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Report No: PAD1019

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 44.9 MILLION
(US$65 MILLION EQUIVALENT)

TO

NEPAL

FOR A

HIGHER EDUCATION REFORMS PROJECT

January 22, 2015

Education Global Practice
Bangladesh, Bhutan, Nepal Country Management Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2014)

Currency Unit	=	Nepalese Rupee
NPR101.4	=	US$1
US$1.4488	=	SDR1

FISCAL YEAR

July 16 – July 15

ABBREVIATIONS AND ACRONYMS

AWPB	Annual Work Plan and Budget
CPS	Country Partnership Strategy
DLI	Disbursement Linked Indicators
DA	Designated Account
EEPs	Eligible Expenditure Programs
EMIS	Education Management Information System
EMF	Environmental Management Framework
FBF	Formula-Based Funding
GER	Gross Enrollment Rate
GAAP	Governance and Accountability Action Plan
GON	Government of Nepal
GON HERP	Government of Nepal Higher Education Reform Program
HE	Higher Education
HEIs	Higher Education Institutions
HEP	Higher Education Policy
HERP	Higher Education Reforms Project
IA	Implementing Agency
IDA	International Development Association
IP	Indigenous People
IPF	Investment Project Financing
IRR	Internal Rate of Return
IUFR	Interim Unaudited Financial Report
KU	Kathmandu University
MOE	Ministry of Education
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MTR	Mid-Term Review
NAB	National Accreditation Board
NCB	National Competitive Bidding
NER	Net Enrollment Rate
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission

NPHERD	National Program for Higher Education Reform and Development
NVP	Net Present Value
OAG	Office of the Auditor General
OCE	Office of the Controller of Examinations
ORAF	Operational Risk Assessment Framework
PBF	Performance-Based Funding
PIM	Project Implementation Manual
PMT	Proxy-Means Testing
PokU	Pokhara University
PU	Purbaanchal University
QAA	Quality Assurance and Accreditation
QAAA	Quality Assurance and Accreditation Agency
QAAC	Quality Assurance and Accreditation Committee
QAAD	Quality Assurance and Accreditation Division
RC	Research Council
RBF	Results-Based Financing
RD	Research Division
RDI	Research, Development and Innovation
SC	Steering Committee
SDR	Special Drawing Rights
SFAFDB	Student Financial Assistance Fund Development Board
SHEP	Second Higher Education Project
SM-VCDF	Social Management and Vulnerable Community Development Framework
SMF	Social Management Framework
SOE	Statement of Expenditures
SSR	Self-Study Report
S&T	Science and Technology
TU	Tribhuvan University
TUPIO	Tribhuvan University Project Implementation Office
UGC	University Grants Commission

Regional Vice President:	Annette Dixon
Country Director:	Johannes C. M. Zutt
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NEPAL

Higher Education Reforms Project

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PAD DATA SHEET

Nepal

Higher Education Reforms Project (P147010)

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

0000009057

Report No.: PAD1019

Basic Information			
Project ID P147010	EA Category B - Partial Assessment		Team Leader Mohan Prasad Aryal
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-July-2014	Project Implementation End Date 15-Jun-2020		
Expected Effectiveness Date 01-May-2015	Expected Closing Date 30-Jun-2020		
Joint IFC No			
Practice Manager Halil Dundar	Senior Global Practice Director Claudia Maria Costin	Country Director Johannes C.M. Zutt	Regional Vice President Annette Dixon

Borrower: NEPAL			
Responsible Agency: University Grants Commission (UGC)			
Contact:	UGC, Sanothimi, Bhaktapur	Title:	Member Secretary
Telephone No.:	977 1 6638434	Email:	ugc@ugcnepal.edu.np

Project Financing Data(in USD Million)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	795.00	Total Bank Financing:	65.00
Financing Gap:	132.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	598.00
International Development Association (IDA)	65.00
Total	663.00

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	2020				
Annual	10.60	11.40	11.40	11.40	11.40	8.80				
Cumulative	10.60	22.00	33.40	44.80	56.20	65.00				

Institutional Data

Practice Area / Cross Cutting Solution Area

Education

Cross Cutting Areas

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[X] Gender
[X] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Education	Tertiary education	80		
Public Administration, Law, and Justice	Central government administration	10		
Health and other social services	Other social services	10		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Human development	Education for the knowledge economy	80
Social protection and risk management	Social safety nets	10
Human development	Other human development	10
Total		100

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

Components

Component Name	**Cost (USD Millions)**
Component 1: Implementation of Reforms	60.00
Component 2: Capacity Building and Project Management	5.00

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [X] No [ ]
Have these been approved by Bank management?	Yes [X] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

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**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
1. Quality Assurance and Accreditation Agency		30-Jun-2015	

Description of Covenant

The Recipient shall establish, by not later than June 30, 2015, an autonomous Quality Assurance and Accreditation Agency (QAAA) within UGC.

Name	Recurrent	Due Date	Frequency
2. Higher Education Policy			

Description of Covenant

The Recipient shall undertake measures to assure a policy framework conducive for the implementation of the NPHERD through a comprehensive higher education policy.

Name	Recurrent	Due Date	Frequency
3. Project Implementation Manual		15-March-2015	

Description of Covenant: The Recipient shall prepare and adopt, by not later than March 15, 2015 and prior to making available any Performance-Based Funding, Scholarships, and Research Grants to Beneficiaries, the Project Implementation Manual (PIM), the TU Implementation Guidelines, and the SFA Implementation Guidelines in form and substance satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
4. Steering Committee			

Description of Covenant: The Recipient shall establish and thereafter maintain, throughout the period of Project implementation, a Steering Committee, with composition, powers, functions, and terms of reference satisfactory to the Association, to ensure coordination among agencies involved in Project implementation and to provide policy advice.

Name	Recurrent	Due Date	Frequency
5. Provision of Performance-Based Funding, Scholarships and Research Grants			

Description of Covenant: The Recipient shall make available the Performance-Based Funding, Scholarships, and Research Grants to Beneficiaries in accordance with the eligibility criteria and procedures set forth in the PIM, the TU Implementation Guidelines and the SFA Implementation Guidelines.

Name	Recurrent	Due Date	Frequency
6. Project Reports			

Description of Covenant: The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators satisfactory to the Association. Each Project Report shall cover the period of one (1) Fiscal Year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

Name	Recurrent	Due Date	Frequency
7. Financial Management, Financial Reports			

Description of Covenant: The Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each Fiscal Year trimester, interim unaudited financial reports for the Project covering the Fiscal Year trimester, in form and substance satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
8. Audits			
Description of Covenant: The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.			

Conditions

Source Of Fund	Name	Type
IDA credit	Disbursement Condition	Disbursement

Description of Condition

Disbursement of the proceeds of the Credit for Component 1 of the Project will be processed based on (a) the Disbursement Linked Indicators (DLIs) targets as defined in Annex 1 to the PAD (Schedule 2 to the Financing Agreement) are met and validated and (b) incurred Eligible Expenditures reported and verified.

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Mohan Prasad Aryal	Operations Officer	Team Leader	GEDDR
Marcelo Becerra	Lead Education Specialist	Peer Reviewer	GEDDR
Uddhav Kumar Bhandari	Consultant	Economics	GEDDR
Saurav Dev Bhatta	Senior Economist	Economics	GEDDR
Andreas Blom	Lead Education Economist	Peer Reviewer	GEDDR
Drona Raj Ghimire	Environmental Specialist	Environment	GENDR
Parthapriya Ghosh	Senior Social Development Specialist	Social Development	GSURR
Sangeeta Goyal	Senior Economist	Economics	GEDDR
Julie-Anne M. Graitge	Program Assistant	Program Administration	GEDDR
Jaya Karki	Program Assistant	Program Administration	SACNP
Rajendra Dhoj Joshi	Consultant	Higher Education Governance	GEDDR
Peter Nicolas Materu	Practice Manager	Peer Reviewer	GEDDR
Dilip Parajuli	Senior Economist	Economics	GEDDR
Jay Pascual	Sr. Counsel	Legal	LEGCF
Sushila Rai	Program Assistant	Program Administration	SACNP
Annu Rajbhandari	Extended Term Consultant	Environment	GENDR

Ram Krishna Rijal	Consultant	Economics and Data Analysis	GEDDR
Shraddha Shah	Consultant	Operations	GEDDR
Timila Shrestha	Financial Management Specialist	Financial Management	GGODR
Satish Kumar Shivakumar	Finance Officer	Disbursement	CTRLN
Shashi K. Shrivastava	Consultant	Higher Education, S&T, and Operations	GEDDR
Bandita Sijapati	Consultant	Social Development	GSURR
Jayakrishna Upadhyay	Consultant	Economics and Data Analysis	GEDDR
Shambhu Prasad Uprety	Senior Procurement Specialist	Procurement	GGODR

Non Bank Staff

Name	**Title**	**City**

Locations

Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Nepal	UGC	Kathmandu			

I. STRATEGIC CONTEXT

A. Country Context

1. Nepal presents unique challenges and opportunities for development. Situated between two of the world's fastest growing economies, India and China, with a per capita Gross National Income of US$730 (2013), Nepal remains among the poorest countries in the world. At the same time, Nepal is transitioning from post-conflict status and stands out for its relatively stable economic performance in recent years. Nepal also attained the first Millennium Development Goal of halving extreme poverty ahead of time. The percentage of people living on less than US$1.25 per day (the international benchmark for extreme poverty) fell from about 53 percent of the population in 2003/04 to 25 percent in 2010/11, within a span of just seven years. However, more efforts are needed for Nepal to achieve further substantial reductions in poverty.

2. Nepal is facing a youth bulge with a significant shift in its demographics. According to the 2011 census, 41 percent of the population is aged between 10-29 years. Limited skills levels in the labor force prevent people from transitioning into the types of jobs that could lift them out of poverty. A large percentage of youth are migrating to cities and abroad in search of employment. However, the quality of education and skills is limiting their potential for securing well-paying jobs. A shortage of qualified professionals is also constraining opportunities for domestic and foreign investment in Nepal.

B. Sectoral and Institutional Context

3. Nepal accords high priority to education. This is evidenced by the large share of the country's national budget allocated to the education sector, which has averaged 16.9 percent over the last ten-year period. These investments have produced some encouraging results. The net primary (grade 1-5) enrollment rate has increased to 95.5 percent in 2013 from 86.8 percent in 2005. The primary completion rate has reached 77.6 percent. Gender parity in net enrollment has been achieved in grades 1-12. At the higher secondary level (grades 11 and 12), over 130,000 students (about 19.9 percent of the appropriate age cohort) complete grade 12 each year. There are still significant challenges in basic education in terms of quality. These are being addressed by the Government-led sector-wide program supported by 14 development partners, including the World 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.

4. The relatively new and small, albeit fast expanding, higher education (HE) sector has not been able to adequately meet the human resource needs of the economy. Currently, there are nine universities and four health science academies, all of which receive public funds in varying degrees. Universities are allowed to have constituent and affiliated campuses. Constituent campuses are governed by university administrations. While curriculum and examinations for affiliated campuses come under the jurisdiction of university administrations, such institutions are independent vis-à-vis financing and administration. Affiliated campuses are further classified into community and private campuses. Community campuses, which are not for profit, are established through community initiatives and resources. Private campuses are established through private investments. Community campuses receive some financial support from the

government, although levels of support are significantly lower (about one seventh) than for constituent campuses.

5. Distribution of enrollment by university is presented in Table 1. Only four universities have sizable enrollment. Enrollment by type of campus is presented in Table 2. While enrollment is more or less evenly spread across different types of campuses, constituent and community campus enrollment is concentrated in Tribhuvan University (TU).

Table 1: Enrollment[1] of Universities, 2012/13

University	TU[2]	NSU	KU	PU	PokU	LBU	MWU	FWU	AFU	HA	Total
Enrollment	500,717	1,691	12,954	25,796	24,380	302	2,472	787	140	426	569,665
Share (%)	87.9	0.3	2.3	4.5	4.3	0.1	0.4	0.1	0.0	0.1	100

Source: Education Management Information System (EMIS), 2012/13, UGC

Table 2: Enrollment by Type of Campus, 2012/13

Campus / University	Constituent	Community	Private	Total
All Universities	209,893 (36.8%)	172,095 (30.2%)	187,677 (32.9%)	569,665 (100.0%)
TU	202,731	171,191	126,795	500,717
TU share, %	96.6	99.5	67.6	87.9[3]

Source: EMIS, 2012/13, UGC

6. In 2012/13, there were 96 constituent campuses, 429 community campuses and 751 private campuses accounting for about 37 percent, 30 percent and 33 percent of the total HE enrollment, respectively. Most campuses offer only bachelor degree-level programs; 18 percent offer Master's degree programs. TU has 60 constituent and 982 affiliated campuses with a total regular enrollment of about 382,000 students (84.4 percent of the regular enrollment). Several foreign affiliated private institutions are also operating in Nepal.

7. HE enrollment increased from 173,546 in 2005/06 to 452,571[4] in 2012/13, with an average annual growth rate of 14.7 percent. The number of graduates increased from 25,900 in 2005/06 to 63,642 during the same period. The gross enrollment rate (GER) reached 17.1 percent in 2012/13, which is higher than that of most countries at comparable levels of economic development. Despite significant achievements over the past decade, weak relevance, low quality, internal inefficiency, inequity and inadequate financing continue to pose major challenges in the HE sector, as discussed below:

a) *Relevance:* About 84 percent of enrollment is in general programs under the faculties of humanities and social sciences, education, and management, with limited scope for employment or self-employment. Despite high demand, only 12.8 percent of students are enrolled in technical faculties (medicine 4.2 percent, engineering 3.4 percent, Science and Technology (S&T) 4.7 percent, and agriculture and forestry 0.5 percent). In 2012/13, less

[1] This enrollment includes students appearing for remedial examinations. Hence it is higher than the enrollment referred to in paragraph 7, which excludes students appearing in remedial examinations. Students do not have to attend campus for appearing in remedial examinations.
[2] TU- Tribhuvan University; NSU - Nepal Sanskrit University; KU- Kathmandu University; PU- Purbaanchal University; PokU- Pokhara University; LBU – Lumbini Boudha University; MWU – Mid-Western University; FWU – Far Western University; AFU – Agriculture and Forestry University; HA – Health Academies (includes all four).
[3] In enrollment including students appearing in remedial examinations.
[4] Regular enrollment, which excludes students appearing for remedial examinations.

than 2,000 students graduated with Master's degrees and 15 with PhDs in S&T programs. At present, there is an acute shortage of graduates in some current and emerging areas of critical human resources, such as agri-business, energy, ICT-enabled services, tourism, and S&T teaching, among others.

b) *Quality:* Much of the curricula, learning material, delivery and assessment, especially in conventional programs at TU, are urgently in need of revision. Scant attention is paid to communication or analytical and problem-solving skills. The quality assurance and accreditation (QAA) systems, initiated in 2008, remain under-developed. Overall, research, innovation and the pursuit of excellence are not emphasized as integral parts of the teaching-learning process or faculty development.

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

d) *Access and equity:* Despite a relatively high GER of 17.1 percent, there are large income and geographic disparities in access to HE. Less than four percent of students come from the bottom two consumption quintiles. Students from rural and remote areas have limited access to HE. While overall female participation has reached 47 percent, it is less than 20 percent in S&T programs. Existing Government of Nepal (GON) scholarship programs have not been effective in reaching out to and supporting needy students because of the poor targeting and inadequate scholarship amounts.

e) *Financing:* Public HE is funded through government grants and student fees. The level of annual government funding varies widely among institutions from about US$40 to US$1,800 per student. Allocations to universities are subject to negotiations and are not linked to their performance. Over the years, this has led to enormous inefficiencies in the sector.

8. The Second Higher Education Project (SHEP), financed by the World Bank, closed on June 30, 2014 and addressed some of these challenges. Important achievements of SHEP included: (i) the establishment of a QAA system and accreditation of 12 campuses; (ii) the granting of autonomy to four TU campuses; (iii) the introduction of 28 new market-oriented programs; (iv) funding for over 700 research projects on a competitive basis; (v) disbursement of performance-based grants to 89 community campuses; (vi) the introduction of formula-based funding (FBF) for universities; and (vii) pro-poor targeted financial assistance for over 14,000 students identified through proxy-means testing (PMT). SHEP also facilitated nation-wide consultations to prepare a Higher Education Policy (HEP).

9. Despite progress in some key reforms supported by SHEP, there is still a large and unfinished reform agenda. This includes improving the quality and relevance of HE, expanding enrollment, especially for students from disadvantaged economic and social backgrounds, and

strengthening the internal efficiency of higher education institutions (HEIs)[5]. The GON has prepared a National Program for Higher Education Reform and Development (NPHERD) to implement the recommendations of the HEP. A major component of the National Program is dedicated to HE reforms, including: (i) examination reforms, particularly adherence to an academic calendar; (ii) expansion of an autonomy agenda to include academic autonomy for affiliated campuses; (iii) expansion of FBF, including the implementation of performance-based funding (PBF); (iv) expansion of QAA systems; (v) continuation of a poverty-targeted scholarship program; and (vi) expansion of new academic programs and research in areas of priority for national development.

10. The GON has requested continued financial support from the World Bank for implementation of the National Program and to build on the gains and experience of SHEP. The World Bank is the only development partner with significant involvement in HE in Nepal. It is uniquely placed to support the reform agenda of the GON owing to its significant global knowledge in the area of HE and rich country knowledge accumulated through sustained engagement in the sector in Nepal. This Project is a response to GON's request. It aims to provide financial and technical support to assist the GON in addressing its challenges in the sector with an enhanced focus on results. It also seeks to support implementation of the NPHERD to contribute to Nepal's economic growth, competitiveness and the achievement of its poverty reduction goals.

C. Higher Level Objectives to which the Project Contributes

11. One of the main goals of the GON's Approach Paper to the Thirteenth Plan (2013-16) is to achieve job-centered, poverty-reducing, sustainable and broad-based economic growth. Priority sectors highlighted for Nepal's economic growth and development are: hydro power and other energy; modernization and commercialization of agriculture; roads and other infrastructure; human resources and skills development; S&T; natural resources and environment; bio-diversity; small industries; climate change and environment protection; good governance; and tourism. This Project will support GON programs to help develop the required human resources and add to the national knowledge base.

12. The Project is fully consistent with the World Bank Group's Country Partnership Strategy (CPS 2014-18)[6]. The CPS aims to increase economic growth and competitiveness (Pillar 1) and increase inclusive growth and opportunities for shared prosperity (Pillar 2) by supporting the achievement of 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 HE sector aimed at improving the quality and relevance of skills acquired by graduates to better respond to labor market needs. Poverty-targeted financial assistance to disadvantaged students under the Project will also contribute to improved social protection. Finally, the Project will address the cross-cutting dimensions of the CPS: (i) public sector capacity and governance through systemic reforms in public universities; and (ii) gender through improved access of women to quality HE.

[5] HEIs are defined in Annex 2.
[6] Report No. 83148-NP discussed by the Board of Executive Directors on May 29, 2014.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

13. The development objectives of the Project are *"to support reforms in selected institutions for improving quality, relevance and efficiency of higher education; and to assist under-privileged students for equitable access"*.

B. Project Beneficiaries

14. The Project is expected to support reforms in TU, as well as other public universities and about 150 constituent and affiliated campuses. Over 500,000 current and future students of these institutions are expected to benefit from various project interventions. About 9,500 students (2,000 at higher secondary and 7,500 at Bachelor's degree level) from poor families will receive scholarships, with preference given to female students and those enrolled in S&T programs. Research support will be provided to approximately 800 students and young faculty members. Up to 500 faculty members and administrative staff will benefit directly from technical assistance programs. Indirect beneficiaries will include families of students and communities. Employers, particularly in the service sector, as well as society at large, will benefit from the availability of higher quality human resources in priority areas of national development. Enhanced capacities in implementing agencies (IAs) and participating institutions will have a lasting effect on the overall management of the HE sector.

C. PDO Level Results Indicators

15. The following key performance indicators will be used to measure achievement of the PDO:

Indicator 1: Number of accredited HEIs
Indicator 2: Percentage of students enrolled in identified priority areas
Indicator 3: Number of under-privileged students supported under the Project
Indicator 4: Average time taken for announcement of results of bachelors programs with centralized examinations at TU
Indicator 5: Number of publications in refereed journals by research grants recipients

III. PROJECT DESCRIPTION

A. Project Components

16. The government's NPHERD has four components: (i) Higher Education Reforms; (ii) Centers of Excellence; (iii) System Strengthening; and (iv) Regular Program. The IDA-financed Higher Education Reforms Project (HERP) supports the Higher Education Reforms component and the Regular Program component of NPHERD through partial financing of faculty salaries, student scholarships and research grants, and financing of capacity building and project management. The Project is structured around two components: (i) Implementation of Reforms; and (ii) Capacity Building and Project Management.

Component 1: Implementation of Reforms [US$790.0 million for 2015-2020, of which IDA contribution is US$60.0 million]

17. Component 1 will use a results-based approach (RBF) whereby IDA funds will be disbursed against specific eligible expenditure programs (EEPs, see Annex 3) in the development and regular program budget heads upon the achievement of pre-specified results measured by a set of disbursement-linked indicators (DLIs) (see Annex 1 for the DLI matrix). This component will focus on the following four results areas to help achieve the PDO: (i) Systemic and Institutional Reforms; (ii) Academic Reforms and Relevance; (iii) Equity; and (iv) Academic Excellence and Research.

(a) Results Area 1: Systemic and Institutional Reforms

This results area will support reforms associated with: (i) more effective public funding of HEIs; (ii) institutionalization of the national accreditation system; (iii) greater institutional and academic autonomy of constituent and academic autonomy of affiliated campuses; and (iv) strengthening of the examination system. For this results area, the release of IDA funds will be linked to the achievement of pre-specified targets for the following DLIs: (i) National Accreditation system established and functioning (DLI1); (ii) performance-based financing extended to HEIs (DLI2); (iii) autonomy extended to additional campuses/schools (DLI3); and (iv) examination reforms implemented and academic calendar enforced in TU (DLI4).

(i) More effective public funding of HEIs: NPHERD will support the continuation of performance-based funding (PBF[7]) initiated under SHEP to HEIs which meet specified eligibility conditions. The NPHERD will provide performance grants for the introduction of FBF for UGC grants to autonomous constituent campuses, as well as for the inclusion of outputs into FBF for UGC regular grants to community campuses.

(ii) Institutionalization of the national accreditation system: QAA of HEIs was one of the major reforms initiated under SHEP. Nepal has become a member of the Asia Pacific Quality Network and the International Network of Quality Assurance Agencies in Higher Education. In the medium-term, GON plans to establish an independent National Accreditation Board (NAB). As an interim measure, the Project will support the establishment of a Quality Assurance and Accreditation Agency (QAAA) within UGC with functional autonomy. About 125 of approximately 1,275 HEIs are expected to be accredited during the project period.

(iii) Greater institutional autonomy: SHEP supported TU's major reform initiative to address its acute management challenges by granting autonomy to constituent campuses. Four constituent campuses have opted for autonomy so far, resulting in significant improvement in their overall performance and the nurturing a culture of innovation and initiative. NPHERD will support increasing the number of autonomous constituent

[7] Performance-based funding (PBF) is a sub-set of FBF. FBF is defined as a method of determination of funding for HEIs based on inputs or outputs or outcomes or their combination. When FBF is entirely based on performance/ outputs and outcomes it becomes PBF.

campuses[8]. It will also support the granting of academic autonomy to selected affiliated campuses[9].

(iv) Strengthening of the Examination System: A major weakness of TU has been its failure to follow the announced academic calendar, and in particular its examinations schedule. Examinations for major programs, covering about 1000 campuses spread all over Nepal, are centrally administered and are often delayed by months. Consequently, it takes more than four years to complete a three-year degree program. NPHERD will support TU's plans to decentralize and modernize the examination system, streamline processes and enhance Office of the Controller of Examinations' (OCE) implementation capacity. It will also support TU's efforts to maintain the academic calendars of major programs.

(b) Results Area 2: Academic Reforms and Relevance

Nepali universities offer about 400 Bachelor's- and Master's-level programs. Over 84 percent of students are enrolled in general programs offered by the faculties of humanities and social sciences, education, and management. Curricula of many programs are outdated and do not foster communication and problem-solving skills. Employment prospects for graduates are very limited. NPHERD will support academic reforms in all participating universities and campuses focusing on: (i) the achievement of better learning outcomes in selected programs; and (ii) the introduction and expansion of programs in market-relevant and priority areas of development for Nepal. This results area will be supported through the achievement of the following DLI: Academic reforms introduce - Revision of existing programs and introduction of new programs (DLI5).

(c) Results Area 3: Equity

To improve access to higher education by students from the poorest two quintiles, SHEP introduced financial assistance to needy meritorious students at the higher secondary and Bachelor's levels through the use of PMT. This program has been highly successful. NPHERD will continue to provide scholarship support to meritorious students belonging to the two poorest quintiles selected through nation-wide PMT, with preferential treatment for female students. At the Bachelor's level, students opting for S&T and other areas of national priority will be given preference. About 7,500 Bachelor's degree level and 2,000 higher secondary (science) students are expected to benefit from this program. This results area will be supported through the achievement of the following DLI: Poverty targeted financial support for under-privileged students (DLI6).

(d) Results Area 4: Academic Excellence and Research

Recognizing the critical importance of excellence in research for improving the quality and relevance of higher education, NPHERD will support competitive funding for quality research, development and innovation (RDI) by students and faculty members with a focus on priority areas. To stimulate faculty research, TU is also introducing an alternative pathway for faculty career progression. Teaching and learning will be integrated with knowledge generation through global and national networking and

[8] Autonomous constituent campuses have academic, financial and administrative autonomy.
[9] Affiliated campuses already have financial and administrative autonomy.

university partnerships. This results area will be supported through the achievement of the following DLI: Institutions supported for academic excellence in priority areas through RDI awards (DLI 7).

Component 2: Capacity Building and Project Management [US$5.0 million, of which IDA contribution is US$5.0 million]

18. This component will support effective implementation and monitoring of NPHERD. It will finance inputs and activities required to achieve the above-stated results and enhance the capacity of the implementing, coordinating and participating agencies. Technical assistance will include inputs and activities such as: (i) services of consultants in the areas of procurement, financial management, EMIS and information technology; (ii) employer, student and faculty satisfaction surveys; (iii) studies associated with implementation of the HEP; (iv) impact assessments in various areas of project intervention; (v) strategic planning and institutional capacity building; and (vi) conferences and workshops. Inputs and activities supporting project management will include: (a) salaries for project staff; (b) staff training and study tours; (c) monitoring and evaluation including monitoring of compliance with applicable agreements and guidelines; (d) travel and subsistence allowances; and (e) vehicles[10], office equipment including computers, office rental and other associated costs. This component will also support activities that will require central-level coordination and support for networking among HEIs to access global knowledge.

