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THE WORLD BANK

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REPORT NO: PAD2183

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$67 MILLION

AND

PROPOSED CREDIT

IN THE AMOUNT OF SDR 24.4 MILLION (US$33 MILLION EQUIVALENT)

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR AN

ACCELERATING HIGHER EDUCATION EXPANSION AND DEVELOPMENT OPERATION

APRIL 17, 2017

Education Global Practice
South Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective February 28, 2017)

Currency Unit	=	Sri Lanka Rupee (LKR)
LKR 151.62496475	=	US$1
US$1.35389000	=	SDR 1

FISCAL YEAR
January 1–December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGD	Auditor General Department
AHEAD	Accelerating Higher Education Expansion and Development Operation
ATI	Advanced Technological Institute
CEA	Central Environmental Authority
CIABOC	Commission to Investigate Allegations of Bribery or Corruption
CIGAS	Computerized Integrated Government Accounting System
CPF	Country Partnership Framework
CQS	Selection based on Consultants' Qualifications
DA	Designated Account
DPMM	Department of Project Management and Monitoring
DD	Deputy Director
DoPF	Department of Public Finance
DOR	Development-oriented Research
DLI	Disbursement-linked Indicator
EDP	External Degree Program
ELSE	English Language Skills Enhancement
ELTA	Enriching Learning, Teaching, and Assessment
ELTU	English Language Teaching Unit
ESSA	Environmental and Social Safeguards Assessment
FM	Financial Management
FR	Financial Regulation
GCE A/L	General Certificate of Education Advanced Level
GDP	Gross Domestic Product
GER	Gross Enrollment Ratio
GoSL	Government of Sri Lanka
HEDS	Higher Education Development Strategy
HEI	Higher Education Institution
HEMS	Humanities, Education, Management, and Social Sciences
HETC	Higher Education for the Twenty-First Century
HRD	Human Resource Development
ICB	International Competitive Bidding
ICE	Innovation Commercialization Enhancement
ICT	Information and Communication Technology
IDP	Institutional Development Plan
IFSA	Integrated Fiduciary Systems Assessment
IP	Intellectual Property

IPF	Investment Project Financing
IQAC	Institutional Quality Assurance Cell
IQAU	Internal Quality Assurance Unit
IRQUE	Improving Relevance and Quality of Undergraduate Education
IRR	Internal Rate of Return
IT	Information Technology
IUFR	Interim Unaudited Financial Report
LCT	Learner-centered Teaching
LMIC	Lower-Middle-Income Country
LQDC	Leadership and Quality Development Center
MHEH	Ministry of Higher Education and Highways
MoF	Ministry of Finance
MOOC	Massive Open Online Course
MPP	Master Procurement Plan
MSDVT	Ministry of Skills Development and Vocational Training
NCB	National Competitive Bidding
NEA	National Environmental Act
NPA	National Procurement Agency
OBE	Outcome-based Education
OM	Operations Manual
OMST	Operations and Monitoring Support Team
OTS	Operations Technical Secretariat
PAD	Program Appraisal Document
PAP	Program Action Plan
PDO	Program Development Objective
PFM	Public Financial Management
PforR	Program for Results
PFS	Program Financial Statement
PMU	Project Management Unit
POTS	Program Operations Technical Support
PPDU	Policy Planning and Development Unit
QA	Quality Assurance
QAA	Quality Assurance and Accreditation
QAAC	Quality Assurance and Accreditation Council
RDIC	Research and Development, Innovation, and Commercialization
RIC	Research and Innovation Commercialization
RUSL	Rajarata University of Sri Lanka
SBD	Standard Bidding Document
SCAQA	Standing Committee on Accreditation and Quality Assurance
SCD	Systematic Country Diagnostic
SCL	Student-centered Learning
SDC	Staff Development Center
SLIATE	Sri Lanka Institute of Advanced Technological Education
SLPSAS	Sri Lanka Public Sector Accounting Standards
SLQF	Sri Lanka Qualifications Framework
SORT	Systematic Operations Risk-Rating Tool
SSS	Single-Source Selection
STEM	Sciences, Technology, Engineering, and Mathematics
STEP	Systematic Tracking of Exchanges in Procurement

SUSL	Sabaragamuwa University of Sri Lanka
TA	Technical Assistance
TEC	Technical Evaluation Committee
TOR	Terms of Reference
TPVA	Third-party Verification Agency
UBL	University-Business Linkage
UGC	University Grants Commission
UMIC	Upper-Middle-Income Country
UoJ	University of Jaffna
UoK	University of Kelaniya
UoSJ	University of Sri Jayewardenepura
WIPO	World Intellectual Property Organization

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Country Director:	Idah Z. Pswarayi-Riddihough
Practice Manager:	Keiko Miwa
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SRI LANKA

Accelerating Higher Education Expansion and Development Operation

Table of Contents

		Page
I.	**STRATEGIC CONTEXT**	**12**
A.	Country Context	12
B.	Sectoral and Institutional Context	13
C.	Relationship to the CAS/CPF and Rationale for Use of Instrument	15
II.	**PROGRAM DESCRIPTION**	**16**
A.	Government Strategy and Program	16
B.	Program Development Objective and Key Results	16
C.	Operational Scope	17
D.	Disbursement-linked Indicators and Verification Protocols	21
E.	Capacity Building and Institutional Strengthening	22
III.	**PROGRAM IMPLEMENTATION**	**23**
A.	Institutional and Implementation Arrangements	23
B.	Results Monitoring and Evaluation	24
C.	Disbursement Arrangements	25
IV.	**ASSESSMENT SUMMARY**	**25**
A.	Technical (including Program Economic Evaluation)	25
B.	Fiduciary	27
C.	Environmental and Social Effects	31
D.	Risk Assessment	32
E.	Program Action Plan	33

ANNEXES

Annex 1: Detailed Program Description 35
Annex 2: Results Framework Matrix 56
Annex 3: Disbursement-linked Indicators, Disbursement Arrangements, and Verification Protocols 64
Annex 4: Summary Technical Assessment 77
Annex 5: Summary Fiduciary Systems Assessment 93
Annex 6: Summary Environmental and Social Systems Assessment 113
Annex 7: Systematic Operations Risk-Rating Tool (SORT) 119
Annex 8: Program Action Plan 120
Annex 9: Implementation Support Plan 122
Annex 10: Program Operations Technical Support Component 125

PAD DATA SHEET

Sri Lanka

Accelerating Higher Education Expansion and Development Operation

PROGRAM APPRAISAL DOCUMENT

South Asia Region
Education Global Practice

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Basic Information			
Date:	April 10, 2017	Sector:	Tertiary Education (100%)
Country Director:	Idah Z. Pswarayi-Riddihough	Theme:	Access to Education 38% Education Finance 25% Science & Technology 13% Teachers 13% Standards, Curriculum, and Textbooks 11%
Practice Manager:	Keiko Miwa		
Global Practice Vice President:	Keith E. Hansen		
Program ID:	P159995		
Team Leader:	Harsha Aturupane		

Program Implementation Period:	Start Date: June 27, 2017	End Date: June 30, 2023
Expected Financing Effectiveness Date:	June 27, 2017	
Expected Financing Closing Date:	June 30, 2023	

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Program Financing Data		
[X] Loan [X] Credit	[ ] Grant	[ ] Other

For Loans (US$, millions):

Total Program Cost:	2,056 (Total operation cost is 2,063)	Total Bank Financing:	100 (93 PforR + 7 IPF)
Total Cofinancing:	1,963	Financing Gap:	0

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Financing Source (US$, millions):	**Amount**
IBRD	67
IDA	33
Total	100

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Borrower: Government of Sri Lanka			
Responsible Agency: Ministry of Higher Education and Highways			
Contact:	Mr Russel Aponsu	Title:	Director Planning State Ministry of Higher Education and Highways
Telephone No:	+94112693460	Email:	aponsu@gmail.com

.									
Expected Disbursements (in US$ millions)									
Fiscal Year	FY18	FY19	FY20	FY21	FY22	FY23			
Annual	7	14	19	20	19	21			
Cumulative	7	21	40	60	79	100			

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Program Development Objective(s)
The program development objective is to increase enrollment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector.

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Compliance		
Policy		
Does the program depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]

.		
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]

Overall Risk Rating: Substantial			
Legal Covenants			
Name	**Recurrent**	**Due Date**	**Frequency**
Implementation Units I	Yes	3 months after effectiveness	Throughout implementation
Description of Covenant MHEH to establish, and thereafter maintain: (i) a steering committee to provide overall guidance to and coordination for, and monitor, the carrying out of the activities under the Operation; and (ii) an operations monitoring and support team (OMST) to coordinate the day to day implementation of Operation activities, the verification of DLIs, compliance with the Program Action Plan and other fiduciary and social and environmental requirements.			
Name	**Recurrent**	**Due Date**	**Frequency**
Implementation Units II	Yes	6 months after effectiveness	Throughout implementation
Description of Covenant MHEH to establish, and thereafter maintain, within each University an operations technical secretariat, to serve as liaison unit between the University and MHEH in order to coordinate, monitor and facilitate the implementation of the Operation's activities by the University's Faculties and/or their institutes or Departments.			
Name	**Recurrent**	**Due Date**	**Frequency**
Safeguards Monitoring Framework	Yes	December 31, 2018	Throughout implementation
Description of Covenant OMST to prepare and adopt, and thereafter implement, a safeguards monitoring protocol/framework, for MHEH, and UGC to monitor the SLIATE/ATI's and the Universities' compliance with the environmental and social regulations and prepare annual reports by March 31, of each year (commencing on March 31, 2019).			
Name	**Recurrent**	**Due Date**	**Frequency**
Grievance Redressal Mechanism	Yes	6 months after effectiveness	Throughout implementation
Description of Covenant MHEH to establish and thereafter maintain a citizens feedback and grievance redressal mechanism.			
Name	**Recurrent**	**Due Date**	**Frequency**
Operations Manual	Yes	N/A	Throughout implementation
Description of Covenant GoSL to: (i) carry out the Operation and cause the UGC, universities, SLIATE, ATIs and non-state HEIs to carry out their activities under the Operation, in accordance with the Operations Manual.			
Name	**Recurrent**	**Due Date**	**Frequency**
Program Action Plan	Yes	N/A	Throughout implementation
Description of Covenant GoSL to implement the Program Action Plan.			
Name	**Recurrent**	**Due Date**	**Frequency**

Students Loans	Yes	6 months after effectiveness	Throughout implementation

Description of Covenant

GoSL to develop and approve the mechanism to effect/account for any transfer of student loans funds to student beneficiaries and/or non-state HEIs, and revise the Operations Manual to: (a) incorporate such mechanism, (b) provide for a meritocratic, transparent and non-discriminatory criteria and the procedures for the selection of beneficiary students/non-state HEIs; and (c) set forth the terms and conditions of the student loans.

Name	Recurrent	Due Date	Frequency
ELTA/ELSE Grants	Yes	N/A	Throughout implementation

Description of Covenant

GoSL to: (a) publicly invite Faculties and Departments of Universities to submit ELTA-ELSE proposals in accordance with the Operations Manual; (b) screen the proposal in accordance with the eligibility/preparedness criteria and selection procedures of the Operations Manual; and (c) enter into written agreements with each awardee University for the provision of the ELTA-ELSE Grant as per the terms and conditions set forth in the Operations Manual.

Name	Recurrent	Due Date	Frequency
Scholarships	Yes	N/A	Throughout implementation

Description of Covenant

GoSL to: (a) publicly invite Universities, non-state HEIs and/or ATIs to submit the candidacy of their respective academic staff interested in pursuing Ph.D., Masters or professional doctoral degrees overseas, in accordance with the Operations Manual; (b) screen those candidacies pursuant to meritocratic, transparent and non-discriminatory criteria set forth in the Operations Manual; and (c) upon selection of candidates, enter into a written agreements with each awardee (candidate) for the provision of the respective scholarship, as per the terms and conditions set forth in the Operations Manual.

Name	Recurrent	Due Date	Frequency
DOR & RIC Grants	Yes	N/A	Throughout implementation

Description of Covenant

GoSL to: (a) publicly invite: (i) Universities and non-state HEIs to submit DOR and RIC proposals; and (ii) Universities which have successfully implemented relevant activities under the HETC Project, to submit ICE proposals, all in accordance with the Operations Manual; (b) screen the proposals in accordance with the eligibility/preparedness criteria and selection procedures of the Operations Manual; and (c) enter into written agreements with each awardee University or non-state HEI for the provision of the DOR, RIC or ICE grant as per the terms and conditions set forth in the Operations Manual.

Name	Recurrent	Due Date	Frequency
Automated Accounting Systems	Yes	December 18, 2018	Throughout implementation

Description of Covenant

GoSL to purchase/develop, and install at MHEH/OMST and the Universities, an automated accounting systems for the Operation.

Name	Recurrent	Due Date	Frequency
Internal Audit Plan	Yes	June 30, 2018	Throughout implementation

Description of Covenant

GoSL to develop and adopt, and cause UGC, SLIATE, ATIs and Universities to adopt, a risk-based approach internal audit plan to cover the Operation.

Name	Recurrent	Due Date	Frequency
DLI Verification Protocols	Yes	N/A	Throughout implementation

Description of Covenant

GoSL to undertake the verification process to certify the fulfillment of the DLIs in accordance with terms of reference agreed with the Association.

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Team Composition

Bank Staff

Name	Title	Specialization	Unit
Harsha Aturupane	Lead Education Specialist	Team Leader, Economics	GED06
G. W. Anjali U. Perera Vitharanage	Procurement Specialist	Procurement	GGO06
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Benoit Millot	Consultant	Economics of Education	GED06
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Mari Shojo	Education Specialist	Education	GED06
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Mohamed Ghani Razaak	Senior Social Development Specialist	Social Development	GSU03
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Mokshana Nerandika Wijeyeratne	Environmental Specialist	Environment	GEN06
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Roshini Mary Ebenezer	Consultant	Education	GED06

Chandrika Sepali Kottegoda	Consultant	Gender and Social Development	GSU03
Kerima C. Thilakasena	Program Assistant	Administration and Client Services	SACSL
Alejandro Welch	Program Assistant	Administration and Client Services	GED06

I. STRATEGIC CONTEXT

A. Country Context

1. **Sri Lanka is a lower-middle-income country (LMIC) with a per capita income of US$3,900 and a reputation for emphasizing human development and equitable growth.** The country is aspiring to become an upper-middle-income country (UMIC) over the medium term. Sri Lanka, with a population of approximately 21 million, experienced impressive growth of about 7 percent per year during 2012–2014, although growth slowed down in 2015 due to the weak global economic conditions. Economic growth is expected to rise over the medium term as the global economy recovers. The Government of Sri Lanka (GoSL) is seeking to transform the country into a UMIC through the development of higher-value-added industries and services, an open and export-oriented economic environment, and the acceleration of human capital development.

2. **In fact, Sri Lanka already shares some demographic and economic characteristics of UMICs.** Both its low annual population growth rate (0.92 percent) and low birth rate (1.6 percent) are well below those recorded in LMICs and are closer to those observed in UMICs such as Brazil and Turkey. The structure of the economy is also moving away from its traditional agricultural basis toward manufacturing and services, with services accounting for 61 percent and the industrial sector accounting for 31 percent of gross domestic product (GDP), respectively.

3. **Basic human development levels in Sri Lanka, especially in indicators such as primary and secondary education and life expectancy, are high by the standards of LMICs and comparable to UMICs.** Sri Lanka ranks 73rd on the Human Development Index scale out of 188 countries. With a primary education completion rate of over 95 percent, a secondary education completion rate of 86 percent, a literacy rate of 93 percent, and a life expectancy rate of 78 years for women and 72 years for men, Sri Lanka largely outperforms LMICs and is on par with UMICs.

4. **Primary and secondary education outcomes have been improving in recent years and provide a strong foundation for future development of higher education.** The completion rate of students through general education has been increasing over time. The secondary school completion rate rose from 82 percent in 2011 to 86 percent in 2015. The national assessments of learning outcomes show that learning levels improved between 2012 and 2015 and in key subjects including mathematics and science. Further, this improvement in learning is seen in both primary and secondary education. The combination of increasing participation rates and rising learning levels in general education is generating a strong demand for higher education. In addition, the GoSL has adopted a policy to provide education for all children and youth ages 6–18 years from 2018 onward. This will further increase the flow of students completing secondary education and demanding higher education. Gender disparities exist in secondary education completion rates, with the completion rate for girls at 89 percent and for boys at 83 percent. As part of the policy of ensuring that all students up to age 18 are in the education system, the GoSL is widening the range of subjects available in secondary education to include a variety of practical technology subjects and a vocational curriculum stream. Many of these subjects are expected to be attractive to male students who are currently not continuing into secondary education, and gender disparities in secondary education are then likely to decrease.

5. **Sri Lankan policy makers perceive higher education as a vital engine for development and the promotion of shared prosperity.** The higher education system is expected to produce a pool of high-level human resources, including scientists, engineers, technology specialists, medical personnel, entrepreneurs, policy makers, administrators, managers, academics, and teachers, who are essential for economic and human development. The availability of such a pool of highly educated human resources is of central importance for the future development of the country. Policy makers also recognize the

contribution of higher education to economic growth through research, development, and innovation, especially in knowledge- and technology-intensive industries and services. In this context, the Ministry of Higher Education and Highways (MHEH) has prepared a Higher Education Development Strategy (HEDS) as the framework for the future development of the higher education sector.

B. Sectoral and Institutional Context

6. **Sri Lanka's higher education sector needs considerable future development.** With a gross enrollment ratio (GER) of 21 percent, the country has higher education enrollments well below those of UMICs, which have an average GER of 44 percent, and below even the average for LMICs of 23 percent. Further, slightly more than 50 percent of Sri Lanka's higher education students are enrolled in external degree programs (EDPs), where they register and face examinations in a university, but do not follow lectures and classes and do not receive real academic support from the university. This means that Sri Lanka's effective GER is closer to 10 percent. Overall, in 2014, Sri Lanka was ranked 88th of 115 countries[1] for higher education participation. The same year, among East Asian countries that Sri Lanka aims to emulate, Malaysia's GER was 28 percent, Indonesia's GER was 31 percent, and Thailand's GER was 53 percent. The country fares poorly in the proportion of students enrolled in subjects of vital importance for economic development, such as the sciences, technology, engineering, and mathematics (STEM). The proportion of students in the sciences was just 13 percent in 2014. For engineering alone, with an enrollment share of 7 percent, Sri Lanka fares even worse, at 69th of 79 countries for which data were available.[2] Females account for 62 percent of undergraduate enrollments. However, while females are heavily represented in the arts, humanities, and education fields, in the STEM programs, the share of male and female students is about equal, with 49 percent of university enrollments in STEM programs being female students. Once students enroll in universities, the degree completion rate is very high. For instance, in STEM programs, the rate is over 98 percent. The key challenge, however, is the small proportion of students enrolled in universities and higher education institutions (HEIs). Sri Lanka needs to urgently increase higher education enrollment with a special focus on degree programs, especially STEM degree programs, which are critical for future economic growth through higher-value-added industries and services.

