PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC2890

<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th>Higher Education Reforms Project (P147010)</th>
</tr>
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<tbody>
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<td><strong>Region</strong></td>
<td>SOUTH ASIA</td>
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<td><strong>Country</strong></td>
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<td><strong>Theme(s)</strong></td>
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<td><strong>Project ID</strong></td>
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<td><strong>Borrower(s)</strong></td>
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<td><strong>Date PID Approved/ Disclosed</strong></td>
<td>31-Mar-2014</td>
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<td><strong>Estimated Date of Appraisal Completion</strong></td>
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<td><strong>Concept Review Decision</strong></td>
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I.Introduction and Context

Country Context

1. 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 GNI per capita at US$721 (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 (MDG), 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. As Nepal is facing a youth bulge with significant shifts in its demographics (57% of the population is aged between 15-59 years according to the 2011 Census),
limited skills levels together with low female participation 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 of well-paying employment. Shortage of qualified professionals is also constraining opportunities for domestic and foreign investment in Nepal.

2. Nepal’s current development plan’s (Three Year Interim Plan: FY 2014-2016) key focus areas are: (i) to achieve job-centered, poverty-reducing, sustainable and broad-based economic growth, with the joint efforts of the government, private and community/co-operatives sectors; (ii) to develop physical infrastructure to support both the future federal structure of the nation and regional economic development; (iii) to emphasize inclusive and equitable development to achieve sustainable peace; (iv) to contribute to socioeconomic and social services; (v) to make development results-oriented through ensuring good governance and effective service delivery; and (vi) to strengthen economic growth and stability by developing private and community/cooperative sectors and mainstreaming industrialization, trade and service sector in the national development endeavors.

Sectoral and Institutional Context

3. Nepal has accorded high priority to school education. This is reflected in education expenditure representing the largest share of the government’s total budget (15.02% in FY2013/14). Net primary enrollment has increased to 95.5% in 2013. Gender parity was achieved in primary school and completion rates are 77.6%. Participation of girls in secondary education is increasing steadily; gender parity has almost been achieved. At higher secondary level over 130,000 (about 16% of 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 15 Development Partners (including the Bank). This program is focusing on improving learning outcomes particularly in basic education (Grades 1-8), especially for children from marginalized groups.

4. However, the relatively new and small, albeit very fast expanding higher education system has not been able to meet the human resources/ socio-economic development needs of Nepal. Currently, there are nine universities (including three established on public-community/private-partnership) and three health science academies - all receiving public funds on a cost-sharing basis. There are 90 constituent campuses (covering about 35% of total enrollment) of six universities. In addition, as of 2011/12, there were 334 community campuses (not for profit institutions managed by local communities, with 34% enrollment) and 701 private campuses (managed by promoters/ shareholders – with 31% enrollment) affiliated to these universities. Campus enrollments range from only 10 to over 8,000 students.

5. Higher education enrollment has increased by 240% (from 173,546 in 2005 to 444,994 in 2011/12) and the number of graduates has increased from 25,900 to 62,167 – an average annual growth rate of about 17%. 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 conventional programs under humanities, general education and general management faculties with little scope for employment and self-employment. On the other hand, despite high demand, only 14% of students are enrolled in science and technology programs. There are no programs offered at present in some current and emerging areas of critical human resources need - like agri-business, energy, ICT based services, tourism, trade,
S&T teaching, etc.
b) Quality: Much of the curricula, learning material, delivery, and assessments, especially in conventional programs at Tribhuvan University (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 2010, 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.

c) Efficiency: High failure rate in the annual examination is a major issue. For example, at TU, the average pass rate was 27% in 2011/12. Most programs with high failure rates share a common characteristic – they 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 and student unrest.

d) Access and Equity: In spite of rapid growth, the Gross Enrolment Ratio (GER) for higher education is still at only 17% and it is less than 4% for the bottom two consumption quintiles. Students from rural and remote areas also have very limited access. Also while the overall female participation has reached 45.2%, it is less than 20% in science and technology programs.

e) Financing: Funding of higher education, including in fully public institutions is on a cost-sharing basis. Universities collect different types of fees from students, and also receive grants from the government. In 2011/12, government financing in higher education was 1.24% of the national budget. Public financing is not linked to performance and/or output.