B. Project Financing

19. The IDA financing of US$65 million will support two components of NPHERD: Higher Education Reforms (with budget head code 3501393 in the GON Red Book[11]) and Regular Program (with budget head code 3500193 in the GON Red Book). The estimated total cost of the six-year NPHERD is about US$795 million (see Table 3 below and Table 2.2 of Annex 2), with the Higher Education Reforms costing US$200 million and the Regular Program costing US$595 million. HERP will use an Investment Project Financing (IPF) instrument with a results-based financing (RBF) modality to support implementation of GON's reform program. Disbursement under Component 1 will be made against selected eligible key budget items of UGC, referred to as Eligible Expenditures Program (EEPs), and the achievement of pre-specified targets, as measured by Disbursement-Linked Indicators (DLIs). Component 2 (US$5.0 million) will use traditional transaction-based disbursement.

[10] This includes only essential and non-luxurious vehicles.

[11] Budget title in the Red Book is Higher Education Refroms Project.This project is different from IDA HERP.

Table 3: Project Financing, US$ Million

Project components	Program cost	IDA financing
1. Implementation of Reforms	790.0	60.0
2. Capacity Building and Project Management	5.0	5.0
Total costs	795.0	65.0
Front-end fees	-	-
Total financing required	795.0	65.0

20. The six-year (2014-2020) program cost for NPHERD (US$795 million) has been derived based on the resource requirements to implement the regular program (i.e., grants to universities and their constituent campuses for recurrent expenditures, including faculty and staff salaries; regular grants to community campuses; grants for students scholarships, research and development, quality improvement programs; the development of new HEIs) and the reform program to achieve the objectives of the HEP. The financing envelope comprises the following: (i) the estimated commitment for the regular program for six years in the amount of US$588 million[12]; (ii) the estimated commitment of US$75 million for the reform program; and (iii) a financing gap of about US$132 million in the reform program to be met through future commitments from GON and other resources. It is assumed that the share of HE in the education budget is expected to increase from its current eight percent to ten percent by 2017/18, as envisaged in the HEP[13] to meet the financing gap. A committed amount of US$663 million for the six years is adequate for implementation of both the reform and the regular programs to achieve the PDO indicators and the DLI targets in the Project. An additional amount of US$132 million, if available, would finance the scaling-up of the reform program. Further details about program costing and financing sources are presented in Table 2.2 (Annex 2).

21. The selected **Eligible Expenditure Programs** for IDA financing for Component 1 are: (i) salaries of faculty and staff of TU campuses (US$321 million); (ii) scholarships to students (US$4.5 million); and (iii) RDI grants to individual faculty members and students (US$6.75 million). EEPs are described in detail in Annex 2 (Table 2.2) and Annex 3.

22. **Disbursement-Linked indicators:** For disbursements under Component 1, two conditions must be met: (i) incurred expenditures for the EEPs must be reported and verified; and (ii) pre-specified DLI targets must be met and validated (see Annex 1 for details). Table 4 below provides maximum annual IDA disbursement amounts for each DLI target[14].

[12] Assuming that the FY2014/15 budget allocation of US$67 million grows at 15 percent (equal to the average growth rate of the higher education budget over the past 11 years) annually for the next five years

[13] The share of higher education budget in the education budget has come down to 8% only in 2013/14. The average share of higher education in the education budget for the period of 2003/04 to 2013/14 was 10.2%.

[14] In any year, the maximum amount for a DLI is disbursed if the respective DLI target for that year is fully achieved.

Table 4: DLI Pricing

Component 1: DLI based allocations	DLI value, US$ million						
	Yr0[15]	Yr1	Yr2	Yr3	Yr4	Yr5	Total
DLI 1. National Accreditation system established and functioning	1.500	1.500	1.500	1.500	1.500	1.500	9.000
DLI 2. Performance-based financing extended to HEIs	3.000	3.000	3.000	3.000	3.000	1.875	16.875
DLI 3. Autonomy extended to additional campuses/schools	1.500	1.500	1.500	1.500	1.500	0.000	7.500
DLI 4. Examination reforms implemented and academic calendar enforced in TU	0.750	1.125	1.125	1.125	1.125	1.125	6.375
DLI 5. Academic reforms introduced: Revision of existing and introduction of new programs at undergraduate and graduate levels	1.500	1.500	1.500	1.500	1.500	1.500	9.000
DLI 6. Poverty targeted financial support for under-privileged students	0.750	0.750	0.750	0.750	0.750	0.750	4.500
DLI 7. Institutions supported for academic excellence in priority areas through RDI awards	1.125	1.125	1.125	1.125	1.125	1.125	6.750
Total allocation	10.125	10.500	10.500	10.500	10.500	7.875	60.000

23. The agreed four results areas, seven DLIs and 11 sub-DLIs and targets across different years have been carefully chosen because they are critical to achieving the PDO. The DLI pricing (the maximum disbursement amount) is derived using the following: (i) the value of the lowest priced sub-DLI is US$ 0.375 million per year (please refer to Annex 1); (ii) the values of all DLIs in Table 4 are multiples of US$0.375 million; (iii) the multipliers used in Table 4 for determining the prices of different DLIs reflect GON prorities.

C. Lessons Learned and Reflected in the Project Design

24. The design of the Project has benefited from lessons learned from previous IDA-financed education projects in Nepal, including the recently completed SHEP, as well as HE projects in other countries. Specific lessons and their application to the project design are as follows:

(a) **Ownership and commitment to reforms are essential for success**: Strong ownership by the Borrower and key stakeholders is essential for maintaining the momentum and priority of reforms in the country's development plan. Strong leadership and commitment are in place in Nepal as shown by GON's preparation of NPHERD for the implementation of the HEP. GON's national program stresses the importance of continued reform of the HE sector.

(b) **A project should have realistic expectations of outcomes:** A good project design is characterized by simplicity and realistic expectations, particularly when attempting significant reforms in a country with limited capacity. HERP concentrates on four

[15] Yr0 represents the duration from July 1, 2014 to the date of Project effectiveness, and Yr1 to Yr5 represent five other subsequent years thereafter until the closing of the project.

interconnected key reforms to directly benefit students and is undertaken on the basis of consensus among eligible institutions around a reform agenda.

(c) **Results-based financing helps to keep implementation focus on outcomes:** Projects with results-based designs where disbursements are linked to the achievement of pre-specified DLI targets can help support the government's efforts to achieve its development objectives. HERP uses sequenced annual DLI targets measured over the project period to promote steady, incremental progress during program implementation. HERP's design has evolved in steps through in-depth discussions with MOE, UGC, TU and universities and/or campuses and included the exploration of several options.

(d) **The enhancement of access to education must focus on the under-privileged**: For national development, access to HE must not be limited to a select few students from advantaged households. Different studies have shown a key determinant of access to HE is household economic status. NPHERD seeks to enhance the participation of disadvantaged students in HE by building on the poverty-targeted scholarship scheme successfully implemented under SHEP and similar education projects elsewhere.

(e) **Policy interventions which include incentives for HEIs are essential to enhance quality, relevance and efficiency in the sector:** The NPHERD focuses on the achievement of results through the provision of incentives to HEIs for key reform actions. These include performance-based financing, improvements in the examination system and the introduction and expansion of programs in labor market-relevant and priority development areas in Nepal.

(f) **A robust M&E system is critical for achieving results**: As demonstrated by other RBF projects, a robust M&E system for the Project is critical for measuring performance and refining interventions through better informed decision making. The HERP design includes a strong M&E system that focuses on compliance monitoring, process monitoring and comprehensive data collection, storage and analysis.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

25. The Ministry of Education (MOE) will be responsible for project coordination and policy matters. Responsibility for implementation of the Project will lie with the UGC, which will work in close coordination with MOE, Tribhuvan University Project Implementation Office (TUPIO), SFAFDB and participating institutions. UGC will report to MOE within the framework of GON's accountability system.

26. A Steering Committee (SC) chaired by the UGC Chairperson with representation from various agencies, including the National Planning Commission (NPC), Ministry of Finance (MOF), MOE, TU, DOE, SFAFDB, and independent experts will facilitate coordination of implementation of the Project. At UGC, the Project will be implemented through its regular administrative system. Within TU, project implementation will be carried out by TUPIO in close coordination with UGC. A joint coordination committee comprised of UGC and TUPIO officials

will also be formed to support implementation coordination and funds flow arrangements in TU constituent campuses.

27. For Component 1, the UGC will be directly responsible for implementing programs related to three DLIs which support performance-based funding, academic reforms and research. TUPIO will be responsible for the implementation of programs related to two DLIs which support autonomy, and examination reform. SFAFDB will be responsible for the DLI related to student financial assistance. An autonomous QAAA[16] to be established within UGC will implement activities related to QAA. Responsibility for implementation of Component 2 will be shared among UGC, TUPIO and SFAFDB.

28. The Project will address risks related to governance, fraud and corruption at the level of the IAs and participating institutions through a Governance and Accountability Action Plan (GAAP). The Project will support capacity building in IAs to mitigate capacity risks during implementation.

B. Results Monitoring and Evaluation

29. As project financing is tied to the achievement of the Project's DLI targets, the existing M&E capacity of all IAs will be enhanced to enable the timely achievement of results and reporting. Under Component 2, the Project will finance technical assistance and training for the IAs to strengthen their capacity for project management, results monitoring, data collection, processing and reporting. Achievement of each DLI target will be assessed as per the protocol described in Annex 1.

30. Joint implementation support missions will be carried out twice each year during the Project's implementation period. A Mid-Term Review (MTR) will be held in 2017. It is expected that most data collection and processing will be done using the National HEMIS at UGC, with data fed through the university-level HEMIS. The Project will support the strengthening and refinement of the HEMIS at UGC and TU, as well as provide support to other universities interested in establishing their own university-level management information systems.

31. The Project will finance student, teacher and employer satisfaction surveys. PMT surveys will be carried out in years one, three and five. The Project will also conduct evaluation studies, including, *inter alia*, evaluations of the PMT targeting approach, research funding, campus autonomy, new programs and PBF to HEIs.

C. Sustainability

32. Reforms planned under NPHERD and supported by HERP will build upon reforms initiated under SHEP with the active participation of stakeholders. These reforms bring together local initiatives and international knowledge and practice. The financial sustainability of reforms with enhanced focus on quality and efficiency is built into the Project design in the following ways: (i) all new programs to be supported under the Project will be developed with embedded sustainability plans; (ii) GON ownership of SFAFDB's increased role, as a PMT expert, as well

[16] This responsibility will be transferred to NAB when established.

as the institutionalization of a pro-poor targeting approach in the education and other social sectors, will be further strengthened; (iii) QAA will be made mandatory and its expenses gradually shifted to HEIs through fees; and (iv) UGC will continue to expand its use of FBF and PBF for the allocation of resources to universities and community campuses for resource generation and sustainability. To ensure financial sustainability of the HE sector, GON will increase its share of support for HE in the education budget from the current level of 7.6 percent in 2014/15 to ten percent by 2017/18.

33. The following existing conditions support the medium- to long-term sustainability of Project's reforms: (i) a clear policy for quality human resource development at higher levels and for public, community and private partnerships; (ii) a clear policy and formula for funding HEIs within autonomous universities; (iii) links in universities between career advancement of faculty members and academic excellence and research; and (iv) employers' inputs into the scope of academic programs. The Project will finance studies and provide technical assistance to help build capacity in key institutions and agencies.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	**Rating**
Stakeholder Risk	Substantial
Implementing Agency Risk	
- Capacity	Substantial
- Governance	Substantial
Project Risk	
- Design	Substantial
- Social and Environmental	Moderate
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Substantial
- Other (Optional)	
Overall Implementation Risk	**Substantial**

B. Overall Risk Rating Explanation

34. The overall risk is *Substantial* (see Annex 4 for a detailed discussion of risks). Specific risks affecting the overall risk rating are:

- The RBF (IPF with DLIs) approach is new to Nepal. This approach will require a change in mind-set at the IA and beneficiary levels where stakeholders are used to focusing on inputs and expenditures rather than on results. Capacity constraints and inadequate monitoring of activities can also negatively affect Project implementation.

- The Project aims to achieve major system-wide reforms which may impact thousands of stake-holders and beneficiaries. While there is general support for reforms, resistance from vested interest groups cannot be ruled out.
- Delays in appointing staff to key positions in the various agencies due to difficulties in arriving at a political consensus on new appointments may slow down project implementation.
- Resources available for NPHERD may not be sufficient to transform traditional academic programs to labor market-relevant ones that contribute to national priorities for growth and development. This may result in a continuation of the unregulated growth of programs in traditional academic fields.
- It can be difficult to recruit qualified teachers in Nepal, especially in some of the priority areas of development, and retain them in less developed regions. Strategies may need to be developed to fill these gaps, including the use of international collaboration, visiting appointments, incentives and capacity building.

35. Some risks have been addressed during preparation, while others will be addressed during implementation. Risks will be mitigated by extensive consultation with stakeholders, strengthened communication, a focus on results and strong technical support to the IAs to enhance their implementation and monitoring capacities.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

36. *Project Rationale and Alignment:* HERP is fully aligned with the goals of: (i) GON's Approach Paper to Thirteenth Plan (2013-16) to achieve job-centered, poverty-reducing, sustainable and broad-based economic growth; (ii) economic growth and developmental needs in Nepal, highlighted in the HEP; and (iii) the World Bank Group's CPS for Nepal (2014-18). The cost-benefit analysis of the Project clearly indicates that HERP will be a sound investment, with an Internal Rate of Return (IRR) of 23.6 percent and Net Present Value (NPV) of US$102 million[17].

37. *Expected Development Impact:* The Project's main target- students - stand to benefit the most. Students can be expected to gain increased incremental income due to improved quality, efficiency and relevance of academic programs; additional income from a reduction in time wasted waiting for examination results; and savings from students studying in Nepal who otherwise would have opted for studies abroad (adding to losses from brain drain). The three implementation agencies and participating HEIs are expected to benefit from increased capacity and gains in efficiency. It is expected that increased employability and income of graduates with relevant skills and knowledge will diminish human resource constraints to economic growth. The Project aims to introduce and enhance numerous systemic reforms in the HE sector. Although the monetary value of these reforms is difficult to assess, the real benefits of the Project are expected to remain positive for years to come.

[17] See Annex 6 for details.

38. *Rationale for Public Investment:* There are both supply and demand-side arguments for public sector provision of HE in Nepal. On the supply side, the private sector might refrain from investing in HE due to the high cost of such investment, inadequate infrastructure, risk of political disturbance and low demand in most parts of the country. On the demand side, for a nation with a per capita GNI of US$730, the affordability of market-determined fees may create barriers for many citizens' entry into quality HE. On the other hand, the average tuition fees in many programs at public universities and community campuses are less than US$50 per year. Consequently, HE will be under-provided if left to the private sector as the equilibrium quantity will be lower than the social optimum.

39. *Expected value-addition by the Bank:* Through this Project, the Bank will support GON's efforts to reform the HE sector. The Bank will: (i) continuously provide technical input; (ii) bring innovative ideas and sound regional and international knowledge and good practice; (iii) facilitate training; and (iv) help manage risks during implementation. International technical assistance will be crucial to the success of the proposed reform agenda, especially through the introduction of new programs, accreditation and research. GON's budget for the tertiary sector is largely meant to cover the regular operating costs of universities and the UGC. There is limited fiscal space for new developmental activities in the sector which can contribute to visible and sustained reform. The Bank's support will help introduce and deepen much needed reform in the HE sector in Nepal.

B. Technical

40. Outdated policies are characteristic of countries with unstable political environments. The ability of politically unstable countries to pursue major systemic reform is severely constrained, even though such reforms are needed to enhance the quality and efficiency of service delivery. This is the case for Nepal. The strategy of pursuing reform in the country's HE sector, and that which underpins NPHERD, is built on the premise that major systemic reform must be built on a series of successful reforms at the local level using appropriate incentives.

41. This Project builds on the success and lessons of pilot reforms tested under SHEP. It also arises from extensive public debate and consensus building during preparation of the HEP toward supporting only selected interventions in the NPHERD. Rather than investing limited project funds in major physical expansion or the building of new institutions, the Project focusses on four results areas to help the existing system work more efficiently and meet Nepal's current and emerging human resources needs. Only selected reform areas and strategies have been chosen, with a primary focus on students, to optimize the Project's benefits.

42. All grants to beneficiaries, both institutions and students, from NPHERD will be made on a competitive basis and upon achieving specified results and measures of performance. A result-based approach is a new approach being attempted in the HE sector in Nepal which builds on the experience of other education projects in South Asia. The success of implementing all reforms will require continued commitment and support of GON, efficient implementation and monitoring by IAs and timely action and reporting by all beneficiary institutions. The Bank team will need to facilitate all technical support, fund flows and project restructuring when required.

C. Financial Management

43. UGC, TU and SFAFDB gained project implementation experience under SHEP. They are familiar with the Bank's fiduciary requirements. UGC and TU have also managed performance- and results-based disbursement. While in SHEP, the verification of achievement against indicators was carried out by IAs (UGC and TU). In the Project, disbursement against DLIs will only take place after the validation of results by the Bank. For Component 1, reimbursement will be based on the lower of the total of DLI allocated amounts against the DLI targets met or expenditures incurred under the EEPs, as per the financing agreement. Sufficient budget and funds will be required to cover expenditures until the DLIs are met and disbursement is made by the Bank. If the DLIs targets are not met within the specified time or an agreed extension, reimbursement will not be made and incurred expenditures will be borne by GON. It will also be important to maintain a robust and up-to-date database for each beneficiary, whether institutions or individual students, as a means of demonstrating results and verification.

44. UGC will be the focal agency responsible for coordinating with TUPIO and SFAFDB for overall project financial management including budgeting, financial reporting and funds flow management. The same arrangement in SHEP was working well for all three IAs. To ensure effective project implementation, UGC will require adequate capacity, including additional human resources. Planning and M&E are the main areas that require capacity building, especially at UGC and TU. Monitoring and evaluation of the disbursed funds for NPHERD will be enhanced through regular field visits and desk monitoring, improved controls and timely reporting by beneficiaries.

45. A robust mechanism for M&E specified in the PIM along with a dedicated Monitoring Officer assigned to UGC, SFAFDB and to TUPIO will be required to mitigate the potential risk of inadequate monitoring and evaluation. The Finance Officers assigned for the Project in UGC, TUPIO and SFAFDB will also be required to mitigate the potential risk of ineffective coordination between the IAs, as well as for overall project financial management. Considering the earlier experience of the IAs and the use of new instruments, the overall project FM risk is rated as Substantial with Moderate residual risk.

46. As a programmatic operation, the budgeting of all program expenditures will constitute a part of the government budgeting process. Funds flow will also follow existing government procedures. UGC will prepare an Annual Work Plan and Budget (AWPB) for Higher Education Reforms (GON HERP budget head) and Regular Program (GON UGC budget head) components of the NPHERD by integrating the AWPBs of UGC, TUPIO and SFAFDB. These will be submitted to NPC/MOF via MOE. Following budget approval, MOF will release authorization for spending to the MOE which will, in turn, authorize UGC to spend according to the approved program and budget. TUPIO and SFAFDB will receive budget and authority letters from UGC to spend according to the approved program. GON will release the budget in three installments each year.

47. Based on the reports provided by TUPIO, SFAFDB and QAAA to UGC, UGC will prepare consolidated Interim Unaudited Financial Reports (IUFRs) for reporting financial information from participating IAs in a format agreed with the Bank. IUFRs will be submitted on a trimester basis to the Bank within 45 days from the end of each trimester.

Disbursement

48. IDA disbursements for Component 1 will take place twice a year, around May and October. Disbursement will be linked to the achievement of pre-defined DLI targets based on the Bank's validation as defined in the verification protocol described in Annex 1. For disbursements to take place, two conditions will have to be met: (i) incurred expenditures for EEPs must be reported and verified; and (ii) defined DLI targets must be met and validated. Disbursement from the World Bank will be based on the submission of Statements of Expenditures (SOEs). Payments will be made directly to the government treasury as reimbursement. IDA disbursement for Component 2 will be SOE-based for incurred eligible expenditures. An advance not exceeding US$1.0 million will be provided in the Designated Account (DA) for this component, from which reimbursement will be made to the government treasury. Similarly, the DA will be replenished through Withdrawal Applications to maintain the amount in the DA at US$1.0 million. Government consolidated funds will be used for pre-financing eligible expenditures for both components.

49. For year 0, retroactive financing of up to US$11.40 million will be available for reimbursements under Component 1 against DLIs and their associated EEPs incurred before the date of signing, but after July 1, 2014. For expenses incurred for the same period under Component 2, retroactive financing up to US$ 600,000 will be available.

D. Procurement

50. Bank procurement guidelines apply for procurement using World Bank funds. Given that IDA disbursements under Component 1 are made against agreed EEPs for faculty and staff salaries, student scholarships, and RDI grants to faculty and students, none of which involve procurement, World Bank procurement guidelines will not apply. Component 2 will provide support for capacity building and project management and may include consulting services, training and capacity development and the procurement of goods. Procurement under this component will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' ("Procurement Guidelines") published by the World Bank in January 2011 and revised in July 2014, and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' ("Consultant Guidelines") published by the World Bank in January 2011 and revised in July 2014 in the case of consultants' services. Procurement is also governed by any provisions stipulated in the Financing Agreement. The procurement of goods and contracts as agreed in the Procurement Plan may be carried out using National Competitive Bidding (NCB) as per GON's Public Procurement Act of 2007 and Regulations thereunder, along with any additional IDA-prescribed caveats.

51. UGC has experience in managing project procurement. They have procurement guidelines which will be updated and used. To maintain its capacity, UGC needs to engage a procurement consultant/specialist throughout the life of the Project to expedite the procurement process and ensure the quality of procurement carried out by the IAs. TUPIO gained procurement experience through the implementation of SHEP, but has not developed

procurement manuals or guidelines. SFAFDB has limited procurement under the Project. UGC will coordinate with TUPIO and SFAFDB and provide technical assistance during project implementation. A checklist of procurement processes will be prepared for the smooth implementation of procurement activities during project implementation. To ensure uniformity in procurement and consistency in applying World Bank guidelines or country procurement systems acceptable to the Bank, the UGC should prepare, update and enforce a Procurement Manual for IAs and provide on-going training to staff involved in procurement initiation, review and decision-making processes.

E. Social (including Safeguards)

52. The Project is expected to generate positive social impacts through poverty-targeted financial support for disadvantaged students. It will address the issue of poor access to HE of students from the poorest two quintiles through the PMT approach with preferential treatment of girls.

53. The Project will be implemented across the country. Specific locations where the Project will be implemented have not yet been identified due to ex-post selection of institutions. It is envisaged that NPHERD (not HERP) will support moderate civil works such as the refurbishment and/or expansion of existing structures within the premises of participating institutions, without necessitating the acquisition of new land. OP/BP 4.12 is not triggered under the Project.

54. The Project has triggered OP/BP 4.10 to ensure that its benefits to Indigenous Peoples (IPs) and other vulnerable communities are maximized, while any potential adverse effects are mitigated. Because of the complex population composition of Nepal where difficulties arise in separating IPs from vulnerable groups, a Vulnerable Community Development Framework (VCDF) is considered interchangeable with the Indigenous People‘s Development Plan. A VCDF has been prepared as part of the Social Management Framework (SMF) to ensure that the Project’s components are made accessible to vulnerable communities for their maximum benefit. The SMF also includes a Gender Action Plan to ensure that women are able to participate in and benefit from HERP activities.

F. Environment (including Safeguards)

55. World Bank funds will not support the procurement of infrastructure works. Through the use of government funds, moderate civil works, such as refurbishment and/or rehabilitation of existing structures, construction of annex buildings, addition of stories on existing facilities and construction of workshops and laboratories, may be supported under the NPHERD. An Environmental Management Framework (EMF) drafted by UGC and reviewed and approved by the World Bank will be followed under the NPHERD. The EMF has been drafted based on the country’s environmental regulations and World Bank environmental safeguard requirements. The EMF aims to strengthen GON’s current safeguard system and ensure that all the activities carried out under the reform program comply with applicable environmental requirements. During implementation, the role of the environmental safeguard support will be to review the application of the EMF to the NPHERD at the system level, not to review each civil works

activity of the program. There is no potential large scale, significant environmental impact associated with the Project.

56. Apart from the environmental safeguards of infrastructure works envisaged, NPHERD will also support interested and competent institutions to conduct academic programs and research in the field of environmental risks and opportunities, environment-friendly technology and management, as well as environmental policies. This will help in mainstreaming the environmental issues.

Annex 1: Results Framework and Monitoring

Project Development Objectives

PDO Statement

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

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
1. Number of accredited HEIs	☐	Number	12	20	30	60	90	125	Semi-Annual	Progress Report	UGC
2. Percentage of students enrolled in identified priority areas	☐	Percentage	Under Graduates: 12.6 Post-Graduates: 16.7	13 17	14 18.5	15 20	16 21.5	17 23	Annual	HEMIS	UGC
3. Number of under-privileged students supported under the Project	☐	Number/ Percentage	(a)Higher Secondary (HS): Total: 0 Female: 0%; (b) Bachelors: Total: 0 Female: 0%	(a)HS total : 500 Female: 45%; (b) Bachelors: Total: 2,500 Female: 40%	(a)HS total : 1,000 Female: 45%; (b) Bachelors: Total: 5,000 Female: 40%	(a)HS total : 1,500 Female: 45%; (b) Bachelors: Total: 7,500 Female: 40%	(a)HS total : 2,000 Female: 45% ; (b) Bachelors: Total: 7,500 Female: 40%	(a)HS total : 2,000 Female: 45%; (b) Bachelors : Total: 7,500 Female: 40%	Semi-Annual	Progress Report	SFAFDB

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
4. Average time taken for announcement of results of Bachelors programs with centralized examinations at TU	☐	Months	>7	7	6	5	4	3	Annual	Progress Report	TU
5. Number of publications in refereed journals by research grants recipients	☐	Number	0	0	11	25	55	85	Semi-Annual	Progress Report	UGC

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
1. Number of institutions undertaking specified reforms	☐	Number	15	45	90	135	135	135	Semi-Annual	Progress Report	UGC
2. Number of TU institutions granted autonomy	☐	Number	4	6	8	11	14	14	Semi-Annual	Progress Report	TU
3. Number of academic programs revised	☐	Number	0	10	25	50	75	75	Semi-Annual	Progress Report	UGC/TU
4. Number of new academic programs introduced in identified priority areas	☐	Number	0	10	20	45	65	65	Semi-Annual	Progress Report	UGC/TU
5. Computerization of records of all students eligible for appearing in examinations from TU constituent and affiliated campuses	☐	Percentage	0	15	50	100	100	100	Semi-annual	Progress Report	TU
6. Number of RDI projects supported in identified priority areas	☐	Number	PhD level: 0 Faculty Research: 0	20 25	50 75	80 160	110 220	130 220	Semi-Annual	Progress Report	UGC
7. Direct Project Beneficiaries	☒	Number	0	25,000	150,000	300,000	400,000	500,000	Annual	Progress Report	UGC
Female beneficiaries	☒	Percentage	0	25	30	35	40	40	Annual	Progress Report	UGC

Indicator Definitions

Indicator Name	Description (indicator definition, etc.)
Project Development Objective Indicators	
1. Number of accredited HEIs	Number of HEIs accredited by Quality Assurance and Accreditation Division (QAAD) during SHEP implementation or QAAA or NAB (when established). HEIs will include constituent, private and community campuses, schools[18] and central departments.
2. Percentage of students enrolled in identified priority areas	Share of students enrolled in priority areas listed as percentage of total enrollment in all HEIs (disaggregated by level).
3. Number of under-privileged students supported under the Project	Cumulative number of students supported with poverty targeted scholarships by SFAFDB segregated by level - Higher Secondary (science stream) and Bachelors degree level with percentage of female students among total students supported at each level.
4. Average time taken for announcement of results of Bachelors programs with centralized examinations at TU	Average time taken in months for declaration of results for programs of Bachelor's degree in education, management, and humanities and social sciences at TU. Time taken is counted from the date the last examination of a program to the date its results are published. A month is taken as equal to 30 days.
5. Number of publications in refereed journals by the research grants recipients	Number of publications in refereed international and national journals with the impact factors as defined by UGC in its Project Implementation Manual (PIM).
Intermediate Results Indicators	
1. Number of institutions undertaking specified reforms	Number of HEIs that receive grants under NPHERD and implement reforms defined under Results areas 1 and 2 of the Project.
2. Number of TU institutions granted autonomy	Number of constituent campuses, affiliated campuses and schools formally declared autonomous by TU according to its rules.
3. Number of academic programs revised	Number of programs revised and implemented according to applicable University regulations (details of revision and reasons of each program to be available for record and verification at UGC and respective universities).
4. Number of new academic programs introduced in identified priority areas	Number of programs in identified priority areas selected for funding through a competitive process by UGC as per the PIM, approved by respective universities and implemented. (Details of the process of selection and implementation to be available at UGC).
5. Computerization of records of all students eligible for appearing in examinations from TU constituent and affiliated campuses	Computerization of records of students as percentage of total number of students eligible for appearing in examinations from TU constituent, community and private campuses – details of the student eligible for appearing in examinations will be as per TU definition, and will be included in the TUPIO Guidelines.
6. Number of RDI projects supported in identified priority areas	Number of RDI projects in priority areas selected through a competitive process defined in the PIM and supported by UGC – for students at PhD level and for faculty members. (Details of selection and projects supported to be available with UGC).
7. i) Direct Project Beneficiaries	Direct project beneficiaries include the following: number of students enrolled in all participating institutions accredited or granted autonomy, students in new/revised programs, all students benefiting from examination reforms, all students and faculty supported with research grants, and all students receiving poverty targeted scholarships from SFAFDB or assistance through any project grants to institutions, and all persons trained through program funds. (Care needs to be taken to avoid any double counting.)
ii) Female Beneficiaries	Percentage of females among direct project beneficiaries

[18] Faculties in case of some universities (example, School of Engineering, KU) and an autonomous institution dedicated for offering special programs in case of some universities (example, School of Management, TU).