7. **The supply of qualified academic staff needs to be expanded urgently.** The quality of academic staff is a central determinant of the performance of a higher education system. Yet, there is a severe scarcity of qualified academic staff in Sri Lankan universities. Out of approximately 5,000 academic staff (44 percent of whom are female), less than 50 percent are PhD qualified. Among academic staff below 45 years of age, only 24 percent have PhDs. Yet PhD-qualified staff are necessary for the high performance of modern universities with their research, innovation, and postgraduate teaching mandates. Sri Lanka needs to staff its universities with appropriately qualified academics as an urgent priority.

8. **University teaching and learning needs to be modernized in line with international practices.** Sri Lankan universities are largely traditional, with teacher-centered pedagogy and passive student learning. International trends in universities are increasingly moving toward active learner-centered teaching (LCT) and outcome-based education (OBE), which are important to combine academic excellence with good socio-emotional skills that are needed for the world of work in the twenty-first century. The global trend is also to combine LCTand OBE with blended and digital-based learning, where online e-learning methods are integrated with on-site, face-to-face interaction between teachers and students. Sri Lanka universities need to rapidly modernize both teaching and learning content and methods to reflect and keep pace with these international trends.

[1] This is the number of countries for which data were available.
[2] *Source:* World Bank Education Statistics database.

9. **The job search and employment experiences of students is highly variable.** Graduates from STEM disciplines have high employment rates, with over 95 percent of information technology (IT) and engineering graduates and 75 percent of science graduates obtaining jobs within six months of graduation. At the other extreme, arts graduates have lengthy job search durations, with a history of waiting for public sector jobs. The large majority of such arts graduates are from the EDPs, where the combinations of subjects studied tend to have little direct labor market relevance. At the same time, a majority of employers complain that they do not find the right kind of candidates or candidates with technical and behavioral skills, which they consider as critical to properly function in the workplace.[3] Policy makers now consider that developing the socio-emotional skills of students is also a vitally important function of the educational experience of university students.

10. **The research and innovation outcomes of Sri Lankan universities need to be increased urgently.** Research output from Sri Lankan universities is totally inadequate for an aspiring UMIC. For instance, the number of citations per million inhabitants shows Sri Lanka at 138th position out of 204 countries, which is three times less than Thailand and five times below Malaysia. While South Korea had about 4,500 patent applications per million inhabitants in 2014, Sri Lanka had only 22. The promotion of research is an urgent next step in the development of higher education in the country. First, research is a vital and distinguishing mandate of universities. Second, academics engaged in research are more likely to be more up-to-date in their discipline than other academics and therefore better able to teach up-to-date knowledge to students. Third, research and innovation make a substantially important contribution to economic and social development in the modern world. For this to happen, research and innovation results have to lead systematically to practical and relevant applications in industry, services, and agriculture for economic development.

11. **Public financing of higher education has been low until recently.** Sri Lanka ranks 61st out of 69 countries for the share of government expenditure on higher education as a share of GDP and 64th out of 74 countries for higher education expenditure as a proportion of total government expenditure. Over 2010–2014, the GoSL spent relatively little on education and other social sectors. However, the new Government elected in 2015 announced that investment in education, including higher education, will be a high policy priority for future public investment. As the Government increases investment in higher education, it is important that funds are linked to performance, at both system and institutional levels, to maximize economic and social benefits.

12. **Greater expansion and quality enhancement of the private higher education sector are required.** The GoSL recognizes the importance of promoting private sector participation for future higher education development. A number of higher private education institutes have opened in the last decade. However, the size of the private sector is still small, accounting for only about 20 percent enrollment, and mainly in disciplines such as business administration, management, and IT. The MHEH needs to actively promote good-quality private HEIs to expand enrollment and promote quality degree programs relevant for the labor market. To achieve this objective, the private HEIs need quality assurance and accreditation (QAA) that is of international quality and is consistent with the standards and protocols developed for the public HEIs.

13. **The licensing and QAA of HEIs are fragmented and have to be further developed to reflect modern global standards and practices.** The University Grants Commission (UGC) has a quality assurance and accreditation council (QAAC) for state universities. The MHEH has a board that accredits non-state HEIs. Other HEIs that are the franchise partners of overseas HEIs depend on their foreign QAA system. The QAA system needs to be raised to a new and higher level. This requires the development of a systematic process of external quality assurance (QA) reviews that includes international reviewers and

[3] Higher Education for the Twenty-First Century (HETC) Project records.

covers both public and private HEIs and then feeds into the implementation of the HEDS as an annual rolling plan. All universities also need to develop well-functioning Internal Quality Assurance Units (IQAUs) to conduct internal quality reviews and feed these into university institutional development plans (IDPs). In addition, the EDPs are, to a large extent, left outside of the QA system and badly need to benefit from QAA activities. Finally, licensing and QAA need to have a more 'outward-oriented' approach that reflects international developments. This extends beyond conformation of the quality and standards of higher education provision in the Sri Lankan context and requires benchmarking with standards in UMICs and Organisation for Economic Co-operation and Development countries.

C. Relationship to the CAS/CPF and Rationale for Use of Instrument

14. Recognizing the vital importance of developing the higher education sector to enable Sri Lanka's transition from an LMIC to a UMIC, the World Bank has proposed, as part of the Country Partnership Framework (CPF) FY17–FY20 Report No. 73221, to provide assistance to the sector through a new higher education operation. The Accelerating Higher Education Expansion and Development Operation (AHEAD) is fully aligned with the CPF Pillar 2: Promoting Inclusion and Opportunities for All. Expanding enrollment in higher education with a special focus on the STEM subjects will increase opportunities for young people, including youth from rural and estate sector families, to obtain jobs with higher remuneration. In addition, it will enable entrepreneurs and employers to widen the geographical range of industrial and service sector activities in the country and broaden opportunities for shared prosperity with less-developed regions. The World Bank has been the only large development partner in the higher education sector in Sri Lanka in recent years, through two successive operations: The Improving Relevance and Quality of Undergraduate Education Project (IRQUE) and the HETC Project. AHEAD builds on the experience and lessons learned from these projects to broaden and deepen the World Bank's support for the higher education sector. Other development partners, such as the U.S. Agency for International Development and the World Intellectual Property Organization (WIPO), are discussing support for elements of the higher education sector such as the promotion of university-industry linkages. The Asian Development Bank (ADB) is also planning to enter this sector eventually. All development partners will align their support within the overall government higher education development program.

15. The AHEAD Operation will support the Government's HEDS with a hybrid operation combining two lending instruments: (a) a Program component using the Program for Results (PforR) instrument (US$93 million, referred to as the 'Program') and (b) a Program Operations and Technical Support (POTS) component using the Investment Project Financing (IPF) instrument (US$7 million, referred as the 'Project'). Henceforth in this Program Appraisal Document (PAD), the Operation will refer to the combined Program and Project components; the 'Program' will refer to the PforR component; and the 'Project' will refer to the IPF component.

16. **Rationale for the use of PforR.** The PforR instrument is considered an appropriate lending instrument to support the HEDS based on the following reasons:

(a) The PforR will support several strategic interventions within the overall Government program. A PforR will enable the Government to focus on the outcomes expected from these priority interventions and the processes and actions required to achieve these outcomes.

(b) A PforR will help develop the overall higher education sector through better alignment of incentives and systems strengthening.

(c) A PforR will enhance the partnership between the Government and the World Bank through the use of the Government's own systems.

17. **Rationale for the use of IPF.** The main objective of the proposed component using an IPF instrument is to provide technical assistance (TA) to strengthen the systems and institutional capacities of the MHEH, UGC, the Sri Lanka Institute of Advanced Technological Education (SLIATE), universities, and advanced technological institutes (ATIs) and to assist the coordination of the Program across this variety of institutions.

II. PROGRAM DESCRIPTION

A. Government Strategy and Program

18. The goal of the GoSL HEDS and program is to develop the higher education system to produce an educated and knowledgeable labor force with the human capital required to accelerate economic development. The GoSL strategy outlines the context of the higher education sector and the strategic areas and actions for future growth and development. The GoSL program presents the implementation arrangements and plan and budget to achieve the objectives of the strategy and the key performance indicators and targets. The program is based on three results areas. The first results area aims to increase enrollment in higher education programs of strategic importance for economic development. This is to be achieved through a combination of demand- and supply-side initiatives involving both state and non-state HEIs. These demand- and supply-side measures are promoted within the framework of a rolling strategic plan that is updated periodically. The expansion of enrollment is mainly focused on universities, ATIs, and non-state HEIs under the MHEH. However, the program also promotes enrollment in overseas HEIs and in a few HEIs under other ministries such as the Ministry of Skills Development and Vocational Training (MSDVT). The second results area focuses on improving the quality of higher education programs. It prioritizes the modernization and improvement of teaching-learning and assessment methods, promoting programs to strengthen the English proficiency and socio-emotional skills of students, increasing the quantity of adequately qualified academic staff, and strengthening QA of HEIs. In addition, there is an infrastructure development program called the University Townships project, which seeks to improve the landscapes of university campuses and promote linkages with neighboring towns. The third results area focuses on the creation of a culture of research and innovation in universities. Initiatives are designed to promote development-oriented research (DOR), encourage innovation and the commercialization of research products, and facilitate university-industry linkages. Research and development and innovation are mainly focused on universities and non-state HEIs under the MHEH. However, there are some research institutions under other ministries too, such as the Ministries of Agriculture and Plantation Industries. The MHEH, however, implements the major portion of the GoSL program, accounting for more than 85 percent of the total higher education budget. AHEAD will support a major portion of the program under the MHEH.

B. Program Development Objective and Key Results

19. The program development objective (PDO) is to increase enrollment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector. The main direct beneficiaries will be an estimated 600,000 higher education students and 5,000 academics, managers, and technical staff members who will benefit from AHEAD over its lifespan. There will also be many indirect beneficiaries from AHEAD including (a) private sector employers who will be able to recruit better-qualified university graduates; (b) the Government, which will be able to employ higher-quality graduates for the civil service and other public services; (c) future generations of university students and staff members who will benefit from the system-wide reforms and improvements; and (d) the private and public sector institutions that benefit from the research and innovation activities.

20. **Results indicators.** The Operation has identified a set of strategic indicators to measure progress and assess outcomes. Three types of results indicators have been identified: PDO-level indicators; disbursement-linked indicators (DLIs); and intermediate outcome indicators. The Results Framework has

five PDO-level indicators. These are strategic outcomes that will measure the overall success of the Operation. Six DLIs have been selected for disbursement. These DLIs are a combination of key outcome indicators and milestones that contribute to the achievement of outcomes. Six intermediate outcome indicators have also been selected. These are important intermediate results that will contribute to the achievement of the outcomes. Overall, the outcomes, DLIs, and intermediate outcomes are expected to be achieved through a mutually complementary and interlinked set of interventions in the three results areas. The results chain is shown in annex 1.

21. **PDO indicators.** The following PDO indicators, covering the core Program results areas, will be used to measure achievement of the PDO:

- Enrollment in HEI STEM undergraduate degree programs increased
- Enrollment in SLIATE STEM programs increased
- Increased quality assurance of the university system
- Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) through competitive grants developed and outcomes achieved for arts, management, and science degree programs
- University-level systems for Research and Development and Innovation and Commercialization (RDIC) programs developed and outcomes achieved.

22. **Intermediate outcome indicators.** A set of DLIs and intermediate indicators will be used as milestones to measure progress toward the achievement of the PDO (see annexes 2 and 3 for details).

23. **DLIs.** Under the PforR component, disbursement will be conditional on the achievement of specific results measured by the DLIs. The choice of each DLI and the DLI target values for each year are based on (a) the signaling role of the indicator (that is, the extent to which it signals a vital action or result); (b) providing strong financial incentives and rewards to deliver outcomes; (c) practical aspects of verifying achievement; and (d) the capacity of the GoSL to achieve the DLI during the Operation's implementation period. Detailed descriptions and definitions of the achievement of each DLI are provided in annex 3.

C. Operational Scope

The PforR Program

24. AHEAD will support the higher education sector in the entire country. The scope of AHEAD will be the higher education activities under the MHEH, the UGC and the 15 universities under the UGC, SLIATE and ATIs, and non-state HEIs approved by the MHEH and UGC. The development and strengthening of this set of higher education agencies will be supported under AHEAD, except for major infrastructure projects that are already being financed by other development agencies and overseas governments. Activities of tertiary education institutes outside the MHEH, such as those under the MSDVT, will also be outside the scope of AHEAD. The MSDVT is already funded by the World Bank through the Skills Development Project. There are numerous small research and training agencies under a variety of ministries, such as the Rubber and Coconut Research Institutes, which too are excluded to make the institutional framework of the Program strategic and manageable. The details of the overall GoSL program and the boundary of the PforR including the broad expenditure framework are shown in Figure 1. The institutional framework of the GoSL program and AHEAD Operation are shown in Figure 1.2 in annex 1.

The contents of the GoSL strategy and program and of the AHEAD Program are presented in Table 1.1 of annex 1.

Figure 1. Program Boundary

Government Program = HEDS US$2,401 million

AHEAD Operation + Other Development Partner Funded Initiatives + Other Ministries

(US$2,063 million + US$35 million+ US$303 million)

AHEAD US$2,063 million
(PforR US$2,056 million + IPF US$7 million)

Results Area 1	Results Area 2	Results Area 3
Enrollment Expansion in State Universities	Staff Development	Government Initiatives to Enhance Research, Development, and Innovation
Enrollment Expansion in SLIATE	Innovative Teacher Learning	Research in Universities
Private Sector Participation in Higher Education	Infrastructure and Other Facilities	Commercialization of Research and Development Outcomes
ICT and Higher Education	Producing Employable Graduates	Research Funding
	English Proficiency of Undergraduates	
	Quality in External Degree Programs	
	Sri Lanka Qualifications Framework	
	Quality Assurance	

Other Government Program Funded by Other Development Partners (US$35 Million) and Other Ministries (US$303 Million)

Results Area 1	Results Area 2	Results Area 3
Enrollment in Overseas Universities	University Townships	Other Research Institutes
Enrollment in Other Tertiary Training Institutions		

25. The Program component of AHEAD will support three strategic results areas:

- Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development
- Improving the Quality of Higher Education
- Promoting Research, Development, and Innovation

26. These three results areas were chosen through a combination of factors. The GoSL and the World Bank undertook a participatory consultation process that included a variety of stakeholders, such as policy makers, employers, universities and HEIs, academics, researchers, and students, during the preparation of the HEDS and the Operation. The manner in which the consultations were taken into account in the design of the Operation is described in detail in the Citizen Engagement section of the PAD. The World Bank also provided analytical and technical support for the development of the higher education development strategy and program. This included the World Bank Rapid Education Sector Assessment (2015), which contained a chapter on higher education, studies conducted under the HETC Project, and policy dialogue and technical support during the course of project supervision. All of these highlighted the importance of increasing enrollment, improving quality, and developing research and innovation as central areas for future economic development. In addition, the World Bank's Systematic Country Diagnostic (2014) Report No. 99891 identified the development of the higher education sector, particularly increasing the enrollment of STEM students and promoting research and innovation, as key areas for Sri Lanka's future development. This Program is strongly aligned with worldwide experience, which demonstrates the interdependence of the quantitative and qualitative challenges faced by higher education systems. Accordingly, it adopts a multidimensional approach to address these challenges.

Results Area 1: Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development

27. The objective of this results area is to increase enrollments in higher education programs of strategic importance for economic development. The GoSL will promote the expansion of enrollment in state universities and ATIs, with a focus on STEM degree programs through a combination of demand- and supply-side initiatives. It will take place both in existing and new STEM faculties and ATIs. The strategy will promote the use of teaching-learning methods based on open educational resources and learning software to enable large numbers of students, regardless of their location, to set up interactive teaching sessions. The Program will also pilot Massive Open Online Course (MOOC) initiatives through partnership with well-established providers. The EDPs will be adapted to various types of clientele, their enrollment will be managed, and their delivery system will be updated. In addition, the expansion of enrollment will be promoted in non-state HEIs through a student loan scheme for qualified students.

28. The Program will enable the strategic planning and development of the higher education sector. The strategic plan will be used to monitor progress in implementing the targets, including the targets for the expansion of enrollment in the universities and ATIs, and to fine-tune these over time. The strategic plan will also contribute to the other two results areas. This will include incentives for academic achievement across a range of areas such as high-quality teaching-learning and research publications and innovations. The HEDS will be updated every two years as a rolling plan.

Results Area 2: Improving the Quality of Higher Education

29. This results area aims to support HEIs to produce students who are well-qualified academically and also suitably prepared for the world of work and for wider civic and social life. The following strategic actions will be used to achieve this objective:

- **Enriching Learning, Teaching and Assessment (ELTA) and English Language Skills Enhancement (ELSE) grants.** A system of competitive grants for ELTA-ELSE will be established to support innovative approaches for the combined development of academic excellence and socio-emotional skills. These grants will assist university faculties and departments to introduce modern curriculum approaches, teaching-learning methods, and assessment approaches; expand the use of digital resources and blended learning; promote industry placements and workplace exposure for students; enhance the English language skills of students; promote entrepreneurship skills of students; facilitate international linkages between domestic and overseas universities to strengthen teaching and learning; and facilitate staff exchange programs between universities and private firms. Improving English language skills of students can be used either through the English language teaching units (ELTUs) or other relevant English language training institutions—including private ones—to enhance the English proficiency of students. If an outside English language training institution is being used, the university will sign a commercial contract with the service provider. This ELTA-ELSE program will contribute to keep students abreast of the latest academic knowledge in their subjects, and it will enable graduates to obtain jobs in the private sector, especially the high-end companies. Special attention will be given to arts, management, and science programs because graduates from these programs need to fit into a wider range of jobs than graduates from professional programs such as medicine and engineering.

