I. Country Context

1. Pakistan is the sixth most populous country in the world with a population of approximately 165 million people. It has the highest population growth among South Asia countries (2.1 percent per annum) and the second youngest population. Pakistan has a decentralized government structure. It is located in a complex geopolitical environment.

2. Despite significant progress from 2000 to 2007, Pakistan’s economy has been facing a major economic crisis since 2008. An ambitious reform program in the mid 2000s has reduced the fiscal and in particular the external current account deficit, increased GDP growth, restored foreign exchange reserves, and reduced inflation. From the beginning of 2000 to the first half of 2007, the economy grew at an average rate of about 7.3 percent annually, with inflation continuing to be moderate (5.5 percent per annum). In 2008-09, this growth slowed dramatically to 1.2 percent during one of the most serious economic crises in the country’s history. In 2009-10, the economy experienced a moderate recovery, growing by a provisional 4.1 percent. However, Pakistan’s macroeconomic stability remains challenging, especially in the short run due to several important factors, including the ongoing global economic crisis affecting Pakistan’s exports, a worsening internal security situation, and the recent devastating flooding. For the longer term, without a resolution of Pakistan’s perennial structural challenges, growth and poverty alleviation efforts will continue to be constrained.

---

1 The 0 to 14 age group represents 37.3 percent of the total population. In South Asia, only in Afghanistan the share of this age group is higher.
3. **Pakistan is one of the poorest countries in the world with per capita income of less than US$950 in 2008.** Poverty, as measured by the Head Count Ratio (HCR), increased from 33.8 percent in 2007-08 to 36.1 percent in 2008-09. Approximately 62 million people in the country currently live below the poverty line.\(^2\) It is estimated that poverty increased by almost 40 percent due to the fuel and food crisis between 2007 and 2009. The recent flood has also affected negatively the delivery of basic services with substantial long term effects on the country’s economic growth and poverty targets. The flood’s impact on the education system, including tertiary education, is yet to be assessed, but it is likely that stressed public funds will constrain sustained development investments in the education sector over the next few years unless additional resources are mobilized.

II. Sectoral and Institutional Context

4. **Pakistan lags far behind neighboring countries in many aspects of education.** Education indicators at all levels have remained low and have lagged seriously behind other countries in the region. Pakistan’s transition to a middle-income country in the global knowledge economy of the 21\(^{st}\) century will depend critically on the country’s intellectual and human capital. Pakistan’s ambitions to become a knowledge economy are conditioned—among several other factors—by an up-scaling of its entire education system—including tertiary education.\(^3\) To achieve this objective, Pakistan needs a tertiary education system that can produce skilled, innovative and enterprising graduates, as well as research and innovation capacity, capable of promoting dynamic economic development. Yet, until the early 2000s, Pakistan’s tertiary education sector suffered from neglect for many years and was significantly under-funded. As a result, Pakistan had poor education outcomes compared with countries at similar development and income levels, and this affected its competitiveness, economic growth and poverty reduction objectives. In 2002, the gross tertiary enrollment rate was less than 2.8 percent of the corresponding age population—one of the lowest rates in the region and among developing countries, the quality of higher education was very low as measured by proxy indicators (e.g., poor standards of academic staff, poor facilities); the majority of academic programs had little relevance to the market economy, and universities had poor governance and accountability for results. To address these issues, the Government established the Higher Education Commission (HEC) in 2002 and launched a major reform on the basis of the Medium Term Development Framework (2005-2010) (MTDF-HE (I)). As summarized below, significant progress has been made in expanding access to tertiary education, improving basic conditions for teaching and research, and starting to tackle issues related to institutional governance and management.