Disbursement Linked Indicators

DLI	*Total IDA Financing Allocated to DLI (US$ '000)*	*Year 0 (2014-15) Baseline to be achieved*	*Indicative timeline for DLI achievement*				
			Year 1 (2015-16)	*Year 2 (2016-17)*	*Year 3 (2017-18)*	*Year 4 (2018-19)*	*Year 5 (2019-20)*
1	2	4	5	6	7	8	9
DLI 1: National accreditation system established and functioning		A QAAA with functional autonomy established at UGC	8 HEIs accredited (cumulative 20 including 12 at baseline)	10 HEIs accredited (cumulative 30)	30 HEIs accredited (cumulative 60)	30 HEIs accredited (cumulative 90)	35 HEIs accredited (cumulative 125)
Allocated amount:	9,000	1,500	1,500	1,500	1,500	1,500	1,500
DLI 2: Performance-based financing extended to HEIs		Guidelines for PBF of campuses published by UGC	First group of 45 HEIs selected as per PIM, Memoramdum of Understandings (MOUs) signed; and first tranche of performance based grants released	Second group of 45 HEIs selected as per PIM, MOUs signed and performance based grants released to the first and second groups (total 90 HEIs)	Third Group of 45 HEIs selected as per PIM, MOUs signed, and performance based grants released to the first, second and third batches (total 135 HEIs)	Performance based grants released to at least 90 HEIs from the three selected groups as per PIM	Release of final performance based grants to at least 45 HEIs from the three selected groups as per PIM
		1,500	1,500	1,500	1,500	1,500	1,125
		FBF for autonomous campuses adopted by UGC	Criteria for PBF based regular funding for community campuses adopted by UGC	FBF based funds released to at least two autonomous campuses; and PBF based regular funds released to at least 30	FBF based funds released to at least additional two autonomous campuses (cumulative four); and PBF based	FBF based funds released to at least additional three autonomous campuses (cumulative seven); and PBF based	FBF based funds released to at least additional three autonomous campuses (cumulaltive ten); and PBF based

DLI	***Total IDA Financing Allocated to DLI (US$ '000)***	***Year 0 (2014-15) Baseline to be achieved***	***Indicative timeline for DLI achievement***				
			Year 1 (2015-16)	***Year 2 (2016-17)***	***Year 3 (2017-18)***	***Year 4 (2018-19)***	***Year 5 (2019-20)***
1	2	4	5	6	7	8	9
				community campuses	regular funds released to at least additional 30 community campuses (cumulative 60)	regular funds released to at least additional 20 community campuses (cumulaltive 80)	regular funds released to at least additional 20 community campuses (cumulative 100)
		1,500	1,500	1,500	1,500	1,500	750
Allocated amount:	16,875	3,000	3,000	3,000	3,000	3,000	1,875
DLI 3: Autonomy extended to additional campuses/ schools		TU autonomy campus rules for constituent campuses revised by TU Senate	Autonomy granted to two campuses/ schools (cumulative six including four at baseline)	Autonomy granted to two campuses/ schools (cumulative eight)	Autonomy granted to three campuses /schools (cumulative 11)	Autonomy granted to three campuses /schools (cumulative 14)	
		750	750	750	750	750	
		TU adopts rules for academic autonomy of affiliated campuses by TU Senate	Two autonomous /accredited campuses or schools exercise academic autonomy	Two autonomous /accredited campuses or schools exercise academic autonomy (cumulative four)	Two autonomous /accredited campuses or schools exercise academic autonomy (cumulative six)	Two autonomous /accredited campuses or schools exercise academic autonomy (cumulative eight)	
		750	750	750	750	750	
Allocated amount:	7,500	1,500	1,500	1,500	1,500	1,500	

DLI	Total IDA Financing Allocated to DLI (US$ '000)	Year 0 (2014-15) Baseline to be achieved	Indicative timeline for DLI achievement				
			Year 1 (2015-16)	***Year 2 (2016-17)***	***Year 3 (2017-18)***	***Year 4 (2018-19)***	***Year 5 (2019-20)***
1	2	4	5	6	7	8	9
DLI 4: Examination reforms implemented and academic calendar enforced in TU		(i)Academic rules of TU revised and approved by TU Academic Council for completing academic calendar within one academic year; and (ii) a plan for examination reforms approved by TU (with especial focus on centralized examinations)	Academic calendar of three program-years of centralized Master's programs adhered to	Academic calendar of three program-years of centralized Master's programs adhered to (cumulative six)	Academic calendar of three program-years of centralized Master's programs adhered to (cumulative nine)	Academic calendar of three program-years of centralized Master's programs adhered to (cumulative 12)	Academic calendar of three program-years of centralized Master's programs adhered to (cumulative 15)
		750	750	750	750	750	750
			Results for regular centralized Bachelor's programs[19] published within seven months on an average	Results for regular centralized Bachelor's programs published within six months on an average	Results for regular centralized Bachelor's programs published within five months on an average	Results for regular centralized Bachelor's programs published within four months on an average	Results for regular centralized Bachelor's programs published within three months on an average
		0	375	375	375	375	375
Allocated amount:	6,375	750	1,125	1,125	1,125	1,125	1,125

[19] Humanities and Social Sciences, Education and Management.

DLI	Total IDA Financing Allocated to DLI (US$ '000)	Year 0 (2014-15) Baseline to be achieved	Indicative timeline for DLI achievement				
			Year 1 (2015-16)	*Year 2 (2016-17)*	*Year 3 (2017-18)*	*Year 4 (2018-19)*	*Year 5 (2019-20)*
1	2	4	5	6	7	8	9
DLI 5: Academic reforms introduced: Revision of existing and introduction of new programs at undergraduate and graduate levels		Areas of priority for new programs approved by UGC; and guidelines for selection of programs and institutions approved by UGC	A total of 20 programs revised or introduced[20]	A total of 60 programs revised or introduced (cumulative 80)	A total of 60 programs revised or introduced (cumulative 140)	Implementation of all 140 programs continued	Implementation of all 140 programs continued
Allocated amount:	9,000	1,500	1,500	1,500	1,500	1,500	1,500
DLI 6: Poverty-targeted financial support for under-privileged students		PMT processes for selection of students revised by SFAFDB; and database and process computerized	(i)First cohort (at least 3,000[21] students) selected through PMT; and (ii) funds released to at least 3,000 students	(i) Second cohort (at least 3,000 students) selected through PMT; and (ii) funds released to at least 4,500 students from first and second cohorts as per schedule	(i)Third cohort (at least 3,000 students) selected through PMT; and (ii) funds released to at least 6,000 students as per schedule	(i) Fourth cohort (at least 500 students) selected through PMT; and (ii) funds released to at least 4,000 students as per schedule	(i) Funds released to at least 2,000 students as per schedule; and (ii) Plan for sustainability of the scheme approved
Allocated amount:	4,500	750	750	750	750	750	750

[20] 50 to 60% of the target is for revision of existing programs, which can be in any area/discipline, and remaining 40 to 50% of the target is for introduction of new programs that have to be in identified priority areas.
[21] 79% of the target is for students at Bachelors Level (HE) and remaining 21% of the target is for students at Higher Secondary Level altogether.

DLI	***Total IDA Financing Allocated to DLI (US$ '000)***	***Year 0 (2014-15) Baseline to be achieved***	***Indicative timeline for DLI achievement***				
			Year 1 (2015-16)	***Year 2 (2016-17)***	***Year 3 (2017-18)***	***Year 4 (2018-19)***	***Year 5 (2019-20)***
1	2	4	5	6	7	8	9
DLI 7: Institutions supported for academic excellence in priority areas through RDI awards		(i) Existing research guidelines reviewed and revised by UGC; and (ii) Priority areas for support approved by UGC	(i) First batch of projects (at least 100) selected; and (ii) funds released as per schedule	(i) Second batch of projects (at least additional 150) selected; and (ii) funds released to the two batches as per schedule	(i) Third batch of projects (at least additional 150) selected; and (ii) funds released to the three batches as per schedule	(i) Fourth batch of projects (at least additional 100) selected; and (ii) funds released to all batches as per schedule	(i) Final release of funds to at least 250 active projects as per schedule; and (ii) Plan for sustainability approved
		750	750	750	750	750	750
		Parallel recruitment and promotion rules adopted by TU Executive Council	First batch of faculty (at least ten) recruited and/or promoted based on excellence	Second batch of faculty (at least additional ten) recruited and/or promoted based on the excellence	Third batch of faculty (at least additional ten) recruited and/or promoted based on the excellence	Fourth batch of faculty (at least additional ten) recruited and/or promoted based on excellence	Fifth batch of faculty (at least additional ten) recruited and/or promoted based on excellence
		375	375	375	375	375	375
Allocated amount:	6,750	1,125	1,125	1,125	1,125	1,125	1,125
Total Financing Allocated:	**60,000**	**10,125**	**10,500**	**10,500**	**10,500**	**10,500**	**7,875**

DLI Verification Protocol[22]

Procedure for Verification

Step 1: For each reporting period, UGC prepares a progress report of results achieved under each DLI based on the achievement report submitted by respective IAs.
Step 2: UGC submits the consolidated DLI achievement report, including cumulative figures where specified, to IDA during each reporting period.
Step 3: The IDA task team reviews the progress report, including through the collection of additional information as required.
Step 4: IDA certifies the extent of each DLI targets achieved and communicates the same to UGC for further action.

Protocol

DLI 1: National Accreditation System Established and Functioning

	DLI indicators and targets	*Scalable[23] (Yes/No)*	*Roll-over[24] (Yes/No)*	*Minimum threshold[25]*	*Data source /agency*	*Description of evidence required*
1.	A QAAA established at UGC [year 0]	No	Yes	NA	UGC/QAAA	The accreditation system will be considered established when: i) such agency is functionally independent from the UGC Secretariat, through amedment to existing legal provision; and ii) Key personnel are recruited. Key personnel include at least Chief of QAAA, two QAA experts, an accounts officer, an administrative officer and one monitoring officer. QAAA with functional autonomy within the UGC Act can be formed until a NAB is created through an Act.
2.	8, 10, 30, 30 and 35 HEIs accredited in year 1, 2, 3, 4 and 5 respectively	Yes	Yes	50% of the annual targets	UGC/QAAA	A HEI will be considered 'Accredited' if it obtains certification of accreditation from QAAD or QAAA or NAB following due process. Accreditation will be carried out in accordance with the Guidelines or Manual, as approved by the respective accreditation agency, and include the following aspects: A final assessment report of the assigned peer review team and the final approval by the accreditation agency. HEIs include, as of year 2012/13, (i) four autonomous constituent campuses; (ii) 96 constituent campuses and schools; (iii) 429 community campuses; (iv) 751 private campuses; and (v) 38 central departments. These numbers are expected to increase during the project period. UGC will submit documented evidence of number of HEIs accredited for every reporting period, including cumulative achievement and list of accredited HEIs.

[22] PIM will further elaborate contents that needs to be included in the DLIs progress reports.
[23] Disbursement of financing proceeds proportional to progress towards achieving the DLI.
[24] The unmet target for any reporting period if achieved in the subsequent reporting periods will trigger disbursement.
[25] Minimum value or share of the target to trigger disbursement under each period.

DLI 2: Performance-Based Financing Extended to Higher Education Institutions

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. Guidelines for PBF of campuses published [year 0]	No	Yes	NA	UGC	A copy of guidelines for PBF approved by UGC; and a copy of publication of PBF guidelines. PBF should include output and outcome based indicators, along with other input-based indicators.
1b. 45 campuses selected under PBF from the project in each of years 1, 2 and 3 and funds released in years 1, 2, 3, 4 and 5	Yes	Yes	30% of the annual targets		List of campuses selected in years 1, 2, and 3, and the amount and date of release of funds to each campus with certification of their eligibility for continued support based on the PIM. Documentary evidence of the selection process to be retained by UGC and made available on request. All selected institutions to maintain record of NPHERD fund utilization and achievements for performance audit – if required. Reasons for discontinuation of support to any institutions (if applicable) to be reported.
2a. FBF for autonomous campuses adopted [year 0]	No	Yes	NA	UGC	A copy of guidelines for FBF approved by UGC, and cleared with MOF/ MOE (if required). The guidelines should include the process and criteria for release of funds, monitoring of results and template of MOUs (if required) to be signed with HEIs.
2b. FBF released to additional 2, 2, 3 and 3 autonomous campuses in year 2, 3, 4 and 5 respectively	No	Yes	NA		List of autonomous campuses with the amount and date of release of funds for years 2, 3, 4 and 5. Calculations for determination of funds to be made available by UGC upon IDA request.
2c. Criteria for PBF based regular funding for community campuses adopted [year 1]	No	Yes	NA		A copy of guidelines for PBF based regular grants to community campuses approved by UGC. PBF should include some output based indicators, along with other input-based indicators. A template of MOUs to be signed to be made available.
2d. PBF based regular funds released to 30 community campuses in year 2, and additional 30, 20 and 20 campuses in years 3, 4 and 5 respectively	No	Yes	NA		List of community campuses with the amount and date of release of funds for years 2, 3, 4 and 5. Calculations for determination of funds to be made available by UGC upon IDA request.

DLI 3: Autonomy Extended to Additional Campuses/Schools

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. TU Autonomy Campus Rules for constituent campuses revised [year 0]	No	No	NA	TU	A copy of revised Autonomy Campus Rules approved by TU. The revisions to include necessary details for implementation of academic autonomy of constituent campuses.
1b. Autonomy granted to 2, 2, 3 and 3 new campuses/schools in years 1, 2, 3 and 4	Yes	Yes	At least one institution granted autonomy each year		List of campuses receiving the status of autonomous campuses for years 1, 2, 3 and 4 with dates of TU decision, and copies of TU letters to campuses informing about the decision.
2a TU adopts rules for Academic Autonomy of affiliated campuses [year 0]	No	No	NA	TU	A copy of Rules for granting 'Academic Autonomy' to affiliated campuses or schools approved by TU. Academic autonomy should authorize affiliated campuses to design and introduce new courses, and conduct examination and publish results of all or some of its programs.
2b. Two autonomous and accredited campuses or schools exercise Academic Autonomy in each of the years 1, 2, 3, and 4	Yes	Yes	50% of the annual targets		List of affiliated campuses receiving the status of autonomous campuses for years 1, 2, 3 and 4 with dates of TU decision, and copies of TU letters to campuses informing about the decision. The list of autonomous campuses with the name and date of new programs introduced, examinations administered for years 1, 2, 3 and 4.

DLI 4: Examination Reforms Implemented and Academic Calendar Enforced in TU

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. Academic Rules revised and approved by TU for completing the Academic Calendar within one calendar year [year 0]	No	No	NA	TU	This sub-DLI is related to bachelors' and masters' programs at TU whose annual exams are conducted centrally by the OCE. A copy of revised academic rules for completing academic calendar within one calendar year approved by TU.
1b. Plan for examination reforms approved by TU (with especial focus on centralized examinations) [year 0]	No	No	NA		A copy of the plan for examination reforms, with special focus on centralized examinations approved by TU.
2a. Academic calendar of 3 program-years of centralized masters' program adhered to in each of years 1, 2, 3, 4 and 5	Yes	Yes	At least two programs-year each year	TU	For this sub-DLI, a Master's level program will be considered of having adhered to the academic calendar if it adheres to the published academic calendar, particularly a program year is completed (results published) by the stipulated date. A program year is defined as one year of the program. A two-year Master's degree program would have two program-years. A list of academic program-years of centralized Master's programs for which the academic calendar was adhered to with the announced and actual dates of program start,

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
					beginning of end of examinations, and result publication for years 1,2, 3, 4 and 5.
2b. Average time taken for publication of results of regular centralized Bachelor's programs, under faculties of humanities and social sciences, management and education, is 7, 6, 5, 4 and 3 months in years 1,2,3,4 and 5 respectively	No	Yes	NA	TU	For the Bachelor's program, the duration of results publication for a program is counted from the last day of the examination to the date of publication of result. The average duration is calculated as a simple average of the centralized bachelors programs under different faculties. A table with the last date of examination and the date of publication of results for regular centralized Bachelor's programs under faculties of humanities and social sciences, management and education for years 1, 2, 3, 4 and 5.

DLI 5: Academic Reforms Introduced

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. Areas of priority for new programs identified and guidelines for selection of programs finalized [year 0]	No	Yes	NA	UGC	A copy of document describing areas of priority for new programs approved by UGC. A copy of guidelines for selection of new programs for funding approved by UGC.
1b. A total of 20, 60, 140 new academic programs in priority areas and revised[26] programs introduced in years 1, 2 and 3 and continued in years 4 and 5.	Yes	Yes	50% of the annual target	TU/UGC	A program is considered 'new' if it is new to the university. The revision should be justified by providing evidence that it will lead to increased labor-market relevance of the program. Reports should include *inter alia* name and level of the programs, type of programs (revised or new), name of HEIs conducting the programs, developed curriculum, program introduction date, and number of students enrolled and fee structure.

[26] 50 to 60% of the target is for revision of existing programs, which can be in any area/discipline, and remaining 40 to 50% of the target is for introduction of new programs that have to be in identified priority areas.

DLI 6: Poverty Targeted Financial Support for Under-Privileged Students

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. PMT processes for selection of students revised [year 0]	No	No	NA	SFAFDB	This DLI counts annual cohorts of students selected by SFAFDB using PMT targeting approach. The PMT model needs be revised as per the latest data from the Nepal Living Standard Survey (NLSS) of 2010 (NLSS-III). A systematic record-keeping system, of all applicants and beneficiaries, needs to be managed at SFAFDB.
1b. Student database and process computerized [year 0]	No	No	NA		Database of student selected in different years and documented evidence of funds released, including cumulative achievement, needs to be submitted.
1c. 3000, 3000, 3000, and 500 students selected in year 1, 2, 3, and 4 and funds released	Yes	Yes	30% of the annual targets		
2a. Plan for sustainability of the scheme approved [year 5]	No	No	NA	SFAFDB	Documentation of approval of the sustainability plan needs to be submitted.

DLI 7: Institutions Supported for Academic Excellence in Priority Areas through RDI Awards

DLI Indicators and targets	*Scalable (Yes/No)*	*Roll-over (Yes/No)*	*Minimum threshold*	*Data source /agency*	*Description of evidence required*
1a. Existing guidelines for research revised [year 0]	No	No	NA	UGC	A copy of revised Research Guidelines approved by UGC.
1b. Priority areas for research support identified [year 0]	No	No	NA		A copy of document describing areas of priority for research approved by UGC.
1c. 100, 150, 150 and 100 research projects selected in years 1, 2, 3, and 4 and funds released	Yes	Yes	50% of the annual targets		A report containing the list of selected research projects, amounts and dates of installments released, and the selection matrices for the specified years.
1d. Plan for sustainability of ongoing research approved [Year 5]	No	No	NA		A copy of Sustainability Plan of ongoing research approved by UGC.
2a. Parallel recruitment/promotion rules adopted by TU [year 0]	No	No	NA	TU	A copy of regulations for parallel promotion/recruitment of faculty approved by TU.
2b. 10 teachers hired under parallel recruitment/promotion track in each of the years 1, 2, 3, 4 and 5.	Yes	Yes	50% of the annual targets		A list of faculty promoted or recruited under parallel promotion/recruitment track in each year with the date of recruitment or promotion, position recruited or promoted to, and subject area.

Annex 2: Detailed Project Description
Nepal: Higher Education Reforms Project

I. Higher Education System

1. The HE system in Nepal was not established with a blue print. It has evolved since the 1950s in the course of the country's development responding to demands from within and outside the system. It consists of various institutions, including the MOE, the UGC, universities, constituent campuses, affiliated community and private campuses and autonomous institutions outside the purview of MOE. A brief description of these institutions is provided below.

2. *Ministry of Education:* The mandate for HE lies with MOE. Its primary role lies in the formulation of a legal framework, national policies and programs, including resource allocation to education sub-sectors, sector coordination and to review the implementation progress of national programs. In addition, it acts as a line ministry for institutions associated with HE.

3. *University Grants Commission:* UGC is an autonomous institution governed by an Act of the Parliament. The major role of UGC lies in the allocation of public financing for HE appropriated by the Parliament to various HEIs. Other roles of UGC include advising GON on the establishment of new universities, QAA of HEIs, coordination and monitoring of HEIs, formulation and implementation of quality improvement programs and establishing equivalence of qualifications from Nepalese universities and foreign institutions.

4. *Universities:* Universities are autonomous institutions established by individual Acts of the Parliament. They have the authority to frame rules within the framework of their acts. The Prime Minister and Education Minister are Chancellor and Pro-Chancellor, respectively, of the university senates. They chair the university senate which approves university rules. Most of executive powers in the university, including the framing of regulations, are vested in the Executive Council. The Vice-Chancellor is the highest authority in a university in terms of the executive power vested on individual officials. Universities have the authority to award academic degrees, create staff positions, hire and fire staff, adjust staff salaries and benefits and determine student fees.

5. Universities administer academic programs through their campuses/schools. Campuses are of two types, constituent and affiliated. Constituent campuses are parts of a parent university and their entire function is regulated by the legal framework of the parent university. Affiliated campuses are self-governing except for academic matters. They offer academic programs and follow academic rules of the affiliating university, with examinations administered by the affiliating university. Affiliated campuses are classified by UGC into community campuses and private campuses. Community campuses are not-for profit entities established and managed by communities.

6. Nepal has nine universities of which TU is the largest with approximately 88 percent of the total HE enrollment of 569,665. It has 60 constituent campuses and over 1,000 affiliated campuses. TU has introduced four autonomous constituent campuses to address management problems associated with its huge size.

7. Universities and their constituent and community campuses are eligible for public funding which is the basis for their financing along with their own income. They receive block grants from the UGC, which essentially constitute a public subsidy for higher education. The level of public subsidy per university student of constituent campuses varies from US$40 to US$1,800 per year on average for students of constituent campuses. Per student public financing for students at community campuses is only about US$30 on average per year.

8. *Affiliated campuses:* There has been rapid growth in the HE participation rate, which is currently 17 percent despite a relatively low level of public spending on HE, i.e., about eight percent of public expenditure on education and about 0.37 percent of GDP. This is largely attributable to the contribution of affiliated campuses - community and private. Each accounts for about one-third of the total HE enrollment.

9. *Central departments, faculties, institutes and schools*: TU's departments for postgraduate studies are called central departments. Central departments have significant authority in matters pertaining to academic and financial matters. These are eligible for accreditation under the National Program. 'Faculty', 'institute 'and 'school' are different names used to mean faculties of universities[27]. The functions of these institutions vary from university to university. While some administer academic programs, others only supervise and monitor academic programs administered by campuses within their jurisdiction. Those which administer academic programs in a manner similar to campuses are eligible for autonomy under the National Program. There are also schools under faculties which administer particular programs, such as the School of Management in TU, which offers postgraduate programs. Such schools are managed by governing boards and are eligible for autonomy under the National Program.

10. *Higher education institutions.* HEIs for the purpose of the Project include universities, community, constituent and private campuses, central departments, faculties, institutes and schools. All HEIs except for private campuses are eligible for support from NPHERD. However, private campuses are eligible for participation in QAA.

11. *Health Academies*. There are four autonomous health academies outside the jurisdiction of MOE established through individual Acts of the Parliament with degree granting authority, but without authority to affiliate other campuses. All are eligible for public financing channeled through the Ministry of Health. Health academies are outside the scope of the Project.

II. National Program for Higher Education Reform and Development

12. Nepal has a long tradition of periodically forming national education commissions to recommend education policies to the government. Such recommendations have served as a basis for the formulation of HE policy in national plans and guided development of the HE sector. UGC recently took an initiative, for the first time, to develop a comprehensive HEP[28] through extensive stakeholder consultations. The Government is expected to approve the HEP by September 30, 2015. A NPHERD has been developed in order to implement the HEP. The

[27] Like faculty of law.
[28] Higher Education Policy approved by UGC on April 16, 2014.

NPHERD, a six-year program, focusses on development and innovation, access and equity, quality and relevance, financing and governance.

13. The National Program is designed to support Nepal's vision to move from the status of a least developed country to a status of a developing country by 2022, as defined by the United Nations. Two key assumptions underpinning the determination of the resource envelope for the National Program are: (i) the share of HE in the education budget will increase to ten percent from its current share of around eight percent; (ii) GDP growth and inflation, as projected in the Approach Paper of the Thirteenth Plan, and the share of education in the national budget will be equal to the average share over the past decade.

