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Report No: RES11592

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

SECOND HIGHER EDUCATION PROJECT

(GRANT NUMBER: H274-NEP)

February 22, 2007

TO

NEPAL

September 24, 2013

HUMAN DEVELOPMENT UNIT  
SOUTH ASIA REGION

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## ABBREVIATIONS AND ACRONYMS

APQN	Asia Pacific Quality Network
CHSS	Community Higher Secondary Schools
DOE	Department of Education
GON	Government of Nepal
HEMIS	Higher Educational Management Information System
IDA	International Development Association
INQAAHE	International Network of Quality Assurance Agency in Higher Education
MOE	Ministry of Education
NPR	Nepalese Rupees
PCL	Proficiency Certificate Level
PMT	Proxy-Means Testing
QAA	Quality Assurance and Accreditation
SDR	Special Drawing Rights
SFAS	Student Financial Assistance Scheme
SFAFDB	Student Financial Assistance Fund Development Board
SHEP	Second Higher Education Project
TU	Tribhuvan University
UGC	University Grants Commission

Regional Vice President:	Philippe H. Le Houerou
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NEPAL

SECOND HIGHER EDUCATION PROJECT

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**DATA SHEET***Nepal**Second Higher Education Project (P090967)**SOUTH ASIA**SASED*

Report No: RES11592

<b>Basic Information</b>										
Project ID:	P090967			Lending Instrument:	Specific Investment Loan					
Regional Vice President:	Philippe H. Le Houerou			Original EA Category:	Not Required (C)					
Country Director:	Johannes C.M. Zutt			Current EA Category:	Not Required (C)					
Sector Director:	Jesko S. Hentschel			Original Approval Date:	22-Feb-2007					
Sector Manager:	Amit Dar			Current Closing Date:	15-Jan-2014					
Team Leader:	Mohan Prasad Aryal									
Borrower:	Nepal									
Responsible Agency:	Ministry of Education									
<b>Restructuring Type</b>										
Form Type:	Short Form			Decision Authority:	Country Director Approval					
Restructuring Level:	Level 2									
<b>Financing ( as of 15-Aug-2013 )</b>										
<b>Key Dates</b>										
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date			
P090967	IDA-H2740	Effective	22-Feb-2007	30-Apr-2007	27-Jul-2007	15-Jan-2014	15-Jan-2014			
P090967	TF-93397	Effective	16-Dec-2008	02-Jan-2009	02-Jan-2009	02-Jan-2013	15-Jan-2014			
<b>Disbursements (in Millions)</b>										
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed	
P090967	IDA-H2740	Effective	USD	60.00	60.00	0.00	47.89	15.94	80	
P090967	TF-93397	Effective	USD	1.90	1.90	0.00	1.40	0.51	73	
<b>Policy Waivers</b>										
Does the project depart from the CAS in content or in other significant							Yes [ ]	No [ X ]		

respects?		
Does the project require any policy waiver(s)?	Yes [ ]	No [ X ]

**A. Summary of Proposed Changes**

The proposed changes are:

1. The project closing date is proposed to be extended from January 15, 2014 to June 30, 2014 aligning it with the IDA fiscal year (and also closely with the government fiscal year). The extension is mainly to continue assistance to financially poor students on scholarships and for research scholars already supported by the project. The extension would also facilitate continuity and smooth transition to a new project under development.
2. To facilitate the full and optimum utilization of project resources, a final reallocation of funds is proposed. The total reallocation is SDR 1.775 million amongst categories of expenditure: SDR 0.6 million is to be reallocated to Category 1A - 0.3 million from Category 1C, and Category 5 each. Similarly, SDR 1.175 million is to be reallocated to Category 2 – SDR 1.00 million from category 1D, SDR 0.04 million from Category 4, and SDR 0.135 million from Category 6.

**B. Project Status**

3. The pace of project implementation has been accelerated in a coordinated fashion at both the central and field levels since a level 1 restructuring in March 2011. Most of the project supported Higher Education (HE) reforms have been implemented and institutionalized. The reforms include (a) granting of autonomy to selected institutions, (b) formula based funding of participating universities, (c) establishment of quality assurance and accreditation (QAA) system, (d) leveraging competitive funding for quality research, (e) improving market relevance of academic programs, (f) phasing-out/transfer of Proficiency Certificate Level– PCL (equivalent to Grades 11 and 12) from the University to school system; (g) enhanced community contribution in HE access/equity, poverty targeting for student assistance, and (i) the development of a draft Higher Education Policy for further reforms. Disbursement is accelerating and has reached 75% (80% of the original allocation, based on the rate between SDR and USD, and 75% based on current rate).
4. The project is in its final year of implementation and is currently rated “moderately satisfactory” both in terms of its achievement towards its development objectives and implementation progress. There is evidence of project progress against most of the project outcome and intermediate results indicators, inter alia: (i) progressive building of the accreditation and quality assurance system with ten institutions already accredited against the target of six; (ii) significant improvement in access to higher secondary and higher education with the number of enrolled students almost doubling with respect to the targets while at the same time, the share of girls and dalits exceeded the targets; (iii) pass rates at the Master level are close to the target; and (iv) more higher secondary schools are introducing sciences streams. However, due to rapid expansion of higher education (beyond the control of the project) during the past five years – mostly in conventional programs, some of the quality indicators would not be met by the closing date. Further reforms would need to continue in the coming years.
5. The project is expected to accomplish most of its development objectives. During the July 2013 review mission, the Bank and the Borrower have agreed on further actions that will be undertaken by the borrower to complete the project. After a long time, financial management rating was upgraded from “moderately unsatisfactory” to “moderately satisfactory” in July 2013. University Grants Commission is enhancing its monitoring of covenants and financial management arrangements of the grant recipient institutions. This needs to be continued and sustained. There are no outstanding audit reports under the Project.

6. More than 900 Community Higher Secondary Schools including 110 with science stream, 4 universities, 89 community campuses including from lagging regions, and more than 30 TU constituent campuses are receiving project supports.

7. The Quality Assurance and Accreditation (QAA) system established at the University Grants Commission (UGC) received national and international recognition. Ten institutions have been accredited and 17 more are under review. Annual Higher Education MIS (HEMIS) report has been published regularly during last 4 years; the development of a web-based HEMIS software at UGC and TU is nearing completion.

8. A national Seminar chaired by the chairperson of the Council of Ministers to finalize the draft Higher Education Policy was completed on August 14, 2013. The HE Policy would form the basis for major higher education reforms for developing the necessary human resources and creating knowledge for Nepal's development.

9. Component-wise project status is presented below.

#### Component 1: Reform Grants

(a) Most of the revised targets under this component are met by the project. These include: (i) four TU campuses obtained autonomy against the revised target of three; (ii) 49 TU campuses have become decentralized against the target of 45; (iii) TU selected 25 new market relevant programs through a highly competitive process against the target of 20; and (iv) three universities have subscribed to formula based funding, meeting the project target.

(b) Most targets for research awards are reached. The project has supported: 300 Master/MPhil dissertations; 80 PhD; 300 faculty research grants; 40 institutional research grants; 55 workshops on research methodology and 30 workshops on culture of enquiry. A number of institutional development activities were also supported, including strengthening of TU central library, establishing/upgrading research management cells in 50 institutions, and conducting 25 university–industry dialogues. To ensure the quality of research, the UGC has established a rigorous process of the evaluation of research proposals and research outputs. Twenty one papers by SHEP supported research scholars have been published in refereed journals against the target of 20; 40 other papers have been published in professional journals and 6 have been presented in international conferences. A number of papers have been submitted for publication.

#### Component 2: Student Financial Assistance Scheme (SFAS)

(c) About 13,680 students have received scholarships against the project target of 7,800.

(d) A functioning, web-based Proxy Means Testing (PMT) scholarship administration system has been established. The system simplifies the process of student identification, awarding, fund transfers, progress monitoring, and fund utilization. The project has also adopted e-banking technology to efficiently release scholarships to individual students' bank accounts – SFAFDB can transfer more than 600 scholarship payments per day to individual students' accounts using its own staff in the office premise.

(e) MOE and its line agencies have now owned the PMT system. The PMT approach has also been well embraced by other GON agencies, including the Poor Household Identification and Poverty Card Distribution Office under the Ministry of Co-operatives and Poverty Alleviation.

#### Component 3: Higher Secondary Education

(f) More than 910 Community Higher Secondary Schools (CHSS), including 110 with science streams, have received project support (EOP target is 470). This has helped significantly in enhancing access to higher secondary education (Grades 11 and 12) in remote districts after the Proficiency Certificate Level

(PCL) was phased out from TU.

(g) Enrollment in the participating CHSSs has reached 208,468 compared to the end of project target of 163,000. Girls' share in total enrollment has reached the project target of 50%. Marginalized communities consisting of dalits and extremely marginalized janajatis constitute 7.36% of total enrollment (project target is 6.20%). The share of enrollment in the science stream in the participating schools is 2.90%, higher than the project target of 2.60%.

#### Component 4: System Capacity Strengthening

(h) Ten higher education institutions have been accredited against the target of six; two more have completed the peer review process, five are under peer review and 10 others are in the immediate pipeline for peer review; 41 institutions are preparing self-study reports and 26 others have submitted letters of intent for accreditation. A number of private institutions too have applied for accreditation .