- **Professional development.** The Program will support university academics to obtain PhD qualifications and SLIATE academic staff to obtain master's degrees and professional doctorates from reputed universities. The PhD scholarships for university academics will only be eligible for UGC-approved overseas universities to ensure quality. The Program will also support short-term training programs for the capacity building of academic, managerial, and technical staff of the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs. Staff development will use a variety of methods such as programmatic training, cohort training, and on-the-job training.

- **Quality Assurance (QA).** QA reviews will be undertaken for all 15 universities over the life of the program. These reviews will cover the following dimensions: curriculum design and development; teaching and learning; learning resources, student support, and progression; student assessment and awards; strength and quality of staff; postgraduate studies, research, and innovation; community engagement, consultancy, and outreach; distance education; QA; and governance and management. Simultaneously, internal QA mechanisms will be strengthened in the universities through Internal Quality Assurance Units (IQAUs and in the ATIs through Internal Quality Assurance Cells (IQACs) to function efficiently. The Standing Committee on Accreditation and Quality Assurance (SCAQA) of the MHEH will undertake the registration and QA of non-state HEIs.

Results Area 3: Promoting Research, Development, and Innovation.

30. The objective of this results area is to develop a culture of research and development, innovation and commercialization (RDIC in universities. RDIC activities are an extremely important next step in the development of higher education in the country. A three-pronged strategy will be followed. First, a system of competitive, performance-based research programs for development-oriented research (DOR in universities and non-state HEIs will be developed and implemented for STEM subjects, Humanities, Education, Management, and Social Sciences (HEMS) subjects, and STEM-HEMS (interdisciplinary) research. Second, competitive, performance-based research and innovation commercialization (RIC) programs will be developed and implemented for universities undertaking innovation activities of direct relevance for industrial and service sector development, as identified through consultations with agencies representing the private sector, such as Chambers of Commerce and Employers Federations, and with government policy makers. The RIC programs will be available for STEM and HEMS subjects, as well as for STEM-HEMS combinations. Third, the Program will support the development of University-Business

Linkage (UBL) offices. The UBL offices will assist university academics in increasing collaboration with professional expertise in technology transfer and business model development, establishing open innovation spaces and business incubators, and enabling academics and students to obtain professional business advice and training.

31. The three results areas and their strategic actions are described in more detail in annex 1.

IPF Component: Program Operations Technical Support

32. The Program Operations Technical Support (POTS) component will be an IPF loan for an amount of US$7 million. The main objective of this component is to provide technical assistance and academic and operational support for the implementation of the Program and to assist with systems strengthening and capacity building. The POTS component will also assist the coordination of the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs and promote synergy between their academic, technical, and operational activities (see annex 10 for details). The POTS component will also assist the MHEH, UGC, and SLIATE to undertake monitoring and evaluation activities for the Program.

Table 1. Program Financing (US$, millions)

Source	Amount
Government	1,963
IBRD/IDA	93
Total Program Financing	2,056
IBRD/IDA (IPF component)	7
Total Operation	2,063

D. Disbursement-Linked Indicators and Verification Protocols

33. The DLIs have been selected based on their capacity to clearly reflect significant progress in implementing the Program and to lead to unambiguous decisions regarding disbursements. The achievement of DLIs will be verified and recommended to the World Bank by an independent agency, a consultant research agency with relevant technical expertise, before the disbursement of funds. This agency will be hired under the POTS component of AHEAD. The World Bank will review the Terms of Reference (TOR) and contract award process for the agency. The World Bank will provide a no-objection each year for the recruitment of the Third-Party Verification Agency (TPVA). There are six DLIs enabling the monitoring of performance in each of the three results areas (Table 2).

Table 2. Mapping Results Areas and DLIs

Results Areas	DLIs
Results Area 1: Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development	**DLI 1 (US$22 million):** HEI STEM degree programs increase intake **DLI 2 (US$8 million):** Higher Education Sector Development Strategy (HEDS) implemented and regularly updated

Results Areas	DLIs
Results Area 2: Improving the Quality of Higher Education	**DLI 3 (US$24 million):** Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs **DLI 4 (US$11 million):** Department-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs **DLI 5 (US$12 million):** PhD and master's degrees and professional doctorates completed by university, non-state HEIs, and SLIATE academic staff
Results Area 3: Promoting Research, Development, and Innovation	**DLI 6 (US$16 million):** University-level systems for Research and Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved

34. The verification protocols for the DLIs are spelled out in more detail in annex 3. They are also summarized in annex 4 with a concise explanation of the rationale for their selection. The World Bank will also review all DLI reports provided by the Operations and Monitoring Support Team (OMST) and the TPVA. Disbursements will be made only once the World Bank assesses the evidence provided for the achievement of DLIs as satisfactory.

E. Capacity Building and Institutional Strengthening

35. The AHEAD Operation will provide strong support through technical assistance under the POTS component, which is funded as an IPF, for capacity building and institutional strengthening. This will include strengthening the MHEH, UGC, and SLIATE at the national level as well as the universities, ATIs, and non-state HEIs at the institutional level. The specific activities of the POTS component at the national and institutional level are described below.

National Level

36. The POTS component will provide technical assistance to strengthen the capacity of the MHEH to develop and monitor the implementation of a rolling higher education development plan, with capacity building of the UGC and SLIATE for the planned development of the universities and ATIs, respectively. In addition, the POTS component will provide technical assistance to strengthen the MHEH to create an enabling environment for private sector participation in higher education. The capacity of the MHEH, UGC, and SLIATE will also be strengthened to implement activities related to the Sri Lanka Qualifications Framework (SLQF) and QAA, reflecting international good practices, through TA from the POTS component. This POTS component will also provide technical assistance to strengthen the SLIATE Leadership and Quality Development Center (LQDC) to provide academic and technical services for the ATIs, especially in curriculum development, modern teaching-learning methods, and assessment practices.

Institutional Level

37. The POTS component will provide technical assistance and strengthen the capacity of the universities for institutional-level planning and budgeting; the adoption of innovative modern teaching-learning methods; and research, development, and innovations that contribute to national policy and the growth of higher-value-added industries and high-end services. This will include the development and strengthening of IQAUs, staff developments centers, career guidance centers, and UBL offices in

universities. In addition, the POTS component will strengthen the ATIs to implement quality self-reviews, engage closely with industry, and implement practical teaching-learning methods linked to the needs of rapidly evolving labor markets.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

38. The MHEH, UGC, and SLIATE will implement AHEAD at the national level. The universities and ATIs and non-state HEIs will implement AHEAD activities at the institutional level.

National-level agencies: MHEH, UGC, and SLIATE

39. The MHEH will be responsible for the overall development of the higher education sector. This will include the implementation, monitoring, and fine-tuning of the national HEDS. The MHEH will also be responsible for the overall implementation of the SLQF and the expansion of the QAA system to the full higher education sector. The UGC will have the task of recommending and monitoring the financing of the universities. The UGC will also provide circulars and guidelines for the overall development of the university system. Also, the UGC, through its Quality Assurance and Accreditation Council (QAAC, will implement the QA activities for the university sector. The UGC will formulate policies and norms for the development of alternative modes of higher education service delivery and for regulating the size and quality of the EDPs. The UGC will also implement the scholarships for academics. SLIATE will implement the activities related to the expansion of enrollment in the ATIs. This will include both the establishment of the ATIs in underserved areas as well as the upgrading of facilities and equipment to enable the ATIs to deliver modern, technology-intensive courses. SLIATE will also implement the activities related to the development of quality in the ATIs. It will implement programs for the professional development of academic staff. In addition, SLIATE will implement programs to promote interactions between the ATIs and the workplaces.

Institutional level: Universities and ATIs

40. The universities will implement the expansion of intake capacity and the increase in the enrollment of STEM degree programs. The universities will also be the frontline implementing agencies for the ELTA programs, which will be implemented at the faculty and department levels. The universities will also be the frontline implementing agencies for the RDIC grants. These grants will be implemented at the level of the research teams, but within the framework of the relevant university faculty and/or department. The ATIs will be the implementing agencies for the delivery of improved programs in alternative higher education. The ATIs will develop curricula, expand modern technology-intensive and work-oriented teaching-learning programs, and implement the new assessment methods that combine classroom testing with workplace internships and practice. The staff of the ATIs will benefit from the human resource development (HRD) programs for professional and academic staff.

OMST

41. There will be an OMST in the MHEH integrated with the UGC to coordinate and provide academic, technical, and operational expertise for the implementation of AHEAD. The OMST will have branch Operations Technical Secretariats (OTSs) in the universities. The OMST will have full-time academic specialists for the results areas and the POTS component, as well as expertise in operations, monitoring and evaluation, financial management (FM), and procurement, to assist in the implementation of program activities. The universities will be assisted by the OTSs to coordinate, monitor, and facilitate the work of the various faculties and departments and campuses and institutes of the university system. The OMST and

OTSs will organize regular capacity-building and systems-strengthening activities for the relevant staff of the HEIs, including the activities of the three results areas and in operational and fiduciary aspects such as implementation, monitoring, procurement, FM, and contract management, throughout the life of the Operation.

Operations Manual and Implementation Plan

42. An Operations Manual (OM) has been prepared for the Operation. This manual contains a description of the Program, the implementation arrangements and plan, the Results Framework and monitoring arrangements, and planned technical support and capacity-building activities. The OM also contains the criteria and guidelines for the key activities of the Program, such as the selection and award of the ELTA grants, the selection and award of the RDIC grants, and the scholarships for academics. The OM presents an implementation plan, with a time sequence of key actions under the three results areas, implementation responsibilities among the various agencies, budgets, and expected results. The OM describes the fiduciary and safeguards arrangements for the Operation. It also contains the TOR for the key positions of the OMST. The Operations Manual will be periodically updated during the implementation of the Operation, with the agreement of the World Bank.

B. Results Monitoring and Evaluation

43. AHEAD will devote special attention to the monitoring of program performance. The objectives of monitoring and evaluation will be to (a) monitor the implementation experience of the program and strengthen the efficiency of implementation where needed and (b) assess the performance of the Operation achieved under each results area and overall. The information obtained from program monitoring will enable the Government to undertake any corrective actions and modifications needed in technical support or financing to maximize the impact of the Program.

44. The objectives of the three results areas of AHEAD are the same as the GoSL HEDS. The AHEAD indicators are aligned with the indicators of the GoSL strategy. The GoSL monitoring systems will also be used to monitor the program, including collecting and reporting the information for all the results and outcome indicators. The overall monitoring of AHEAD will be undertaken by the MHEH. The MHEH will collect information and report the details of progress under each result including DLIs to the DPMM on a quarterly basis for necessary reporting and facilitation purposes at the national level. The monitoring of university-level activities will be undertaken by the UGC. The monitoring of the ATI-level activities will be undertaken by SLIATE. Under the POTS component, AHEAD will support the strengthening of the GoSL monitoring system to collect, process, and disseminate information.

45. The monitoring and evaluation activities of AHEAD will include surveys and studies that will provide deeper understanding of the performance and requirements of the higher education sector to stakeholders and beneficiaries, including students, academics, higher education policy makers and officials, and employers. The planned surveys and studies include (a) studies of the job search and employment experiences of graduates; (b) beneficiary feedback studies of students, academic staff, and employers; and (c) causes of gender aspects of higher education, such as the lower proportion of male students compared to female students in some programs, and measures to promote higher female labor force participation. Special attention will be paid to stakeholder feedback from academics, students, employers, and firms on key interventions such as the ELTA program and the RDIC program. The monitoring of the ELTA program will also pay specific attention to the learning outcomes of students. The evaluation activities will seek to compare the performance of faculties and departments that win competitive grants under the ELTA and RDIC programs with the performance of faculties and departments that do not participate in these programs. Other studies and surveys will include policy studies, strategic analyses, and research. The monitoring, policy studies, impact evaluations, and research activities will be undertaken by the MHEH, UGC, and

SLIATE, normally with the assistance of universities, research institutions, and consulting firms. The results of these activities will be used for strengthening program implementation and for strategy development, as appropriate and needed. The monitoring and evaluation capacity of the MHEH, UGC, and SLIATE will be strengthened under the POTS component of AHEAD. The OMST will coordinate and facilitate the various monitoring, research, and policy studies.

C. Disbursement Arrangements

46. For the Program component, a separate account is to be opened at the Central Bank of Sri Lank in the name of DST for the MHEH, which will be managed by the OMST. Separate Sri Lanka rupee accounts will be opened at the OMST and at each university to receive World Bank funds and process payments. Upon verification of the achievement of the DLIs, the applicable World Bank funds will be remitted to the separate account managed by the OMST. The OMST, through requests made to the Treasury, will transfer the funds in the separate account (in U.S. dollars) to its Sri Lanka rupee account. The relevant funds will then be distributed by the OMST to the relevant universities in the Program by crediting the separate Sri Lanka rupee accounts maintained at the university level for World Bank funds. This arrangement is being facilitated and agreed upon based on a specific request from the GoSL to have this arrangement for AHEAD. The program expenditure from the GoSL revenues will use the existing fund flow channels that remit the GoSL funds to the MHEH, universities, and SLIATE. However, the GoSL program and World Bank funds will both be treated as program funds, and individual transactions under the World Bank funds will not be specifically tracked. Instead, the overall fiduciary approach of the PforR will apply to both the GoSL and World Bank funds.

47. For research and innovation grants to non-state HEIs, the OMST will develop a mechanism for implementing the grants, which will be executed from FY18 onward. The OMST will ensure that no grants are transmitted to these identified non-state HEIs until the proposed and agreed arrangements are put in place, including the relevant fiduciary controls required, in each of these non-state HEIs. This activity will be handled by the POTS component.

IV. ASSESSMENT SUMMARY

A. Technical (including Program Economic Evaluation)

48. AHEAD is ambitious in scope and content because it builds on a lengthy engagement of the World Bank in the higher education sector in Sri Lanka. The first World Bank operation was the IRQUE Project, 2003–2010. The project was deliberately modest in scope, given its pioneering nature, and focused on a limited number of undergraduate degree programs. The main achievements of IRQUE were to (a) develop QA protocols and processes for undergraduate degree programs; (b) establish the QAAC in the UGC; and (c) to introduce the concept of competitive funding through quality enhancement funds for undergraduate study programs. The second operation, the HETC Project (2011–2016), widened the development agenda to cover both undergraduate and postgraduate education and also extended support for the development of SLIATE and the ATIs. The HETC assisted the GoSL to introduce the SLQF and to modernize and update the QA protocols and processes in the light of new global developments in QA. In addition, the HETC assisted the GoSL to strengthen the employability attributes of graduates through IT and English language skills and pilots in soft skills development. The HETC also supported the GoSL to implement pilots in postgraduate research and the commercialization of innovations.

49. AHEAD builds on the achievements of the HETC and IRQUE, but broadens and deepens the scope of the World Bank's engagement in the higher education sector in several ways. First, AHEAD will support the overall GoSL higher education development program, whereas HETC and IRQUE focused on a specific set of activities. Second, AHEAD will provide World Bank assistance through a PforR approach, while the

previous investment projects followed a transactions-based financing approach. The PforR financing modality proposed for AHEAD is intended to provide an incentive and reward for good performance. Third, AHEAD builds on the foundation laid by previous projects to deepen a set of higher education development initiatives. The establishment of a system of competitively funded, multi-year programs of ELTA grants at the overall faculty and department levels build on the previous experience of competitive teaching and learning project grants at the individual study program level. The establishment of a system of competitively funded, multi-year programs of RDIC builds on the successful experience of the pilot initiative under HETC. The support for the development of IQAUs in universities and external QA of HEIs, too, builds on HETC under which the content, guidelines, and protocols for QA were modernized. Fourth and finally, AHEAD will assist important new initiatives that were not part of HETC or IRQUE. The expansion of enrollment in university STEM degree programs is a completely new initiative. Also, the provision of support for the development of private HEIs is innovative and original.

50. **Expenditure framework.** The proposed Program expenditure framework consists of the following expenditure heads/budget line items under the MHEH, appearing in the published GoSL budget estimates for FY17:

- All recurrent expenditure and capital expenditure of the 15 state universities coming under a separate budget head allocated for the UGC
- All recurrent expenditure and capital expenditure of SLIATE coming under the budget head of the MHEH
- All recurrent expenditure and capital expenditure of State Minister's office, Administration and Establishment Services and Quality Improvements under the budget head of the MHEH
- The expenditure reflected under the proposed specific budget line item allocated to World Bank financing on account of AHEAD under the MHEH (to be reflected from FY17 budget estimates onward)

51. Based on the MoF's projections by the Ministry of Finance (MoF) for 2016–2018 and assuming that the same pattern will continue until 2022, the Program will cost approximately US$2,056 million over its lifetime 2017–2022. Funding will come from three sources: the MHEH (for SLIATE), UGC (universities), and the World Bank financing (all HEIs under the MHEH and UGC). At the implementation level, the World Bank's support will not be distinct from the Government's expenditure. The expenditure framework covers recurrent and capital expenditures that relate to the MHEH and UGC activities under the Program. Donor-funded initiatives and expenditures relating to other ministries under HEDS are not part of the expenditure program because these are not included in the PforR Program. The GoSL has assigned funds for the implementation of activities under the three results areas of the Program. Expenditure items involved in the identified expenditure framework include (a) under recurrent expenditure: personal emoluments, travelling, supplies, maintenance, contractual services, and others and (b) under capital expenditure in the MHEH: HRD, buildings and facilities, purchase of equipment and technology, teacher learning grants, English language grants, scholarships, QAA activities, and research/innovation grants.

52. The proposed World Bank financing of US$100 million will provide additional funds for implementing the GoSL's higher education program. Out of this, US$93 million will go for the PforR component and the balance US$7 million will be for the POTS component.

B. Fiduciary

53. As part of Program preparation, in accordance with the World Bank policy framework for PforR financing, an integrated fiduciary systems assessment (IFSA) has been carried out to determine whether the fiduciary systems provide reasonable assurance that AHEAD funds will be used for their intended purposes. Based on the assessment findings, agreements and actions required to strengthen relevant elements of the country FM system have been confirmed. The proposed actions are reflected in annex 5 and annex 8.[4] Accordingly, the adequacy of the overall fiduciary framework for the Program has been determined to support its effective management and achieve the desired results.