14. The NPHERD consists of four components: (i) Higher Education Reforms; (ii) Centers of Excellence; (iii) System Strengthening; and (iv) Regular Program. The Higher Education Reforms component includes a series of systemic, institutional and academic reforms to improve relevance, equity, and academic excellence and research. The Center of Excellence component is designed on the premise that the development of a few centers of excellence is critical for supporting competitiveness of the national economy. The System Strengthening component is designed to build and strengthen an institutional infrastructure for governance and management of HE. The Regular Program component includes grants to: (i) universities and their constituent campuses; and (ii) UGC implemented programs, which, among others, includes regular grants to community campuses, scholarships, research and development, quality improvement program, and support for development of new HEIs. The estimated cost of the six-year NPHERD is presented in Table 2.1. IDA supports the Higher Education Reforms Component and the Regular Program Component of the NPHERD. The program's costing and financing sources are presented in Table 2.2. The financing gap is expected to be closed when the share of HE in the education budget is increased to ten percent in 2017/18 from the current eight percent as proposed in the HEP.

Table 2.1: Cost Estimates of NHPERD, US$ Million

Component	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Higher Education Reforms	3.00	27.00	28.00	39.00	48.00	55.00	200.00
Centers of Excellence	0.00	0.00	0.00	10.10	9.35	12.47	31.92
System Strengthening	0.00	3.92	6.39	5.33	5.15	0.00	20.79
Regular Program	67.21	77.00	89.00	103.00	120.00	139.00	595.21
Total	70.21	107.92	123.39	157.43	182.50	206.47	847.92

Source: National Program for Higher Education Reform and Development, UGC, 2014.

Table 2.2: Program Costing and Financing Sources, US$ Million

Costing	2015	2016	2017	2018	2019	2020	2015-2020
Regular Program	*67.21*	*77.00*	*89.00*	*103.00*	*120.00*	*139.00*	*595.21*
EEPs (salaries TU campuses)	53.50	53.50	53.50	53.50	53.50	53.50	321.00
Others[29]	13.71	23.50	35.50	49.50	66.50	85.50	274.21
Reforms Program	*3.00*	*27.00*	*28.00*	*39.00*	*48.00*	*55.00*	*200.00*
EEPs (scholarships, RDI grants to faculty/students)	2.00	2.00	2.00	2.00	2.00	1.25	11.25
Others[30]	0.53	24.10	25.10	36.10	45.10	52.82	183.75
Capacity Development & Project Management	0.47	0.90	0.90	0.90	0.90	0.93	5.00
Total cost	**70.21**	**104**	**117**	**142**	**168**	**194**	**795.21**
Financing Sources							
GON Committed Budget for Regular Program	67.21	77.29	88.89	102.22	117.55	135.18	588.34
Committed Budget for Reforms Program	3.00	9.87	10.23	14.25	17.54	20.10	75.00
Total Committed by GON	70.21	87.16	99.12	116.47	135.09	155.28	663.34
IDA Financing	10.60	11.40	11.40	11.40	11.40	8.80	65.00
Financing Gap	0.00	16.84	17.88	25.53	32.91	38.72	131.87
Total EEP	55.50	55.50	55.50	55.50	55.50	54.75	332.25
IDA financing share[31], %							18.05

Source: World Bank Staff Estimates based on NPHERD.

III. Higher Education Reforms Project

15. The Project will support the Higher Education Reforms and Regular Program components of Nepal's NPHERD to implement the National HEP. The policy focuses on development and innovation, access and equity, quality and relevance, financing and governance of the HE sub-sector. The Bank's support will use Investment Project Financing (IPF) through a Disbursements Linked Indicators (DLI) approach. Disbursements will be linked to the achievement of yearly targets for pre-defined, measurable and verifiable indicators. The Project will support selected HEIs that meet certain eligibility criteria and agree to undertake time-bound reforms. In order to enhance equitable access to HE, it will also provide for poverty-targeted scholarships for meritorious, disadvantaged students, particularly women.

16. The Project is structured around two components: (i) Implementation of Reforms, and (ii) Capacity Building and Project Management. Figure 2.1 below presents a conceptual framework for this Project.

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[29] Includes grants to other universities, community campuses, quality improvement program and UGC operating costs.
[30] Includes PBF, QAA, autonomy, examination reforms, and academic reforms and relevance.
[31] IDA financing share in EEPs (for Component 1) without considering the possible US$ appreciation against NPR during the Project period.

Component 1: Implementation of Reforms [US$790 million for 2015-2020, of which the IDA contribution is US$60.0 million].

17. Component 1 will use a RBF whereby IDA funds will be disbursed against specific EEPs (see Annex 3) in the development and regular program budget heads of GON Red Book upon achievement of pre-specified results as measured by disbursement-linked indicators (DLIs, see Annex 1 for DLI matrix). These DLIs are focused on the following four results areas: (i) Systemic/Institutional Reforms; (ii) Academic Reforms and Relevance; (iii) Equity; and (iv) Academic Excellence and Research.

Results Area 1: Systemic/Institutional Reforms

18. These will include major reforms for: (i) more effective public funding; (ii) institutionalization of the national accreditation system; (iii) greater institutional autonomy; and (iv) strengthening of the examination system.

More Effective Public Funding

19. During SHEP, UGC introduced FBF financed through the government budget for KU, PokU, and PU. These are financed predominantly through non-government resources. UGC also introduced PBF, supported through SHEP, for HEIs (i.e., universities, community campuses and constituent campuses) and FBF for regular grants to community campuses funded through the government budget. At present, about ten percent of recurrent funding for HEIs is channeled through FBF and PBF. Nepal's HEP underscores the need for employing PBF and FBF as the primary budget allocation tool in the HE sector.

20. The following outcomes are expected during the project period: (i) continuation of PBF for HEIs initiated during SHEP; (ii) employing FBF for resource allocation to autonomous campuses; (iii) introduction of PBF from the government budget for regular grants to community campuses; and (iv) continuation of FBF for universities predominantly funded by non-government resources.

21. HEIs which have met eligibility criteria and are participating in reforms supported by the Project will have access to PBF. Eligibility criteria for accessing PBF and the list of reforms which HEIs may undertake will be described in the PIM and guidelines on PBF for HEIs. A framework for FBF for autonomous campuses will be adopted by the UGC in consultation with TU. This framework will be included in the PIM. Earmarked funding for all autonomous campuses based on FBF will be channeled to autonomous campuses through TU. A framework for PBF for regular funding to community campuses will be adopted by UGC before the end of the first year of the Project. This framework, along with eligibility criteria and procedures for accessing this funding, will be included in the PIM. Continued participation of universities predominantly funded by non-government resources in FBF will be a precondition for support to these universities from the NPHERD. The same condition will hold for other universities predominantly funded by non-government resources. This results area will be supported through achievement of –'Performance-based financing extended to HEIs' (DLI 2).

Institutionalization of the National Accreditation System

22. QAA was introduced through support from SHEP. QAA is administered by the Quality Assurance and Accreditation Committee (QAAC) of the UGC. The QAAD administers QAA under QAAC which reports to UGC. The QAA system has been recognized as an indispensable element of the HE system. HEP articulates the need for establishing an independent QAA system to institutionalize the national accreditation system.

23. The Project will support the GON's plan for establishing an independent QAA system and expanding the coverage of QAA. GON will establish an autonomous QAAA within UGC and announce revised guidelines for QAAA by June 30, 2015. An independent NAB is to be established by the end of the second year of the project. During the project period, 125 institutions are expected to gain accreditation. Constituent, community and private campuses, schools and central departments which meet the eligibility requirements described in the QAA Guidelines can participate in the QAA process. To encourage HEIs to participate in the QAA process, support from the NPHERD will be restricted those HEIs which meet eligibility criteria for participating in the QAA process and submit letters of intent (LOI) to participate. Accredited HEIs will get preferential treatment in accessing resources over HEIs which only complete a Self-Study Report (SSR) for QAA. HEIs which complete a SSR will get preferential treatment for accessing resources over those which do not complete a SSR for QAA. DLI 1 will support these activities.

Greater Institutional Autonomy

24. To address governance, management and financing problems, TU introduced the decentralization of campuses on a voluntary basis in 1998. Building on the success of decentralization, TU adopted Autonomy Rules in 2006. SHEP facilitated implementation of the decentralization and autonomy policies. Four constituent campuses have become autonomous and 45 campuses decentralized. Decentralization and autonomy have contributed to building local ownership and initiative, as well as the mobilization of additional resources for upgrading physical infrastructure, enhancing the learning environment and faculty capacity building. While decentralized campuses have added TU central programs with higher market demand, autonomous campuses are offering new programs specific to individual campuses and administering examinations under the supervision of TU's OCE.

25. The proposed HEP includes "encouraging decentralized and autonomous management of constituent and affiliated campuses" as a reform to be supported. NPHERD will continue to support the policy of decentralization and autonomy through the continuation of support for increasing the number of autonomous constituent campuses and the introduction of autonomous affiliated campuses. An expansion of campus-specific academic programs and the administration of examinations by campuses under the supervision of OCE will be the major area of focus.

26. TU affiliated campuses, both community and private, are independent of TU's administration vis-à-vis financing and management. However, they follow the curriculum prescribed by TU and their students sit for TU-administered examinations. This arrangement

unduly burdens the TU administration and constrains the academic growth of good-performing affiliated campuses. NPHERD will support TU initiatives for granting academic autonomy to some accredited community and private campuses.

27. During the project period, the total number of autonomous constituent campuses/schools[32] and autonomous affiliated campuses is expected to reach 14, including four campuses which became autonomous under SHEP. TU will adopt revised Autonomy Rules based on prior implementation experience, which will be extended to affiliated campuses. Autonomous campuses will receive preferential treatment for access to NPHERD resources. This results area is aligned to 'Autonomy extended to additional campuses/schools' (DLI3).

Strengthening of the Examination System

28. TU's centralized examinations administered by OCE follow an annual cycle. Decentralized examinations follow a semester cycle and are administered by dean's offices. While programs using decentralized examinations largely adhere to an academic calendar and examination results are published on time, most centralized examinations, taken by the majority of students across the country, do not adhere to an academic calendar and the declaration of results is delayed. Other key dates in an academic calendar, such as the start of an academic session, are also not adhered to. As a result, students typically spend four or more years to complete a three-year program.

29. On average, about 26 percent of regular students[33] pass examinations in TU. While pass rates of students admitted to semester programs are high (over 70 percent), those of students admitted to annual cycle programs are low. Low pass rates of students admitted to annual cycle programs are associated with poor compliance of academic standards and large class sizes in these programs. Apart from various academic interventions, the revision of outdated academic standards and compliance with an academic calendar are critical for improving pass rates in annual cycle programs.

30. TU will undertake examination reform and enforce its academic calendar. To achieve these, TU has adopted the following strategies: (i) the gradual conversion of academic programs from an annual cycle to a semester cycle; (ii) the revision of academic rules which impede completion of an academic year within one calendar year; (iii) a gradual increase in the share of programs which adhere to an academic calendar; (iv) a reduction in the time needed for the declaration of results for programs which, to date, have found adherence to an academic calendar to be challenging; (v) computerization of the records of all students eligible to sit for examinations; and (vi) a strengthening of the capacity of the OCE and its regional offices. NPHERD will support TU in their implementation. The following results are expected under the Project: (i) the records of students who are eligible to sit examinations will be computerized; (ii) the annual academic calendar of 15 Master's program-years will be adhered to for centralized examinations; and (iii) the time required for declaring results for centralized examinations for Bachelor's programs in education, management, humanities and social sciences will be

[33] Excluding students appearing for make-up examinations.

decreased from between six to ten months to only three months. To facilitate the achievement of these reforms, TU will adopt a plan for the enforcement of the academic calendar, revise its academic rules for enabling completion of the academic calendar within one year and adopt an examination reform plan with particular focus on centralized examinations. TUPIO will prepare guidelines for the implementation of these activities by Project effectiveness. This results area will be measured against‘Examination reforms implemented and academic calendar enforced in TU’ (DLI4).

Results Area 2: Academic Reforms and Relevance

31. Nepal's universities now offer about 400 Bachelor’s and Master’s degree programs. However, most programs in the fields of S&T having more promising employment prospects offer limited intake and are confined to major campuses and institutions. Nearly 84 percent of students are enrolled in humanities and social sciences, education and management programs which have limited employment prospects. The curricula of these programs do not foster communication and problem-solving skills and have not been reviewed and revised for better quality and relevance in many years. The proposed HEP emphasizes the need for expanding and introducing market-oriented programs aligned to national development priorities.

32. NPHERD will support academic reforms across all participating universities and campuses with a focus on: (i) better learning outcomes in selected programs; and (ii) expansion of programs in priority areas, including S&T. By Project effectiveness, UGC, in collaboration with universities, will review the status of existing programs, finalize an action plan for revisions and identify priority areas for academic programs. Within the project period, the following results are expected to be achieved: (i) curricula revision and the consolidation of existing programs which have not been reviewed for more than five years with an emphasis on project/field work, hands-on learning and communication skills (75 programs); (ii) the introduction of new programs with market demand (65 programs); (iii) additional programs in priority areas introduced in autonomous and accredited campuses (50 programs); and (iv) increasing the share of enrollment in priority areas, including S&T, by providing incentives for increasing the enrollment and introduction of new programs.

33. UGC will invite proposals for curricula revision, the introduction of new programs with market demand and additional programs in priority areas. Criteria and procedures for the selection of proposals, funds flow, supervision and the monitoring and evaluation of projects will be described in the PIM. The achievement of these reforms will be measured against DLI 5.

Results Area 3: Equity

34. Nepal has made significant progress in enhancing access to higher secondary and HE over the past decade. Data from NLSSs show that the Gross Attendance Rate (GAR)[34] for HE has increased from five percent in year 2003 to 17.1 percent in 2010 (see Table 2.3). The Net Attendance Rate for Higher Secondary Level increased from five percent in year 2003 to 12.9 percent in 2010.

[34] Since it is difficult to specify the official age range for tertiary education, it is relevant to look at the gross attendance rates (GARs) at this level.

Table 2.3: Gross Attendance Rates by Consumption Quintile, %

Year	Poorest	Second	Third	Fourth	Fifth	Nepal
2003	0	0	1	1	17	5
2010	0.6	3.1	5.7	14.1	50.8	17.1
Change	0.6	3.1	4.7	13.1	33.8	12.1

Source: World Bank Staffs' estimates using NLSS II and NLSS III data.

35. Nepal has made progress in increasing access to HE for all consumption quintiles (see Table 2.3). However, the increase in access for students from richer households has been much greater compared to those from poorer ones. GAR for the richest quintile is 84 times higher than that of the poorest. At the higher secondary level, the NAR for the richest quintile (30.5 percent) is 19 times higher than that of the poorest (1.6 percent)[35]. For school education, the disparity in access to education between the richest and poorest quintiles is low. This pattern of increasing disparity in access to higher levels of education is related to the substantially higher cost of education at these levels. These findings suggest the need for an expansion of poverty-targeted scholarships for higher levels of education and to place poor households at the center of educational interventions which enhance access to and the quality and relevance of education.

36. The need to support the most needy attain access to education is emphasized in Nepal's Approach Paper to the Thirteenth Plan (2013-2016). The HEP also declares that measures will be taken to ensure equity in HE, including for students belonging to poorer households, to achieve national goals of inclusive and equitable development. NPHERD will support a program for enhancing equity by identifying and supporting meritorious students from poor households and minimizing financial barriers to access to HE.

37. For the identification of needy students, SHEP used the PMT model with NLSS 2003/04 data. This was widely accepted by government, academia and the beneficiaries. NPHERD will use an updated PMT model with NLSS 2010 data. The Project will support 2,000 higher secondary students from the science stream[36] and 7,500 Bachelor's degree students from the bottom two consumption quintiles selected on a competitive basis. At the Bachelor's degree level, preferential treatment will be given to students from the S&T stream and other priority education areas. Preferential treatment will also be given to women through the allocation of grants to 45% women at the higher secondary level and 40% at the Bachelor's degree level. The per student scholarhip amounts will be Rs.28,000 (about US$290) at the higher secondary level (two years), and Rs.63,000 (about US$653) at the Bachelor's level (three to four years) on average. Beneficiaries will need to maintain satisfactory performance for the continuation of scholarships. NPHERD will also support on campus jobs for scholarship recipients.

PMT Model

38. Ordinary Least Squares analysis of detailed NLSS survey data will be used to determine the weights which various attributes of consumption have on a household's well-being. The

[35] NLSS 2010-11.

[36] To increase pool of poor students from science stream in HE.

verifiable variables include: type of outside wall, foundation, roof, toilet, cooking stove; the sources of drinking water and lights that household members are using, telephone (landline), cable TV and internet; size of family, educational status of the head of household, the presence of a female child attending private school, proximity from a health post and whether the household is receiving foreign remittances. The model also includes variables derived from poverty mapping, which are completely non-manipulative and provide good discriminatory power for explaining variations across households. Households with attributes such as cemented outside walls, a pillar-bonded foundation, remittances, a landline telephone, cable TV, internet and a head of household having HE are positively correlated with consumption. Households with no outside walls, many family members, a less educated head of household, high sub-district poverty rates and using communal toilets are negatively associated with consumption. Achievement in this results area will be measured through ‘Poverty-targeted financial support for disadvantaged students’ (DLI6).

Results Area 4: Academic Excellence and Research

39. The quality of HE is closely linked to a culture of research and innovation. There are both supply and demand side constraints limiting the development of a research culture in Nepal. On the supply side, a lack of adequate research, infrastructure and opportunities for researchers’ capacity development are challenges. On the demand side, there is a lack of proper incentives for researchers to conduct research. These include inadequate recognition of research outputs for career advancement in universities, limited funding opportunities and a lack of opportunities for the mutual exchange of knowledge with national and international peers. Achievement in this results area will be assessed following the implementation of demand and supply side initiatives to promote academic excellence and a strong research culture in the country.

Demand Side Interventions

40. *Grants for PhD, M. Phil and Master's degree dissertation research:* NPHERD will support approximately 80 PhD scholars and 200 MPhil and Master's degree student in S&T with small grants for carrying out thesis research in priority areas. Recipients must already be registered for dissertation research.

41. *Graduate student fellowships*: NPHERD will provide fellowships to approximately 40 students for pursuing doctoral studies in Nepali universities. Faculty members already enrolled in PhD programs as well as prospective PhD students in the process of applying for doctoral studies will be eligible to apply for fellowships and selected on a competitive basis.

42. *Research grants for faculty members and researchers*: NPHERD will provide around 200 research grants to faculty members and researchers. Independent researchers can also collaborate with universities to participate in this scheme through a competitive selection process. To maximize the sharing of research knowledge in the wider HE community and promote a research culture in HEIs, only projects that formally engage graduate students in research will be supported. To encourage researchers to publish research findings support will be provided to them for publication in refereed journals, and to encourage publication of refereed journals support will be provided to institutions for publication of refereed journals.

43. *Institutional research to support industrial clusters*: Linking research to national development needs has been a weak point in HEIs in Nepal. There is a need to cluster academia, government, industry and markets together around industries, products or production processes. NPHERD will provide approximately nine large multi-year research grants to researchers from HEIs on a competitive basis to carry out S&T-oriented research with strong market relevance. Researchers applying for grants will be encouraged to hold consultations and collaborate with employers and industries when developing research proposals to enhance the market relevance of their research outputs. They will also be encouraged to seek matching grants from industry partners.

44. *Recognition of research achievement for career development*: At present, research achievement plays an insignificant role in faculty promotions in most universities in Nepal. There is little incentive for faculty members to engage in research and keep up with new developments in their fields. To change this scenario, NPHERD will provide a grant to TU to formally introduce a parallel recruitment and promotion track based on one's research accomplishments. This will enable TU to recruit high-caliber, senior faculty directly from the market based on their research record. This policy is expected to play a critical role in enhancing the overall quality of education at TU over the medium- to long-term. NPHERD will also support the engagement of emeritus professors in HEIs who are selected solely on their academic excellence.

Supply Side Interventions

45. *Fellowships for graduate programs with study abroad component*: In certain critical priority areas such as ICT, energy, transportation, conflict/disaster management and environmental management, national capacity can be significantly enhanced by enabling students to spend one or two semesters in specialized partner institutions abroad during the course of their studies. The NPHERD will support around 25 MPhil/Master's degree students in S&T and 25 PhD students who are pursuing their studies in such "sandwich programs" run by Nepali HEIs. While Master's degree fellowships will be open to any aspiring student, PhD fellowships will be restricted to faculty members without PhDs from autonomous and/or accredited institutions. PhD fellowships are specifically aimed at strengthening the research capacity of and academic excellence in HEIs that show a commitment to quality and reform.

46. For the implementation of activities related to this results area, UGC will revise the existing Guidelines for Research and approve priority areas for funding RDI. TU will adopt rules for faculty recruitment and promotion based on academic excellence. Criteria and procedures for RDI funding, supervision and the monitoring and evaluation of RDI projects will be described in the Research Guidelines. Achievement in this results area will be measured against 'Institutions supported for academic excellence in priority areas through RDI awards' (DLI7).

47. NPHERD will also provide support for strengthening of laboratories, libraries and networking.

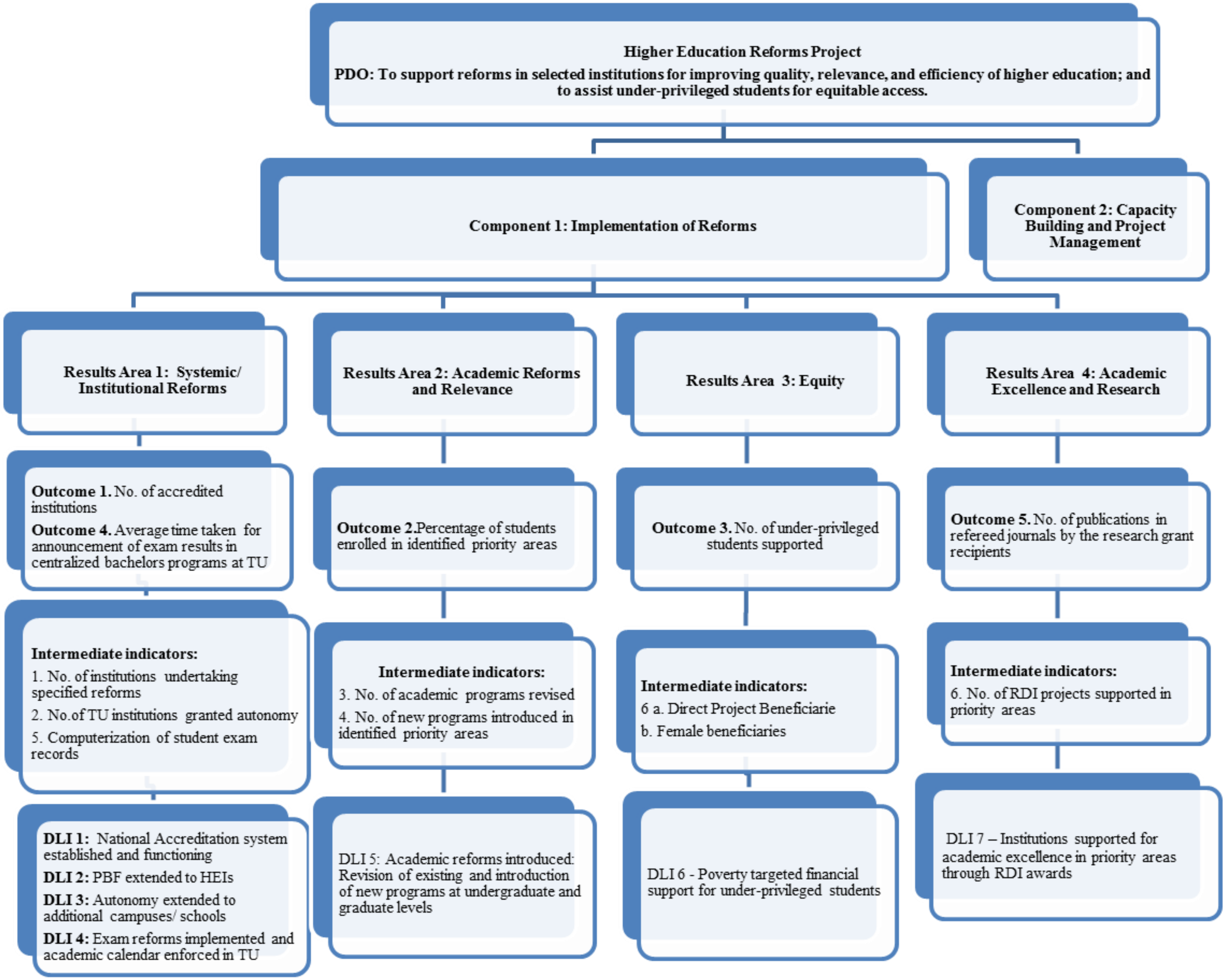
Component 2: Capacity Building and Project Management [US$5.0 million, of which IDA contribution is US$5.0 million]

48. This component finances inputs required to achieve the above DLIs, including capacity building for effective project management. These include training and study visits, refurbishment of office space, office rentals, salaries of project staff, studies and surveys and monitoring and evaluation.

49. With this funding, UGC, supported by TU and SFAFDB for their parts of the Project, will ensure compliance with applicable agreements, guidelines and fiduciary and safeguard requirements by all beneficiary institutions and grant recipients. Surveys and studies to be carried out in different years include: (i) employer, student and faculty satisfaction surveys, and a PMT survey to be carried out in years 1, 3 and 5; and (ii) impact studies on FBF and PBF, autonomy, accreditation, examination reforms, academic reforms, student financial assistance and support for RDIs. These surveys and studies are also listed in the Results Framework and in DLI descriptions.

50. The functional relationship between the PDO, components, KPIs, IRSs and DLIs is presented in Figure 2.1 below. Annex 8 includes additional details on reforms, eligibility and selection criteria, as well as priority areas likely to be supported.

Figure 2.1: PDO, Components, KPIs, IRSs and DLIs in Flow Chart



Annex 3: Implementation Arrangements
Nepal: Higher Education Reforms Project

Project, Institutional and Implementation Arrangements

1. The NPHERD has four components: (i) Higher Education Reforms; (ii) Centers of Excellence; (iii) System Strengthening; and (iv) Regular Program. The IDA-financed Project referred to as 'HERP' supports the Higher Education Reforms component and Regular Program component of NPHERD through IDA disbursements against the achievement of DLIs, and financing of capacity building and project management costs. GON is implementing the Higher Education Reforms component through UGC, TUPIO and the SFAFDB. The Regular Program component is implemented through the UGC, universities and constituent and community campuses.

2. Overall coordination and policy-related responsibilities under the Project will be with the MOE. Overall implementation responsibility will be with the UGC which will work in close coordination with the MOE, TUPIO, SFAFDB and participating institutions. UGC will report to MOE within the GON's framework of accountability system. TUPIO and SFAFDB will be associated IAs and also cost centers reporting to UGC. The relationship between the National Program and the IDA supported HERP is presented in the schematic diagram below (see Figure 3.1 below). Financing of salaries under the Regular Program (shown in Figure 3.1) is designed to provide a fiscal space to the Government for financing NPHERD by supporting the treasury. Notwithstanding this provision, salaries of faculty and staff at the HEI level will continue to be financed strictly through the Regular Program of UGC.

