments (optional)

The Project will focus on four results areas: (a) Systemic/Institutional Reforms; (b) Academic Reforms and Relevance; (c) Equity; and (d) Academic Excellence and Research. The reforms will include: (i) more effective public funding, (ii) institutionalization of national accreditation system; (iii) greater institutional autonomy; (iv) strengthening of the examination system; (v) revision of academic programs for better learning outcomes, and introduction of new programs in priority areas; (vi) poverty targeted scholarships to meritorious under-privileged students (especially female); and (vii) promotion of research, development and innovations. The project will support reforms in selected institutions that meet pre-determined eligibility criteria.

Component Name

Capacity Building and Project Management

Comments (optional)

This component will support project management, and finance the necessary inputs required to achieve the above-stated results and to enhance the capacity of implementing agencies and institutions including: (a) services of consultants in the areas of procurement, financial management, education management information system, and new programs; (b) employer satisfaction survey, student and faculty satisfaction survey; (c) third party verification of results; (d) studies associated with implementation of the higher education policy, (e) monitoring and evaluation; (f) training; and (g) incremental operating costs.

IV. Financing (*in USD Million*)

Total Project Cost:	795.00	Total Bank Financing:	80.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			715.00
International Development Association (IDA)			80.00
Total			795.00

V. Implementation

The overall coordination and policy related responsibilities will lie with the Ministry of Education (MOE). Overall project implementation responsibility will be with the University Grants Commission (UGC), with Tribhuvan University (TU) and Student Financial Assistance Fund Development Board (SFAFDB) sharing responsibility for the implementation of some activities. A Steering Committee chaired by the UGC Chairperson with representation from various agencies will facilitate coordination in project implementation. At UGC, the project will be implemented through

the regular UGC administrative system. Within TU, the project implementation responsibility will be with TU Project Implementation Office (PIO) working in close coordination with UGC. There will be a dedicated unit for administering HERP activities in each participating institution.

UGC will be directly responsible for implementing programs related to -- public funding reforms, academic reforms, and promotion of research. TUPIO will be responsible for implementation of programs related to autonomy, and examination reforms at TU. SFAFDB will be responsible for student financial assistance. A Quality Assurance and Accreditation Agency (QAAA) to be established by UGC will implement activities related to accreditation.

The Bank support will use Investment Project Financing (IPF) through a Disbursements Linked Indicators (DLI) approach for the Implementation of Reforms component and regular IPF for the Capacity Building and Project Management component. In the DLI approach, disbursements will be linked to achievements of periodic benchmarks for pre-defined measurable and verifiable indicators.

The following key performance indicators will be used to measure achievement of the development objectives: (1) Number of accredited institutions; (2) Percentage of students enrolled in identified priority areas; (3) Number of under-privileged students supported; (4) Average time taken for announcement of results of bachelors programs with centralized examination at TU; and (5) Number of publications in refereed journals by research grant recipients.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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