54. The identified proposed institutions that will make up the implementation structure of the Program are the MHEH, UGC, 15 state universities, SLIATE/ATIs, and non-state HEIs.

55. AHEAD, a centrally sponsored Operation, with proposed World Bank financing of US$100 million, will provide support to the overall program of the MHEH to implement the GoSL's strategy for higher education. The World Bank-financed Operation has two components: a PforR component of US$93 million, in which the World Bank will reimburse the GoSL upon achievement of the agreed results as measured by DLIs, and a POTS component of US$7 million where the World Bank will advance funds periodically to the GoSL through the OMST and document the same against eligible expenditures under the component upon submission of quarterly interim unaudited financial reports (IUFRs).

56. The IFSA covered the MHEH, UGC, a sample of five state universities (University of Sri Jayewardenepura [UoSJ], University of Kelaniya [UoK], University of Jaffna [UoJ], Sabaragamuwa University of Sri Lanka [SUSL], and Rajarata University of Sri Lanka [RUSL]), and SLIATE.

57. The key fiduciary risks identified include, to some extent (a) limited implementation capacity of accounting/FM staff at the OMST/universities/SLIATE/ATIs, (b) outdated and nonuniform accounting systems used at universities, (c) limited capacity of internal audit, (d) delayed external audit, (e) limited predictability of GoSL funds availability, (f) weak governance of procurement exacerbated by the large number of geographically dispersed implementation entities, (g) inadequate procurement capacity/inefficient procurement function, and (h) inadequate contract administration.

58. Mitigation measures agreed or taken into account will include (a) identification and assignment of staff with suitable qualifications and experience to be in the OMST and OTSs in universities; (b) promotion of risk-based audits to be performed by the internal auditors attached to the universities, UGC, and MHEH; (c) introduction of an intermediate outcome indicator for improvement in timeliness of submission of audit reports of universities; (d) introduction of a new uniform accounting system for universities for World Bank-financed activities funded by the POTS componen'(e) an agreement to open separate bank accounts for the OMST and at the universities to route World Bank funds; (f) provision for enhanced fiduciary training through the POTS component in the areas of accounting, internal audit, and external audit and procurement; (g) development of a documented set of procurement procedures with clear delegation of authority guidelines; (h) ensuring of clear definition of accountability; (i) harmonization of processes across institutions; and (j) maintenance of up-to-date agency procedures and practices. These mitigation measures will be reflected as part of the PAP or intermediate outcome indicators or activities under the POTS component.

[4] Program Action Plan (PAP).

Financial Management

59. The FM arrangements for the Operation are predicated on the use of country systems to the extent possible. This will be suitably reinforced to provide reasonable assurance on the use of Operation funds for intended purposes. The Operation is geographically dispersed across multiple agencies such as the MHEH, UGC, universities, and SLIATE/ATIs. The FM arrangements at the MHEH, UGC/SLIATE, and universities are operational, some with areas requiring improvement. The MHEH operates within the Country Public Financial Management System. The UGC/SLIATE, which is established as a statutory board, and universities established as separate institutions are run according to the public sector regulations applicable to them. The MHEH and universities satisfactorily implemented the HETC Project.

60. Universities are funded by (a) block grants of the GoSL, remitted by the Treasury to universities; (b) donor finances with funds flowing from ring-fenced arrangements through Project Management Units (PMUs) established at the MHEH; and (c) self-generated funds. Accounting standards used by the MHEH are based on generally accepted accounting principles whereas the universities/UGC/SLIATE adopt Sri Lanka Public Sector Accounting Standards (SLPSAS).

61. Budget line items for both recurrent and capital expenditure financed through the GoSL funds are reflected under the MHEH and UGC budget heads. For the universities, according to the GoSL request, it is proposed to include separate budget line items under the MHEH for the amount of financing coming to the Operation from the World Bank.

62. The GoSL funds are remitted to the universities and the UGC as block grants against budget allocations reflected under the UGC budget head for the UGC and universities. For the universities, the fund release happens directly from the Treasury to the individual universities through a bank account that receives the GoSL funds. For the UGC, the funds are remitted directly by the Treasury to a bank account at the UGC. However, this mechanism used for the GoSL funds has certain issues with regard to the predictability and timeliness of funds flow to the entities concerned, especially with regard to the capital expenditure. Therefore, to channel World Bank funds that will also get classified in the GoSL budget estimate as capital expenditure, the GoSL has proposed to open a U.S. dollar-denominated separate account to be handled and managed by the OMST. In addition to this account, Sri Lanka rupee bank accounts will be opened for the OMST and for each university to receive World Bank funds remitted to the operation. This arrangement is being facilitated based on a specific request from the GoSL to have this arrangement. This will complement the disbursements for the bulk of the program expenditure (93 percent) that use the existing funds flow channel to the respective universities and the UGC. This fund flow arrangement can be revisited at midterm to consider if channeling World Bank funds also appears feasible through the regular treasury system from an FM perspective, based on the performance of a cash flow indicator for the program expenditure items funded through the treasury system for the government-consolidated fund.

63. Regular financial reporting on the use of the GoSL funds by the universities is carried out monthly to the UGC. However, reporting on the use of donor funds by the universities for donor-financed operations is carried out to the MHEH through the PMUs. The consolidated financial statements prepared for the universities include accounting of the GoSL funds and self-generated funds. However, they do not reflect the donor-funded activities and accounting for the same is carried out separately, mostly with manual accounting systems. Automated accounting systems used for the GoSL/self-generated funds across the universities are different. Under the Program, it is proposed that the overall financial statements include the accounting of World Bank-financed operations, so that it becomes part of the regular financial statements of the universities. In addition, it is also proposed to introduce a uniform automated accounting system across all the universities. The proposed accounting system will be used on a pilot basis initially for the accounting of the World Bank funds and later can be adopted to the overall system in universities as an attempt to strengthen the university system. For program financial reporting, the reports sent by the

universities to the UGC and by SLIATE to the MHEH will be used by the OMST for a consolidated program financial statement (PFS) for the Program on the expenditure line items identified under the expenditure framework. This report will be required to be maintained by the OMST, and the World Bank will review the same yearly for presentation accuracy. However, as this Operation is a PforR, the consolidated PFS will be used only after the close of the Operation to compare the total cumulative eligible program expenditure with the total cumulative amount disbursed by the World Bank and determine if any refund is due to the World Bank from the GoSL.

64. The Auditor General Department (AGD) of Sri Lanka audits all entities defined in the Program. However, there are delays in the submission of audit reports, particularly at the university level. There will be an agreed action plan with the universities as well as with the AGD to audit university-consolidated financial statements that will, in future, include the World Bank-financed activities as well and also to improve the timeliness of submission of the audit reports. These audit reports of the universities will be used to generate a consolidated audit report for the PFS that will only capture the relevant audit observations related to the expenditure framework identified for the Program. An intermediate outcome indicator has been introduced to track and monitor the relevant audit reports.

65. The POTS component will be used to facilitate various capacity-building and system-strengthening initiatives with regard to FM aspects such as FM staff training, internal audit, accounting systems, and external audit covering the MHEH, UGC, universities, and SLIATE (see details in annex 5).

Procurement

66. The public procurement process in Sri Lanka is governed by the guidelines issued by the Department of Public Finance (DoPF) (National Procurement Agency [NPA] Guidelines) to supplement Financial Regulations (FRs) and country-specific Standard Bidding Documents (SBDs) issu©y the Institute for Construction Training and Development. There is an absence of a proper legal framework because Sri Lanka does not have a public procurement act.

67. With the establishment of independent commissions, which was initiated thro[ug]h the 19th Amendment to the Constitution, the National Procurement Commission has been set up. The procurement function is not institutionalized yet in the public sector, and there is a lack of procurement professionals in the country. However, it is expected that with the establishment of the National Procurement Commission, the transparency and accountability could be addressed to a broader extent.

68. The universities have a functional procurement system that follows the NPA Guidelines of 2006 and the subsequent revisions issued by the DoPF. However, the process as well as assignment of responsibility in most cases is informal. Efforts to document the process and accountability mechanisms are under way at the UGC and some university departments, though the progress is slow due to lack of available resources.

69. Procurements at universities with the GoSL funds are largely small-value shopping with just a few National Competitive Bidding (NCB) contracts. The UGC has developed formats for Procurement Plans and procurement implementation plans. Their use will be mandatory from 2017.

70. Wide bidding opportunities are provided. Qualification, evaluation, and award criteria are defined and are nondiscriminatory. Contract conditions are equitable. No issues have been observed in the integrity of the bidding process. Segregation of responsibility in goods procurement was satisfactory.

71. Procurement capacity needs further improvement. Skills are inadequate for handling more complex procurements. Most staff learn on the job, and staff turnover is an issue. Staff strength may not be adequate

for handling a higher volume of procurement. Contract management needs strengthening. Schedule overruns are typical, in works, goods, and consultancy procurement.

72. Internal controls are mainly from the Internal Audit Department. Audit comments are addressed. Monitoring mechanisms for capital works are in place. However, the mechanism for monitoring rehabilitation works, goods, and consultancy procurements needs to be strengthened.

73. According to the PforR policy, 'High value' contracts are being excluded from the World Bank financing. Threshold limits for the 'High value' contracts as defined by the Operational Procurement Review Committee based on the applicable risk rating for the Program component are as follows: works ≥ US$50 million, goods ≥ US$30 million, IT systems and non-consulting services ≥ US$20 million, and consultancy services ≥ US$15 million.

74. The procurement under the previous World Bank-funded HETC Project was generally satisfactory. The POTS component of AHEAD can follow the same structure. AHEAD will (a) leverage skills and processes developed under the HETC Project; (b) support the UGC efforts to structure procurement by assigning responsibilities in job descriptions and flowcharting procurement processes; (c) support capacity building at the universities with procurement training; (d) develop contract management skills with appropriate ©ining; (e) strengthen internal controls by providing internal audit with procurement training; and (f) provide technology support including a computerized procurement management and contract management system for the POTS component. The POTS component will be also be used to facilitate various capacity-building and system-strengthening initiatives with regard to procurement aspects in the MHEH, UGC, universities, and SLIATE (see details in annex 5).

75. **Applicability of the Anticorruption Guidelines of the World Bank for the Operation:** The GoSL is committed to ensuring that the Operation's results are not affected by fraud or corruption. Through the Operation's legal documents, Sri Lanka (as the recipient of International Bank for Reconstruction and Development or IBRD loans) is committed to the obligations of the Anticorruption Guidelines for PforR operations. The 'Guidelines for Preventing and Combating Fraud and Corruption in Program-for-Results Financing' dated February 1, 2012 and revised July 10, 2015 will apply to the Program Component of the Operation. The 'Guidelines for Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and International Development Agency Credits and Grants' dated October 2006, and revised in January 2011, will apply to the Project Component of the Operation.

76. While Sri Lanka has recently strengthened its legal and institutional framework for good governance and anticorruption, its implementation across the public sector remains a challenge. The 19th constitutional amendment passed in 2015 has strengthened the checks and balances between the executive and the legislative, introduced the right to information, and empowered key accountability institutions, such as the procurement commission or the information commission. The country has joined the open government partnership and committed to open governance. The parliamentary commissions play an active role in supervising the public sector, and the executive is strengthening its internal and external control systems. However, in the absence of public declaration of assets or data on the number of investigations and corresponding court cases, it is hard to assess the effectiveness of the current anticorruption framework. Furthermore, the implementation of these recent transparency and accountability reforms will take time and require strong resolve and adequate human and financial resources to yield tangible results and improve the citizens' perception of corruption. The IDPs of the MHEH, UGC, universities, and SLIATE represent a unique opportunity to support the implementation and concretization of these reforms and thereby mitigate the risk of fraud and corruption.

C. Environmental and Social Effects

77. The Program may induce indirect environmental impacts due to actions that lead the borrower to construct new buildings and infrastructure. As the Program component is designed as a PforR, the World Bank conducted an environmental and social safeguards assessment (ESSA) to assess the borrower's existing capacity, available resources, and challenges to overcome any foreseeable negative environmental impacts that may occur during implementation. The assessment also evaluated the policy environment and implementation performance of the country's environmental and social management system, focusing on the extent to which the borrower's environmental and social management systems are consistent with the World Bank's core environmental and social principles as spelled out in the World Bank policy and associated guidance materials.

78. The assessment finds that the fundamental environmental and social regulatory framework of Sri Lanka is well developed and articulated in legislation and the GoSL procedures and circulars. It has been revealed that the World Bank core policy principles and procedures are congruent with that of Sri Lanka's environmental and social screening processes and are applicable to the proposed program. The Sri Lanka policies that will apply for the Program are therefore consistent with the World Bank policies. However, certain limitations exist. For instance, the health and safety regulation has strong provisions including the Occupational Safety and Health Act No. 38 of 2009. However, it fails to define liabilities on health cost and life insurance procedures. The Program anticipates no large-scale, significant, and/or irreversible impacts. Program interventions are not expected to require land acquisitions or trigger involuntary resettlement impacts. However, in some cases, better compliance with environmental and social regulation is needed in construction activities in HEIs. There is a need to strengthen the capacity of the MHEH, UGC, and HEIs for construction planning and implementation in relation to their potential environmental (including health and safety) and social impacts. This will require the training of staff and provision of better equipment and technology to carry out environmental and social assessments and monitor these during implementation. The POTS component will provide support for this capacity building and institutional strengthening.

Gender

79. Overall, female students outnumber male students at the undergraduate level. They account for 62 percent of total undergraduate enrollments. The main source of differentiation is the type of academic programs. Enrollment in STEM undergraduate programs are close to equal between male and female students. The latter account for about 51 percent of enrollments. In the non-STEM programs, the female enrollment's share is about 70 percent. Mirroring patterns found in many countries, some programs such as humanities, education, and paramedical studies are overwhelmingly attended by girls, while boys are found as a majority in programs such as engineering and mathematics. As enrollments in the STEM streams are the priority of AHEAD, the share of male and female students is about equal and is expected to continue into the future. Gender balance will be carefully monitored throughout the life of the Program.

Citizen Engagement

80. Citizen engagement was an integral part of the design of the Operation. Consultations were conducted for the preparation of the national HEDS and for the design and content of the Operation with a wide range of stakeholders. This included government policy makers and officials from the Ministry of National Policy and Economic Affairs, MoF, MHEH, UGC, SLIATE, and vice-chancellors of universities, deans of faculties, academics, and students from universities. Consultations were also undertaken with employers, especially through the Employers Federation of Sri Lanka, and with non-state higher education providers. In addition, consultations were undertaken with development partners active in the tertiary education sector. The consultations fed into the design of the Operation across a variety of initiatives. The

selection of STEM programs for enrollment expansion was the result of employers expressing the need for a substantially larger flow of engineers, scientists, technocrats, IT personnel, medical doctors, mathematicians, and statisticians into the economy. The importance of academics adopting new teaching-learning and assessment methodologies that combine academic excellence with the promotion of socio-emotional skills was identified by employers, policy makers, and academics. The design and contents of the RDIC programs to support development-oriented research and the commercialization of research and innovation was identified in discussion with policy makers, representatives of the private sector and academics. Support for the non-state HEIs was developed in consultation with the non-state HEIs.

81. The citizen engagement process will continue during AHEAD implementation. An explicit intermediate outcome indicator has been included for stakeholder consultation during the life of the Operation. These consultations will provide voice to stakeholders and enable the MHEH, UGC, and SLIATE to fine-tune the Operation during implementation. There will also be other surveys and research activities, such as labor force participation studies and job search studies that will enable citizen engagement with stakeholders, such as students, employers, and academics. The preparation and implementation of the ELTA and the RDIC grants will involve consultation with stakeholders from industry as well as the university community. A Grievance Redress Mechanism will be instituted and placed within the MHEH with qualified personnel trained in handling such complaints from different constituencies reached through AHEAD implementation. Overall, there will be considerable opportunities for citizen engagement and stakeholder feedback.

Climate and Disaster Screening

82. In the past couple of decades, Sri Lanka has been facing natural disasters more frequently, especially extreme hydro-meteorological events. Floods, drought, and landslides have become the most frequent disasters. However, the cyclone of October 1978 is a reminder that Sri Lanka can be hit by severe cyclonic storms. In addition to these hazards, localized strong winds cause significant damage to houses across Sri Lanka every year. There has not been any detailed quantitative analysis on the climate change impacts on Sri Lanka. However, some of the downscaled climate models have predicted that there are increasing rainfall trends in the wet zone of Sri Lanka and decreasing trends in the dry zone. This may increase the floods in the wet zone and drought in the dry zone. A number of other analyses have shown that the rainfall intensities across Sri Lanka are increasing, and this can increase the risk of floods. The physical investments under the Program will include university buildings and computer and other technical laboratories and will be located inside the universities and ATIs. There are no historical records of major hazard impacts on these facilities. However, due to the aforementioned variability in climate, there is a possibility that some of these facilities may be affected by extreme events, especially floods, landslides, and high winds. The University of Jaffna, Rajarata University, Eastern University, and South Eastern University are located in areas prone to both cyclones/high winds and floods. Sabaragamuwa University, Uva Wellassa University and University of Peradeniya are located in areas with potential landslides risk. The other universities can be affected by localized high winds and flash floods during heavy storm events. The design of buildings and facilities under the Program will be incorporated with measures to mitigate the impact of the identified hazards in consultation with the relevant agencies including Disaster Management Centre and National Building Research Organization.

D. Risk Assessment

83. The Program risk assessment is focused primarily on the risks to achieving the PDOs and results. The risk assessment is informed by the results of the technical, fiduciary, and environmental and social systems assessments. It should also highlight key risk management measures. The risk ratings are reflected in the Systematic Operations Risk-Rating Tool (SORT; see annex 7). In risk management, the focus is on

those risks that have the potential to derail program implementation and could affect achievement of the key results and those that have real potential for mitigation.

84. The overall risk of the proposed Operation is rated Substantial. Key risks on political and governance, technical design, and fiduciary aspects of the Operation are as follows:

- **Political and governance.** This has been rated Substantial. The political and governance risks in the university sector are related mainly to periodic episodes of student unrest at some universities that are often motivated by national political interests. These episodes of student unrest could delay Program activities in the affected universities. The Operation will indirectly mitigate these risks by improving the skills needed by students to obtain jobs, as student unrest is highest in degree programs where employment prospects are poor, though the Operation cannot directly address issues, especially when these stem from national politics.