5. **Despite significant achievements during the past 8 years, Pakistan’s higher education sector still faces major challenges, affecting the country’s competitiveness and economic growth.** For example, in the area of higher education and training, Pakistan ranks 118th out of 133 economies in the Global Competitiveness Index 2009-2010, far behind BRIC economies (58th) and a number of other comparators such as Malaysia (41th) and Indonesia (69th). Similarly, Pakistan stands behind most other countries in the region when looked at from the knowledge economy point of view. It is below the average KEI for middle-income countries,

---


\(^3\) In this document, tertiary education institutions (TEIs) refer to affiliated colleges, universities, degree awarding institutions, and distance education institutions. Higher education institutions (HEIs) refer to public and private universities and degree awarding institutions, offering undergraduate and graduate education, under the oversight of the Higher Education Commission.
faring poorly especially with regard to higher education. The discrepancy is particularly clear when comparing Pakistan with, for instance, Malaysia. This suggests that Pakistan needs to invest in tertiary education, research and innovation capacity in order to promote dynamic economic development to transit from a low income to a middle income country.

6. **Pakistan’s tertiary education sector faces several key challenges:** (i) low and inequitable participation in tertiary education; (ii) poor quality of teaching and research conditions, affecting both learning and research outcomes; (iii) weak research performance and relevance, including linkages between tertiary education institutions (TEIs) and the industrial and service sectors of the economy; (iv) low levels of education expenditure; and (v) inadequate institutional governance and management, including weak Higher Education Management Information Systems (HEMIS) which hamper long-term sectoral and institutional planning, monitoring, and accountability.

**Government’s Higher Education Reform Strategy**

7. **The Government has been implementing a comprehensive set of sector-wide reforms since 2005.** After two decades of serious neglect, the tertiary education sector in Pakistan has undergone a rebirth as a result of the implementation of a series of reforms with substantial budget increases. The situation began to reverse itself in the early 2000s, with the Government showing a clear commitment to improving higher education, as evidenced by significant increases in spending on higher education between 2002 and 2008. Despite recent setbacks due to the funding crisis, considerable progress has been made in the implementation of the Government’s reform program. To improve access and quality and strengthen governance and accountability across the sector, reforms included both supply side (e.g., faculty development and recruitment, infrastructure expansion and upgrading, curriculum revision, program restructuring, quality assurance, competitive research funding, capacity development activities) and demand-side measures (e.g., financial aid). The measures launched – and those planned by HEC – have the potential to sustain the momentum of the positive changes initiated earlier in the decade, and to redress the effects of the long period of neglect of Pakistani TEIs.

8. Despite initial progress in the implementation of the actions undertaken under the MTDF-HE (I), there is still a large and unfinished reform agenda, and the gains made in the last few years need to be consolidated. Short of such a consolidation, there is the risk of losing the momentum as well as the gains of the first round of reforms. The major challenge is to determine how to expand enrollments while improving quality and relevance on a sustainable basis, especially within an increasingly difficult fiscal environment.

9. Recognizing this, the Government has drafted the new Medium Term Development Framework for Higher Education 2011-2015 [MTDF-HE (II)] to reflect accomplishments and adjustments to its priorities and provide a vision for the sector’s medium development. The MTDF-HE (II) serves as the overarching development framework, giving high priority to relevance and quality improvement, and builds upon the first MTDF. The preliminary estimated cost of the Government’s program is approximately US$2.19 billion over the next three years.\(^4\)

---

\(^4\) Cost estimates are preliminary based on the draft MTDF-HE (II).
10. The GOP has requested continued financial support by the Bank for the implementation of its tertiary education reform program, building on the experience of the Bank-financed Higher Education support Project (HESP). The proposed Tertiary Education Support Project (TESP) is a response to this request, providing technical and financial support to help the Government address the remaining challenges in the sector with a deepening focus on results.

III. Project Development Objectives

11. The development objective of the proposed Project is to improve the conditions of teaching, learning and research for enhanced access, quality and relevance of tertiary education. The purpose of the Government’s higher education reform program as outlined in the MTDF-HE (II) is to enhance the capacity of Pakistani institutions of higher learning to produce high quality graduates, support innovation, and improve the overall governance and management of the higher education sector. The program will be implemented over a period of five years, from 2011 to 2015, and will have two phases. The first phase of the program will be implemented over a period of 3 years (from 2011 to 2013) and the second phase will be implemented from 2014 to 2015 with additional funding expected from both the Government and development partners. The long-term perspective of the program would support the Government’s efforts to continue to carry out system-wide reforms, while providing the flexibility to adjust and refine interventions on an ongoing basis.