6. Second Higher Education Project (SHEP): This project, which is closing on June 30, 2014, addressed some of the above mentioned issues, but on a limited scale: (a) Proficiency Certificate level (equivalent to grades 11-12) programs, which constituted a large percentage of total tertiary enrollment, were phased out of universities and over 900 community higher secondary schools were supported; (b) a Quality Assurance and Accreditation (QAA) system was initiated and 11 campuses have been accredited so far; (c) four TU campuses were granted autonomy; (d) 25 new market oriented programs were introduced; (e) over 700 research grants were made on a highly competitive basis; (f) performance based grants were awarded to 89 community campuses selected on highly competitive basis; (g) three small universities established through public-community/private partnerships opted for formula-based funding subsidy from the government to attract bright, needy students; (h) 13,680 students from poor families mostly from remote areas received grants for higher secondary education and higher education through a poverty targeted selection process; and (i) Higher Education Management Information System (HEMIS) Reports are being published annually based on manually collected data, and a web-based HEMIS is in testing phase. During 2012-2013, SHEP facilitated nation-wide consultations to prepare a Higher Education Policy. However, achievement of these results has been challenging.

Relationship to CAS

7. The proposed project is linked directly to Pillar 2 (Reducing social exclusion and providing opportunities to increase prosperity) of the upcoming new Country Partnership Strategy for Nepal by assisting in achieving the stated outcome: “More equitable access to education and skills development of higher quality, including for labor migration”. The poverty targeted financial assistance to disadvantaged students in the proposed project would contribute to improved social protection.

8. The project would also contribute to Pillar 1 (Increasing economic growth and competitiveness) through research and human resource development in priority areas of
development such as hydro-power, transportation, etc. Additionally, the project would address the cross-cutting themes of the CPS through: (a) significant systemic reforms in public universities; and (b) improved access of women to quality higher education.

II. Proposed Development Objective(s)

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

To support reforms for improving quality, relevance, equity and efficiency of the higher education system.

**Key Results (From PCN)**

9. The following key performance indicators are proposed to measure achievement of the development objectives:

   - **Indicator 1:** Increase in number of accredited programs/institutions (as a measure of quality assurance) by xx% (Baseline - 11)
   - **Indicator 2:** Increase in percentage of students enrolled in priority areas (as a measure of relevance to meeting Nepal’s emerging human resources needs) from yy% to zz%; (Baseline - TBD)
   - **Indicator 3:** Increase in percentage of enrolled students belonging to bottom two economic quintiles receiving scholarship (measure of equity) from aa% to bb%; (Baseline - TBD)
   - **Indicator 4:** Increase in number of research publications supported by program (measure of excellence and relevance) by mm% (Baseline - 22)
   - **Indicator 5:** Increase in percentage of undergraduates graduating on time (as a proxy for quality of teaching and efficiency) from uu% to vv%; (Baseline – TBD)

In addition, achievement of agreed periodic milestones for reforms will be monitored and supported through a set of Disbursement Linked Indicators (DLIs) – discussed in the next section.

III. Preliminary Description

**Concept Description**

10. Responding to the current challenges in higher education in Nepal, the Government is finalizing and preparing to implement a National Higher Education Policy focusing on the issues of development and innovation, access and equity, quality and relevance, financing, and governance. A program for comprehensive higher education reforms is under formulation. Following extensive discussions, the Government has requested Bank support to help implement the program using Investment Project Financing (IPF) through a Disbursements Linked Indicators (DLI) approach. Disbursements would be linked to achievement of yearly/six-monthly benchmarks in 6-8 pre-defined measurable and verifiable indicators. The project would support selected universities and institutions that meet certain eligibility criteria and agree to undertake time-bound reforms. In order to enhance equitable access to higher education, it would also provide poverty-targeted scholarship support to meritorious, disadvantaged students (especially dalits and female). The Project would comprise of two components, the first one supporting the implementation of critical reforms in the Government program and the second one focusing on technical assistance to build system capacity.