- **Technical design of the Operation.** This has been rated Substantial. This is the first Operation using the PforR lending instrument in Sri Lanka. The counterparts may take some time to fully understand the new modality that the engagement between the World Bank and the Government will cover the full higher education sector rather than only the transactions directly financed by the World Bank. However, the design is technically sound and based on considerable experience from human development projects in Sri Lanka as well as other higher education operations in several other countries funded by the World Bank. In addition, the Operation will provide continuous capacity building, TA, coordination, and communication under the POTS component to mitigate this risk.

- **Fiduciary.** This has been rated as High. The fiduciary risks are mainly related to outdated and nonuniform accounting systems used at the university level; weak external and internal audit; and weak procurement and financial management capacity and high turnover of relevant staff. Weak governance of procurement is exacerbated by the large number of geographically dispersed implementation entities and weak contract administration. The Operation will mitigate these risks by installing an automated accounting system at the OMST and universities, developing an internal audit plan, supporting improvement of timeliness of external audit and providing substantial amount of training to strengthen the procurement and financial management capacity of relevant staff.

E. Program Action Plan

85. The key items in the Program Action Plan (PAP are outlined in Table 3below. The more detailed PAP with actions for fiduciary and safeguards included is given in annex 8.

Table 3. PAP Key Items

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
Program Related					
The OMST made functional with minimum 80% of managerial and academic positions filled		X	Within three months after effectiveness	MHEH, UGC	Contracts signed with OMST staff and copies submitted to the World Bank
Operations manual updated			September 30, 2018 and annually thereafter	OMST	Updated Operations Manual submitted to the World Bank

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
Third-party verification reports provided as evidence of achievement of DLIs			October 31, 2018 and annually thereafter	MHEH, UGC, OMST	Third-party verification reports submitted to the World Bank
Monitoring and Evaluation					
Citizen Engagement: Stakeholder consultation and feedback activities conducted with policy makers, academics, employers and students			December 31, 2018 and annually thereafter	MHEH, UGC, OMST	Stakeholder consultation reports submitted to the World Bank
Financial Management					
Finalize a system for government funds to support a loan scheme for students enrolled in non-state HEIs		X	Within 6 months of effectiveness	OMST	Manual submitted to and approved by the World Bank
Develop an internal audit plan for FY18 with a risk-based approach to auditing		X	June 30, 2018	OMST, universities	Plan submitted and reviewed and provided a 'no-objection' by the World Bank

Annex 1: Detailed Program Description

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

1. The program development objective is to increase enrollment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector.

2. The proposed Operation will support the GoSL to implement the national HEDS. The main aim of AHEAD is to develop the higher education sector in areas of vital importance for future economic growth and human development. This includes (a) increasing enrollment in higher education with special emphasis on study programs required for an aspiring upper-middle-income economy; (b) broadening and deepening modern teaching and learning approaches that combine academic excellence with high-quality socio-emotional skills; and (c) promoting a vibrant research and innovation culture that can support economic development, especially the growth of higher-value industries and services.

3. The main direct beneficiaries will be an estimated 600,000 higher education students and 5,000 academics, managers, and technical staff members who will benefit from AHEAD over its life-span. There will also be many indirect beneficiaries from AHEAD including (a) private sector employers who will be able to recruit better-qualified university graduates; (b) the Government, which will be able to employ higher-quality graduates for the civil service and other public services; (c) future generations of university students and staff members who will benefit from the system-wide reforms and improvements; and (d) the private and public sector institutions that benefit from the research and innovation activities.

4. **Results indicators.** The Operation has identified a set of strategic indicators to measure progress and assess outcomes. Three types of results indicators have been identified: PDO-level indicators; disbursement-linked indicators (DLIs); and intermediate outcome indicators. The Results Framework has five PDO-level indicators. These are strategic outcomes that will measure the overall success of the Operation. Six DLIs have been selected for disbursement. These DLIs are either key outcomes or important milestones toward the achievement of the final outcomes. Six intermediate outcomes have also been selected. They will contribute to the achievement of the outcomes. Overall, the outcomes, DLIs, and intermediate outcomes are expected to be achieved through a mutually complementary and interlinked set of interventions in the three results areas. Figure 1.1 presents the results chain for the proposed Operation.

5. The World Bank-supported Operation will comprise (a) a Program component (US$93 million) and (b) a POTS component (US$7 million). The first component will use the PforR instrument and is called the Program. The second component will use an IPF instrument and is called the Project. This annex mainly describes the Program. Details of the Project component of the Operation are described in annex 10.

6. **The Program component and its boundaries.** The scope of AHEAD will be the higher education activities under the MHEH, the UGC and the 15 universities under the UGC, SLIATE and ATIs, and non-state HEIs under the MHEH. The institutional framework of these agencies and their interrelationships are summarized in Figure 1.2. The development and strengthening of this set of higher education agencies will be supported under AHEAD, except for major infrastructure projects that are already being financed by other development agencies and overseas governments. Activities of tertiary education institutes outside the MHEH, such as those under the MSDVT, will also be outside the scope of AHEAD. The MSDVT is already funded by the World Bank through the Skills Development Project. There are numerous small research and training agencies under a variety of ministries, such as the Rubber and Coconut Research Institutes, which too are excluded to make the Program strategic and manageable.

Figure 1.1. AHEAD Results Chain

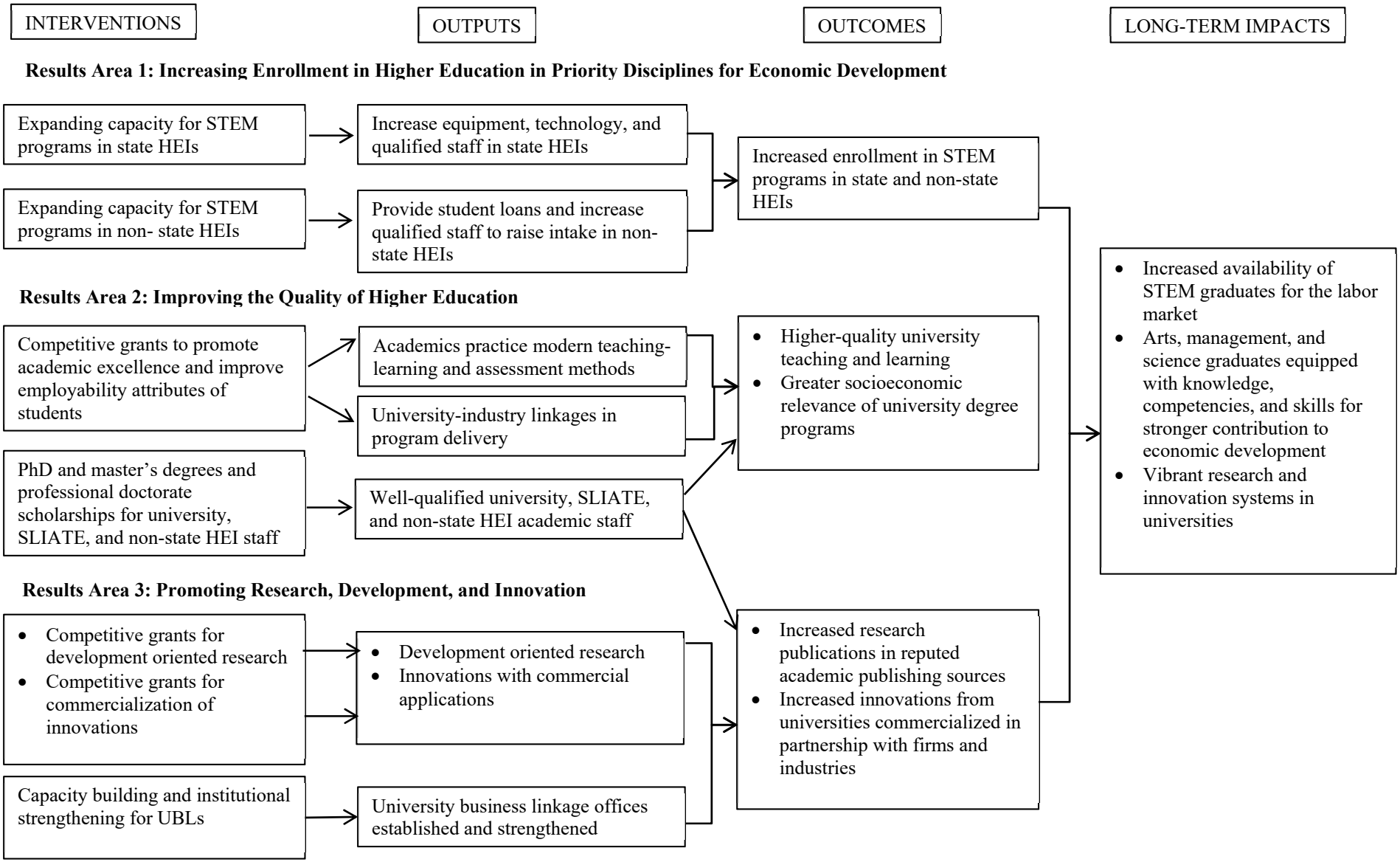
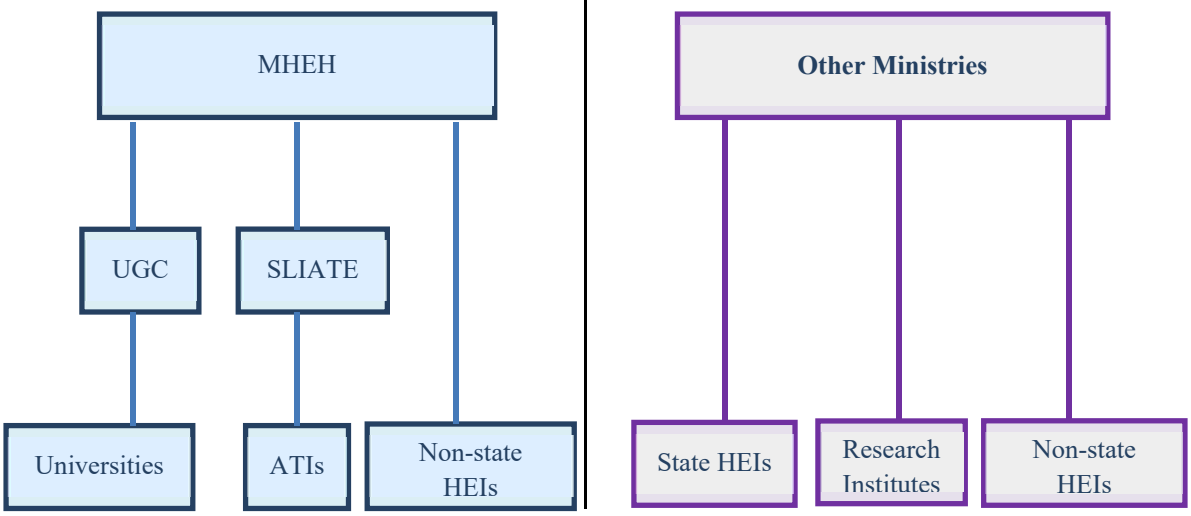


Figure 1.2. Institutional Framework of AHEAD and the GoSL Higher Education Program



7. The Program component of AHEAD will support three strategic results areas:

- Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development
- Improving the Quality of Higher Education
- Promoting Research, Development, and Innovation

8. These three results areas reflect the results areas of the government higher education strategy and program. The contents of the GoSL strategy and program and of AHEAD are presented in Table 1.1. These results areas and their contents were chosen through a combination of factors. First, the analytical work undertaken, such as the Higher Education chapter of the Education Sector Assessment (2016), studies under the HETC Project, and the Systematic Country Diagnostic (2014), was taken into account. In this context, the World Bank's international experience of higher education development, especially in developed countries and UMICs in Europe and East Asia, was also considered. Second, a wide-ranging participatory process, which included a variety of stakeholders including policy makers, a broad group of universities and HEIs, academics, researchers, employers, and students, was undertaken. Consultations were conducted both for the preparation of the national HEDS and for the design and content of the Operation. This included government policy makers and officials from the Ministry of National Policy and Economic Affairs, MoF, MHEH, UGC, SLIATE, and vice-chancellors of universities, deans of faculties, academics, and students from universities. Consultations were also undertaken with employers, especially through the Employers Federation of Sri Lanka, and with non-state higher education providers, especially the members of the Sri Lanka Association for Non-State Higher Education Institutes (SLANSHEI). In addition, consultations were undertaken with development partners active in the tertiary education sector such as the U.S. and German governments, UNESCO, WIPO, and ADB. The consultations fed into the design of the Operation across a variety of initiatives. The selection of STEM programs for enrollment expansion was the result of employers expressing the need for a substantially larger flow of engineers, scientists, technocrats, IT personnel, medical doctors, mathematicians, and statisticians into the economy. The importance of academics adopting new teaching-learning and assessment methodologies that combine academic excellence with the promotion of socio-emotional skills was identified by employers, policy makers, and academics.

Table 1.1. Relationship between the Sri Lanka Higher Education Development Strategy and Program and AHEAD

Higher Education Development Strategy	Higher Education Development Program Components	AHEAD
Results Area 1: Increasing Enrollment in Higher Education in Priority Areas for Economic Development		
Enrollment expansion in state universities and HEIs	Enrollment expansion in universities	Included in AHEAD
	Enrollment expansion in SLIATE	Included in AHEAD
	Enrollment expansion in other state tertiary training institutions	Excluded from AHEAD. These come under a variety of ministries and are excluded to keep the Program manageable. In some cases, such as three tertiary institutions under the Ministry of Skills Development and Vocational Training, there is support from the World Bank under the Skills Development Project.
Private sector participation in higher education	Expansion of enrollment in non-state HEIs under the MHEH	Included in AHEAD
Information and Communication Technology (ICT) and higher education	Expansion of enrollment through digital-based online programs	Included in AHEAD
Enrollment in overseas universities	Scholarships from various foreign governments and universities and philanthropic institutions	Excluded from AHEAD. This area is mainly funded by the families of students and/or from scholarships from overseas governments and universities and philanthropic institutions.
Institutional planning	Planning and developing the higher education sector according to a multiyear rolling planning framework	Included in AHEAD
Results Area 2: Improving the Quality of Higher Education		
Staff development	PhD and master's degrees and professional doctorate programs for academic staff of universities, SLIATE, and non-state HEIs	Included in AHEAD
	Short-term professional development for managerial, academic, and administrative staff of the MHEH, UGC, universities, and SLIATE	Included in AHEAD
Innovative teaching-learning	Promoting new degree programs and new curricula and teaching-learning and assessment methods in existing programs	Included in AHEAD
Infrastructure and other facilities	Developing the infrastructure and equipment of universities and SLIATE ATIs	Included in AHEAD

Producing employable graduates	Promoting measures to orient students to the world of work	Included in AHEAD
English proficiency of undergraduates	Enhancing the English language skills of students	Included in AHEAD
Quality in External Degree Programs	Strengthening the academic quality of degree programs	Included in AHEAD
Quality Assurance	Quality assurance of higher education institutions	Included in AHEAD
Sri Lanka Qualifications Framework	Implementing the Sri Lanka Qualifications Framework for the higher education sector	Included in AHEAD
University townships	Development of infrastructure in selected universities as university townships	Excluded from AHEAD. This is a university infrastructure development program which commenced some years ago and is partly funded by foreign governments.
Results Area 3: Promoting Research, Development, and Innovation		
Government initiatives to enhance research, development, and innovation	Strengthening the enabling environment for academic institutions to undertake research, development, and innovation	Included in AHEAD
Research in universities	Promoting research by university academics, researchers, and students	Included in AHEAD
Commercialization of research and development outcomes	Promoting the commercialization of innovations in collaboration with industry	Included in AHEAD
Research funding	Provision of funds for research and innovation	Included in AHEAD
Research by private sector firms	Promotion of research in industry	Excluded from AHEAD. This is research undertaken by various private firms and companies and is fully funded by them.
Other research institutes	Promotion of research in research institutions under various other government ministries	Excluded from AHEAD. These research institutes come under a large number of other ministries. These are excluded to keep AHEAD manageable, and not to spread resources too thin.

Note: Included in AHEAD means that these are the areas eligible for financing under the World Bank Operation.

9. The importance of competitively funded programs to provide incentives for performance through ELTA grants was discussed with policy makers and academics. The importance of national strategic planning and QA was also identified by policy makers. The design of the RDIC programs to support DOR and the commercialization of innovations was identified in discussion with policy makers, academics, and representatives of the private sector. The support for promoting UBL cells was developed in consultation with academics and development partners such as USAID and WIPO. The support for the non-state HEIs was developed in consultation with the private HEIs, especially the members of SLANSHEI.

10. This consultation process will continue during the implementation of AHEAD. The annual updating of the national rolling plan will include consultations with the range of stakeholders who

contributed to its preparation. During the implementation of the ELTA programs, there will be regular consultations with academics, students, employers, and policy makers. The implementation of the RDIC programs will also include regular consultations with researchers, private firms and industries, and policy makers. Both the ELTA and RDIC programs will have annual forums where academics can share experiences and learn lessons from each other. The QA reviews of universities and HEIs also contain stakeholder consultations built into their protocols. Finally, the regular stakeholder feedback surveys planned as part of program monitoring will provide opportunities for consultation across a wide spectrum of stakeholders such as policy makers, employers, academics, and students.

Results Area 1: Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development

11. The objective of this results area is to increase enrollment in higher education programs of strategic importance for economic development. The expansion of enrollment in state HEIs, which comprise the universities and ATIs, will be focused mainly on the STEM degree programs. In addition, the GoSL will promote the expansion of non-state HEIs. The overall increase in enrollment will be promoted through a combination of demand- and supply-side initiatives.

Expanding Enrollment in State HEIs

12. The GoSL will establish new STEM faculties in universities. In addition, existing university STEM faculties will be expanded. The increase in university enrollment will mainly be the result of this development of new STEM faculties and the growth of existing STEM faculties. Enrollment in SLIATE ATIs will be increased through a combination of expanding existing ATIs and establishing new ATIs in geographical regions that at present do not have ATIs. The Program will support human resource development and the provision of equipment and technology for these universities and ATIs. The students who currently enroll in university STEM degree programs are students who have followed science courses at the General Certificate of Education Advanced Level (GCE A/L) in the final years of their secondary education. The Program will provide support for such degree programs in STEM faculties. In addition, the Program will support innovative degree programs in science faculties for students who have followed arts, commerce, science, or technology options in their GCE A/L courses in secondary school.