12. The proposed Project would use a comprehensive approach to the development of Pakistan’s tertiary education through its support to the implementation of the first phase of the Government’s program, covering the period 2011/12 to 2013/14, using a Results Based Financing (RBF) modality. At the end of Phase 2, it is expected that the tertiary education sector will be better equipped to increase access to quality tertiary education, and will have the capacity to make more efficient and effective use of its physical, financial and human resources to produce high quality graduates and research outputs relevant to the needs of the economy.

IV. Project Description

13. The proposed Project would support the implementation of the first phase of the Government’s program as outlined in the MTDF-HE (II). The Government’s program is articulated around the following pillars: (i) ensuring fiscal sustainability and effectiveness of expenditure in tertiary education; (ii) improving the quality and relevance of teaching and research; (iii) improving equitable access to tertiary education; and (iv) strengthening governance and management.

14. The proposed Project would support Government reform under two components: Component I - Program Financing; and Component II - Capacity Building, Policy Design and Monitoring and Evaluation (M&E). Each component is summarized below.

Component I - Program Financing [Total: US$2.0 billion; IDA: US$280 million]

15. This component would support the implementation of the four pillars of the MTDF-HE (II). This component would account for about US$2.0 billion, including US$280 million (or 12.8 percent) of the total financing provided by the Bank. This component is the performance-based part of the Credit, and will disburse against the achievement of agreed Disbursement-
Linked Indicators (DLIs). It is also the largest component of the Project. The Bank would appraise the full sector program, and, in consultation with the Government, would select a set of six key higher education budget items referred to as Eligible Expenditure Programs (EEPs) (out of a range of overall expenditure items from both the development and recurrent budgets) that would impact the desired outcomes of the program most directly. The list of EEPs includes (i) PhD student scholarships; (ii) tenure-track staff salaries; (iii) recurring grants to universities/DAIs; (iv) National Research Program for Universities (e.g., research grant); (v) International Research Support Initiatives Program (IRSIP); and (vi) Pakistan Education Research Network (PERN).

16. This component consists of four subcomponents (or strategic areas), aligned with the Government’s overall program: (i) improved fiscal sustainability and expenditure effectiveness; (ii) enhanced quality and relevance of teaching and research; (iii) improved equitable access to tertiary education; and (iv) strengthening governance, management and accountability.

17. The TESP takes a holistic approach to improving the quality and relevance of tertiary education, while improving equitable access to tertiary education and strengthening governance, management and accountability in the delivery of tertiary education on the basis of the Government’s MTDF. Cross-sub-component linkages are an important feature of the TESP, which is designed to reform the sector as a whole instead of supporting piece meal and ad hoc interventions. Each subcomponent will include a set of priority programs and/or interventions, which are also linked to the other subcomponents, and which will be implemented at different levels of government (e.g., federal, provincial); types of institutions (e.g., universities/DAIs, affiliated colleges, both public and private).

18. **Subcomponent 1.1: Improved Fiscal Sustainability and Expenditure Effectiveness.** This subcomponent is the key pillar of the Government’s program relating to the design and implementation of tertiary education reforms by supporting the improvement of fiscal sustainability and expenditure effectiveness. It would support the implementation of the following two broad strategic objectives, aligned with the objectives of the MTDF-HE (II) relating to overall fiscal sustainability and efficiency of expenditures: (i) supporting the implementation of the MTBF-HE; and (ii) ensuring the development and monitoring of a protocol for the timely release and use of funds. In addition, it would support the following two key specific interventions to improve efficiency of expenditures: (a) refinement of the resource allocation formula used by HEC to determine the amount of funds to be allocated to universities; and (b) diversification of sources of funding, including self generating income – something that many universities have already done, sometimes at high levels even by international standards.