3. To ensure coordination between agencies involved in project implementation and to provide policy advice, an 11-member Project SC will be formed[37] by May 15, 2015. A joint coordination committee comprising UGC and TUPIO officials will be formed to facilitate implementation coordination and fund flow arrangements in TU constituent campuses. UGC will prepare a PIM by March 15, 2015 to facilitate project implementation for UGC and other IAs.

Project administration mechanisms

4. The UGC will implement the Project through its regular operation and management system, while TU will implement it through TUPIO, which has been established specifically for HERP implementation. SFAFDB will continue to administer the student financial assistance program under HERP. An autonomous QAAA, to be established within UGC, will implement activities related to QAA. This responsibility will be eventually handled by the NAB, once established. Implementation arrangements for the Project are schematically presented below (see Figure 3.2).

5. Responsibility for the delivery of results and implementation of programs related to DLI 2 (Performance-Based Financing Extended to HEIs), DLI 5 (Academic Reforms Introduced:

[37] The composition of the Committee will be as follows: Chairperson, UGC (Chair); Vice-Chancellor, TU (Member); Vice-Chancellor, KU (Member); One Vice Chancellor among other participating universities (Member); Secretary, MOE (Member); Member Secretary, HSEB (Member); Executive Director, SFAFDB (Member); Representative, NPC (Member); Representative, MOF (Member); One prominent person in the education field (Member); and Member-Secretary, UGC (Member-Secretary).

Revision of existing programs and introduction of new programs at undergraduate and graduate levels) and DLI 7 (Institutions Supported for Academic Excellence in Priority Areas) will lie with the UGC. TUPIO will be responsible for DLI 3 (Autonomy Extended to Additional Campuses/Schools) and DLI 4 (Examination Reforms Implemented and Academic Calendar Enforced in TU). SFAFDB will be responsible for DLI 6 (Poverty-Targeted Financial Support for Under-Privileged Students) and QAAD or QAAA will be responsible for DLI 1 (National Accreditation System Established and Functioning) until NAB is established.

6. Participating institutions, including universities, constituent and community campuses, schools and central departments, will be selected by UGC, TUPIO and QAAA for programs associated with the DLIs for which they are responsible. UGC, TUPIO and QAAA will disburse Government of Nepal Higher Education Reform Program (GON HERP) funds directly to participating institutions which will be responsible for the implementation of the programs they have been selected for. SFAFDB will select scholarship recipients and disburse funds directly to their bank accounts.

7. The Capacity Building and Project Management Component will support UGC/QAAA, TUPIO, and SFAFDB in project implementation. UGC/QAAA, TUPIO and SFAFDB will be responsible for implementing specific parts of this component. UGC, TUPIO and SFAFDB will have separate sub-categories of Capacity Building and Project Management allocations.

8. Beneficiaries of the Project include universities, academic institutions/ campuses, departments, programs, research faculties and students from different universities and needy students at the higher secondary and HE levels, particularly girls. Beneficiaries will be selected through a competitive process with clearly defined criteria and procedures, described in the PIM.

Figure 3.1: Relationship between the National Program and HERP

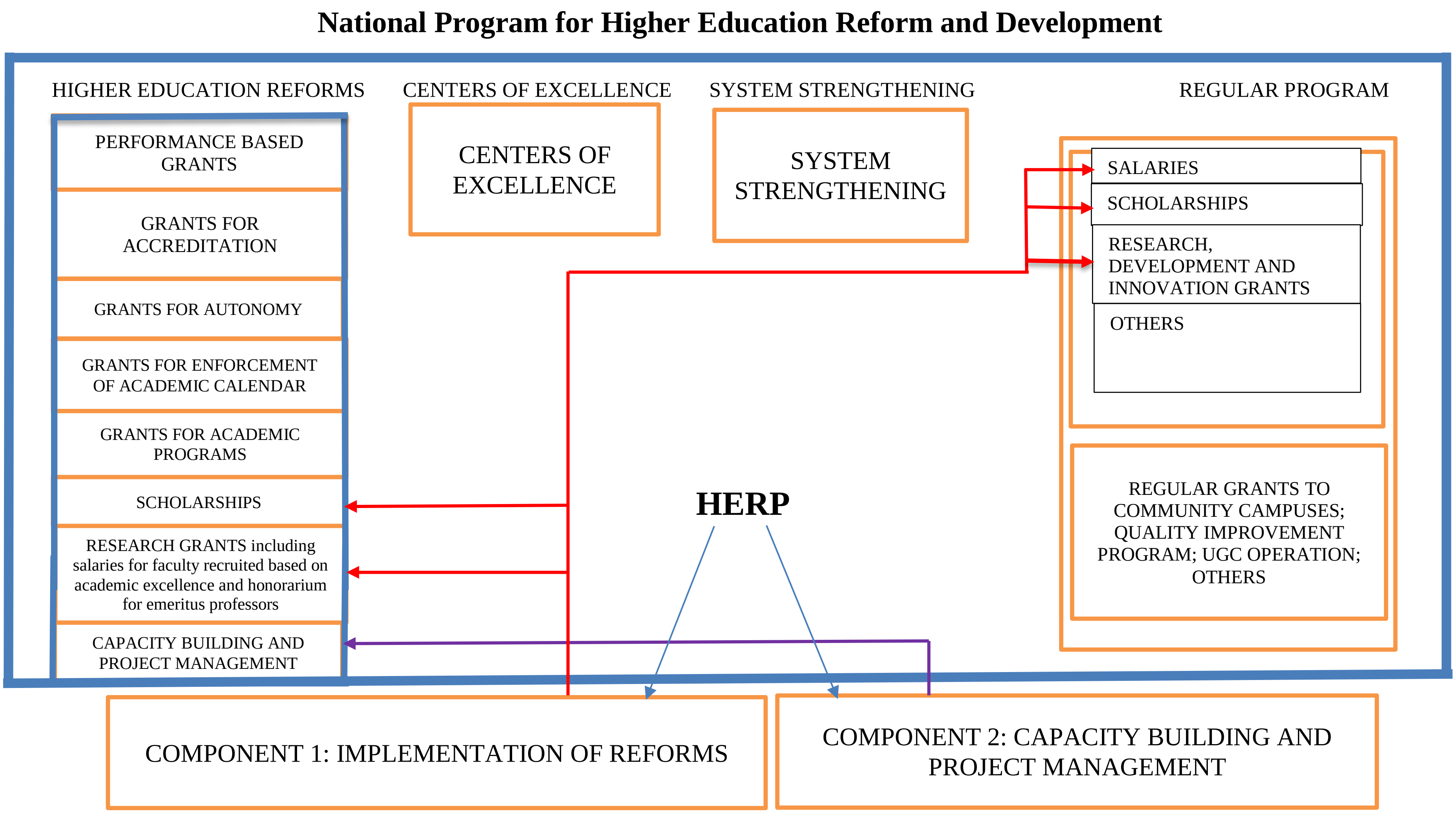
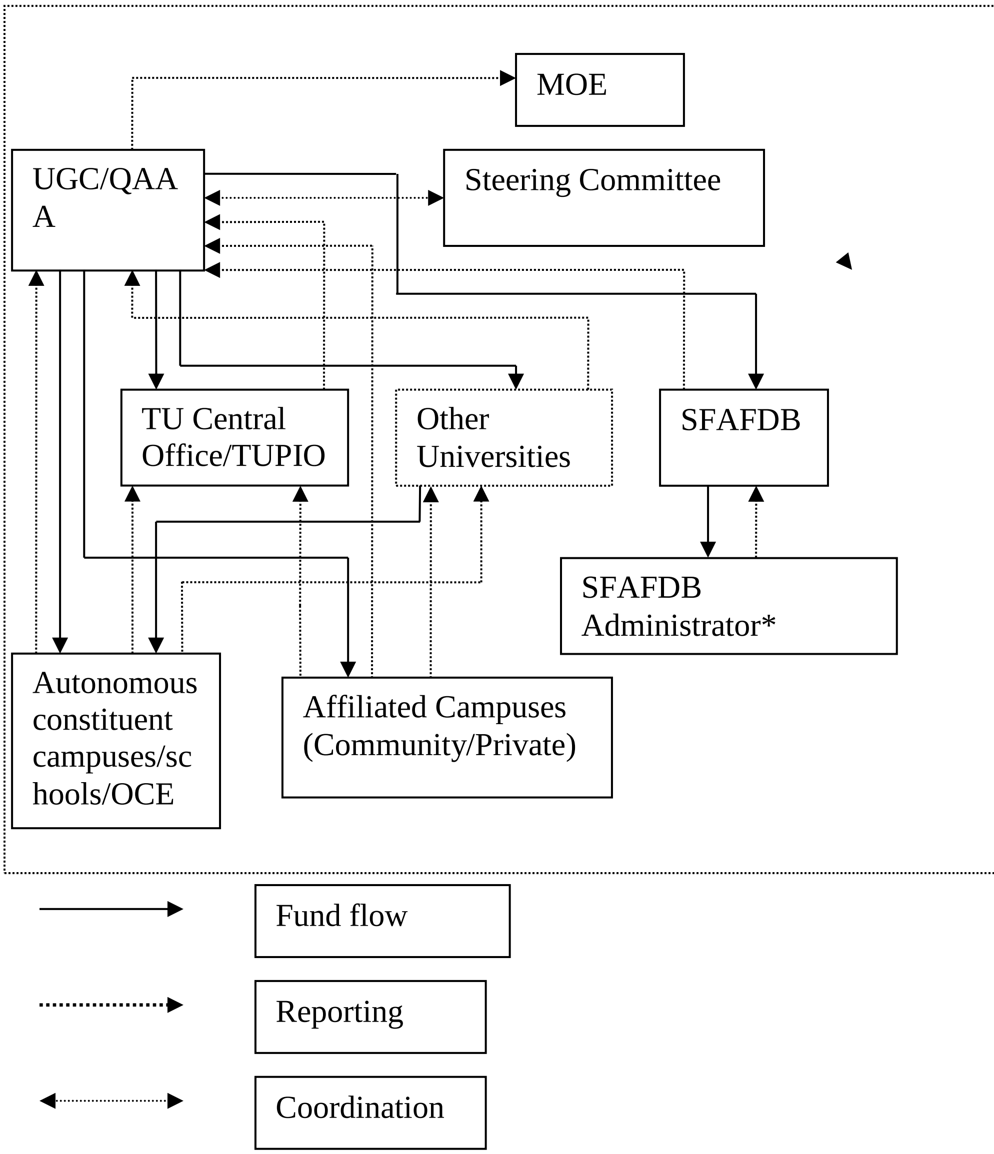


Figure 3.2: Organizational Structure for Implementation



* SFAFDB will use services of an Administrator, a commercial bank, for channeling funds to students.

Financial Management, Disbursements and Procurement

Financial Management

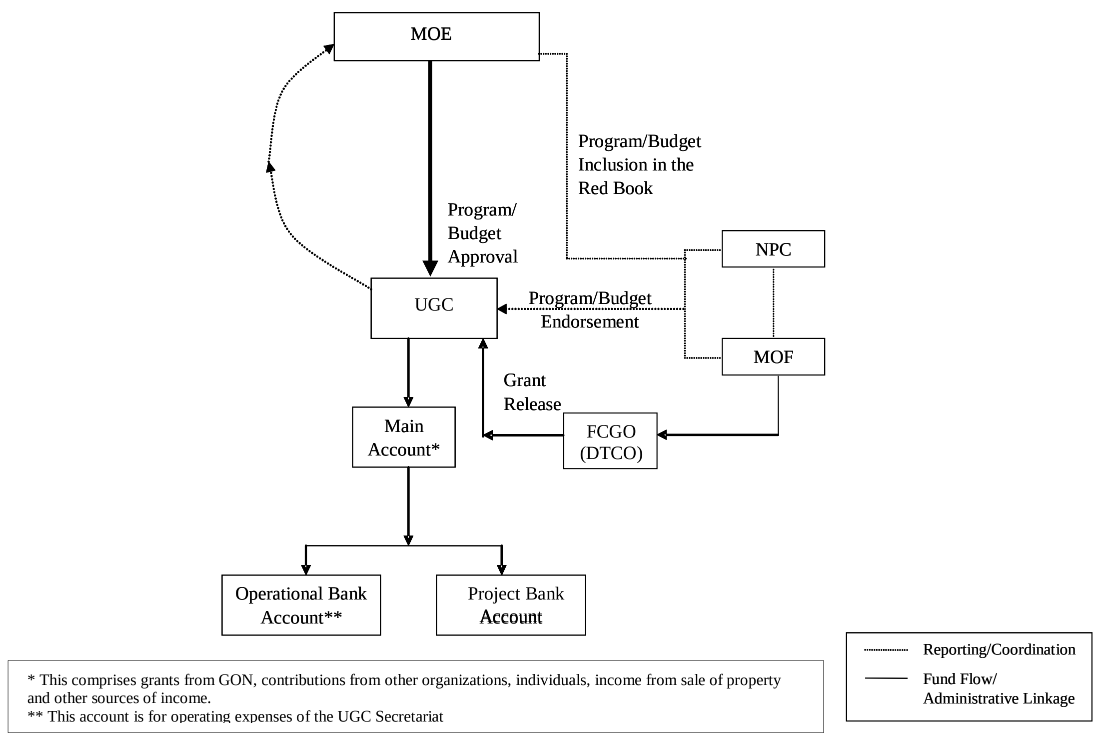
9. UGC will be the focal agency responsible for coordinating with TUPIO and SFAFDB for overall project financial management including budgeting, financial reporting and funds flow management. TUPIO and SFAFDB will report to UGC and manage their budget approval and

funds flow process with IDA through UGC. The financial management aspects of QAAA will be managed by UGC. Upon establishment of the NAB, it will be managing its financial management similar to TUPIO and SFAFDB.

Project Budgeting

10. As a programmatic operation, the budgeting of all program expenditures will constitute a part of the government budgeting process. Project programming and budgeting will follow the UGC budgeting system and chart of accounts as stipulated in its Regulations and the PIM. UGC will prepare an Annual Work Program and Budget (AWPB) by integrating AWPBs received from TUPIO, SFAFDB, and QAAA, which will be submitted to NPC/MOF via MOE. Following budget approval, MOF will release authorization for spending to MOE, which in turn will authorize UGC to spend according to the approved AWPB. TUPIO and SFAFDB will receive budgets and authority letters from UGC to spend as per the approved programs. The budget and expenditures will be monitored by UGC (including QAAA), TU and SFAFDB respectively and reported through the IUFR. The same budgeting process was effectively followed in SHEP. A schematic diagram (see Figure 3.3) of the planning and budget approval process for the Project is presented below. The Project Bank Account, which is a DA, is applicable to Component 2 only. The Operational Bank Account, which is GON HERP Bank account, will be used for both components.

Figure 3.3: Planning and Budget Approval Process



Fund Flow Arrangements

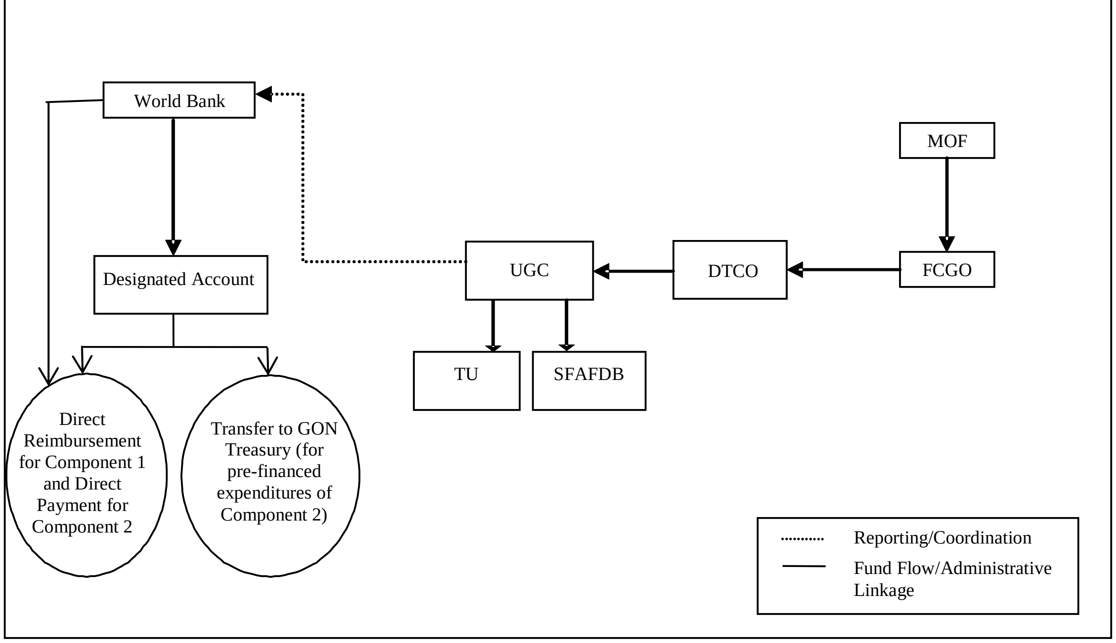
11. Government will release the budget for the NPHERD to UGC in three installments each year as per its fund release procedures. GON consolidated funds will be used to pre-finance expenditures incurred by IAs. Based on payments made from the government treasury account for eligible expenditures associated with Component 2, TUPIO and SFAFDB will request UGC to arrange for reimbursement from the Bank. UGC will consolidate its eligible expenditures, including that of QAAA, with the eligible expenditures reported by TUPIO and SFAFDB. IDA disbursements will be based on the consolidated Statement of Expenditures (SOE) submitted by UGC.

12. A DA in the name of UGC will be established to facilitate payments for Component 2. An advance not exceeding US$1.0 million will be provided in the DA, from which reimbursement will be made to the government treasury. Direct payment from the DA could also be made for eligible expenditures. The DA will be replenished through Withdrawal Applications based on SOE to maintain the amount in the DA at US$1.0 million. The same process followed in SHEP was working well and the IAs are well experienced with the process.

13. IDA disbursements for Component 1 will take place twice a year, in May and October. Disbursements will be linked to the achievement of pre-defined DLI targets based on the World Bank Task Team's validation in accordance with the verification protocol presented in Annex 1. Two conditions need to be satisfied for disbursement: (i) incurred expenditures for the EEPs reported and verified; and (ii) defined DLI targets are met and validated. Disbursement from the Bank will be based on SOEs and payments will be made directly to the government treasury. A schematic diagram of fund flow process is presented in Figure 3.4 below.

14. In line with the approved AWPB, UGC will disburse RDI grants to faculty and students and SFAFDB will disburse scholarships to students. The disbursements will be in installments based on the program implementation schedule as per the PIM. The scholarships disbursed by SFAFDB to eligible students will be based on a set of criteria and supporting documents submitted by the concerned students in line with the PIM. Researchers will be selected for RDI grants following UGC Research Guidelines and these grants will be disbursed and monitored as envisaged by the Guidelines.

Figure 3.4: Funds Flow Process



Financial Management Staffing

15. At the time of assessment, the UGC Finance Section had five staff comprising a Finance Controller, two officers and two assistants. One of the Finance Officers was fully assigned to SHEP. The section's current capacity was built during SHEP's implementation. Adequate capacity will be required in UGC for coordination with TUPIO and SFAFDB and for overall project implementation, including budget preparation, reporting and funds flow. The Finance Unit of TUPIO was managed by two Finance Officers, one of whom was part time. UGC, TUPIO and SFAFDB will assign one qualified Accounts Officer each for overall project financial management.

16. Based on the experience of SHEP, UGC must strengthen its capacity to monitor beneficiaries for their internal controls, timely reporting and compliance with Memoranda of Understanding (MOUs). Consultants may be hired on an as-needed basis for monitoring. To establish a robust and on-going monitoring mechanism, two full time Finance Officers will be required, one in UGC and one in TUPIO, for monitoring financial management matters related to beneficiaries.

17. SFAFDB is staffed with a Finance Officer and another staff member assigned to monitoring. There is a need for further strengthening of the monitoring process as it was found that compliance with criteria, including student attendance and performance, specified in the scholarship guidelines were not regularly monitored under SHEP. Staff assigned to monitoring must ensure that it is conducted on a regular basis.

Project Financial Accounting and Reporting

18. The accounting systems of UGC, TU and SFAFDB are on a cash-basis. The accounting systems of UGC and TUPIO are computerized while the SFAFDB system is yet to be computerized. SFAFDB follows UGC's chart of accounts based on the Operations and Financial Management Guidelines prepared under SHEP. TUPIO has a separate chart of accounts. The charts of accounts of UGC, SFAFDB and TUPIO are adequate for reporting on eligible expenditures.

19. The salary expenditures defined as EEPs will be reported by TUPIO to UGC for consolidation. The scholarships disbursed to students by the SFAFDB and subsequent confirmation by the respective bank that the amount reached the individual student's bank account will be booked as expenditures. As for RDI grants to faculties/researchers, the initial advance released based on contract signing and the subsequent releases on progress, including expenses reporting, will be booked as expenditures. In the IUFRs, expenditures booked as eligible expenditures by the IAs will be reported.

20. Based on reports to UGC by QAAA, TUPIO and SFAFDB, UGC will prepare consolidated IUFRs for reporting eligible expenditures from all IAs in a format agreed with the Bank. IUFRs will be submitted on a trimester basis to the Bank within 45 days of the end of each trimester. IUFRs will provide separate information for EEPs under Component 1, and expenditure details under Component 2. Based on the experience of SHEP, IAs are expected to improve the timeliness and quality of financial reporting. The Finance Officer assigned for the Project will ensure timely and quality preparation of IUFRs in each IA.

Monitoring and Internal Controls

21. Based on lessons learned from SHEP, IAs must strengthen their monitoring and evaluation capacities. SHEP auditors signaled the need for improvement in financial monitoring and evaluation of beneficiaries. UGC and SFAFDB will establish a screening and evaluation mechanism for the selection of grant recipients, faculty and students for RDI grants, and students for scholarships, which will be described in the PIM.

22. A MOU will be signed between UGC and recipients of RDI grants, which will be disbursed to faculty and students in installments based on achievement of milestones defined in the MOU. The use of funds as per the MOU and research projects' implementation progress will be monitored by UGC using external expertise. A clause will be built into the MOU to refund disbursed amounts in the event of non-compliance.

23. Scholarship payments to the bank accounts of students will be made through a commercial bank by SFAFDB based on the submission of supporting documents. Expenditures will be reported based on confirmation of bank transfers. Compliance with scholarship criteria will be monitored through the review of reports, including school attendance reports and academic performance reports submitted to SFAFDB. Scholarship payments to students will be based on the same review. Scholarship criteria, required documents and the frequency of reviews will be described in the PIM.

24. Periodic monitoring reports and reviews as per the PIM will be made available to IDA by UGC/QAAA, TU and SFAFDB.

25. UGC and SFAFDB will also disseminate information pertaining to research grants and scholarships each trimester. The UGC/QAAA and SFAFDB will also use websites, printed media and other modes of communications for disclosure.

Internal Audit

26. During SHEP implementation, UGC employed a qualified professional accounting firm registered under the Nepal Chartered Accountants Act to carry out an internal audit of the UGC. The same internal auditor may also be engaged in conducting an internal audit of SFAFDB. Internal audits are currently conducted twice a year for both UGC and SFAFDB. Audit reports are presented to the UGC and SFAFDB boards, which monitor progress made in addressing the audit observations. This arrangement has helped strengthen control measures and overall financial management in the UGC and SFAFDB.

27. TU has a separate internal audit unit and conducts an internal audit of TUPIO twice a year. Financial management of TUPIO has been strengthened by the observations of internal audit reports. Internal audit will also address compliance with the MOU and criteria and guidelines for beneficiary payments from UGC, TUPIO, and SFAFDB.

External Audit

28. Financial statements and books of accounts of UGC, TUPIO and SFAFDB are audited by the Office of the Auditor General (OAG). Annual consolidated project financial statements, including SOEs and DA statements for each year of project implementation, will be submitted to IDA within six months of the end of each fiscal year. There are outstanding audit reports pertaining to SHEP for FY 2014. However, an exception was authorized to proceed for Board approval notwithstanding the overdue audit report. The audit reports for SHEP were usually being received during the grace period of four months. To avert delays, UGC will coordinate with OAG by May of each year to ensure that the Project's audit is scheduled in a timely manner.

29. For Component 1, arrangements for performance audits will be established. Audits will be carried out by OAG in close consultation with UGC and in a time frame mutually agreed between the auditees and OAG. The performance audit will provide an opinion on the achievement of the objective, implementation of the approved program for HERP within the specified period and the progress of activities being implemented as per the PIM and MOU. The scope of performance

audits will be agreed with the OAG. GON will ensure that there is adequate budget for OAG to carry out performance audits.

30. Audit reports to be monitored and a financial management action plan to be implemented will be as follows:

Implementing Agencies	Audit	Auditors	Audit Due Date
UGC, TU and SFAFDB – Audit Report for Consolidated Project Accounts to be submitted by UGC	Project Financial Statements	OAG	6 months after the end of fiscal year (January 15th)

Financial Management Action Plan

Action	**Due Date**	**Responsible agency**
Assign one qualified Finance Officer each in UGC, TUPIO and SFAFDB for overall financial management and also assign dedicated FM Monitoring Officer each in UGC, TUPIO and SFAFDB	June 30, 2015	UGC/ TU/SFAFDB

Fiduciary Supervision Plan

31. Project implementation progress and fiduciary compliance will be closely monitored by the Bank from the Nepal Country Office. Key financial management and fiduciary work includes: (i) periodic visits to cost centers for ex-post reviews; (ii) reviews of audit reports; and (iii) participation in supervision missions and on-going information sharing on financial management issues and measures for improvements.

Disbursement

Allocation of Project Financing Proceeds

32. Disbursement under the Credit will be made based on percentages for different categories of expenditure under the Project, as presented below (see Table 3.1). It is expected that IDA funds will be disbursed over a period of six years.

Table 3.1: Allocation of Credit Proceeds, US$ '000

Category	Amount of the Credit allocated	Percentage of expenditures to be financed
(1) Expenditures under the Eligible Expenditure Programs	60,000	20%
(2) Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for Part 2 of the Project	5,000	100%
Total IDA contribution	65,000	

33. Some DLIs are scalable and the Project will allow disbursement twice a year based on the achievement of DLIs within a cluster of DLIs planned for a given year. The first disbursement will

take place in May based on verification of the achievement of DLIs for the first two trimesters. The second disbursement will take place in October for the third trimester.

Eligible Expenditure Programs

34. Under Component 1, the Bank will provide financing, up to a capped amount and subject to any deductions equivalent to the price of unmet DLIs, particularly for expenditures which are a part of UGC's budget for eligible expenditures. These expenditures will be clearly identifiable in the financial reporting system of the UGC, verified through internal and external audits and referred to as EEPs. Staff salaries, scholarships and RDI grants constitute EEPs which are eligible for IDA financing.