Increasing Enrollment in Non-State Higher Education Institutions

13. The Program will facilitate non-state higher education through a variety of initiatives. Non-state HEIs will benefit from a student loan scheme for students. GCE A/L qualified students who are not able to enroll in universities will be eligible for this assistance. All non-state HEIs registered by the SCAQA and/or UGC will be eligible to enroll students with these loans. Details of the scheme including estimated amount, selection of banks and students, reporting mechanisms, repayment, and utilization of these funds will be finalized during the first year of the program and included in the OM. Non-State HEIs will also have opportunities to invest in faculty development through PhD scholarships for their young academic staff. The selection of these academics will follow the same criteria as academics from state universities. The cost-effectiveness and the quality of PhD programs will be considered when selecting universities for study by such candidates. The Program will also facilitate the establishment and development of non-state HEIs through QAA activities, which are further discussed under Results Area 2.

Promoting Alternative Modes of Delivery

14. The Program will take advantage of the constant progress of ICT to rapidly scale up the various types of e-learning in parallel and to complement face-to-face teaching and learning. The strategy will promote the use of methods based on open educational resources and learning software (such as Moodle).

These methods will enable large numbers of students, regardless of their location, to set up interactive teaching sessions at a much lower cost than traditional methods. They will also allow the organization of learning assessment with students' feedback leading to adjustment of both syllabi and examinations. In relation to online learning, the Program will pilot MOOCs initiatives in a few market-relevant disciplines through a partnership with one of the well-established providers with experience in Asia. The pilot will test designs customized to the Sri Lanka context. The EDPs, which are an outdated model of distance learning where students register and take the examinations of a university but receive no academic support, will be controlled and possibly replaced by MOOCs in the long term. The Open University will lead the introduction and development of MOOCs.

Strategic Planning

15. The Program will enable the strategic development of the higher education sector. The Program will help the MHEH and UGC design a sound framework for planning and monitoring at the university level, reflecting the priorities of the national HEDS. The HEDS will be used to monitor progress in implementing the targets, including the targets for the expansion of enrollment in the universities and ATIs, and to fine-tune these over time. The HEDS will also contribute to the other two results areas. This will include incentives for academic achievement across a range of areas such as high-quality teaching-learning and research publications and innovations. The HEDS will be updated every two years as a rolling plan. The plan will also track progress made in the introduction of competitively funded teaching-learning grants and research and innovation grants, as described in Results Area 2 and Results Area 3, respectively. These grants reflect worldwide experience suggesting that linking funding to the achievement of agreed objectives, within the framework of a sound planning model, can be a promising method to enhance university performance and is mutually beneficial for the state and non-state HEIs.

Results Area 2: Improving the Quality of Higher Education

16. This results area aims to improve the quality of degree programs. Policy makers and academics consider improving the quality of higher education to be one of the foremost priorities for future development. The objective of this results area is to develop universities that deliver degree programs that promote a combination of academic excellence with high-quality socio-emotional skills, so that students are well prepared for the world of work and for wider civic and social life. The Program will develop a system for the competitive funding of teaching-learning modernization and quality improvement programs for university faculties and departments called the ELTA-ELSE program.

Enriching Learning, Teaching and Assessment (ELTA) and English Language Skills Enhancement (ELSE)

17. The Program will implement a system of competitive ELTA-ELSE programs. These programs will support innovative approaches to the combined development of academic excellence and socio-emotional skills of students. The ELTA-ELSE grants will assist university faculties and departments to introduce modern curriculum approaches and delivery modes, especially Outcome-Based Education (OBE) and Learner-Centered Teaching (LCT) and assessment approaches; expand the use of digital resources and blended learning; improve the English language skills of students; facilitate international linkages with reputed overseas universities; promote industry placements for students; and facilitate staff exchange programs between universities and private firms. The focus of the ELTA-ELSE grants will be given to arts, humanities, management, natural science, and social science programs as graduates from these programs need to compete for a wider range of jobs in the labor market. The ELSE component funds can be used either through the ELTD/Us or other relevant institutions of universities or through private sector English language training institutions to enhance the English proficiency of students, needed for academic programs and for the world of work. In addition, under the Program, the university ELTUs will be eligible for

strengthening. The ELTA-ELSE grants will be awarded only after a multistage peer review process of proposals by the MHEH and UGC and with technical input from the World Bank. Through this program, students will be able to keep abreast of the latest academic knowledge in their subjects, because English is the language of global academic activity. Also, it will improve the job prospects of graduates.

18. The higher education system has two types of universities. First, there is a set of older universities, which are more advanced and established. Second, there is a set of relatively new universities, and universities located in the Northern and Eastern Provinces which were affected by the 30-year armed conflict, that are less developed. The competition for the ELTA programs will be differentiated across these two sets of universities for leveling the playing field, especially for the less-developed universities. The universities that fit into these two tiers of competition are given in Table 1.2:

Table 1.2. ELTA-ELSE Programs by Tiers: Universities and Rounds

	Tier One Universities	Tier Two Universities
ELTA-ELSE Programs	Colombo Kelaniya Sri Jayewardenapura Peradeniya Ruhuna	Eastern Jaffna Sabaragamuwa South Eastern Rajarata Uva Wellassa Visual and Performing Arts Wayamba

Note: Moratuwa University is not included because it does not have arts, commerce, or science faculties. The Open University is not included because it offers distance mode degree programs. The Open University is supported under Results Area 1 for MOOCs.

ELTA-ELSE Program Guidelines and Selection Process

19. The ELTA-ELSE programs will commence from 2018 onward. Detailed guidelines for the ELTA -ELSE grants have been developed and included in the OM. These guidelines explain the objectives of the program grants, eligible activities and expenditures, budgeting guidelines, proposal format and structure, and evaluation criteria. The selection of the ELTA-ELSE grants will follow a multistage process, which will be managed by the MHEH and UGC through the OMST. A call for proposals will be issued to all the eligible universities. Faculties and departments that express interest will be invited to send teams of proposal writers for training in the guidelines for the grants and proposal formats. Teams of reviewers will also be trained in proposal evaluation. Next, interested faculties and departments will submit proposals. These proposals will contain the proposed programs objectives, outcomes and measurable targets, and strategic actions and resources needed to achieve the outcomes. The proposals should also have been developed through broad consultations with all relevant stakeholders, such as academics, students, and employers. The proposals will be subjected to a desk evaluation. Proposals that meet a minimum standard will the further evaluated by reviewers based on site visits to the relevant faculty or department. The proposals will then be ranked in the order of marks obtained and recommended to the MHEH and UGC for award. The highest ranked set of proposals within each tier and window for the ELTA-ELSE programs will be awarded the grants.[5] The second round of grants, scheduled to commence in 2020, will be eligible only to those faculties and departments that did not win grants in the first round. The UGC budget will have a separate line item for these ELTA-ELSE grants from 2018 onward.

[5] There will also be an appeals process committee under the UGC for the ELTA grants. After both the desk evaluation and site visits, grant applicants who did not qualify can appeal to this committee. The grant awards will be made only after the appeals have been completed.

Professional Development of Academic, Managerial, and Technical Staff

20. The Program will implement a scholarship program for young academics to obtain postgraduate degrees. This is extremely important because there is a scarcity of qualified academic staff in HEIs. Under AHEAD, PhD scholarships will be provided to academic staff members of universities and soft loans provided to non-state HEIs. PhD scholarships will be for overseas programs and split programs. In split programs, a student pursues a joint PhD between an overseas university and a domestic university. In the case of such programs, a substantial portion of time will be spent in the overseas university. In addition, scholarships for professionally oriented doctoral programs and master's programs will be made available to academics from SLIATE. Under the Program, when foreign universities for PhD and professional doctoral programs are selected, care will be taken to ensure that they are of good quality and reputation. The candidates selected for these programs will also be suitably prepared for an overseas program.

21. The Program will support short-term training programs for capacity building of academic, managerial, and technical staff of the higher education sector. This will include the MHEH, UGC, SLIATE, universities, and ATIs. In the case of universities, skills upgrading programs will be organized mainly through the Staff Development Centers (SDCs). The short-term training programs for the ATIs will be organized through suitable universities and the LQDC of SLIATE. The training will benefit academic staff and other auxiliary academic staff (for example, demonstrators and lab technicians) as well as managerial and administrative staff. The staff development will be modeled on the following principles: programmatic training, cohort training, longitudinal training, and on-the-job training. The universities will also be provided with necessary networking facilities (for example, video conferencing and interfaces for webinars) so that the SDCs can harness centralized support. For SLIATE, the Program will also assist the development of the LQDC through provision of necessary equipment, technology, and teaching and learning material.

Quality Assurance

22. The QAAC of the UGC will implement QA reviews of the 15 universities. These QA reviews will use a new set of guidelines recently developed by the MHEH and UGC for institutional reviews and program reviews. These reviews will cover the following dimensions: curriculum design and development; teaching and learning; learning resources; student support and progression; student assessment and awards; strength and quality of staff; postgraduate studies, research, and innovation; community engagement, consultancy, and outreach; distance education; QA; and governance and management. These dimensions will be assessed according to specific and measurable standards.

23. In addition, the QAAC will undertake QA reviews of all the EDPs in universities. The QAAC will also develop and implement QA guidelines for postgraduate education. SLIATE will implement a set of QA reviews for the ATIs. The SCAQA of the MHEH will undertake the registration and QA of non-state HEIs. These non-state HEIs are vital to meet the growing demands of students, parents, and employers for quality higher education in the country.

24. Internal QA mechanisms will be strengthened in the universities and ATIs under the Program through technical support and capacity building of IQAUs in the universities and IQACs in the ATIs. The IQAUs will work closely with other relevant units within the universities such as SDCs and career guidance centers and promote quality-related activities in universities, in line with international good practices.

SLQF

25. The Program will implement the SLQF with the aim of creating an integral national framework for learning achievements by recognizing and accrediting qualifications offered by different institutions engaged in education and training in Sri Lanka. The SLQF articulates pathways for vertical and horizontal

mobility between the various levels and types of education and training. In the higher education sector, the SLQF will be applied to the universities, ATIs, and non-state HEIs.

Results Area 3: Promoting Research, Development, and Innovation

26. The objective of this results area is to develop a culture of research and development, innovation and commercialization (RDIC) in universities. The UGC has taken several measures to promote RDIC. Academics who undertake research are awarded points towards their promotions. In addition, evidence of research has been made mandatory for an academic to become a full professor. A circular has been issued which provides encouragement and guidelines for university-business linkages, including in research and development, and commercialization of innovations. The circular also makes provision for each university to have a formal university-business linkage office to facilitate and enable RDIC activities in collaboration with firms and industries.

27. The Program will develop a system for multi-year, competitively funded research and innovation programs. There will be two types of RDIC programs: (a) development-oriented research (DOR) programs; and (b) research and innovation commercialization (RIC) programs. The DOR and RIC grants will be awarded only after a multistage peer review process of proposals by the MHEH and UGC and with technical input from the World Bank.

28. In addition, UBL offices will facilitate the RIC work of universities.

Development-Oriented Research

29. The Program will support three types of DOR programs for universities and non-state HEIs:

- DORs for the STEM subjects
- DORs for the humanities, education, management, and social science (HEMS) subjects
- DORs for combined STEM-HEMS research.

30. These DOR programs will enable academics to undertake research that is relevant for economic and social development. The research results will be published initially in working papers and conference communications and papers and lead on to journal articles, books, and monographs, depending on the various disciplines. The quality of publications will be assessed through peer review, the academic reputation of the publishers of working papers, journals, monographs, and books and the academic quality of the organizers of conferences and symposia.

Research, Innovation, and Commercialization

31. The Program will provide assistance for three types of RIC programs for the universities and non-state HEIs:

- RIC programs for the STEM subjects
- RIC programs for the HEMS subjects
- RIC programs for a combination of STEM and HEMS innovation

32. These RIC programs will promote the universities to undertake research and innovation activities that are of direct relevance for the development of the industrial and service sectors, as identified through consultations with agencies representing the private sector, such as Chambers of Commerce and Employers Federations, and with government policy makers. Non-state HEIs will also be eligible to compete for RDIC resources. In addition, under the Program, there will be assistance for a set of innovation commercialization enhancement (ICE) grants to assist a set of university programs that have demonstrated success in this area in the past to scale up their activities further.

33. The competition for DOR and RIC programs will also be differentiated between the more-established universities and the less-developed universities. The non-state HEIs will compete in a separate tier from the state universities. The universities that fit into these three tiers of competition are given in Table 1.3:

Table 1.3. Development Oriented Research, and Research and Innovation Commercialization Program: Universities and Rounds

	Tier One Universities	Tier Two Universities	Tier Three HEIs
DOR and RIC Programs	Colombo Kelaniya Moratuwa Open Sri Jayewardenapura Peradeniya Ruhuna	Eastern Jaffna Sabaragamuwa South Eastern Rajarata Uva Wellassa Visual and Performing Arts Wayamba	Non-state HEIs

RDIC Program Selection Guidelines and Process

34. The RDIC programs will commence from 2018 onward. Detailed guidelines for the RDIC grants have been developed and included in the OM. These guidelines explain the objectives of the program grants, eligible activities and expenditures, budgeting guidelines, proposal format and structure, and evaluation criteria. The selection of the RDIC grants will follow a multistage process, which will be managed by the MHEH and UGC through the OMST. A call for proposals will be issued to the eligible universities and non-state HEIs. Institutions that express interest will be invited to send teams of proposal writers for training in the guidelines for the grants and proposal formats. Teams of reviewers will also be trained in proposal evaluation. Next, interested universities and non-state HEIs will submit proposals. These proposals will contain the proposed programs objectives, outcomes and measurable targets, and strategic actions and resources needed to achieve the outcomes. The proposals should also have been developed through broad consultations with all relevant stakeholders, such as policy makers and/or target beneficiaries for DOR grants and industry representatives for RIC grants. The proposals will be subjected to a desk evaluation. Proposals that meet a minimum standard will then be further evaluated by reviewers based on site visits to the relevant institution. The proposals will then be ranked in the order of marks obtained and recommended to the MHEH and UGC for award. The highest ranked set of proposals within each tier and window for the RDIC programs will be awarded the grants.[6] The second round of grants, scheduled to commence in 2020, will be eligible only to those institutions that did not win grants in the first round. The RDIC grants will be reflected in the UGC budget for research.

[6] There will also be an appeals process committee under the UGC for the RDIC grants. After both the desk evaluation and site visits, grant applicants who did not qualify can appeal to this committee. The grant awards will be made only after the appeals have been completed.

35. The Program will assist universities to develop relevant intellectual property (IP) policies consistent with the definition of IP by the World Intellectual Property Organization (WIPO). In this context university-business linkage (UBL) offices will:

- Enable academics and students to obtain professional knowledge, advice, and training relevant for commercialization of research,
- Increase collaboration with professional expertise in technology transfer and commercialization of research,
- Enable academics to engage with industry to develop and utilize research and innovation products for and/or with commercial potential, and
- Work within the university IP policies in interactions with private firms and industries.

36. The Program will also provide a platform for networking among researchers engaged in innovation and commercialization of research and companies interested in transforming research results into marketable goods and services.

IPF Component: POTS

37. The POTS component will be an IPF loan for an amount of US$7 million. The main objective of this component is to provide TA, and academic and operational support, for the implementation of the Program and to assist with systems strengthening and capacity building. The POTS component will also assist the coordination of the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs and promote synergy between their academic, technical, and operational activities (see annex 10 for details). The POTS component will also assist the MHEH, UGC, and SLIATE to undertake monitoring and evaluation activities for the Program. Under this component, there will be an OMST in the MHEH with links to the UGC to coordinate, monitor, and provide technical, academic, and operational expertise for AHEAD activities at the national and institutional levels. The OMST will support program coordination, TA, and capacity building; monitoring across the various agencies; pilots and innovations; research, evaluation, and policy studies; and communication.

38. This component will also finance equipment, technology, software, transport, and office furniture for the OMST and OTSs as well as incremental operating costs. In addition, equipment, technology, and software for novel initiatives introduced over time can be funded under this component. The World Bank will prior review the TOR for studies and of consultancies and the consultants selected. All overseas HRD programs will also be prior reviewed by the World Bank. In addition, the World Bank higher education task team will review and provide technical inputs into the ELTA and ELSE grants and the DOR, RIC, and ICE grants. Annex 10 provides details of the POTS component, including the breakdown of estimated costs of the POTS component.

Additionality of the Program

39. The Program proposes a set of activities that either represent a major scaling up of existing activities or are new in the higher education sector. The enrollment increases planned for the universities, with a specific focus on STEM programs, is a substantial scaling up of the university system. For instance, during the period 2013–2014, the increase in university STEM enrollment was only by 1,780 students and from 2014–2015 by just 1,660 students. Over the Program period, the university STEM enrollment is planned to increase by 12,000 students, which is an ambitious and substantial expansion. Under the Program, to support this expansion, new STEM faculties and departments are being established in universities,

especially in technology, computer science, and medicine. The provision of scholarships for university academics is also a major scaling up of existing support. For instance, in 2014–2015, the UGC was able to provide only part funding for 188 postgraduate scholarships. In 2016, the UGC provided only 37 postgraduate scholarships with partial funding for academics. Under the Program, 200 fully funded postgraduate scholarships are planned for just 2017–2018, which is a considerable increase in the allocation for scholarships.

40. The notion of a strategic development plan that operates as a multiyear rolling plan and the rolling IDPs that are linked to the national strategic development plan is new under the Program. The explicit support of the state for enrollment expansion in non-state universities is a new measure under the Program. This includes both the provision of a loan scheme for students and the incorporation of academics from non-state HEIs in the postgraduate scholarship scheme. The ELTA-ELSE program, which supports the promotion of academic excellence and the development of socio-emotional skills of students through competitive grants, is new. In addition, the RDIC programs under which faculties and departments are supported through competitive grants for DOR and for innovations leading to commercialization, and the development of UBL offices, are also new. In these new areas, the World Bank operation will provide not only financial assistance through the Program component, but also technical expertise and capacity building under the POTS component.