19. **Subcomponent 1.2: Enhanced Quality and Relevance of Teaching and Research.** The main objective of this subcomponent is to enhance the quality and relevance of both teaching/learning and research outputs produced by Pakistani TEIs. Building upon the initiatives launched and lessons learned under the first MTDF, this subcomponent responds to the following main shortcomings hindering progress in improving the quality and relevance of tertiary education: (i) acute shortage of qualified university faculty linked to both low initial credentials and limited opportunities for skill upgrades and research opportunities, (ii) outdated curricula and lack of adequate academic support to colleges and external students, (iii) low level of research undertaken in most universities, and (iv) weak linkages between research and industry.
Consequently, this subcomponent would support a set of interrelated objectives, namely: (a) increase the supply of new qualified faculty and improve the skills of faculty currently in service; (b) improve the quality and relevance of courses and programs delivered by universities/DAIs and the quality of the services provided to affiliated colleges and external students; and (c) promote research and its applications.

20. To improve the quality of academic staff, the following key activities would be supported under the Project: (i) continuation of the scholarship program to increase the supply of qualified faculty staff, including the gradual replacement of foreign scholarships with split PhD programs and an expansion of indigenous scholarship programs; (ii) completion of the interim faculty placement program for returning PhD scholars in parallel with the PhD scholarship program; (iii) strengthening the performance-based tenure track system (TTS) to ensure the steady improvement in the quality of academic staff; and (iv) implementation of the Faculty Development Program to improve pedagogical skills and subject knowledge of existing faculty staff through short-term professional development courses. To improve the quality of courses and programs in TEIs, the Project would support the following initiatives: (a) curriculum revision and full scale adoption of the revised curricula of universities; (b) design and implement a comprehensive strategy aimed at providing affiliated colleges with quality assurance support by universities in order to enhance college students’ academic performance; (c) design of a policy mostly based on the distance learning approach, to improve the quality of programs delivered to external (private) students and pilot implementation of the policy in six public universities with large numbers of external students; and (d) scaling up the examination systems in TEIs, notably through standardization measures.

21. In the area of research and innovation, the Project would support (i) the increase in the availability of funds on a competitive basis for research in priority areas, and (ii) strengthening the relevance and value added of research undertaken in TEIs, including the commercialization of the outputs of academic research through, *inter alia*, the establishment of Offices of Research, Innovation and Commercialization (ORICs) to liaise with the industry and to facilitate the development of technology incubators at key TEIs. The list of EEPs for this subcomponent includes: (a) scholarships, (b) tenure track faculty salaries, (c) research grants (e.g., National Research Program for Universities); and (d) the development of the Pakistan Education and Research Network (PERN).

22. **Subcomponent 1.3: Improved Equitable Access to Tertiary Education.** Under the MTDF-HE (II), recognizing the impact of the fiscal crisis, HEC plans to achieve its objective to increase equitable access to tertiary education through four complementary sets of interventions and reforms. This subcomponent supports the Government’s reform program to expand access to tertiary education and reduce inequalities resulting from disparities in students’ socioeconomic and regional background. The key interventions supported by this subcomponent include: (i) selective expansion and upgrading of existing physical facilities; (ii) scaling up of distance education facilities in public and private universities; (iii) design and implementation of financial aid programs to ensure equity of access to TEIs through (a) expansion of needs-based scholarships to remove financial obstacles for meritorious students from low-income families in public and private universities; and (b) development and implementation of a Students Loan
Program (SLP)\textsuperscript{5} to allow students to reduce the costs of attending a higher education institution; and (iv) enhancement of the scale and scope of private-public partnerships (PPPs) in TEIs with a view to promoting further private provision of higher education services. There is no EEP associated with this subcomponent.

23. **Subcomponent 1.4: Strengthening Governance and Management.** The objective of this subcomponent is to strengthen governance, management and accountability at the national and institutional levels. The main interventions supported by this subcomponent include: (i) streamlining and strengthening the internal governance and management of TEIs; (ii) institutionalizing quality assurance mechanisms through the reinforcement of the quality assurance mechanism, including the systematic monitoring of the QECs at the university level, and through the extension of accreditation councils to new professional areas; (iii) scaling up of the development of a comprehensive, reliable and timely HEMIS to allow information-based management of TEIs; (iv) strengthening the fiduciary control systems focusing on both procurement and financial management reforms, especially at institutional levels; and (v) strengthening the implementation capacity of HEC, with a focus on the implementation of a communication strategy.