   **Component 1: Implementation of Reforms:**

11. To achieve its development objective, HERP would focus on the following four results areas:

   **Results area 1: Systemic/Institutional Reforms:**
These would include major reforms for: (a) more effective public funding, (b) institutionalization of the national accreditation system; (c) greater institutional autonomy and decentralization; and (d) strengthening of the examination system. Some details are indicated below:

a) More effective public funding: Public institutions are funded on a cost-sharing basis, with government funding support for teachers, staff, student scholarships/tuition fee waiver based on headcounts, and other annual operating costs. Public financing is generally not linked to performance and/or output. HERP would support the Government plan for increasingly linking public funding to outcome measures on quality, relevance, equity and performance.

b) Institutionalization of the national accreditation system: Accreditation of institutions/programs is one of the major reforms initiated under SHEP. The system has now received international recognition. HERP would support the Government plan for establishing an independent National Accreditation Board outside of UGC, expanding the accreditation system and bringing most higher education institutions within this framework.

c) Greater institutional autonomy and decentralization: Tribhuvan University with a total of 383,000 students in over 900 campuses (in 2012) is one of largest universities in the world. With its highly centralized structure, it faces acute management challenges. Decentralization of 49 of its 60 constituent campuses with significant administrative and financial autonomy has helped to keep them and TU better managed. Academic autonomy granted to four of these campuses has led to significant improvement in their overall performance, innovations and new initiatives. The university faculties (mostly in professional areas) which have been given academic autonomy have better student performance (in terms of pass rate, and placement), adherence to academic calendar, and innovations. HERP would support TU’s plans for further decentralization and autonomy of selected major campuses and faculties.

d) Strengthening of the examination system: A major issue affecting the majority of students has been TU’s failure in maintaining calendar of examinations, which are centrally administered by the TU Office of the Controller of Examination (OCE). Examinations and declaration of results are often delayed by months. HERP would support TU plan of decentralizing and modernizing examination system, streamlining processes, and strengthening OCE capacity for efficiency.

This results area (Systemic/ Institutional Reforms) would be supported through the following DLIs

DLI 1 – National Accreditation system established and functioning  
DLI 2 - Performance based financing extended to universities and institutions  
DLI 3 - Decentralization and autonomy extended to additional campuses and faculties  
DLI 4 - Examination reforms implemented

Results area 2: Academic Reforms and Relevance:
Nepali universities now offer about 350 bachelors/masters level programs. Many programs have also not been reviewed/ revised for quality and relevance for years. The HE policy emphasizes the need for expanding/ introducing market-oriented programs relevant to national development. HERP would support academic reforms across all participating universities and campuses with focus on (a) better learning outcomes in all programs possibly including some project/ field work; and (b) expansion of programs in priority areas including science and technology. This results area would be supported through the following:
DLI 5 - Academic reforms introduced: Percentage of targeted under-graduate and post-graduate programs revised and new programs introduced

Results area 3: Equity:
Due to several socio-economic factors, higher education is largely catering to students from the
higher consumption quintiles. The HE policy declares that (i) access to higher education shall be
open for all on the basis of individual aptitude and merit, and (ii) measures would be taken to ensure
equity in terms of gender, and inclusion of dalits, disadvantaged ethnic groups, economically
deprived groups and regionally disadvantaged groups. HERP would support GON program of
enhancing equity by focusing on poverty targeting with preferential treatment for girls and dalits.
This area would be supported through the following DLI:
DLI 6 - Poverty targeted financial support for disadvantaged students

Results area 4: Academic Excellence and Research:
The focus of many universities has been on undergraduate education. With the lack of attention to
research as an integral part of higher education, quality of teaching-learning process has suffered.
The HE policy emphasizes promoting (i) Research and innovation oriented curricula and teaching
learning practices; and (ii) Professional capacity development for research and innovation. SHEP
introduced an open competitive selection process for research funding. It has created a growing
demand. HERP would significantly expand this to support leveraging competitive funding for
quality research with a focus on priority areas. In order to enhance the research environment, it
would also provide support for library and network expansion. Teaching and learning will be
integrated with knowledge generation, which would also be facilitated through global and national
networking and university partnerships. This results area would be supported through the following
DLI:
DLI 7 – Institutions supported for academic excellence in priority areas through Research,
Development and Innovation (RDI) awards

Component 2: Technical Assistance and Project Management:
12. The project would include a technical assistance component to finance the necessary inputs
required to achieved the above-stated results as well as to enhance the capacity to support project
implementation, conduct third party validations, undertake studies and surveys, and strengthen
monitoring and evaluation. This component would also include necessary provision for effective
project implementation and monitoring.

IV. Safeguard Policies that might apply

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VI. Contact point

World Bank
Contact: Mohan Prasad Aryal  
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