Implementation Arrangements

41. The MHEH, UGC, and SLIATE will implement AHEAD at the national level. The universities and ATIs and non-state HEIs will implement AHEAD activities at the institutional level. The OMST will provide academic, technical, and operations expertise and coordinate and monitor the work of the various universities, ATIs, and HEIs. The universities will be assisted by the OTSs to coordinate, monitor, and facilitate the work of the various faculties and departments and campuses and institutes of the university system.

Program Direction and Oversight

42. The formulation of operational policy and the establishment of national principles, norms, and standards for the overall higher education sector will be the responsibility of the MHEH. The UGC will be responsible for the development and adoption of policies, norms, and standards related to the universities. Within the overall framework set by the MHEH and UGC, the universities have the authority to develop academic and operational policies, norms, and standards. SLIATE is responsible for the development of academic and operational policies, norms, and standards for the ATIs. To establish consistency and coherence between the various agencies, the program direction and oversight function of AHEAD will be performed by an overarching Steering Committee containing representatives from all the key stakeholder agencies.

43. **Composition of the Steering Committee.** The Steering Committee will be chaired by the Secretary of the MHEH. The other members of the Steering Committee will be the Secretary of the stateMHEH; the Additional Secretaries of the state MHEH; the Director of Planning of the state MHEH; the Chairperson and Vice Chairperson of the UGC; the Chairperson of the Committee of Vice-Chancellors and Directors; the Director General of SLIATE; a representative of the Department of External Resources, Department of National Planning, and Department of Project Management and Monitoring from the Ministry of National Policy and Economic Affairs; a representative from the Department of National Budget of the MoF; and the Director of AHEAD. The Steering Committee will monitor the overall performance of the program, paying special attention to the achievement of targets, DLIs, and outcomes. It will also discuss important policy aspects related to the program and decide which high-level policy issues need to be brought to the Minister of Higher Education and Highways for decision making.

Management and Implementation

44. The implementation of AHEAD activities will follow the principle of subsidiarity. Activities that can be implemented by the universities and ATIs will be implemented at those levels. Only activities that cannot be implemented at the university and ATI levels will be referred to the UGC, SLIATE, and MHEH for decision making and action.

Table 1.4. Program Implementation by Agency

Results Area	Policy Making and Oversight	Implementing/Contributing Agencies	Program Operations and Technical Support
Results Area 1: Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development			
1.1. Enrollment expansion in universities	MHEH UGC	Universities	OMST
1.2. Enrollment expansion in SLIATE	MHEH SLIATE	ATIs	OMST
1.3. Promotion of enrollment in non-state HEIs	MHEH	Non-state HEIs	OMST
1.4. Alternative modes of higher education service delivery	UGC	Open University Universities	OMST
1.5. Strategic planning	MHEH UGC SLIATE	MHEH UGC Universities ATIs	OMST
Results Area 2: Improving the Quality of Higher Education			
2.1. ELTA for humanities, management, natural sciences, and social sciences study programs	MHEH UGC	Universities	OMST
2.2. ELSE for humanities, management, natural sciences, and social sciences study programs	MHEH UGC	Universities	OMST
2.3. Strengthen the academic and technical staff of the universities and SLIATE ATIs through postgraduate degree programs and short-term training programs	MHEH UGC SLIATE	UGC Overseas and domestic universities SLIATE staff Non-state HEIs	OMST
2.4. Apply internal and external QAA	MHEH UGC SLIATE	SCAQA QAAC University IQAUs ATI IQAUs	OMST
Results Area 3: Promoting Research, Development, and Innovation			
3.1. Promoting development-oriented academic research	MHEH UGC	Universities Non-state HEIs	OMST
3.2. Promoting innovation and commercialization of research	MHEH UGC	Universities Firms and industries Non-state HEIs	OMST

Results Area	Policy Making and Oversight	Implementing/Contributing Agencies	Program Operations and Technical Support
		State and non-state sector agencies	
3.3. University-business linkage offices developed	MHEH UGC	Universities Non-state HEIs	OMST

MHEH

45. The MHEH will be responsible for the overall development of the higher education sector. This will include the implementation, monitoring, and fine-tuning of the national HEDS. The MHEH will also be responsible for the overall implementation of the SLQF and the expansion of the QAA system to the full higher education sector. This will include the creation of pathways from the training system into the university system. AHEAD will support the MHEH with technical expertise and capacity building during program implementation.

UGC

46. The UGC will have the task of recommending and monitoring the financing of the universities. The UGC will also develop guidelines for the university system. The UGC will play an important role in the implementation of the SLQF for the universities. This will include the preparation of standards and protocols for lateral entry and credit transfer schemes within the university sector. Also, the UGC through its QAAC will implement the QA activities for the university sector. The UGC will formulate policies and norms for the development of alternative modes of higher education service delivery and will regulate the size and quality of the EDPs.

SLIATE

47. SLIATE will implement the activities related to the expansion of enrollment in the ATIs. This will include both the establishment of the ATIs in underserved areas and the upgrading of facilities and equipment to enable the ATIs to deliver modern, technology-intensive courses. SLIATE will also implement the activities related to the development of quality in the ATIs. This will include the preparation of a sound HRD plan, both for leadership and management training of the ATI managerial staff and for the academic development of teaching staff. In the context of quality, SLIATE will implement programs for the professional development of academic staff, with special emphasis on contemporary methods of adult teaching and learning, the use of ICT in adult education, contemporary evaluation methods, and the use of program work as an integral component of every subject. In addition, SLIATE will implement programs to promote interactions between the ATIs and the workplaces.

Universities

48. The universities will be the implementing agencies for the ELTA and ELSE grants. The ELTA and ELSE grants will be implemented at the faculty and department level. The universities will also be the frontline implementing agencies for the DOR grants, the RIC awards, and the ICE grants. The DOR, RIC, and ICE grants will be implemented at the level of research teams, but within the framework of the relevant university faculty and/or department. The universities will also implement the HRD activities. The selection of candidates for PhD level training will be made at the university level, based on the norms and guidelines of the UGC. Finally, many of the studies required for policy analysis and development and monitoring and evaluation, will be implemented utilizing the research expertise and skills of the academic community.

ATIs

49. The ATIs will be the frontline implementing agencies for the delivery of improved programs in alternative higher education. The ATIs will develop curricula, expand modern technology-intensive and work-oriented teaching-learning programs, and implement the new assessment methods that combine classroom testing with workplace internships and practice. In addition, the QA cells in each ATI will partner with the LQDC of SLIATE to promote continuous quality development of the ATI. The staff of the ATIs will benefit from the HRD programs for professional and academic staff.

OMST

50. There will be an OMST in the MHEH with close links to the UGC to coordinate and provide academic, technical, and operational expertise for the implementation of AHEAD. The OMST will have branch OTSs in the universities. The OMST will have full-time academic specialists for the three results areas. The OMST will also have expertise from outside the state university sector for the activities related to the non-state higher education sector. The OMST will also have expertise in operations, monitoring and evaluation, FM, and procurement to assist in the implementation of program activities. Each university will have a coordinator, who will be a senior academic appointed by the university, and administrative staff. There will also be a full-time manager and a project officer in each OTS. The OMST and OTSs will organize regular capacity-building activities for the relevant staff of the HEIs, including in procurement, FM, and contract management, throughout the program implementation. The OMST is further described in annex 10.

OM and Implementation Plan

51. An OM has been prepared for the Operation. This manual contains a description of the Program, the implementation arrangements and plan, the Results Framework and monitoring arrangements, and planned technical support and capacity-building activities. The OM also contains the criteria and guidelines for the key activities of the Program, such as the selection and award of ELTA grants, the selection and award of the RDIC grants, and the scholarships for academics. The OM presents an implementation plan, with a time sequence of key actions under the three results areas, implementation responsibilities among the various agencies, budgets, and expected results. The OM describes the fiduciary and safeguards arrangements for the Operation. It also contains the TOR for the key positions of the OMST. The OM will be periodically updated during the implementation of the Operation, with the agreement of the World Bank. The guidelines for financial assistance to the non-state HEIs, including the student loan scheme and scholarships for academic staff, will be included in the OM when it is revised.

Program Monitoring

52. AHEAD will devote special attention to the monitoring of Program performance. The objectives of monitoring and evaluation are to (a) track the implementation experience of the Program and strengthen the efficiency of implementation where needed; (b) assess the results achieved under each results area; and (c) assess the overall outcomes of the Operation. The information obtained from monitoring will enable the Government to undertake any corrective actions and modifications needed in technical support or financing to maximize the impact of the Program.

53. The objectives of the GoSL HEDS are the same as the three results areas of the Program. The AHEAD indicators are aligned with the indicators of the GoSL strategy. The GoSL monitoring systems will also be used to monitor the program. The overall monitoring of AHEAD will be undertaken by the MHEH. The monitoring of university-level activities will be undertaken by the UGC. The monitoring of the ATI-level activities will be undertaken by SLIATE. The MHEH, UGC, and SLIATE will monitor the

implementation of the Results Framework, including collecting and reporting the information for all the results and outcome indicators, as well as using the results of these indicators. Under the POTS component, AHEAD will support the strengthening of the GoSL monitoring system to collect, process, and disseminate information.

54. Monitoring and evaluation activities will commence from the beginning of AHEAD and continue until program completion and will cover the assessment of inputs, processes, results, and outcomes. The Results Framework comprises a set of intermediate and overall outcome indicators, with annual targets, to provide a continuous picture of program performance. The intermediate outcome indicators focus on critical milestones and will be useful to monitor the implementation performance of the Program. The overall outcomes constitute the key performance indicators that reflect the overarching development objectives of AHEAD.

55. The monitoring and evaluation activities of AHEAD will include surveys and studies that will provide deeper understanding of the performance and requirements of the higher education sector to stakeholders and beneficiaries, including students, academics, higher education policy makers and officials, and employers. The planned surveys and studies include (a) studies of the job search and employment experiences of graduates; (b) beneficiary feedback studies of students, academic staff, and employers; and (c) causes of gender aspects of higher education, such as the lower proportion of male students compared to female students in many programs, and measures to promote higher female labor force participation. Special attention will be paid to stakeholder feedback from academics, students, employers, and firms on key interventions such as the ELTA program and the RDIC program. The monitoring of the ELTA program will also pay specific attention to the learning outcomes of students. The evaluation activities will seek to compare the performance of faculties and departments that win competitive grants under the ELTA and RDIC programs with the performance of faculties and departments that do not participate in these programs.

56. Other studies and surveys will include policy studies, strategic analyses, and research. The monitoring, policy studies, impact evaluations, and research activities will be undertaken by the MHEH, UGC, and SLIATE, normally with the assistance of universities, research institutions, and consulting firms. The results of these activities will be used for strengthening program implementation and for strategy development, as appropriate and needed. The monitoring and evaluation capacity of the MHEH, UGC, and SLIATE will be strengthened under the POTS component of AHEAD. The OMST will coordinate and facilitate the various monitoring, research, and policy studies.

Review Arrangements

57. The performance of AHEAD will be reviewed regularly, and the World Bank will provide continuous support to implement the Operation effectively. The Steering Committee of the Operation will review implementation progress on a quarterly basis. The OMST will also organize semiannual stakeholder reviews of AHEAD where the overall status of the Program will be discussed. A wide range of stakeholders, including policy makers, technocrats, employers, academics, researchers, and representatives of civil society, will participate in the stakeholder reviews. The MHEH, OMST and World Bank will also jointly participate at the Annual Portfolio Review conducted by the Ministry of National Policies and Economic Affairs through the DPMM. The World Bank will also maintain continuous dialogue and provide technical advice and implementation support to AHEAD from the Colombo office as well as draw on its global expertise in Washington and other offices to share knowledge on international higher education trends and good practice from other countries. Also, the World Bank will assist the country by regularly undertaking higher education policy analyses on topics that are considered important for future policy formulation and strategy development. These studies will be undertaken collaboratively with the Government, and AHEAD makes provision to support research and policy analysis by key government agencies including the MHEH, UGC, and SLIATE. The studies will cover themes that are of interest and relevance for higher education,

such as access and quality, governance and management, research and innovation, and costs and financing. Other levels and types of education such as general education, technical education, and vocational training can also be covered with regard to their linkages and interaction with the higher education sector.

Data Requirements and Sources

58. The main data source for Results Area 1 will be the MHEH and UGC records on student enrollment in universities, disaggregated by type of degree program, mode of delivery, and gender, as well as the MHEH and SLIATE records on student enrollment in the ATIs again differentiated by type of program and gender. This will be supplemented by information on non-state HEIs collected by the MHEH with support from the OMST. The information required for the ELTA and ELSE grants under Results Area 2 will be prepared by the universities. The information on PhD programs for academics will be obtained from the UGC and university records. The information on professional doctorates and master's degree programs will be obtained from the SLIATE and ATI records. Information on program activities will be obtained from the data available at the MHEH, UGC, and SLIATE levels. This will be supplemented by monitoring studies and evaluations on key new interventions commissioned by the OMST. Under Results Area 3, the progress of the RDIC studies will be obtained from the universities. The benefits of these RDIC activities will be measured through purpose-designed studies commissioned by the OMST. The Operation will also support stakeholder satisfaction surveys and graduate tracer studies that will be useful for policy makers at the national level for program monitoring and strategy development and for academics at the institutional level for fine-tuning existing study programs and developing new academic programs.

Program Expenditure Framework

Program's Financial Framework

59. Based on the MoF's projections for 2016–2018 and assuming that the same pattern will continue until 2022, the Program will cost approximately US$2,056 million over its lifetime of 2017–2022. Funding will come from three sources: the MHEH (for SLIATE), UGC (universities), and the World Bank loan (all HEIs under the MHEH and UGC). At the implementation level, the World Bank's support will not be distinct from the Government's expenditure.

60. The expenditure framework covers recurrent and capital expenditures that relate to the MHEH and UGC activities under AHEAD. Donor-funded initiatives and expenditures relating to other ministries under HEDS are not part of the expenditure framework because these are not included in the Program. The GoSL has assigned funds for the implementation of activities under the three results areas of the Program.

Budget Structure

61. Public funding of higher education is the exclusive responsibility of the central government. Two entities are in charge of administrative, academic, and financing matters: a ministry and a buffer agency, the UGC. The MHEH is the highest political entity in charge of the sector. The MHEH directly runs—and funds—only SLIATE. Although it is under the political ambit of the ministry, the UGC deals directly with—and caters to—the 15 public universities.

62. The budget is divided into two categories (Table 1.5): the first one goes directly to the ministry itself (Head 117) and the other one goes to the UGC (Head 214). In 2015, the ministry (the higher education part of the MHEH) received 23 percent of the total envelope. The UGC channels the bulk of its resources to the public universities, which enjoy a fairly large financial autonomy in the use of their resources. Ministry expenditures are broken down into operational activities and development activities, while the UGC expenditures are exclusively made up of development activities. In turn, expenditures under each

category are distributed in more detailed subcategories and between recurrent and capital outlays. The details of the AHEAD Program expenditures are given in Table 1.6.

Table 1.5. Higher Education Budget Classification for the AHEAD Program (PforR)[7]

Heads	Activities	
Head 1–7 - MHEH	**01 - Operational activities**	
	12	State minister's office
	13	Administration and establishment services
	02 - Development activities	
	14	Institutional assistance for quality improvement in higher education
Head 214 - UGC	01/02	Development activities/development of universities

63. Recurrent expenditures in the UGC consist of three types of spending: (a) general administration and staff services, (b) academic services, and (c) welfare services. Remunerations are part of the general administration and staff services category, which also includes teaching resources and most quality-related expenditures. Spending on research is more scattered among several headings, including capital expenditures under the ministry and a catchall category under the UGC.

64. The annual budgeting exercise for the GoSL funds by the MHEH, which starts in April, is according to the budget circular issued by the MoF every year to all the GoSL ministries and departments. A bottom-up approach is followed in the budget process where requirements are obtained from the lowest implementing entity and the information is fed upward to the highest implementing entity. Each of these entities will submit their budget requests to their respective immediate reporting entity. In the case of the universities, the UGC provides the guidelines for the preparation of the annual budget estimates. The initial budget requests of the universities are forwarded to the UGC on account of activities implemented by the GoSL funds, which comes to them as block grants. The UGC in turn submits the consolidated budget allocation request to the MHEH. Once the final allocation is approved by the MoF for the MHEH, the MHEH transfers funds as a block allocation to the UGC, which in turn allocates the funds to the universities under two broad headings of recurrent and capital expenditure. All donor-financed operations are also included as separate line items under capital expenditure, which is reflected at an aggregate level under the MHEH.

65. Monthly requests are made to the UGC by each university based on forecasted expenditure requesting remittance of funds for the activities implemented at the university level by using the GoSL funds. The UGC reviews and consolidates the requests along with its own request and in turn submits the same to the MoF. The Treasury releases the available funds directly to the universities from the consolidated funds of the GoSL into a bank account maintained at each university. The Treasury releases funds on account of the UGC's own activities directly into the UGC bank account.

66. The fiduciary oversight and accountability arrangements will be applicable for the entire program expenditure framework that has been identified for AHEAD. The World Bank funds will not be tracked separately under the program component. However, for the proposed World Bank funding coming into the Program, it has been requested by the GoSL that a separate account be opened at the MHEH, which will be managed by the OMST. Separate Sri Lanka Rupee accounts will also be opened at the OMST and at each university to receive World Bank funds and process payments. SLIATE and the UGC will not receive World Bank funds, and hence, no separate Sri Lanka Rupee accounts will be required for them; however, they will be considered and will be part of the expenditure framework defined for the Program. Upon verification of the achievement of DLIs, the applicable World Bank funds will be remitted to the account

[7] Excludes the IPF part and activities financed by other development partners, which will be shown under '15 Development Projects'. This also excludes budget codes related to other ministries as shown in Figure 1.2.

managed by the OMST. The OMST, through requests made to the Treasury, will transfer the funds in the account (in U.S. dollars) to its Sri Lanka rupee account (in Sri Lanka rupees). The relevant funds will then be distributed by the OMST to the universities in the Program. This arrangement is being facilitated and agreed upon based on a specific request from the GoSL for AHEAD funds.

67. A fiduciary assessment was carried out at the MHEH, UGC, and selected universities on a sample basis. The assessment concluded that all entities had procedures, capacity, and the staff to implement the program. The detailed assessment can be found in annex 5.