35. The expenditure mechanism satisfies Bank policies and the three pillars of OP 6.0, namely, that: (i) expenditures are productive; (ii) expenditures contribute to solutions within a fiscally sustainable framework; and (iii) acceptable oversight mechanisms are in place. A brief description of EEPs is provided below.

i. Staff salaries

Type of Expenditure: Recurrent

36. *Description*: Under the Regular Program component of NPHERD funded through the UGC budget head 3500193 in the Red Book, the following TU budget heads relate to staff salaries: (i) 001 (ka)[38], faculty salaries; (ii) 001 (kha), additional teaching salaries; (iii) 002, administrative staff salaries; (iv) 003, allowances; (v) 003 (ka), academic allowances; and (vi) 004, provident funds. Expenditures associated with the salaries of permanent, temporary and contract faculty and administrative staff working in constituent campuses, central departments, research centers, the office of the Controller of Examinations, the central office and other units of TU fall under these budget heads. Salaries of part time faculty also come under these EEPs. TU is an autonomous institution governed by a Senate which has the authority to set rules within the framework of the TU Act enacted by the Parliament. TU salary scales are set by the Executive Council. TU's budget, which is approved by the Senate, is funded from UGC block grants and its income.

37. Expenditures for the salaries of faculty who are recruited and promoted based on academic excellence are made under the Higher Education Reforms component of NPHERD. These are funded under the HERP budget head of 3501393 in the Red Book. A separate budget head will be created in the TU chart of accounts for these salaries. Faculty positions of lecturers, readers and professors are open for recruitment and promotion under this scheme. This EEP supports a separate track for the recruitment and promotion of faculty to attract and retain high caliber candidates. Salary scales of faculty recruited and promoted under this scheme will be the same as those of other faculty, although recruitment and promotion criteria and procedures will be different from the regular scheme. Salaries EEPs accounts for about 92 percent of the total estimated expenditures on EEPs.

[38] "ka" is a Nepali alphabet. 001"ka" is like 001"a". The same is "kha".

38. *Oversight*: TU's faculty and administrative staff positions are approved by the Executive Council. TU's Personnel Administration Division maintains a record of approved faculty positions and monitors compliance with appointment rules. TU’s constituent campuses and other units report faculty salary expenditures every month to the Central Office. The Central Office will report these expenditures to UGC on trimester basis. TU's accounts are audited by TU's Internal Audit Division and the OAG, which is a constitutional body.

ii. Scholarships

Type of expenditures: Recurrent

39. *Description*: Expenditures for scholarships will be made under the Higher Education Reforms Component of NPHERD funded through HERP budget head of 3501393 in the Red Book. Scholarships under this budget head are disbursed to students enrolled in bachelor degree programs and higher secondary students in the science stream. Students belonging to the two poorest quintiles, who are identified through PMT, are eligible for scholarships. The scholarship program is administered by the autonomous SFAFDB established by GON under the Development Board Act. Scholarship funds are deposited in recipients’ bank accounts by SFAFDB. Scholarship amounts are designed to cover tuition, instructional materials and minimum subsistence costs, including room rent, where applicable. Expenditures on this EEP account for about four and half percent of the total estimated expenditure on EEPs.

40. *Oversight*: The selection of students is based on self-reporting of household consumption, verified by SFAFDB on a sample basis. SFAFDB monitors school and campus attendance and students’ academic progress. SFAFDB accounts are subject to audit by internal auditors and OAG. SFAFBD reports expenditures on scholarships to UGC on a trimester basis.

iii. Research, development and innovation grants

Type of expenditure: Recurrent

41. *Description*: Expenditures on RDI grants are made under the Higher Education Reforms component of NPHERD funded through the GON HERP budget head of 3501393 in the Red Book. RDI grants under this budget head are disbursed to: (i) faculty members of constituent campuses/schools and central departments of universities; and (ii) students enrolled in Master’s and PhD programs of constituent campuses, schools, central departments and affiliated campuses of universities. Faculty and students are selected on a competitive basis by the UGC and universities. Funds for faculty and student research are disbursed to faculty and students by the UGC on an installment basis subject to the fulfilment of predefined progress milestones. Funds for research involving collaboration between a HEI and group of enterprises or clients are disbursed to researchers. The use of funds will be governed by MOUs to be signed between the UGC and faculty and students. Research grants to individual students and faculty can be up to US$3,000 and for collaborative research up to US$15,000. Research grants may be used for equipment, supplies, literature, travel and publications, among others. Expenditures for these EEPs accounts for about four percent of the total estimated expenditures for EEPs.

42. *Oversight*: The selection of RDI grants recipients is made by the UGC Research Committee by engaging outside experts as per criteria and procedures outlined in the UGC Research Guidelines satisfactory to the Bank. The progress of research projects is monitored for the release of installments by the UGC through the use of outside experts. Expenditures on RDIs are subject to audit by internal auditors and OAG.

43. Four IDA assisted projects that supported TU before the Higher Education Project (1994-2001) were primarily focused on building physical infrastructure and training human resources. The Higher Education Project supported systemic reforms along with physical infrastructure upgrading. The SHEP went a step further by linking the bulk of financing to reforms. The NPHERD containing the Higher Education Reforms Component created an opportunity for the Bank to support the GON reforms in HE by supporting EEPs. The Bank financing for part of the salaries, which accounts for the bulk of costs associated with EEPs, incurred by TU is designed to create a fiscal space for GON to invest in reforms.

Disbursement Arrangements

44. IDA disbursements for Component 1 will be linked to the achievement of yearly benchmarks aligned to pre-defined, measurable and verifiable DLIs. The UGC will report on the achievement of DLIs twice a year, once for the period ending on March 15 coinciding with the end of the second fiscal trimester of GON and again for the period ending on July 16 coinciding with the end of the third trimester. The disbursement method based on SOEs adopted in SHEP will be continued under the Project. SOEs will be used for both Component 1 (DLI-based) and Component 2 (Non-DLI). For Component 1, requests for disbursement can be made to the Bank upon clearance by the Bank following verification of the achievement of DLIs. Disbursement requests must be based on SOEs which report expenditures as defined in the FA under the EEPs. For disbursement aligned to DLIs, two conditions must be met: (i) eligible expenses must be incurred and reported; and (ii) defined DLI targets must be met and validated by the Bank. Disbursements for each reporting period will be based on the lower of: (i) the total allocated amount for each of the DLI targets which are met and verified in the reporting period; and (ii) the total expenditures incurred on EEPs in the reporting period. If total expenditures on EEPs for the reporting period are less than the total DLI amount achieved for the reporting period, the undisbursed amount will be rolled over to the subsequent reporting period. Similarly, any excess of the total DLI achieved amount against the total expenditures on EEPs for any period will be rolled over to the subsequent period for comparison with the total expenditure (including rolled over expenditure, if any) of the subsequent reporting period. The IUFR and SOE formats will be designed to track both separately to prevent excess claims. Disbursement for the DLI component by the Bank will be made directly to the government treasury.

45. For Component 2, claims can be made as frequently as required based on SOEs. Claims for expenditures pertaining to prior review contracts as per the Procurement Plan will be made based on supporting documents (e.g., invoices, receipts, etc.) defined in the Disbursement Letter. For this component, direct payments can be made from the DA or a request for direct payment by the Bank can also be made with supporting documents for payments above the minimum application amount defined in the Disbursement Letter. To facilitate disbursement, an advance of US$1 million will be

provided in the DA for Component 2. Payments or transfers to the government account from the DA will be requested for replenishment to the Bank.

Review of SOEs

46. During supervision by the Bank, SOE claims will be closely reviewed to ensure that funds are utilized for their intended purpose. Any expenditure already claimed with the Bank and identified as ineligible by the Audit Report will need to be refunded to IDA.

Designated Accounts

47. A separate DA in US Dollars will be established at Nepal Rastra Bank on terms and conditions satisfactory to the Bank for Component 2. The DA may be managed under the joint signatures of the Member-Secretary and the Accounts Controller of the UGC.

48. UGC will ensure that the bank and cash books are reconciled with bank statements every month. Replenishment applications will be accompanied by reconciled statements from the bank where the account is maintained, and showing all DA transactions. Supporting documentation will be maintained by the project cost centers for at least one fiscal year after the year in which the last disbursement took place. This documentation will be available for review by Bank staff and independent auditors.

Retroactive Financing

49. Retroactive financing of up to US$ 12 million (US$11.4 million for Component 1, and US$0.6 million for Component 2) will be available to cover eligible expenditures under Components 1 and 2 which are incurred before the date of signing but after July 1, 2014. Under Component 1, DLIs achieved and verified before the Project Effectiveness will be eligible for retroactive financing.

Procurement

50. The World Bank carried out a procurement capacity assessment of the three IAs (UGC, TUPIO, and SFAFDB) in May 2014 as part of a joint fiduciary assessment. These institutions were IAs for the Bank- funded SHEP and have prior experience with Bank and GON procurement procedures. Their procurement capacity has improved over the last few years. UGC has prepared procurement guidelines for the Project.

51. The Implementation of Reforms Component covers disbursement to recipients against the achievement of predetermined results in line with the Project's DLI-based disbursement approach. There is no procurement under this component to be carried out by IAs. The Capacity Building and Project Management Component will finance technical assistance through consulting services, training and capacity development and procurement of goods. Procurement arrangements for both components are summarized below.

Procurement Arrangements for Implementation of Reforms Component

52. Bank procurement procedures apply for procurement using Bank funds. EEPs for IDA financing under Component 1 are: (i) salaries; (ii) scholarships; and (iii) RDI grants. There are no procurable items in the EEPs.

Procurement Arrangements for Capacity Building and Project Management Component

53. *Applicable Procurement Procedures*: Procurement for the Project will be carried out in accordance with the World Bank's "*Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*" published by the World Bank in January 2011 (revised in July 2014) ("Procurement Guidelines"), in the case of goods, and non-consulting services; and "*Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*" published by the World Bank in January 2011 (revised in July 2014) ("Consultant Guidelines") in the case of consultants' services, and the provisions stipulated in the Financing Agreement. The procurement of goods may be carried out through NCB as per the Public Procurement Act of 2007 and Regulations made thereunder with additional IDA-prescribed caveats and for contracts as agreed in the Procurement Plan.

54. *Procurement Risks and Mitigation Measures*: The Project's main IAs, UGC and SFAFDB, have SHEP implementation experience. TU has implemented several Bank-financed projects. Based on the project performance review, UGC has the required experience to manage procurement activities. They have SHEP procurement guidelines, which may be used and updated. The overall procurement risk for UGC was rated '***Moderate***'. To retain its capacity, UGC will engage a procurement consultant throughout the life of the Project to expedite procurement processes. TUPIO will strengthen its procurement capacity by engaging a full time procurement expert. The procurement risk for TUPIO is rated **'*Substantial*'.** UGC will be the main IA for the Project. It will coordinate with other implementation agencies and provide technical assistance for project implementation. A checklist of procurement process will be prepared for the implementation of procurement activities. To achieve uniformity in procurement and maintain consistency in the application of World Bank and/or country procurement systems acceptable to the Bank, UGC will prepare, update and enforce a Procurement Manual. UGC will provide regular training to staff involved in procurement. UGC and TUPIO will assign a dedicated Procurement Specialist in each of these agencies. Funding for this support will be provided under the Capacity Building and Project Management Component of the Project.

55. *Procurement Methods and Procurement Review by the Bank:* For each contract to be financed under the Credit, procurement methods or consultant selection methods, the estimated costs, prior review requirements and time frame have been agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated annually or as required to reflect actual project implementation needs and improvements in institutional capacity. Other contracts, except those under prior review, will be subject to post-review by the Bank.

Environmental and Social (including safeguards)

56. The Project is designed to generate positive social impacts, especially for enhancing equitable access to higher secondary and HE. 'Equity' is one of the key result areas under the Implementation of Reforms Component of the Project which would be supported through DLI 6,

‘Poverty targeted financial support for disadvantaged students’. Experience from SHEP indicates that the poverty-targeted financial assistance to students from the poorest two quintiles using PMT will effectively target disadvantaged groups.

57. The EEPs will include: (i) faculty salaries; (ii) scholarships; and (iii) RDI grants. The NPHERD, which IDA is supporting, may provide support through government funds for moderate civil works, such as the refurbishment and rehabilitation of existing structures, the construction of annex buildings, the addition of stories on existing facilities and the construction of workshops and laboratories, among others, within the existing premises of participating HEIs, thus preempting the need for acquisition of new land. As a result, OP/BP 4.12 is not triggered under the Project.

58. Accordingly, a Social Management and Vulnerable Community Development Framework (SM-VCDF), has been prepared for the Project, which includes additional measures to address social issues related to the Project. These include social screening guidelines to ensure that there is no new acquisition of land under the Project or involuntary resettlement. The SM-VCDF also includes a vulnerable community development framework, a gender action plan, consultation and information disclosure mechanisms, a monitoring framework, an institutional mechanism for implementation of the SM-VCDF, a funding mechanism and a procedure for capacity building.

59. The SM-VCDF is in compliance with GON’s regulations and guidelines relating to IPs and other marginalized groups, World Bank’s OP/BP 4.10 on Indigenous Peoples and other international conventions ratified by Nepal. It provides specific guidelines to maximize project benefits to IPs and other vulnerable communities, plus measures for minimizing and mitigating any potential adverse effects. The SM-VCDF also seeks to ensure that: (i) project grant recipients engage in free, prior, and informed consultation with vulnerable communities wherever they may be affected; (ii) project benefits are made accessible to vulnerable communities; (iii) any kind of adverse impact on vulnerable groups is minimized and/or mitigated; (iv) vulnerable groups are able to participate fully in the implementation of project activities; and (v) measures for developing awareness programs, incentive packages, and approaches to combating discrimination are in place. The SM-VCDF also includes a Gender Action Plan to ensure that women are able to participate in and benefit from HERP activities.

60. In order to promote social accountability, the Project also includes provisions for carrying out student, teacher and employer satisfaction surveys. Various studies, including evaluation of the PMT targeting approach, research funding, autonomy of campuses, new programs and PBF to HEIs, will also be carried out during the project period. The UGC will have primary responsibility for M&E of the Project, while TUPIO, SFAFDB and QAAA will carry out M&E activities corresponding to their respective sub-components.

61. In addition, the SM-VCDF also includes provisions for consultations at the national and local levels to be held during different stages of project implementation based on a schedule to be prepared the UGC. The Grievance Redressal Mechanism for the project will be established at two levels through central-level and local-level committees to allow individuals to register complaints and appeals of disputed decisions and practices and seek redress in a timely and participatory manner.

62. Although the EEPs for IDA financing under Component 1: Implementation of Reforms will include only RDI grants, scholarships and salaries, the prevailing safeguard system of the country, for which the EMF has been drafted by UGC and reviewed and approved by the World Bank, must be followed under the NPHERD. The EMF has been drafted based on the country's environmental regulations and World Bank environmental safeguard requirements. It aims to strengthen Nepal's current safeguard system and ensure that activities carried out under the reform program comply with applicable environmental requirements. IDA funds will not support the procurement of infrastructure works as this is not included in the selected EEPs. Through the use of GON funds, moderate civil works such as refurbishment and rehabilitation of existing structures, the construction of annex buildings, the addition of stories on existing facilities, the construction of workshops and laboratories, among others, may be supported under the NPHERD for which the EMF will be applied. During implementation, environmental safeguard support will include reviewing the adeptness of EMF in the NPHERD at the system level, not in each civil works activity financed under the Project. There is no potential large scale or significant impact associated with the Project.

63. The environmental issues of the Project will be primarily related to civil works and associated activities such as transportation of materials, labor, sanitation, construction wastes, health and sanitation, etc. The potential environmental impact of civil works and physical activities, which are small scale and dispersed far and wide, is considered moderate to low depending on the location and type of activity. Sub-projects with high environmental risk will not be supported. Other likely environmental concerns include safety (e.g., structural, earthquake, etc.), water supply and sanitation (latrines), cleanliness, limited air, noise and water pollution during construction, construction waste and spoil storing/disposal, flood and landslides and fire risks to buildings, lights and ventilations, health and safety issues (e.g. workers, students and teachers, neighborhood community), the disposal of wastewater from lab, toilets and water quality issues, such as arsenic. The NPHERD is not expected to cause significant detrimental impact on the ambient environment. The Project is classified as an environmental Category B, although some of the civil works activities could be Category C. The Project triggers Bank environmental safeguard policies on Environmental Assessment (OP/BP 4.01).

64. UGC has prepared an EMF for the program based on Nepal's legal and safeguard systems and in-line with World Bank environmental safeguard policies. The EMF has been reviewed and cleared by the World Bank. The EMF has been drafted to strengthen the current safeguard system and ensure that all the activities carried out under the reform program comply with safeguard requirements. It provides an approach and guidance for mainstreaming environmental safeguards in the planning, design and implementation of civil works and associated activities. It contains a screening checklist for site selection under the Project, as well as a legal framework for implementation of the EMF. It provides the basis for identifying potential environmental impacts and risks of project activities and proposes appropriate mitigation measures, a monitoring plan, and an institutional structure which assigns responsibility for various activities and actors within the framework. The EMF requires screening of each civil work and associated activity for environmental risk. During implementation, site-specific Environmental Management Plans (EMP) will be developed and monitored.

65. Interested and competent institutions will be supported to conduct academic programs and research in priority areas which include: (i) environmental risks; (ii) natural disasters and their management; (iii) environmental opportunities associated with rich biodiversity and diverse climatic conditions; (iv) global warming and climate change; (v) conservation and sustainable use of natural resources; and (vi) other environmental issues, including biodiversity, conservation and development of national heritage. These interventions will help influence environmental management in the policy reforms and the mainstreaming of environmental issues.

66. The EMF and SMF contain provisions for developing the capacity of UGC, TUPIO, SFAFDB and QAAA, especially in terms of compliance with social development issues and environmental concerns associated with the Project. Measures for consultation and information disclosure have been included in the ESMF to ensure the transparency of decisions and raise awareness of Project activities and benefits, particularly for disadvantaged groups.

Monitoring & Evaluation

67. UGC will have primary responsibility for monitoring of the Project. TUPIO, QAAA and SFAFDB will carry out M&E activities corresponding to their respective sub-components. Since project financing is largely through a DLI approach, the existing M&E capacity of IAs will be enhanced for timely achievement of results and reporting. The Project will ensure that all IAs take necessary action for strengthening their existing mechanisms for data collection, processing and reporting, and conduct regular monitoring by expanding hardware, software, human resources and communication capacities. Each participating agency will designate at least one monitoring officer. Capacity strengthening will be needed at participating universities and campuses as they are the source of data and must handle large numbers of students and teachers. A monitoring plan for each indicator will be prepared and used, including for DLIs with yearly milestones. Progress reporting will be done twice a year on April 30 and August 31.

68. Review missions will be fielded every six months. A MTR to undertake a detailed analysis of the Project's progress will be held half-way through the project period. Most data collection and processing will be done using the National HEMIS at UGC, with data fed through university-level HEMISs. UGC will continue to publish its annual statistical report using the HEMIS. The Project will support the strengthening and refinement of the HEMIS at the UGC and TU and provide additional support for other universities willing to establish their own HEMIS.

69. The Project will finance employer, student and faculty satisfaction surveys, plus a PMT survey. Various studies, including the evaluation of PMT targeting approaches, research funding, decentralization of campuses, new programs and PBF to HEIs will be carried out during the project period.

Surveys, Tracer studies, and Evaluation

70. Both supply- and demand-side interventions will be used to make evidence-based decisions on policy alternatives around access to and the equity, quality and relevance of higher education. The Project will support the following key demand side and supply-side initiatives.

Supply Side Interventions

71. *Higher Education Management Information System (HEMIS)*: A well-functioning HEMIS is needed to track progress in the sector as well as in the Project. The Project will support strengthening of the current HEMIS. The HEMIS will be web-based and HEIs will be given a user ID and password to enter data. The release of funds to these institutions will be conditional on the receipt of a prescribed set of data. Universities will work out additional measures to collect information from constituent and affiliated institutions.

72. *Household Surveys*: It is essential to compare data received from the HEMIS with independent surveys. During the project period, there is high probability that two household surveys, namely the NLSS and the Nepal Demographic Health Survey, will be conducted. Both include extended modules on education. Some data such as GERs, the share of enrollment at private versus non-private campuses from the HEMIS will be compared with data obtained from these surveys. The Project will also support the analysis of specific data sets such as household spending for education.

73. *Project Evaluation*: The Project has not been designed to accommodate a rigorous overall Impact Evaluation of the Project itself because of feasibility constraints. However, sub-components will be designed for evaluation purposes to see what works in HE in relation to access, equity, quality and relevance.

74. *Evaluation studies:* The Project will support evaluations of the National Accreditation System, performance-based financing, decentralization and autonomy, examination reform, academic reform, research initiatives and poverty-targeted financing for students. Evaluation will be rigorous and designed to maximize the potential of their results to inform policy decision making.

75. *Tracer studies*: The Project will finance tracer studies of all cohorts of students receiving poverty-targeted scholarships. The Project anticipates receiving more applications than the number of scholarships available. Eligible students who apply for but do not receive scholarships will serve as a comparison group.

76. *Satisfaction Surveys*: The Project will finance employer, students and faculty satisfaction surveys. These will be conducted three times during the project period.

77. *Mid -Term Review*: There will be a comprehensive MTR approximately two-and a-half years after Project Effectiveness. The findings of this review will inform possible changes in project components to ensure meeting project objectives.

Demand-Side Interventions

78. *Maintain quality information*: Maintaining quality information is important for creating demand for its usage. The Project will support the maintenance of quality information on HE

through the strengthening of divisions of UGC, TU, other universities and campuses. This information will help build trust, increase the demand for its usage and lead to more evidence-based decision making.

79. *Dissemination of findings*: The Project will support the development of a dissemination strategy to be completed during the first year of implementation. This will include, but not be limited to, the dissemination of evaluation findings and will be carried out through seminars, workshops and other fora.

80. *Increase awareness among relevant users*: The Project will support increasing awareness of the findings of evaluations and operationalization among NGOs, ministries, industries and other relevant key entities. This will lead to the more effective utilization of results. The Project will support the organization of seminars and workshops for this purpose.

Governance and Accountability Action Plan

81. The objective(s) of the GAAP is to strengthen governance, transparency and inclusion in the Project activities. It will achieve these objectives by:

(i) ensuring that resources allocated by the Project are spent for their intended purposes and directed to Project beneficiaries;
(ii) developing mitigation measures to address risks related to governance, accountability and inclusion;
(iii) strengthening coordination between different agencies and other stakeholders; and
(iv) improving feedback mechanisms between beneficiaries and service providers.

82. Three key areas for improving governance, including monitoring and accountability arrangements, have been identified: (i) institutional arrangements; (ii) transparency and outreach, and (iii) inclusion. The GAAP proposes actions for each, timelines for each action and the agency responsible for implementation.

83. The GAAP will be monitored regularly against agreed actions which will be reflected in the Project's progress reports and aide-memoires. This will be a joint responsibility of all project partners with UGC playing a coordinating role. The GAAP matrix will be used widely for monitoring purposes.

84. Each of the four IAs will be responsible for implementing program-specific actions included in the GAAP matrix (see Table 3.2). This action plan will be monitored as a part of implementation support missions.