24. Several of these interventions are inter-related and include sub-activities. For example, in the area of internal governance and management, the following specific interventions would be carried out: (i) a diagnosis of the current administrative management practices in public TEIs to identify bottlenecks and inefficiencies, including the design and implementation of an administrative policy reform to introduce a mechanism for merit based appointment of academic administrators and to improve the autonomy of academic departments, and (ii) the development of institutional business (strategic) plans and annual performance reports to be submitted by universities. In the area of quality assurance, the Project would support external quality assurance mechanisms through accreditation and internal quality assurance mechanisms. This would include the systematic assessment of the work performed by the QECs, and the institutional performance of TEIs on the basis of a set of criteria and international standards. There is no EEP associated with this subcomponent.

**Component II - Capacity Building, Policy Design and Monitoring and Evaluation** [Total: US$20 million; IDA: US$20 million]

25. This component aims to strengthen capacities for program implementation and M&E systems and compliance with the DLIs. It would finance essential technical assistance (TA) and capacity building activities, carefully selected and sequenced with the implementation steps in Component 1 to address both policy design and implementation and capacity constraints to support the targeted changes. This component will have two subcomponents: (2:1) capacity building of HEC and TEIs; and (2:2) policy design and TA. About US$20 million of the Credit would be allocated to this component. There are neither DLIs nor EEPs associated with this component, but the implementation of the component will be monitored based on the selected KPIs, as well as the implementation of the agreed procurement and training plans.

\textsuperscript{5} The SLP is being prepared with the technical assistance of the IFC, in collaboration with HEC.
V. Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower/Recipient</td>
<td>1,890</td>
</tr>
<tr>
<td>IDA</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,190</td>
</tr>
</tbody>
</table>

VI. Implementation

26. Institutional and implementation arrangements for the Project maintain and build on the existing institutional set-up of the public tertiary education sector. The Project would be implemented at the federal and institutional levels. Additionally, both provincial governments and affiliated colleges play a significant role in the delivery of tertiary education.

27. **Higher Education Commission (HEC).** At the federal level, HEC would be responsible for the overall implementation, coordination, and monitoring of reforms under the Project. The implementation of reform actions related to the fiscal sustainability and effectiveness of expenditures in tertiary education will be jointly managed by HEC, the Expenditure Unit of the MOF and the Planning Commission. HEC consists of various departments headed by Members and Advisors who manage major activities of the Commission. The Commission will also be assisted by a Steering Committee, which will include additional members from the MOF, PC, private sector and other relevant agencies to provide strategic guidance for the overall design and implementation of the MTDF, supported under the TESP. The Executive Director of HEC, assisted by the TESP Secretariat, will have overall responsibility for the day-to-day oversight, coordination, M&E of project activities.

28. **Universities.** Public and private universities will be responsible for the implementation of interventions of which they will be beneficiaries. They will follow the guidelines provided by HEC under the Program (as described in a Project Operational Manual). All public and private universities will be responsible for the implementation of interventions based on the guidelines and budget provided by HEC under the program.

29. **Ministry of Finance and Planning Commission.** The MOF allocates annual funding to HEC, with the Planning Commission having oversight of the development budget. HEC, in turn, allocates recurrent funds to universities based on a funding formula. HEC and the Planning Commission provide oversight during implementation of the development budget.

30. **Provincial Governments.** At the provincial level, the Department of Higher Education of each Provincial Government will be responsible for coordinating and implementing TESP activities related to affiliated colleges.
VII. Safeguard Policies

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

VIII. Contact point at World Bank and Borrower

**World Bank**
Contact: Halil Dundar
Title: Lead Education Specialist, SASED
Tel: +1-202-458-0668
Email: hdundar@worldbank.org

**Borrower/Client/Recipient**
Contact: Economic Affairs Division, Government of Pakistan
Address: Pakistan Secretariat, Block C, Islamabad, Pakistan
Tel: 92-51-9212769

**Implementing Agencies**
Contact: Dr. Sohail Naqvi, Executive Director, Pakistan Higher Education Commission
Address: Sector H-9, Islamabad, Pakistan
Tel: (92-51) 904-0120
Fax: (92-51) 925-7505
Email: snaqvi@hec.gov.pk

IX. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas