I. Introduction and Context

Country Context

India is a lower middle-income country with a GDP per capita of US$1,489 (2012 US$). India experienced high economic growth during 2001-11, with an average GDP growth of 7.9% p.a. From 2005-10, 53 million people were brought out of poverty. Human development outcomes also improved during this period, with under-5 mortality decreasing from 88.1 to 58.6 per 1000 live births; and primary net enrollment increasing from 85.7% to 98.9%.

Yet, a number of challenges exist, notably, a deceleration of economic growth and high levels of inequality. Economic growth has slowed in the recent past, decelerating from 9.6% in 2010 to 6.3% in 2011. Economic inequality and differences in human development outcomes remain stark, especially across regions, castes and gender. A child belonging to the richest income quintile has an under-5 mortality rate that is 3.3 times lower than one born into the poorest quintile, and a person from the richest quintile has 2.5 times more years of education than one from the poorest quintile.
Nearly 50% of India lives in 14 low income/special category states with poverty rates close to 40% — and faces the reality of such development outcomes.

Madhya Pradesh (MP), with a GSDP of US$728, is one such low-income state, with a population of 73 million, of which 75% resides in rural areas. While human development indicators in MP resemble the national average, closer analysis reveals stark inequalities, with rural areas, women, and Scheduled Caste/Scheduled Tribe (SC/ST) groups facing significant disadvantages. Male literacy rate in Madhya Pradesh is 80.33 (Rural: 76.6; Urban: 90.2) is higher than the female literacy rate of 60.02 (Rural: 53.2; Urban: 77.4). Infant mortality rate and Under-5 mortality rate differ by 5-7 extra deaths per 1000 live births for girls compared to boys, and more than 20 extra deaths per 1000 live births for Scheduled Tribes.

India’s 12th Five Year Plan, based on the pillars of faster, sustainable, and inclusive growth, places emphasis on increasing the supply of highly-skilled workers to drive the economy, as well as helping low-income states catch up with their more advanced neighbors. In its Vision 2018 document (released in December 2013), Madhya Pradesh has outlined forward looking plans for the state’s development; in higher education, identified reforms include performance based funding of institutions, greater use of technology, and institutions pursuing self-determined reforms.

**Sectoral and Institutional Context**

Higher Education (HE) in India has been expanding rapidly, with enrollment doubling from 8.4 million students to 17 million students from 2001-11. Currently, nearly 1.6 million students attend more than 1300 higher education institutions in MP. In 2009-10, the year for which the latest data is available, MP’s Gross Enrollment Ratio (GER) in HE was 14.9%, close to the national average of 16.2%. Overall satisfactory access and averages, however, mark core quality and equity concerns. While 29% of the age group 18 to 23 years in urban areas in MP is enrolled for HE, in rural areas the average is 9%, with fewer than 4% of SC/ST students and less than 5% of girls. Moreover, a large number of graduates enter the workforce unprepared with key technical and workplace skills. A recent Bank study [Employability and Skill Set of Recently Graduated Engineers in India, Andreas Blom and Hiroshi Saeki, April 2011] found that across India, 64% of employees were at best somewhat satisfied with the quality of freshly hired engineers — a scenario likely true for MP as well.

In 2012, the Bank carried out a major review of the higher education sector in MP, resulting in the report ‘Madhya Pradesh Higher Education Reforms: Policy Options (2012)’. The study found that individual returns to higher education were high – a tertiary education graduate earns 35 percent more than an individual with only senior secondary education – and these graduates are found overwhelmingly in better jobs (70 percent work in the service sector). Other labor market indicators show good overall numbers – for example, unemployment rate of only 6 percent – but significant inequalities in outcomes – with 50 percent of girls with a degree are neither working nor studying, while for boys this figure is just 7 percent.

The study highlighted the core governance and financing challenges facing MP (issues common across states), with the current HE system lacking efficiency and accountability, and is not student-focused. Related concerns include a cumbersome college affiliation system, top-down decision-making and rampant politicization. There are also no clear funding mechanisms/performance-based criteria regarding central and state funding. There is little co-sharing of costs between the government and the institution keeping the institution largely dependent on the state, diluting
autonomy, and limiting resources available for institutional development.

The private sector in HE is fairly substantial in MP. Seventy percent of colleges and more than half the students in HE in MP are in the private/aided sector. Both the government and private tertiary education sectors have grown rapidly in recent years; however, the core issues of quality and relevance remain concerns for both parts of the sector. For example, the 2012 study found less than 100 institutions were accredited despite a major push in recent years. The affiliation and accreditation processes that allow private tertiary institutions to become eligible to offer their services are often implemented in a non-transparent manner and do not instil confidence in or guarantee the delivery of good quality education. Moreover, there were a large number of unfilled faculty positions; 29 percent of the 8,000 posts sanctioned by the state government were vacant. A fundamental constraint on quality improvement is the relatively small size of institutions (on average around 1,000 students in MP), which means most institutions do not have a critical mass of students (and therefore budget) or qualified faculty to offer good quality education and other student services, or carry out research. The study concluded that the priority for higher education should be to consolidate existing institutions, to improve their quality, and access goals should be met by expanding current institutions rather than establishing new ones.

Finally, the 2012 study highlights the complexity and challenge of reform in the HE sector in the state. For a whole-system reform and for policy responses to be far-reaching and effective, they need to be calibrated to the specific needs in the system. Moreover, reforms and interventions need to be sequenced for the system to absorb them and gain the maximum out of them. Short-term measures that can result in quick gains will need to be appropriately balanced with longer term measures towards whole system reform. The Bank’s support of the Technical Education Quality Improvement Project (TEQIP II; P102549) also provides lessons in the complexity of building institutional autonomy, developing appropriate capacity building structures, and the use of incentives to drive performance and behavioral change at the tertiary level. The GoMP has already initiated a few measures to increase enrollment, improve quality and strengthen governance in higher education, in part based on the Bank’s 2012 report. Innovations include a highly successful on-line admission policy which has created transparency in the system, reforms in the by-laws for the establishment of new private colleges, preparing to establish a State Higher Education Council, drafting a new Public University Act, and reducing the burden on SC/ST students in HE through reduced fees and other support.

The 12th Five Year Plan Government of India has launched a new Centrally Sponsored Scheme (the Rashtriya Uchhathar Shiksha Abhiyan known by its acronym as RUSA), which is an ambitious program intended to support reform across all states. The approach under the Scheme is very similar to that of the TEQIP project and fully consistent with the changes in the proposed project; and the Bank is assisting the GoMP to prepare its plans for accessing RUSA funds, so complementary and alignment is assured. The quantum of funding under RUSA is likely to be modest in the short run; reforms under the proposed project will increase the system’s capacity to absorb RUSA funds.

**Relationship to CAS**

The proposed operation supports the CPS for 2013-17, specifically, the engagement areas relating to integration and inclusion. Both engagement areas foresee an expansion of higher education opportunities, leading to workers of higher quality, who will be more readily employable in the labor market, given that continued economic growth for India will require more skilled workers.
Further, by working in MP, the operation supports the CPS strategy of working in low-income and special category states.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The proposed Project Development Objective is to improve quality of and equity in education outcomes for students in higher education, and to increase the effectiveness of the higher education system in Madhya Pradesh.

Key Results (From PCN)
The project would track the following key results:

- On time graduation rates of undergraduate students (disaggregated by gender/SC/ST) [Quality]
- Student satisfaction levels of those in final year of studies [Quality]
- Number of institutions which are autonomous [Quality]
- Percentage of students in higher education from disadvantaged groups [Equity]
- Percentage of non-salary expenditure in higher education [Effectiveness]
- Percentage of institutions which publish an annual report in the prescribed format [Effectiveness]

III. Preliminary Description

Concept Description
The project design is based on analytical work conducted by the World Bank, in support of the GoMP. The project would seek a comprehensive reform of the higher education system in the State, around four areas: (i) innovation and quality improvement; (ii) governance reforms; (iii) more effective use of public funding; and, (iv) increasing equity and access. Additionally, the project will support sound project management and monitoring and evaluation structures for project implementation.

It is proposed that the project use either a Disbursement Linked Indicators (DLIs) or a P4R approach, as this would focus the operation on the outcomes to be achieved and promote piloting of different combinations of activities to achieve specific goals. Both the Department of Higher Education and the Department of Institutional Finance has agreed to this approach.

The project will have 2 components, as follows:

(a) Enhancing Quality and Equity (Bank support - $290 mill; Total component cost - $415 mill.)

Key areas of support under this component include:

i. Innovation and quality improvement: pedagogical and other training for faculty; grants to support institutional development plans to prioritize investments; new fields of study/curricula with better employment prospects; and mechanisms for tracking of graduates.

ii. Governance reforms: establishment of independent State Higher Education Council and governing bodies for institutions; support for reform of examination system; streamlining of the affiliation system; new rules of internal decision-making and financial management to support institutional autonomy

iii. More effective use of public funding: new funding formula for state budget resources for
both teaching and research; targeted scale-up of successful programs; and incentives for institutions to increase private resources.

iv. Increasing equity: institutional incentives to increase enrollment of girls/disadvantaged groups; development of technology based distance learning; and girls hostels.

(b) Technical Assistance to DHE (Bank support - $10 mill.; Total component cost -$15 mill.)
Under this component, technical assistance will be provided to the implementing agency and the DHE in areas in project management, monitoring and evaluation, and in the establishment of robust project information systems.

In line with World Bank’s operational policies and keeping the proposed project interventions in mind, OP 4.01 and OP 4.10 have been triggered for the project. An Environment Assessment will be undertaken and based on findings from this exercise, an Environment Management Plan/Framework will be prepared to guide/improve the management of environment, health and safety aspects on the campuses of HE institutions supported/covered under the project. A Tribal Peoples Plan/Framework will also be prepared based on the design of the components to ensure positive inclusion and to avoid any negative impacts on Tribal People.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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