Table 3.2: Governance and Accountability Action Plan

Issues	Actions	Agencies responsible	Timeline	Indicator/s	Verification mechanisms
Institutional capacity					

Issues	Actions	Agencies responsible	Timeline	Indicator/s	Verification mechanisms
Strengthening capacity of project IAs	An assessment of institutional capacity to implement project activities will be undertaken to identify short- and medium-term measures to strengthen the capacity of UGC and other implementing partners	UGC, TUPIO, SFAFDB	July 31, 2015	Capacity building measures agreed based on the report of capacity assessment	Project reports
Promoting innovation and 'good practice' and strengthening institutional memory	A unit/task force will be designated at UGC with responsibilities for documenting, assessing, and marketing of innovative practices	UGC	June 30, 31, 2016	TORs for the unit/task force agreed Staffing and other resources made available to the unit or task force	Project reports
	An evaluation of the performance of the unit/task force will be carried out within UGC's existing M&E framework to learn lessons and examine the possibility of expanding it into other areas of university management	UGC	June 30, 2018	Findings of the evaluation discussed within university system and beyond	Project reports Media coverage
Transparency and outreach					
Strengthening public support for the Project through dissemination of information about project activities	The Project will adopt a communications strategy to reach pre-defined audience groups	UGC, TUPIO, SFAFDB	October 31, 2015	An action plan agreed based on the communications strategy	Project reports
	Theme-based consultations will be undertaken with stakeholders, including politicians, students, teachers, and the wider academic community	UGC	January 31, 2017	Improved understanding of the Project	Opinion surveys
	All Project information will be available on websites of IAs	UGC, TUPIO, SFAFDB	Regular	Reports on the grievances handled available	Project Reports
	The Project will put in place a mechanism for public feedback, including suggestions and grievances	UGC, TUPIO, SFAFDB	October 31, 2015	Arrangements finalized to track and take action on public comments and complaints	Project reports
Inclusion					
Improving the performance of scholarship scheme for underprivileged students	The Project will implement an effective communications strategy to reach out to underserved communities (e.g., Dalits, Janajatis, students from remote areas)	SFAFDB	January 31, 2017	Number of students from two poorest quintiles increased	Project reports
	Criteria for scholarship grants , currently under review, will be finalized and updated periodically to achieve equity in the allocation of grants	SFAFDB	January 31, 2018	Updated criteria disseminated widely	Project reports

Annex 4: Operational Risk Assessment Framework (ORAF)

Nepal: Higher Education Reforms Project (P147010)

<table>
<tr><th colspan="7">1. Project Stakeholder Risks</th></tr>
<tr><td>1.1 Stakeholder Risk</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:
a. Reforms proposed are dependent on timely decisions on policies, fund flow and appointments. These could take time.
b. Despite strong support for major reforms from the government, UGC, HEIs and public, there may be resistance from student and teacher unions.</td><td colspan="6">Risk Management:
a. Extensive consultations and follow-up will continue during implementation.
b. A communication package on the policy reforms will be prepared (before project effectiveness) and this package will be used to facilitate dissemination, dialogue, and follow up with stakeholders during implementation.</td></tr>
<tr><td>Resp: Client</td><td>Status: In Progress</td><td>Stage: Implementation</td><td>Recurrent: ☑</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><th colspan="7">2. Implementing Agency (IA) Risks (including Fiduciary Risks)</th></tr>
<tr><td>2.1 Capacity</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:
a. Delays in appointment to executive positions of IAs and cost centers: This is an inherent risk associated with political instability.

b. A RBF approach is relatively new to the HE sector. Therefore, it may take time to develop capacity for implementing a project using a RBF modality.</td><td colspan="6">Risk Management:
a. This risk will be mitigated by maintaining good communication between GON and the Bank.
b. This risk will be mitigated through regular dialogue with UGC, TU, SFAFDB, MOF and MOE. HERP will provide technical support to the related agencies in strengthening the monitoring and evaluation system. In addition, the IAs will help strengthening the capacity of participating institutions.</td></tr>
<tr><td>Resp: Both</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent:</td><td>Due Date: 31-Dec-2015</td><td>Frequency:</td></tr>
<tr><td>2.2 Governance</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:
Politicization of the HE sector might also increase governance and fraud and corruption risks in IAs, cost centers and participating agencies.</td><td colspan="6">Risk Management:
GAAP contains measure to mitigate these risks periodically during implementation.</td></tr>
<tr><td>Resp: client</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent: ☑</td><td>Due Date:</td><td>Frequency:</td></tr>
</table>

<table>
<tr><th colspan="7">3. Project Risks</th></tr>
<tr><td>3.1 Design</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:
a. The focus on reforms and results with disbursements linked to indicators is new to HEIs. Participating institutions may not be ready in time for implementation.

b. Over 200 institutions/ campuses spread all over the country may be direct beneficiaries. Monitoring and technical assistance to all of them may prove difficult.</td><td colspan="6">Risk Management:
a. Extensive discussions during early implementation phase will help build clear understanding of the RBF approach.

b. Mentoring and review by carefully selected experts covering all regions and institutions would help buy in the project design. Regional/ central training is also planned, and a communication package on the policy reforms will facilitate implementation.</td></tr>
<tr><td>Resp: Both</td><td>Status: In progress</td><td>Stage: Implementation</td><td>Recurrent:</td><td>Due Date: 31-Dec-2015</td><td>Frequency:</td></tr>
<tr><td>3.2 Social and Environmental</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Risk Description:
a. Participating institutions may have limited capacity to implement environmental safeguards.
b. Student financial assistance may not reach to students in disadvantaged communities: Given the rugged terrain, this risk persists in spite of the significant efforts put in communication by SFAFDB under SHEP.</td><td colspan="6">Risk Management:
a. UGC is preparing detailed guidelines; training would be provided to all participating institutions
b. SFAFDB will prepare a robust communication package by engaging media experts and use all channels available for communication.</td></tr>
<tr><td>Resp: Client</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent:</td><td>Due Date: 31-Dec-2015</td><td>Frequency:</td></tr>
<tr><td>3.3 Program and Donor</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Risk Description:
The project is a part of major reforms being launched by Nepal. Timely decisions would be critical.
No other donors are involved at present.</td><td colspan="6">Risk Management:
A continuous dialogue with the Government and periodic review of progress will help timely action.</td></tr>
<tr><td>Resp: Client</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent:</td><td>Due Date: 31-Dec-2015</td><td>Frequency:</td></tr>
</table>

<table>
<tr><td colspan="2">3.4 Delivery Monitoring and Sustainability</td><td colspan="2">Rating</td><td colspan="10">Substantial</td></tr>
<tr><td colspan="2" rowspan="2">Risk Description:

a. DLI approach is critically dependent on very close and timely monitoring and validation of output/ outcomes. It may take time to develop a reliable system.
b. The reforms efforts would need to be sustained and enhanced beyond the Project.</td><td colspan="12">Risk Management:

a. HEMIS and tracking systems currently under development would be fully developed and tested in early phase of the Project. Each participating agency will designate at least one monitoring officer. Monitoring plan for each indicator has been prepared and will be used to monitor progress, including DLIs with yearly milestones.
b. The program will focus on high gain self-sustaining reforms by participating institutions. GON will commit funds for the Project supported reforms to enhance sustainability of these reforms. Cost of the QAA will be gradually shifted to HEIs. To ensure financial sustainability of HE GON will maintain the share of HE in the education budget at 10% according to the proposed HEP.</td></tr>
<tr><td>Resp:</td><td>Client</td><td>Status:</td><td>Not Yet Due</td><td>Stage:</td><td>Implementation</td><td>Recurrent:</td><td></td><td>Due Date:</td><td>31-Dec-2015</td><td>Frequency:</td><td></td></tr>
</table>

4. Overall Risk

Overall Implementation Risk Rating: Substantial

Risk Description:

The Project aims at supporting the implementation of major system-wide reforms in the HE sector, which may impact thousands of stake-holders and beneficiaries. While there is a general support for reforms, resistance to change during implementation from those who may feel threatened cannot be ruled out.
DLIs will require a very close monitoring and validation mechanism, but IAs have no experience in this and any slippages could prove costly. There could also be delays in the appointments of key staff in executive positions in IAs and cost centers, which could delay project implementation.
Because of the newness of the RBF modality (DLI approach) in the HE sector and limited implementation capacity, DLIs and EEPs could lead to confusion and delays.

Annex 5: Implementation Support Plan
Nepal: Higher Education Reforms Project

Strategy and Approach for Implementation Support

1. Four interconnected areas of reforms are to be implemented under NPHERD by UGC/QAAA, TUPIO, SFAFDB and participating HEIs. The NPHERD will build on experience from SHEP. UGC, in coordination with QAAA, TUPIO and SFAFDB will prepare: (i) an AWPB following GON procedures; (ii) trimester progress reports using EMIS and other sources of information; (iii) DLIs progress reports for IDA verification/review twice a year; and (iv) consolidated project implementation progress reports in advance of missions. Under the Project, independent consultants will also be hired to carry out surveys and impact studies. The Bank will closely monitor progress. As most of the Bank Task Team members are based in the Country Office, there will be on-going support and guidance to IAs on issues and challenges that may arise during implementation. Apart from regular field visits by the Task Team, semi-annual review missions will include field visits to ensure that ground level realities are understood.

2. Project implementation progress will be closely monitored by UGC, QAAA, TUPIO, SFAFDB, MOE and IDA. QAAA, TUPIO and SFAFDB will report to UGC, and UGC will, in turn, report to the Bank. The FM action plan will be closely monitored to ensure that it is being implemented as agreed. Key areas of FM focus include: (i) review of implementation progress reports and audit reports and the preparation of summaries of these reports; and (ii) participation in implementation support missions to address FM issues. The agencies will use project technical assistance to: (i) ensure compliance with agreements, guidelines and fiduciary and safeguard requirements by all beneficiary institutions and grant recipients; and (ii) support project implementation, undertake studies and surveys and strengthen monitoring and evaluation.

3. The PIM will be the guiding document for implementing the Project. The PIM will include details of the roles and responsibilities of all IAs and the management structure, criteria, processes and procedures to be followed for the selection of institutions, the communication and outreach strategy, funds flow mechanisms, surveys and studies and monitoring and evaluation of all project activities. It will also include terms of reference for key project staff, the Coordination Committee and consultants whose services will be used by the Project. It will also include templates of all forms, plans and proposals which must be submitted by academic institutions interested in participating in the Project. Building on the PIM, QAAA, TUPIO and SFAFDB will prepare their own implementation guidelines. IAs will be staffed with dedicated and full-time professionals with pre-defined skills and job responsibilities. Participating institutions will also have dedicated project units to manage the implementation of activities for which they are responsible.

Implementation Support Plan

4. The supervision strategy for the Project includes semi-annual reviews to be carried out jointly by GON and the Bank. These will include field visits and evidence-based discussions on project performance which will be used for providing constructive and corrective technical guidance. Findings of the joint reviews will also be used to identify issues which constrain implementation and identify support to be provided to MOE, IAs and beneficiaries. Semi-annual

implementation progress reviews will include the Task Team Leader, education specialists, procurement and financial management staff, environmental and social safeguards staff and technical and institutional specialists and consultants, as appropriate. Interim implementation reviews will also be undertaken on an as-needed basis. Major areas to be covered in implementation support missions will likely include:

(i) **Implementation of Major Reforms.** Implementation progress will be assessed in all four areas of major reforms. The status of capacity building and project management will be reviewed and progress documented. These reviews will cover progress against Key Performance Indicators, Intermediate Results Indicators and DLIs. Information will be collected from IAs, progress reports and field visits. Stakeholder consultations will be organized.

(ii) **Safeguards.** The supervision of safeguards will entail verification that ESMF provisions and the EMF are being appropriately implemented and adjusted. Reviews will also assess whether project features designed to enhance social development outcomes are being implemented and adjusted as needed. The Bank's environmental and social safeguard specialists will provide technical support to review implementation of the SM-VCDF. UGC, TUPIO and SFAFDB will be encouraged to identify resource persons who can be used on an as-needed basis to provide safeguards-related support, especially with respect to maintenance, minor civil-works and other safeguard-related activities under the NPHERD.

(iii) **Procurement.** Implementation support for procurement will include: (i) ex-ante and ex-post reviews of Project procurement under the Capacity Building and Project Management Component; (ii) review of the Procurement Plan and procurement performance; and (iii) the provision of information on training resources, the preparation of training materials and modules, and need-based training on Bank procurement guidelines for IAs. Guidance will be provided for undertaking revisions to the Procurement Manual, the Procurement Plan and bidding documents.

(iv) **Financial Management.** In-depth and intensive implementation support will be provided in the initial years, especially to ensure successful implementation of the FM arrangements. Implementation support will also include review of periodic IUFRs for reporting expenditures and review of audit reports, including verifying the adequacy of the resolution of audit observations.

(v) **Monitoring and Evaluation and DLIs Verification.** Implementation of the M&E System will be reviewed through reports and discussions to confirm its effectiveness for monitoring processes, inputs, outputs and outcomes. It aims to capture physical implementation progress, as well as disbursement and delivery against the Project's Results Framework and DLIs. The Bank will also confirm that M&E data and information are transparently disclosed.

(vi) **Mid-Term Review.** A comprehensive MTR will be conducted in 2017 to review implementation of all aspects of the Project and take any course corrections that may be necessary.

5. Implementation review and support requirements, including human resources, are presented in Tables 5.1 and 5.2 below.

Table 5.1: Implementation Support Requirements

Time	Focus area	Skills needed	Resource estimates
First twelve months	Technical support and capacity building, and implementation supervision: (i) HE Reforms in all four Results Areas (ii) Communication strategy and outreach of project information	(i) HE experts on autonomy, RDIs, academic programs, accreditation, communication strategy	38 staff week
	FM training and support	Financial Management Specialist	2 staff weeks
	Procurement training and support	Procurement Specialist	4 staff weeks
	M & E support	Monitoring and evaluation, DLIs verification, impact evaluation expertise	10 staff weeks
	Environment and social safeguards support	Environment Specialist Social Development Specialist	4 staff weeks
	Overall implementation progress, policy dialogue; coordination	TTL	20 staff weeks
13-60 months	Implementation support and supervision: (i) Higher education reforms (ii) Progress on KPIs/IRIs and DLIs (iii) Financial management	Experts on Higher Education Reforms and World Bank operations Financial management expert	60-80 staff weeks 20-30 staff weeks

Table 5.2: Skills Mix Required (First twelve months)

Skills needed	Number of staff weeks	Number of trips	Comments
Task Team Leader	20 staff week	NA	National
Higher Education Specialist	25 Staff week	NA	National
Communication Expert	4 staff week	N	National
Higher Education Specialist	4 staff week	Two	International
Specialist on HE Accreditation, Curriculum and RDI	6 staff week	Three	Regional /International
M &E Specialist	5 staff week	NA	National
M& E Specialist	2 staff week	Two	Regional /International
Expert on Impact Evaluation	2 staff week	Two	Regional/ International
FM Specialist	2 staff week	NA	National
Procurement Specialist	4 staff week	NA	National
Environmental Safeguard Specialist	2 staff week	NA	National
Social Safeguard Specialist	2 staff week	Two	Regional/ International/Local

Annex 6: Economic and Financial Analysis
Nepal: Higher Education Reforms Project

Background

1. Although HE in Nepal does not have a very long history (the oldest university, TU, was established in 1959), demand for it is rapidly increasing. There are now nine universities with approximately a half a million students. The number of campuses affiliated to these universities has also been on the rise (1,276 at present, as shown in Table 6.1). The transition rate from higher secondary education to tertiary education was approximately 48 percent in 2012.

Table 6.1: Number of HEIs and HE Enrollment

Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total students	284,973	376,869	407,934	444,994	452,571
Campuses	811	967	1,087	1,134	1,276
Students per campus	351	390	375	392	355
Total teachers	13,214	14,528	15,365	16,042	NA
Students per teacher	22	26	27	28	NA

Source: HEMIS, UGC.

Challenges and Opportunities in Higher Education

2. Despite an increase in demand, HE in Nepal there are continuous challenges in terms of relevance, efficiency and quality. TU, which has around 88 percent of all HE enrollment, has a pass rate of only 28 percent. Drop-out and repetition rates are also high. Students, on average, take one additional year to graduate. The number of students who fail to graduate, even after many years of admission, is high. These problems burden the system with inefficiency and economic wastage. Those who do graduate fail to enter the labor force in their desired field, raising concerns about the relevance of HE to the country’s needs. Access in tertiary education in Nepal is also far from the desired level of equity. The GER in tertiary education for the bottom two economic quintiles is less than four percent[39] compared to 17 percent nationally. While gender parity has been achieved at the Bachelor’s degree level (0.98), the GPI at the Master’s degree level is only 0.69[40]. In terms of geographic spread, while campuses located in the Central Region attract more than half of the total enrollment, the Mid- and Far-Western Regions together enroll less than 20 percent of students. Ecologically, less than three percent of enrollment is from the Mountain Region.

3. Enrollment in HEIs is highly skewed towards traditional courses under the faculties of education (40 percent), management (34 percent), humanities and social sciences (15 percent). Lower enrollment is found in S&T, including medicine and engineering (ten percent) and negligible in agriculture and forestry (0.5 percent)[41]. The transition from the science stream at the

[39] Nepal living Standard Survey 2010/11 (NLSS-III).
[40] UGC EMIS Report 2012/13.
[41] EMIS Report 2012/13.

higher secondary to the tertiary level has become more difficult following the phase-out of PCL[42] from universities, many of which offered science courses at this level as a transition course to a 'Bachelor's in Science' degree. Science courses at the higher secondary schools are relatively more expensive compared to other general streams because of the need for laboratories and a lack of science teachers.

4. One of the main goals of the GON's Approach Paper to the Thirteenth Plan (2013-2016) is to achieve job-centered, poverty-reducing, sustainable and broad-based economic growth. To achieve this, major reforms in HE will be needed to improve both its quantity and quality. Moreover, the draft HEP, which are under review at the MOE, and the Plan have highlighted the following as priority sectors for economic growth and development in Nepal: hydro power and other energies; modernization and commercialization of agriculture; roads and other infrastructure; human resource and skills development; S&T; natural resources and environment; bio-diversity; small industries; climate change and environment protection; good governance; and tourism. Accordingly, the focus of this Project is on institutional and academic reform, with special emphasis on academic programs in priority identified by the government.

Drivers of Demand for Higher Education Graduates

Changes in the Nepal economy in recent years

5. Nepal plans to graduate from the status of Least Developed Country to that of a Developing Country by 2022. Although most macroeconomic indicators indicate positive trends, high inflation and a large trade deficit remain major challenges for the economy. Nepal's GDP, which was NPR1,693 billion in 2012-13, is estimated to grow by 5.2 percent at basic prices in 2013-14[43].

6. Nepal's economy is still a predominantly rural one. It is undergoing a gradual shift in structure. While the service sector is expanding, agriculture and manufacturing are declining. Agriculture's share has declined from 37.4 percent of GDP in 2001/02 to 33.1 percent in 2013[44]. Manufacturing fell from 23 percent of GDP in 1996 to 15 percent in 2013.

7. More than 55 percent of Nepalese households receive remittance income[45] from abroad, signifying that most households depend on its migrant member(s). Nepal predominantly relies on the export of cheap labor. Major employment sectors for migrant workers are manufacturing (32 percent), construction (16 percent) and hotel/catering (16 percent)[46]. Most migrant workers come from rural areas, are predominantly male, better educated and between 20-44 years of age[47]. More than one-third of migrants to developed countries, where the remittance rate is the highest, have at least a Bachelor's degree, while less than two percent who migrate to other destinations have a university degree[48]. The Nepal Migration Survey 2009 shows that additional income from migrant workers is spent largely on consumption and the education of children. It can be argued that

[42] Proficiency Certificate Level. Although this level is equivalent to grades 11 and 12, the programs were run by higher education institutions of universities.
[43] Economic Survey, MoF, 2013/14.
[44] Economic Survey, MoF, various issues.
[45] NLSS-III, Central Bureau of Statistics, 2010/11.
[46] Large-scale Migration and Remittance in Nepal: Issues, Challenges, and Opportunities, World Bank, 2011.
[47] Nepal Migration Survey 2009.
[48] Governing Labor Migration in Nepal, B. Sijapati and A. Limbu, 2012.

economic growth in recent years has been driven by increased consumption from remittance income and the service sector, rather than through investment.

Table 6.2: Employment Patterns by Completed Education Level (by economic industries and others)

Currently employed persons aged 15+ by occupation and completed education level (in thousands)

	Completed education level								
Occupation	Never attended	Less than primary	Primary	Lower secondary	Secondary	Higher secondary	Degree level	Others/ Not stated	Total
Legislators, senior officials	12	8	10	8	14	7	13	-	71
Professionals	6	3	3	2	54	58	76	-	203
Technician and assoc. profess.	11	7	8	9	90	66	37	1	230
Clerks and office assistant	6	4	10	10	40	27	23	-	121
Service workers	210	92	127	101	226	69	25	9	859
Market agriculture	198	46	52	24	34	6	3	3	367
Subsistence agriculture	4,080	866	1,041	624	722	113	23	67	7,535
Crafts and trades workers	402	164	178	79	118	24	9	10	983
Plant and machine workers	38	27	35	23	28	5	4	1	160
Elementary occupation	720	170	174	87	70	8	2	10	1,241
Armed forces	-	-	1	2	2	2	1	-	8
Total	5,684	1,387	1,638	970	1,398	385	215	101	11,779

8. People with HE degrees who are employed are most likely to be found in white collar jobs as professionals, or working as officials and other types of workers in the service sector. The last Labor Force Survey from 2008 clearly brings this out with 82 percent of those with degrees employed in such jobs (see Table 6.2).

Out of pocket expenditure, annual wages and probability of employment by education level

9. The table below shows private out-of-pocket expenditure, annual wages and the probability of employment for various levels of education. Compared to lower levels, which are almost free, there is a significant increase in out-of-pocket expenditure[49] at the higher secondary and tertiary levels. Similarly, there is a marked difference in annual wages earned by graduates from these two levels compared to lower levels. Although the NLSS data do not show any difference in the chances of a secondary and higher secondary graduate being employed, they indicate higher chances for tertiary level graduates.

[49] Calculated based on household expenditures on tuition fees, uniform, text-book, private tuition, transportation and other costs.

Table 6.3: Out of Pocket Expenditure, Annual Wages and Probability of Employment by Education Level, NPR in 2010 Prices

Educational level	Out of pocket expenditure	Returns to education	Probability of employment
No schooling	-	21,168	0.54
Primary	1,332	39,650	0.53
Lower secondary	2,504	61,181	0.62
Secondary	5,386	91,498	0.71
Higher secondary	***10,398***	***120,822***	***0.71***
Tertiary	***13,914***	***184,789***	***0.78***

Source: NLSS-III.

Availability of Quality Higher Education and Labor Market Needs in Nepal

10. According to the findings of the Nepal Enterprise Survey (2013)[50], more than nine percent of firms identify a lack of skills among the workforce as a major constraint. This is truer for firms in the manufacturing sector (13.8 percent), larger firms (14.4 percent), firms located in the West (16.3 percent), and exporting firms/firms with at least ten percent foreign ownership (19+ percent).

11. This discussion of the Project's economic and financial analysis includes: (i) the Project's likely development impact; (ii) a description of the rationale for public investment and expected value-added of the Project; (iii) a cost-benefit analysis, including sensitivity analysis; and (iv) a financial analysis.

Project's Developmental Impact

12. To achieve the PDO, HERP will focus on the following areas: (i) systemic reforms (higher education policy, accreditation, performance-based financing, and EMIS); institutional reforms (administrative reforms, autonomy, admissions and examination reforms); (ii) academic reforms (program revision for better quality and relevance, reform of examinations); (iii) equity in access (poverty-targeted support for underprivileged students, including female); and (iv) academic excellence (supporting research and publications, including research-based recruitment of teachers). The Project will also provide support at the higher secondary level, in the science stream, to increase the pool of eligible candidates for enrollment at the tertiary level in S&T areas. The focus of the intervention at tertiary level is in S&T to promote innovation and technological advancement at the societal level.

13. Educated youth with knowledge and skills are not only engines of growth, but are also needed to sustain it. After infrastructure is in place, adequate human resources are required to sustain growth and promote investment for economic development. The World Bank Group's current CPS for Nepal aims to increase the number of graduates from accredited HEIs (outcome indicator 2.2).

[50] http://www.enterprisesurveys.org/data/exploreeconomies/2013/nepal#workforce.

Improvement in efficiency and equity

14. Proposed reforms, such as increased compliance to an academic calendar and the expansion of the poverty-targeted stipend scheme, are expected to yield a reduction in dropout and repetition rates. This, in turn, will reduce the wastage of resources that could be used for other productive areas. Although little was achieved vis-à-vis maintaining the academic calendar at TU, the pro-poor targeting scheme was successfully implemented during SHEP. HERP will continue to support the student stipend scheme, and more ambitious targets regarding centrally-run programs which adhere to a published academic calendar.

15. Although significant progress toward increasing enrollment rates at the higher secondary and tertiary levels has been made, there remains much to be done to create equal opportunity in access, especially for students from poor economic backgrounds, as indicated in Table 6.4 below. Drawing lessons from SHEP, HERP aims to make a significant contribution toward improving access of the poor to higher levels of education. Most students from economically disadvantaged families attend constituent and community campuses. Since only community and constituent campuses will be eligible for funds from NPHERD and most poor students attend these types of campuses to avail of low fees, it can be inferred that the Project will primarily benefit the poor.

Table 6.4: Gross and Net Enrollment Rates by Expenditure Quintiles, %

Quintile	1995/96				2003/04				2010/11			
	Higher secondary		Tertiary		Higher secondary		Tertiary		Higher secondary		Tertiary	
	GER	NER	GER	NER	GER	NER	GER	NER	GER	NER	GER	NER
I	0	0	0	0	1	1	0	0	17	0	1	0
II	2	0	0	0	2	0	0	0	39	0	3	2
III	7	1	0	0	8	1	1	1	57	2	6	3
IV	19	2	1	1	19	5	1	1	101	8	14	7
V	45	5	10	4	69	13	17	10	148	12	51	24

Improvement in Higher Education Quality and Relevance

16. HERP will focus on institutional and academic reforms through: (i) RBF of institutions; (ii) institutionalization of and expansion to the accreditation of campuses; (iii) revision of existing academic programs; (iv) introduction of more new market-oriented programs; and (v) further promotion of autonomy, including academic autonomy. It is anticipated that completion rates, the probability of being employed and wage rates of graduates from participating institutions will improve significantly. Many of these reforms were initiated and successful under SHEP.

17. Nepal's economy is expected to benefit from the Project as it supports programs that produce graduates in nationally prioritized sectors. With reforms taking place, it is expected that the HE sector will be able to produce better quality graduates to address human resource needs in key sectors in Nepal. It is also expected that the Project will contribute toward greater innovation, improve labor productivity and bridge the skills gap to take advantage from Nepal's two giant neighboring economies.

Rationale for public investment and expected value addition of the Bank

Rationale for public investment

18. In Nepal, both supply- and demand-side arguments favor public provision of higher education. On the supply side, the private sector refrains from investing in HE due to its high cost, inadequate infrastructure, risk of political disturbance and low demand in most parts of the country. On the demand side, average tuition fees in many programs at public universities and community campuses are less than US$50 per year. For a nation with a per capita GNI of approximately US$730, the unaffordability of market-determined fees charged by some universities and private campuses creates barriers to entry to quality HE for many people. HE will be under-provided if left to the private sector as the equilibrium quantity will be lower than the social optimum due to the nature of the good itself given that education is classified as a 'merit' good with large positive externalities. Public provision is also necessary to ensure better access for students from poorer households who would otherwise not be catered to through private provision.

Expected value addition of the Bank

19. At the micro level, most empirical research identifies a positive relationship between investment in education and private and social returns. Although earlier literature refers to returns to investment as greater for primary than other levels of education, evidence from more recent literature indicates that returns to HE are in fact greater[51].

20. It is commonly accepted that there is a strong positive link between technological capacity of a country and its growth trajectory. Advancement in technology requires focusing more on scientific research as a pre-requisite for innovation and growth. In its efforts to focus on S&T and other more professionally-oriented programs to meet domestic human resource requirements and attract foreign direct investment, Nepal will need to invest in broadening and strengthening its S&T sector. Through this Project, the Bank will support GON's efforts to reform the HE sector in several ways. In particular, the Bank will: (i) provide on-going technical input; (ii) bring innovative ideas and regional and international knowledge and good practices; and (iii) assist in risk management during implementation. International technical assistance will be a key to the success of the proposed reform agenda, especially through the introduction of new programs, accreditation and research.

21. GON has more recently been allocating around 0.4 percent of GDP, or 1.6 percent of its national budget, and approximately eight percent of the total education budget to HE. These resources are largely intended to cover the regular operating costs of universities and their constituent campuses. There is little fiscal space within the current resource allocation for the development of the HE sector. No other donor is currently supporting HE in Nepal. In addition to the technical support through this Project, the Bank's financial support will contribute to Nepal's efforts to meet its human resource requirements in the long run while addressing the World Bank Group's twin goals of reducing extreme poverty and boosting shared prosperity.

[51] Margarita Langthaler, 2013: Argumentation Framework: The Effects of Education on Development, GIZ

22. During implementation of SHEP, the counterpart regarded the Bank's contribution as highly valuable, especially the introduction of an accreditation system, formula-based financing of universities and RBF of campuses and poverty targeting, among other activities supported by the Bank.

Cost-Benefit Analysis

23. HERP will support a range of demand- and supply-side interventions to improve the quality, relevance, equity and efficiency of the HE sub-sector in Nepal through systemic reforms and incentives to selected institutions. The likely direct beneficiaries of the Project are:

1. Recipients of pro-poor stipends for higher secondary and tertiary level education selected annually;
2. Students in participating campuses (autonomous, accredited, participants of formula based funding) for years 2015-2019; and
3. Students enrolled in pre-determined priority areas of study which have been revised or newly introduced, and those expected to be retained back who would otherwise have to bear the financial cost of studying abroad.

24. The Cost-Benefit Analysis (CBA) exercise makes the following underlying assumptions:

1. Average working life of 35 years;
2. Annual wage increases are close to the average annual increase in real growth in GDP for the last few years[52];
3. A discount rate of eight percent is assumed for calculating the NPV of program benefits;
4. Direct beneficiaries are approximately 132,340 students from the higher secondary and tertiary education levels;
5. Graduation rate at higher secondary and tertiary levels are assumed at 50 and 30 percent, respectively, based on pass rate of 43 and 28 percent, respectively;
6. The probability of employment at the higher secondary and tertiary levels is 71 and 78 percent, respectively[53] ;
7. An annual wage of NPR140,747 (US$1,394) and NPR215,263 (US$2,131) for graduates of higher secondary and tertiary levels in 2015 prices, based on NLSS-III;
8. Prices are in 2015 real terms;
9. Exchange rate of US$1 = NPR101
10. The quality premium as a result of the Project's interventions plus expected overall growth will be one percentage point;
11. Additional employment attributable to the Project is one percentage point, and higher secondary and HE graduates get the treatment wages;
12. Average annual household expenditure for higher secondary and tertiary levels is NPR10,398 (US$103) and NPR13,914 (US$138), respectively[54];
13. Average annual returns to graduates of higher secondary and tertiary levels is NPR120,822 (US$1,196) and NPR184,789 (US$1,829), respectively[55];

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[52] Data source: various issues of Economic Survey, MOF.
[53] (NLSS 2010/11).
[54] NLSS 2010/11.