(i) UGC has received international recognition for its QAA work; it has become a member of Asia Pacific Quality Network (APQN) and International Network of Quality Assurance Agency in Higher Education (INQAAHE); UGC and APQN have agreed internship and other exchange programs.

### C. Proposed Changes

#### Financing

##### Change in Loan Closing Date(s):

##### Explanation

10. The Borrower has requested extension of the current closing date of January 15, 2014 until July 15, 2014 to facilitate orderly closure of the project as well as to fully utilize the available project resources. The task team recommends extension of the closing date to June 30, 2014, to match with the Bank's fiscal year. The extension will help:

- a) Continuation of assistance to poor students on scholarships and research scholars already supported under the project;
- b) Completion of some unfinished critical tasks – such as approval of HE policy and associated plan of action; and studies agreed for completion report and for designing further reforms; and
- c) Continuity and smooth transition to the next phase of reforms under consideration.

11. The Trust Fund will close on January 15, 2014 as scheduled.

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-H2740	Effective	15-Jan-2014	15-Jan-2014	30-Jun-2014	
TF-93397	Effective	02-Jan-2013	15-Jan-2014	15-Jan-2014	15-Jan-2014

#### Reallocations

##### Explanation

12. Due to more than 45% devaluation of NPR against USD and due to implementation delays till the Mid-Term, some funds will not be utilized fully under the present categories of expenditure. On the other hand there is a shortfall of funds especially under the Grant (Category 2) of the Higher Secondary Education component - 99% of allocation has been disbursed and there is an urgent need to support schools with science stream. Similarly, there is some shortfall of funds under UGC Reform Grant (Category 1A). To facilitate the full and optimum utilization of project resources, a final reallocation of funds is proposed following the Borrower's formal request dated September 19, 2013. The total reallocation is SDR 1.775

million amongst categories of expenditure: SDR 0.6 million to be reallocated to Category 1A - 0.3 million from Category 1C, and Category 5 each. Similarly, SDR 1.175 million is to be reallocated to Category 2 – SDR 1.00 million from category 1D, SDR 0.04 million from Category 4, and SDR 0.135 million from Category 6.

13. No reallocation of proceeds under Trust Fund is proposed.

Ln/Cr/TF	Currency	Current Category of Expenditure	Allocation		Disbursement % (Type Total)	
			Current	Proposed	Current	Proposed
TF-93397	USD	Cash Grant - Stip Prt A & FC Prt C	1,242,680.00	1,242,680.00	100.00	100.00
		GOODS	8,750.00	8,750.00	100.00	100.00
		CONSULTING services and training	591,781.00	591,781.00	100.00	100.00
		Incremental OPERATING COSTS	61,425.00	61,425.00	100.00	100.00
		Designated Account	0.00	0.00	0.00	0.00
		<b>Total:</b>	1,904,636.00	1,904,636.00		
IDA-H2740	XDR	IDAH2740 SUBPROJ PART 1A UGC	15,400,000.00	<b>16,000,000.00</b>	100.00	100.00
		IDAH2740 SUBPROJ PART 1B UGC	1,980,000.00	1,980,000.00	100.00	100.00
		IDAH2740 SUBPROJ PART 2A UGC	2,770,000.00	<b>2,470,000.00</b>	100.00	100.00
		TRIBHVN UNIVER SUB GRA PART 1C UGC	7,820,000.00	<b>6,820,000.00</b>	100.00	100.00
		IDAH2740 SUBPROJ PART 3 DOE	9,480,000.00	<b>10,655,000.00</b>	100.00	100.00
		IDAH2740 GD,SER,TR,ST PART 1B 2B 4A	1,258,000.00	1,258,000.00	100.00	100.00
		GD,SER,TRNG,ST TRIV UNIV-PT 4B UGC	510,000.00	510,000.00	100.00	100.00
		IDAH2740 GD,SER,TR,STOUR PART 3	560,000.00	<b>520,000.00</b>	100.00	100.00
		IDAH2740 INC OPCST PRT 1B 2B 4A UGC	1,192,000.00	<b>892,000.00</b>	90.00	90.00
		INCR OPRT CSTS TRIBHVN UNI PART	430,000.00	430,000.00	90.00	90.00



		4B				
		IDAH2740 INC OPCST PART 3 DOE	200,000.00	<b>65,000.00</b>	90.00	90.00
		IDAH2740 UNALLOCATED	0.00	0.00	0.00	0.00
		Designated Account	0.00	0.00	0.00	0.00
		Designated Account	0.00	0.00	0.00	0.00
		<b>Total:</b>	41,600,000. 00	41,600,000. 00		