14. One percent of students who plan to study abroad are expected to be retained back, except in the first year, increasing by one percent each year until the end of the Project period; and
15. An IDA Service charge of 0.75 percent and a commitment charge of 0.5 percent for the Bank credit for 42 years from Project Effectiveness.

25. The benefit stream in the CBA includes the following: (i) the estimated increase in the earnings of graduates from the bottom two consumption quintiles whose access to HE will increase; (ii) an estimated increase in wages for all graduates of accredited and autonomous campuses, including in priority areas, through increased quality and relevance of HE; (iii) an increase in the efficiency of the system through a reduction in drop-out and repetition rates; and (iv) savings from students who would otherwise have opted to study abroad. Costs will be calculated based on the following sources: (a) the private household cost of HE; (b) opportunity costs to students for obtaining HE measured in forgone wages for time spent in college; (c) the cost of the Project, including GON's contribution; and (d) service and commitment charges, interest and principal re-payment of the total Credit amount.

26. Using these assumptions and estimated data on enrollment and graduate rates, the estimated IRR is 23.6 percent and NPV of net economic benefit is about US$102 million, assuming an eight percent discount rate and one percent quality premium (increase in wages). Table 6.5 presents a sensitivity analysis of IRR and NPV under different scenarios allowing for varying quality premium and a discount rate.

Table 6.5: Sensitivity Analysis of IRR and NPV under Multiple Scenarios

Quality Premium	*IRR (%)*	*NPV at 8 % discount rate (US$ Million)*	*NPV at 10% discount rate (US$ Million)*
Low Case (additional 0.5%)	15.0	32	17
Base Case (additional 1 %)	**23.6**	**102**	**64**
High Case (additional 1.5%)	29.9	179	115
Higher Case (additional 2.0%)	35.3	265	172

27. The expected IRR can vary between 15.0 percent and 35.3 percent and the NPV can vary between US$17 million and US$265 million.

28. In addition to private benefits that were considered for the cost-benefit analysis above, there are numerous social benefits of the Project. Although they are difficult to quantify in monetary terms, the expected social benefits of HERP include: (i) increased supply of human resources in the S&T fields at a time when Nepal has increased its focus on infrastructure development (hydro-power, roads, ICT, etc.); (ii) increased numbers of science and mathematics teachers for school education where the supply of such teachers is grossly inadequate; (iii) increased supply of productive manpower in the already expanding service sector, such as in travel and tourism, trade, etc.; (iv) better university-industry linkages and a deepening research culture in universities which can lead to higher innovation potential and enhanced growth; (v) increased focus on agriculture

[55] NLSS 2010/11.

that would further expand commercial farming and initiate development of an herbal industry in the country; (vi) sustained improvement in efficiency and costs-saving in universities through institutional and systemic reforms and reduced inefficiencies; (vii) production of university graduates who can effectively tap into the global knowledge-base for improving or adapting modern technologies; (viii) help in institutionalizing a poverty-targeted approach for selecting students from poorer segments of the society for financial support; and (ix) support in the formation of more coherent, healthy and peaceful societies.

Financial Analysis

Higher Education Budget and Finance

29. The average share of the HE budget in recent years is about 0.34 percent of GDP. Public spending per student as a percentage of GDP per capita is 35.4, with a South Asia average of 30.5 and world average of 29.5[56]. This implies that Nepal gives comparatively higher priority to the HE sector than other countries in the region. In terms of annual budget, education accounts for about 14 percent of the total government budget. The sector accounts for the highest share of the government budget, even though in recent years the proportion of the national budget allocated to the power and infrastructure sectors has increased, while that of the education sector has decreased. In absolute terms, however, budgetary resources allocated to the education sector have increased. This year's share of both the national and education budgets allocated to HE has declined slightly (see Table 6.6)[57], with the absolute amount allocated to HE falling between 2013/14 and 2014/15 by about US$1.3 million. Although the decrease is comparatively small, negative consequences could result if this trend continues.

Table 6.6: Share of HE in Budget, NPR Million

Fiscal Year	National budget	Education budget	HE budget	HE share in national budget (%)	HE share in education budget (%)
2012/13	358,638	62,430	5,327	1.5	8.5
2013/14	449,850	79,357	6,641	1.5	8.3
2014/15	617,816	86,034	6,520	1.1	7.6

Source: National Budget 2014/15.

Sustainability

30. GON plans to contribute about 13.3 percent of the total amount of project proceeds, which comes to US$2 million per year. There is low risk of inadequate counterpart financing. Government needs to allocate at least US$2 million annually to continue activities initiated and supported by HERP after project closure. The sustainability of newly offered market relevant programs should not be a problem given that they charge market fees. Other systemic reforms under the Project, such as accreditation, decentralization, the digitization student records and the computerization of examination systems should not normally demand substantial additional

[56] World Development Indicators 2014, World Bank.
[57] Here higher education budget includes budget for UGC only. Usual practice is that the total higher education budget includes budget allocated to UGC and those from external sources, but proceeds from external sources are unpredictable.

resources each year once they are fully set up and functional.

31. UGC is increasingly employing objective criteria, such as formula- or results-based funding rather than traditional ad-hoc political negotiation-based financing for the allocation of resources to universities and community campuses. This enhances the efficiency of resource use.

32. Since the Credit is to be paid back in 42 years and its service fee and commitment charges are minimal, there would be no significant fiscal burden for the government now or in the future as a result of this Project. Given that the NPV of net benefits is higher than the Credit amount, this analysis confirms that GON will be financially better off with the Project. Systemic reforms introduced and operationalized by the Project are expected to continue to benefit the HE sector in Nepal for years.

Annex 7: Higher Education Policy – A Summary
Nepal: Higher Education Reforms Project

Higher Education Policy

1. Nepal's HEP was prepared by the UGC through extensive stakeholder consultations which culminated in a central level consultation chaired by the Chairperson of the Cabinet of Ministers[58]. Following UGC endorsement, the policy was forwarded for approval to MOE on April 16, 2014.

2. The policy aims to address the following issues in the HE sub-sector: (i) inequitable access; (ii) low pass rates; (iii) the low share of technical programs, which is currently less than 15 percent of the total enrollment; (iv) inadequate arrangements for the upgrading, supervision, inspection and development of campuses, which have been established in an unplanned manner; (v) the distribution of HEIs skewed in favor of more developed regions; (vi) the lack of accreditation of the majority of HEIs; (vii) the lack of arrangements for the regulation and monitoring of foreign HEIs and national HEIs affiliated to foreign universities operating in the country; (viii) the lack of new thinking and effort to foster the development of the HE sub-sector; and (ix) inadequate public financing for HE.

3. The expected outcomes of the HEP are: (i) an expansion of market-relevant and employment-oriented programs based on national needs and priorities; (ii) an increase in the GER for HE; (iii) increased adherence to academic calendars; (iv) increased pass rates; (v) the establishment of a QAA system; (vi) the development of a framework for mapping HEIs; (vii) the formulation of prerequisites for the establishment of universities; (viii) strengthened management and monitoring of institutions affiliated to foreign universities; (ix) the preparation and implementation of criteria for financial assistance and grants to universities; (x) strengthened partnerships between government, stakeholders and local agencies; and (xi) the adoption and implementation of an umbrella act for HE.

4. Policies proposed in the HEP are:
   a. Access to HE will be open to all based on aptitude, ability and merit.
      (i) On the basis of students' interests and aptitude, access to HE will be increased through open and distance education and other arrangements.
      (ii) Special arrangements will be made for equitable access to HE for communities and groups which are disadvantaged in terms of gender, ethnicity, poverty and those belonging to the *dalit* caste or residing in lagging regions.
   b. HEIs will be encouraged to participate in QAA.
      (i) An autonomous National Board will be established for QAA.
      (ii) QAA will be made the main basis for upgrading existing and new HEIs.
   c. Prioritization and development of HE programs will be guided by national needs aligned with Nepal's economic and social development and political transformation.
      (i) Poverty alleviation, the creation of employment opportunities and overall national economic development.

[58] The Prime Minister of the Interim Government was called the Chairperson of the Cabinet of Ministers.

(ii) The development of agriculture, forestry, biodiversity, tourism, water resources and hydropower, renewable energy and small- and medium-scale industries.
(iii) Enhancing environmental balance and sustainability.
(iv) Social and political transformation to promote an inclusive democratic culture with mutual goodwill and generosity.
(v) Conservation and development of national heritage, traditional local knowledge, skills and technology.

d. To take initiatives for improvement of HEIs and assist them to achieve HEP goals.
(i) Reforms will be focused on relevance, quality enhancement, and effective management of HEIs.
(ii) For academic excellence, a policy of institutional autonomy and decentralized management will be followed.

e. Research and development will receive higher priority in HE.
(i) Research at universities and HEIs will reflect national needs, priorities and opportunities. A Research Coordination Council will be established to achieve this objective.
(ii) Emphasis will be given to curriculum and teaching-learning based on research and current knowledge.
(iii) Assistance will be provided for capacity building in research and innovation.

f. Recognizing the need for high level academic manpower for developing human resources in Nepal, priority will be given to HE.
(i) With a view to build capacity for the identification and tapping of national development opportunities, HE will be developed by giving priority to S&T programs.
(ii) HE will produce human resources needed for national development activities.

g. For the development of HE private, community and cooperative sectors, along with public-private partnerships, will be promoted.
(i) Community, cooperative and the private sector will be promoted to establish and develop HEIs.
(ii) Approval will be given to HEIs for running academic programs affiliated to foreign HEIs or in cooperation with them in line with national policies, needs and international agreements.

h. Government investments in HE will be made regular and orderly based on concrete norms and criteria, as well as procedural responsibility and accountability.
(i) Government investments and grants in HE will be managed and streamlined based on factors such as national priority, quality and effective performance.
(ii) Clear criteria will be formulated for investments from the private, cooperative and community sectors.
(iii) A technology-based system will be developed for financial regulation and monitoring.

5. Five fundamental strategies will be adopted for implementation of the HEP:

a. HE development will be undertaken with a view to make it relevant to national needs and reflect international good practice.

b. To establish new HEIs and strengthen existing ones by ensuring that they meet basic requirements for access, quality, relevance, credibility and competitiveness.

c. To effectively regulate foreign HEIs operating in the country, HEIs affiliated to foreign HEIs and their programs will be aligned to national needs and interests. It is also necessary to bring under national regulation HEIs affiliated to universities outside the country.
d. To regulate HEIs and academic programs guided by criteria and norms of quality assurance.
e. To link government grants to productivity and quality through the regulation of investments in HE and financial management based on transparency and accountability.

6. HEP proposes the following institutional structure for the formulation of higher education policies and its implementation:

a. To establish a high level agency for HE within the MOE.
b. To convert UGC into a Higher Education Commission with the following mandate:
    (i) To form a National Higher Education Board to plan, implement and monitor the development of HE and regulate the expansion and affiliation of universities and HEIs.
    (ii) To establish a Higher Education Financial Management Board.
    (iii) To strengthen the SFAFDB.
    (iv) To strengthen the University Coordination Council.
    (v) To establish a National Board for Course Equivalence, Mutual Recognition of Degrees and Credit Transfer.
c. The following bodies will be established under the coordination of the proposed Higher Education Commission:
    (i) Autonomous Quality Assurance and Accreditation Board
    (ii) Higher Education Research Council
    (iii) National Higher Education Service Commission
    (iv) Institutional development of Higher Education Financing System with participation of the UGC, MOE and MOF.

7. The following programmatic strategy is proposed for strengthening institutional capacity for the implementation of the HEP:

a. Short-term plans and programs which, among others, include: approval of the policy; adoption of the legal framework; and establishment of proposed agencies.
b. Medium-term plan and program which, among others, include implementation of a national plan and program based on
    i. Development of a results-based plan and program
    ii. Development of internal and external monitoring systems with feedback loops
    iii. Resource mobilization through public private partnerships
    iv. Development of partnerships in HE between the government, business and development partners
c. Long-term thinking and plan includes, among others, the establishment of highly competitive HEIs in selected areas, such as tourism, global warming, climate change, water resources and hydropower.

Annex 8: Summary of Reforms and Grants Framework
Nepal: Higher Education Reforms Project

Summary of Formula-Based Funding and Performance-Based Funding Methods

1. Nepal is making gradual progress toward more effective public financing for HE. Until 2007, when SHEP became effective, all HE public financing was based on historical trends. As financing was not linked to outputs or outcomes, it did not encourage universities to make more productive use of public resources. SHEP supported UGC in the introduction of PBF through grants to HEIs, including universities, and their constituent and community campuses, and FBF for three universities - Kathmandu, Purbaanchal and Pokhara - financed mainly through non-government resources.

2. FBF for universities was designed to align regular GON funding to inputs and outputs of universities. The following indicators were used for FBF: (i) enrollment[59]; (ii) the number of students receiving fee waivers[60]; and (iii) core minimum administrative costs for operating universities at the establishment phase. The introduction of this FBF helped UGC mitigate political interference while allocating grants to universities.

3. Without support from the SHEP, UGC introduced FBF for regular grants to community campuses and accepted FBF adopted by TU for autonomous campuses. FBF for community campuses was based on the following indicators: (i) number of faculties[61]; (ii) number of programs; (iii) number of levels[62]; (iv) whether a science program is offered; (v) whether there are constituent campuses in the district; (vi) whether the campus is located in a lagging or mountainous or remote district; (vii) whether a campus is receiving performance grants from SHEP; and (viii) enrollment. The introduction of this FBF also helped UGC mitigate political interference in the process of allocating grants to community campuses.

4. TU's Autonomy Rules define the formula for allocating recurrent grants to autonomous constituent campuses. It takes into account the following factors: (i) faculty and administrative staff positions approved at the time of autonomy; (ii) annual salary increments; (iii) increases in salaries for civil servants; (iv) liabilities associated with scholarships and fee waivers for students; and (v) the cost of new programs started following an instruction from TU management after autonomy. Liabilities associated with pensions, provident funds, medical allowances and other benefits for faculty and administrative staffs are borne by the TU Central Office outside the framework of this formula. The rules stipulate that the amount of grants to autonomous campuses will not be less than the amount for the fiscal year prior to autonomy.

5. UGC intends to continue expansion of FBF to other HEIs. It plans to further consolidate FBF by including output and outcome indicators in the funding formula. NPHERD will support the following initiatives: (i) FBF for autonomous campuses financed through the Regular Program Component; (ii) the introduction of PBF for regular grants to community campuses

[59] Tuition financed for 20% of students at master's level, and 50% of students at M. Phil. and Ph. D. levels.
[60] Costs of fees waived for up to 20% students enrolled at Bachelor’s, master's, M. Phil. and Ph. D. levels are financed.
[61] Cluster of disciplines of similar nature like management, education, law etc.
[62] Bachelor's and master's.

financed through the Regular Program Component; and (iii) the continuation of performance-based grants for HEIs financed through GON HERP. UGC will introduce FBF for universities, mainly financed from public funds on a pilot basis and continue FBF for universities, mainly financed through non-government resources.

6. The existing FBF for TU autonomous campuses has limitations as it is designed to protect public financing for autonomous campuses and alleviate constituent campuses' fear that autonomy may lead to a decrease in the level of public financing. FBF does not define accountability for autonomous campuses in terms of results. In addition, TU may not have ability to bear all potential liabilities arising from FBF as it depends on UGC for public financing and public financing for TU is not based on a formula. TU is unlikely to be able to bear liabilities associated with pensions and other staff costs under the existing FBF framework as the number of autonomous campuses increases. The overall allocation for HE is not linked to inputs or outputs or outcomes, which limits the ability of UGC to honor FBF agreements it may enter into with HEIs. UGC, in cooperation with TU, MOE and MOF, intends to adopt a new FBF that will address these limitations. The adoption of a new FBF for autonomous campuses would help expanding FBF to other HEIs, particularly those financed predominantly through government resources.

7. UGC has revised the indicators for PBF for HEIs based on its implementation experience. Revised indicators include: (i) the administration of tracer studies; (ii) resource generation; (iii) pass rates; (iv) gender parity index; (v) enrollment of *dalits* and other disadvantaged groups; (vi) increased enrollment in priority areas; and (vii) annual report publication.

8. These initiatives aim to make public financing more effective and enhance the productivity of investments in HE. UGC will prepare criteria for PBF for regular funding to community campuses and FBF for autonomous campuses. The adoption of PBF and FBF is aligned to the Project's DLI baseline indicators. UGC will also revise the FBF criteria for universities.

Criteria and Procedures for Selection of Participating Institutions

9. Eligibility criteria and procedures for selection of HEIs applicable to the following NPHERD supported reforms are described in this section: (i) QAA; (ii) performance-based financing; (iii) autonomy of campuses/schools; (iv) reform of examinations and adherence to an academic calendar; and (v) revision of existing academic programs and the introduction of new ones. Reforms aligned with poverty-targeted financial support for under-privileged students and RDI do not involve the selection of participating institutions. The criteria for eligibility and selection for these two reforms will be described in the PIM.

10. Basic eligibility criteria for HEIs for participating in the above mentioned reforms and additional eligibility criteria for participating in QAA is described at the beginning of the section. This is followed by the criteria for selection of HEIs for participation in each reform.

Basic Eligibility Criteria

11. The basic eligibility criteria described in Table 7.1 is applicable for QAA and performance-based financing. While private campuses are eligible to participate in QAA only, all other types of HEIs are eligible for participation in all types of reforms.

Table 7.1 Basic Eligibility Requirements for Participation of HEIs in QAA and PBF

Type of HEI	Basic eligibility requirements
All Universities, constituent, community and private campuses, TU central departments, schools/faculties	• Completion of financial audit for the last fiscal year if due. If not due, then for the previous fiscal year. • Establishment of an EMIS unit or designation of an EMIS focal person as prescribed by UGC. • Regular reporting of EMIS data as prescribed by UGC or affiliating university. • Regular publication of an annual report as prescribed by UGC. • Disclosing information in its website as prescribed by UGC
Universities participating in FBF	• Expression of commitment, by signing an MOU with UGC, to continue to participate in FBF
Universities other than TU and universities financed through FBF	• Commitment to FBF expressed through MOU with UGC or • All constituent campuses of the concerned university complete SSR Report
Community campuses and constituent campuses	• Duly formed management committee or governing board • Disclosure of management committee minutes to UGC on demand • Deemed eligible for QAA upon submission of LOI
TU constituent campuses	• Either decentralized or autonomous • Disclosure of campus regulations

Community campuses	• Inclusion of the following provision in the statute: Inclusion of following provisions in the rule or article of association
	  o Transfer of all campus assets to the affiliating university or government in case of its dissolution.
	  o Clear criteria for membership in management committee, which does not discriminate potential members based on political, ethnic, religious or other affiliation protected by human rights.
	  o Representation of local body in management committee.
	  o A not-for-profit entity.
	• Ownership of the land where campus buildings are located
	• All immovable assets registered in the name of the campus
	• At least two batches (Bachelor's and/or Master's) of students graduated – at least 15 per year full time key office bearers - Principal, Vice Principal and Head of Departments – appointed.
	• Valid affiliation for campus and academic programs if applicable

Schools/faculties, TU Central Departments	• Deemed eligible for QAA upon submission of LOI
Private campuses	• Duly formed governing board • Disclosing information in its website as required by its statute • Disclosure of its statute to the UGC • At least half of the programs operating in the premises owned by the campus

Additional Eligibility Criteria for Quality Assurance and Accreditation

12. The following additional eligibility criteria applies for all types of HEIs:
    - Share of qualified and full time faculty members not less than 50% of the total;
    - All programs offered are duly approved by relevant institutions – an affiliating university, and professional councils, if applicable; and.
    - Minimum of 50 graduates (Bachelor's and Master's combined) per year for last two years.

Selection Criteria

Performance-Based Financing

13. Up to 15 TU decentralized campuses will be selected for performance-based grants using the ranking criteria presented in Table 7.2. One campus from each development region which has the highest score according to ranking criteria, as presented below, will be selected. In addition, ten campuses will be selected through a nationwide competition.

14. Up to150 community campuses will be selected for performance grants based on the ranking criteria presented in Table 7.2, out of which 75 campuses will be selected through district wide competition - one from each district. Subsequently, three campuses from each development region through region wide competition will be selected. Remaining 60 campuses will be selected through a nationwide competition.

Table 7.2 Ranking Criteria for Selection of TU Decentralized and Community Campuses

Description of indicator	Weight	Remarks
Group A: Efficiency	*60%*	
Average pass rate for the last three years	20	80% or more: 20; 70% or more: 16; 60% or more: 12; 50% or more: 8; 40% or more: 6; 30% or more: 5; 20% or more: 4; 10% or more: 2
Average number of students who appeared in the last regular examinations for the last three years	15	2,000 or more: 15; 1,400 or more: 12; 1,200 or more: 10; 1,000 or more: 8; 800 or more: 6; 600 or more: 5; 400 or more: 4; 200 or more*: 2 (*different criteria applicable for Special Programs, e.g. Professional Programs)
Diversity of programs	15	Four or more faculties: 6; three faculties: 4; two faculties: 2; Master's degree: 3; technical program: 3; professional program: 3
Share of non UGC resources in campus spending for last fiscal year, %	10	More than 200%: 10; more than 150%: 8; more than 100%: 6; more than 50%: 4; more than 10%: 2
Group B: Good Governance	*20%*	
Percentage of Full Time* Teaching Staff (*Full Time - as per the ILO definition)	10	100%: 10; 50% or more: 8; 30% or more: 5; 10% or more: 3
Compliance with campus	10	Full compliance: 10;

Description of indicator	Weight	Remarks
rules with respect to management (frequency of Management Committee meetings, timely renewal of Management Committee)		partial compliance: 5; no compliance: 0
Group C: Equity	*10%*	
Campus location	10	District Human Development Index less than 0.350 - 10; 0.351- 0.400 - 8; 0.401- 0.450 - 6; 0.451 - 0.550 - 4; Above 0.550 - 2
Group D: Database and Documentation	*10%*	
EMIS unit set up	10%	All system - 10 Partial - 5

15. All autonomous constituent and community campuses and schools which meet the eligibility criteria can avail of performance-based financing. All accredited campuses, schools, faculties and central departments are eligible for participation in performance-based financing. All single campus universities or universities which manage academic programs on a day-to-day basis are eligible for performance-based financing provided the basic eligibility criteria are met.

Accreditation

16. All HEIs meeting basic and additional eligibility requirements specified above are eligible to participate in the accreditation process.

Autonomy of Campuses and Schools

17. All TU constituent campuses are eligible to apply for autonomy. The TU Executive Council grants autonomy following procedures outlined in the Autonomy Rules. While TU will implement this reform in TU campuses, UGC may also implement it in other universities.

Examinations and Academic Calendar

18. This reform will be implemented under the leadership of the TU OCE and with active engagement of dean's offices. This reform is open to all academic programs administered by OCE.

New Programs, Revision of Programs and Additional Programs

19. The following types of HEIs meeting basic eligibility criteria can apply for competitive selection based on the ranking criteria presented in Table 7.3 under the ‘new programs in priority areas’ window: (i) all autonomous and accredited campuses; (ii) TU central departments that are at the SSR phase of QAA; and (iii) all HEIs selected for performance grants. Programs meeting the following requirements are classified as new programs: (i) Bachelor's and Master's degree level programs; (ii) those approved by relevant academic bodies; and (iii) programs approved by relevant professional councils, if applicable.

Table 7.3 Ranking Criteria for Selection of Campuses

Indicator	Weight	Remarks
Group A: Academic Strength	***40%***	
Curriculum	10	
Faculty strength	10	
Organizational strength	10	
Academic schedule of work	10	
Group B: Physical Facilities	***30%***	
Classrooms for the new program	10%	
Textbooks and reference materials for the new program	10%	
Laboratory for the new program	10%	
Group C: Sustainability	***25%***	
Financing plan	15%	
Market demand analysis	10%	
Group D: Impression from Site Visit	***5%***	
Governance and leadership	*2%*	
Linkage with community	1%	
External and internal environment	2%	

20. All HEIs meeting basic eligibility criteria can apply for revision of academic programs. UGC will accept funding proposals deemed satisfactory, on a competitive basis.

21. All accredited community and constituent campuses and TU autonomous campuses will be eligible to apply to commence additional programs[63] in priority areas. The UGC will select proposals received based on ranking criteria for new programs[64].

Priority Areas for the National Program

22. To ensure higher returns on public investment, HE must be aligned with Nepal's development goals and priorities. These are articulated in the Approach Paper to the Thirteenth Plan (2013-2016). The UGC has approved HEP and the NPHERD defined priority areas.

23. The following faculties are fundamental for building foundational capacity for helping attain the policy goals and economic sectors prioritized in the Approach Paper for the Thirteenth Plan, and HEP: (i) S&T; (ii) engineering; (iii) medicine; and (iv) agriculture and forestry. These are defined as technical faculties. Academic programs belonging to these faculties and RDI linked to these faculties will be defined as priority areas and funded by NPHERD. All new academic programs will be self-financing and introduced on the basis of market demand. Other academic programs and research projects, determined by expert panel(s) to be associated with the following national policy goals and priorities as defined in the Approach Paper for the Thirteenth Plan, and HEP, will also be treated as priority areas for funding: reduction of economic and human development poverty; employment generation; holistic development of national economy; economic, social and political transformation to develop culture of inclusive democracy; conservation and development of national heritage; promotion of indigenous

[63] An additional program means a new program for a given campus, but a program that is already being offered in other campuses of the university.
[64] Additional programs will follow centrally prescribed curriculum. Hence all competing campuses will secure the same mark.

knowledge, vocation, and technology; conservation and sustainable use of natural resources and environment including biodiversity; productivity enhancement in and diversification and commercialization of agriculture; development of basic education and health, drinking water and sanitation; promotion of good governance; roads and other infrastructure; water resources; renewable energy; small industries and business; natural disaster and hazard management; global warming and climate change.


NEPAL
SELECTED CITIES AND TOWNS
ZONE CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
ZONE BOUNDARIES
INTERNATIONAL BOUNDARIES
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CHINA
INDIA
KATHMANDU
MAHAKALI
SETI
KARNALI
BHERI
RAPTI
DHAWALAGIRI
GANDAKI
LUMBINI
BAGMATI
NARAYANI
JANAKPUR
SAGARMATHA
KOSI
MECHI
Mt. Everest
(8848 m)
0 25 50 75 100 Kilometers
0 25 50 75 Miles
SEPTEMBER 2004
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