Table 1.6. AHEAD Expenditue Framework - According to Budget Classifications (US$)

Results Area	Budget Code	Expenditure Items	2017	2018	2019	2020	2021	2022	Total
Results Area 1									
1.1	1001-03; 1101-02	Personal Emoluments of Academic Staff	52.2	57.2	62.7	62.7	62.7	62.7	360.3
1.2	2001-03	Rehabilitation and Improvements of Capital Assets	0.7	1.2	1.0	1.0	1.0	1.0	6.0
1.3	2101-03	Acquisition of Capital Assets (Equipment, Machinery, and Buildings)	44.7	69.5	59.3	60.9	62.0	62.8	359.2
1.4	1301-03; 1401-1409	Supplies, Maintenance, and Services	6.9	7.8	8.6	8.6	8.6	8.6	48.9
Total Results Area 1			104.6	135.7	131.6	133.2	134.3	135.1	774.5
Results Area 2									
2.1	1001-03; 1101-02	Personal Emoluments of Academic Staff	87.0	95.3	104.5	104.5	104.5	104.5	600.5
2.2	2401	Capacity Building and Staff Training	2.9	4.5	3.9	4.0	4.0	4.0	23.3
2.3	1301-03; 1401-1409	Supplies, Maintenance, and Services	11.9	13.0	14.3	14.3	14.3	14.3	81.9
2.4	2401	Quality Assurance	1.9	3.0	2.6	2.7	2.7	2.7	15.5
2.5	2001-03	Rehabilitation and Improvements of Capital Assets	0.4	0.7	0.6	0.6	0.6	0.6	3.6
2.6	2101-03	Acquisition of Capital Assets (Equipment, Machinery, and Buildings)	18.7	29.6	25.5	26.1	26.3	26.3	152.6
Total Results Area 2			122.8	146.2	151.3	152.2	152.4	152.4	877.3
Results Area 3									
3.1	1001-03; 1101-02	Personal Emoluments of Academic Staff	34.8	38.1	41.8	41.8	41.8	41.8	240.2
3.2	2401	Research and Development	4.6	7.2	6.2	6.4	6.4	6.4	37.2
3.3	1301-03; 1401-1409	Supplies, Maintenance, and Services	4.9	5.2	5.7	5.7	5.7	5.7	33.0
3.4	2001-03	Rehabilitation and Improvements of Capital Assets	0.3	0.5	0.4	0.4	0.4	0.4	2.4
3.5	2101-03	Acquisition of Capital Assets (Equipment, Machinery, and Buildings)	11.2	17.8	15.3	15.7	15.8	15.8	91.6
Total Results Area 3			55.8	68.8	69.4	70.0	70.1	70.1	404.3
AHEAD			0.2	1.6	1.8	1.8	1.2	0.4	7.0
Total			283.4	352.2	354.1	357.1	358.1	358.1	2,063.0

Annex 2: Results Framework Matrix

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Results Framework

Results Indicators	Core	Unit of Measure	Baseline (2015/16)	Target Values				
				Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022
PDO: To increase enrollment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector.								
PDO Indicator 1: Enrollment in HEI STEM undergraduate degree programs increased		Number [a/]	42,800	46,000	47,600	49,400	51,200	53,100
PDO Indicator 2: Enrollment in SLIATE STEM programs increased		Number [b/]	6,000	6,900	7,600	8,100	8,600	9,200
PDO Indicator 3: Increased quality assurance of the university system		Cumulative percentage	A QA review system has been developed. A new sequence of QA reviews of universities, based on updated manuals, will be implemented from 2018 onwards.	Quality assurance reviews of at least 10 percent of the universities completed and ratings published	Quality assurance reviews of at least 30 percent of the universities completed and ratings published	Quality assurance reviews of at least 50 percent of the universities completed and ratings published	Quality assurance reviews of at least 70 percent of the universities completed and ratings published	Quality assurance reviews of at least 90 percent of the universities completed and ratings published

Results Indicators	Core	Unit of Measure	Baseline (2015/16)	Target Values				
				Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022
PDO Indicator 4: Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs		Text	0	The MHEH has awarded the first round of competitive ELTA-ELSE grants to at least 10 faculties.	At least 10 faculties awarded ELTA-ELSE grants under the first round have achieved 50 percent of their outcome targets related to the promotion of academic learning combined with interactions between university students and the world of work.	The MHEH has awarded the second round of competitive ELTA-ELSE grants to at least 10 faculties.	At least 10 faculties awarded ELTA-ELSE grants under the second round have achieved 50 percent of their outcome targets related to the promotion of academic learning combined with interactions between university students and the world of work.	At least 20 faculties awarded ELTA-ELSE grants have achieved 80 percent of their outcome targets related to the promotion of academic learning combined with interactions between university students and the world of work.
PDO Indicator 5: University-level systems for Research and Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved		Text	0	The MHEH has awarded at least 24 RDIC program grants under the first round.	At least 24 RDIC program grants under the first round have achieved 50 percent of their outcome targets.	The MHEH has awarded at least 24 RDIC program grants under the second round.	At least 24 RDIC program grants under the second round have achieved 50 percent of their outcome targets.	At least 48 RDIC program grants under the first and second rounds have achieved 80 percent of their outcome targets.

Results Indicators	Core	Unit of Measure	Baseline (2015/16)	Target Values				
				Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022
Intermediate Results Indicators								
Intermediate Results Indicator 1: SLIATE STEM programs increase intake		Cumulative number [c/]	2,000	2,900	3,600	4,100	4,600	5,200
Intermediate Results Indicator 2: University IQAUs function to specified standards		Cumulative percentage	IQAU scorecard completed	IQAUs functioning to specified standards in at least 20 percent of the universities	IQAUs functioning to specified standards in at least 40 percent of the universities	IQAUs functioning to specified standards in at least 60 percent of the universities	IQAUs functioning to specified standards in at least 80 percent of the universities	IQAUs functioning to specified standards in at least 90 percent of the universities
Intermediate Results Indicator 3: Citizenship engagement: Stakeholder feedback surveys conducted		Text	0	Initial stakeholder feedback survey conducted for participating universities and and utilized for the updating of the Operations Manual. Baseline satisfaction levels established.	Stakeholder feedback survey conducted and feedback utilized for the updating of the Operations Manual	Mid-term stakeholder feedback survey conducted and feedback utilized for the updating of the Higher Education Strategy and the Operations Manual. Satisfaction levels of stakeholders increased by 15 percent over the baseline.	Stakeholder feedback survey conducted and feedback utilized for the updating of the Operations Manual	End-term stakeholder feedback survey conducted and feedback utilized for the updating of the Higher Education Strategy. Satisfaction levels of stakeholders increased by 30 percent over the baseline.

Results Indicators	Core	Unit of Measure	Baseline (2015/16)	Target Values				
				Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022
Intermediate Results Indicator 4: Universities develop business linkage (UBL) offices functioning to specified standards		Cumulative percentage	UBL Guidelines issued by the UGC	UBL offices established in at least 20 percent of the universities	UBL offices functioning to specified standards in at least 20 percent of the universities	UBL offices functioning to specified standards in at least 40 percent of the universities	UBL offices functioning to specified standards in at least 60 percent of the universities	UBL offices functioning to specified standards in at least 80 percent of the universities
Intermediate Results Indicator 5: Percentage of cash released, by Treasury, against the cash requests, for the items in the program expenditure framework channeled through the regular treasury system		Percentage	95% cash released against cash requests during FY15	95% cash released against cash requests during FY17	95% cash released against cash requests during FY18	95% cash released against cash requests during FY19	95% cash released against cash requests during FY20	95% cash released against cash requests during FY21
Intermediate Results Indicator 6: Number of entity audit reports available within stipulated time period after end of financial year		Number (17), that is, 15 universities, UGC, and SLIATE	10 out of 17 entities had the FY14 audit reports available within 12 months of the end of the financial year, that is, by December 31, 2015.	All 17 entities have the FY16 audit reports available within 11 months of the end of the financial year, that is, by November 30, 2017.	All 17 entities have the FY17 audit reports available within 11 months of the end of the financial year, that is, by November 30, 2018.	All 17 entities have the FY18 audit reports available within 10 months of the end of the financial year, that is, by October 31, 2019.	All 17 entities have the FY19 audit reports available within 9 months of the end of the financial year, that is, by September 30, 2020.	All 17 entities have the FY20 audit reports available within 9 months of the end of the financial year, that is, by September 30, 2021.

Note: A year is defined as a calendar year, from January 1'st to December 31'st. This is also the period of the Government of Sri Lanka financial year.
[a]/ The current share of females in total undergraduate STEM enrollment is 51 percent. This share is likely to remain around 51 percent over the Program life.
[b]/ The current share of females in total SLIATE STEM enrollments is 49 percent. This share is likely to grow slightly, because the current share of females in SLIATE STEM intakes is 51 percent.

Indicator Description

Indicator Name (#)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
PDO Indicator 1: Enrollment in HEI STEM undergraduate degree programs increased	Enrollment of students registered in STEM programs of HEIs. *Note*: The numbers refer to undergraduate enrollment in regular STEM (including medicine) degree programs in HEIs (both Universities and other higher education institutions) recognized by MHEH and/or UGC. They exclude students enrolled in EDPs and the Open University. The list of programs defined as STEM is based on the classification used in the UGC statistical yearbook and includes the following programs: agriculture, architecture and quantity surveying, computer science, engineering, science, medicine, paramedical studies, indigenous medicine, dental science, and veterinary science. New STEM programs such as technology will be added to this list over time. B.Ed. degrees in the sciences can also be included in this category.	Annual	AHEAD records	MHEH, UGC, information system	MHEH, UGC	OMST	Not applicable
PDO Indicator 2: Enrollment in SLIATE STEM programs increased	Enrollment of students registered in STEM programs of SLIATE. These programs include engineering, IT, and quantity surveying. New STEM programs such as technology will be added to this list over time.	Annual	AHEAD records	MHEH, SLIATE, information system	MHEH, SLIATE	OMST	Not applicable
PDO Indicator 3: Increased quality assurance of the university system	QA reviews will be implemented by the QAAC. The reviews will cover the following dimensions: curriculum design and development; teaching and learning; learning resources, student support, and progression; student assessment and awards; strength and quality of staff; postgraduate studies, research and innovation; community engagement, consultancy, and outreach; distance education; QA; and governance and management. These	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable

Indicator Name (#)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
	dimensions will be assessed according to specific and measurable standards on a four-point scale. This QA process and rating methodology, described in the UGC's Manual for Institutional Review of Sri Lankan Universities and Higher Education Institutions (2015), will be followed. Any updates to the manual will be discussed and agreed with the World Bank before they are implemented.						
PDO Indicator 4: Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs	Number of science, management, and arts faculties that are awarded and implement an ELTA-ELSE grant. ELTA-ELSE programs will include a selection of options covering OBE and LCT, digital-based learning, improving English language skills of students, and promoting academic learning with employers' interactions such as industry placements, workplace exposures for students, staff exchanges between academia and workplaces, strengthening of career guidance, entrepreneurship development, career fairs, and other innovative activities.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable
PDO Indicator 5: University-level systems for Research	Number of competitive RDIC grants for STEM and HEMS disciplines and interdisciplinary partnerships (STEM and HEMS) awarded and implemented	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable

Indicator Name (#)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
and Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved	*Note:* The 'research and innovation key performance targets' are a generic name for outcomes of the RDIC system. These outcomes will vary across disciplines (for example, scientific communications, presentations at conferences, working papers, journal articles, books, monographs, patents, copyrights and/or related rights, trademarks, and industrial designs). All research papers will be peer reviewed and only publications by recognized publishers will be counted.						
Intermediate Results Indicator 1: SLIATE STEM programs increase intake	First-year enrollment will consist of new students admitted to SLIATE to follow STEM programs. These programs include engineering (civil, electrical, and mechanical), IT, and quantity surveying. New STEM programs such as technology will be added to this list over time.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable
Intermediate Results Indicator 2: University IQAUs function to specified standards	The indicator is based on a scorecard that was prepared as a baseline. The scorecard clearly specifies the standards to which the IQAUs are expected to function. *Note:* An IQAU will be considered as functioning to specified standards when it scores (a) at least 60% of the total possible marks in 2018–2019, (b) at least 75% of the total possible marks in 2020–2021, and (c) scores at least 85% of the total possible marks in 2022.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable
Intermediate Results 3: Citizenship engagement: Stakeholder feedback surveys conducted	Stakeholder feedback surveys will be conducted annually. These surveys will be used to fine-tune implementation and annually update the OM. The feedback will also be used to update the HEDS in the third and fifth years of the operation. The satisfaction levels of stakeholders with the overall program will also be monitored using a Likert scale.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable

Indicator Name (#)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
Intermediate Results Indicator 4: Universities develop business linkage (UBL) offices functioning to specified standards	A circular for the university UBL offices has been issued by the UGC. The establishment and functioning of the universities in compliance with the circular will be assessed every year. *Note:* A UBL will be counted as functioning to specified standards if it complies with at least 75% of the instructions in the circular.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable
Intermediate Results 5: Percentage of cash released, by Treasury, against the cash requests, for the items in the program expenditure framework channeled through the regular treasury system	This will be measured from treasury cash releases to the MHEH, UGC, SLIATE and universities, and non-state HEIs.	Annual	AHEAD records	MHEH, UGC records	MHEH, UGC	OMST	Not applicable
Intermediate Results Indicator 6: Number of entity audit reports available within stipulated time period after end of financial year	This indicator will record the number of entities (17) that complete the audit and make the audit reports available on time during the programs' life on a progressive approach.	Annual	AHEAD records	OMST, UGC, SLIATE, and universities	OMST, UGC		Not applicable

Annex 3: Disbursement-linked Indicators, Disbursement Arrangements, and Verification Protocols

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Disbursement-linked Indicators Matrix

DLIs	Total Financing Allocated to DLI	DLI Baseline 2015/16	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
DLI 1: HEI STEM degree programs increase intake		14,300[a/]	16,000 new students have enrolled in the first year of HEI STEM degree programs in academic year 2018 or thereafter.	17,500 new students have enrolled in the first year of HEI STEM degree programs in academic year 2019 or thereafter.		19,500 new students have enrolled in the first year of HEI STEM degree programs in academic year 2021 or thereafter.	
	US$22 million		US$6 million Lump sum	US$8 million Lump sum		US$8 million Lump sum	
DLI 2: Higher Education Development Strategy (HEDS) implemented and regularly updated		Text			MHEH and UGC have implemented the HEDS and updated it to cover calendar years 2019–2025.		MHEH and UGC have implemented the HEDS and updated it to cover calendar years 2021–2026.
	US$8 million				Total: US$4 million Lump sum		Total: US$4 million Lump sum
DLI 3: Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for		0	MHEH has awarded the first round of competitive ELTA-ELSE grants to at least ten (10) faculties.	At least ten (10) faculties awarded ELTA-ELSE grants under the first round have achieved fifty percent (50%) of their outcome targets related to the promotion of	MHEH has awarded the second round of competitive ELTA-ELSE grants to at least ten (10) faculties.	At least ten (10) faculties awarded ELTA-ELSE grants under the second round have achieved fifty percent (50%) of their outcome targets related to the promotion of	At least twenty (20) faculties awarded ELTA-ELSE grants have achieved eighty percent (80%) of their outcome targets related to the promotion of academic learning

DLIs	Total Financing Allocated to DLI	DLI Baseline 2015/16	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
arts, management, and science degree programs				academic learning combined with interactions between university students and the world of work.		academic learning combined with interactions between university students and the world of work.	combined with interactions between university students and the world of work.
	US$24 million		US$4 million scalable as follows: US$ 3 million upon achievement of target, and US$ 500,000 per additional Faculty thereafter up to a maximum of two additional Faculties.	US$4 million Lump sum	US$5 million scalableas follows: US$ 4 million upon achievement of target, and US$ 500,000 per additional Faculty thereafter up to a maximum of two additional Faculties.	US$5 million Lump sum	US$6 million Lump sum
DLI 4: Department-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs		0	MHEH has awarded the first round of competitive ELTA-ELSE grants to at least twelve (12) departments.	At least twelve (12) departments awarded ELTA-ELSE grants under the first round have achieved fifty percent (50%) of their outcome targets related to the promotion of academic learning combined with interactions between university students	MHEH has awarded the second round of competitive ELTA-ELSE grants to at least twelve (12) departments.	At least twelve (12) departments awarded ELTA-ELSE grants under the second round have achieved fifty percent (50%) of their outcome targets related to the promotion of academic learning combined with interactions between university students and the world of work.	At least twenty four (24) departments awarded ELTA-ELSE grants have achieved eighty percent (80%) of their outcome targets related to the promotion of academic learning combined with interactions between university students and the world of work.

DLIs	Total Financing Allocated to DLI	DLI Baseline 2015/16	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
				and the world of work.			
	US$11 million		US$2 million Lump sum	US$2 million Lump sum	US$2 million Lump sum	US$2 million Lump sum	US$3 million Lump sum
DLI 5: PhD and master's degrees and professional doctorates completed by university, non-state HEIs, and SLIATE academic staff		0[b/]			At least 200 academics who were awarded the MHEH/UGC scholarships are pursuing postgraduate degree programs for the attainment of PhD and Master's degrees or professional doctorates.	At least 100 academics who were awarded the MHEH/UGC scholarships have made satisfactory progress in their PhD or professional doctorates programs and/or have completed their master's degrees.	At least 200 academics who were awarded the MHEH/UGC scholarships have completed their PhD or Master's degrees or professional doctorates.
	US$12 million				US$4 million Lump sum	US$4 million Lump sum	US$4 million Lump sum
DLI 6: University-level systems for Research and Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved		0	MHEH has awarded at least twenty four (24) DOR grants, RIC grants, or ICE grants under the first round of the call for proposals under the RDIC program.	At least twenty four (24) DOR grants, RIC grants, or ICE grants under the first round of call for proposals under the RDIC program have achieved fifty percent (50%) of their outcome targets.	MHEH has awarded at least twenty four (24) DOR grants or RIC grants under the second round of call for proposals under the RDIC program.	At least twenty four (24) DOR grants or RIC grants under the second round of call for proposals under the RDIC program have achieved fifty percent (50%) of their outcome targets.	At least forty eight (48) DOR grants, RIC grants, or ICE grants under the first and second rounds of calls for proposals under the RDIC program have achieved eighty percent (80%) of their outcome targets.
	US$16 million		US$3 million scalable as follows: US$2 million upon achievement of	Total: US$3 million; Lump sum	US$3 million scalable as follows: US$2 million upon achievement of	Total: US$3 million Lump sum	Total: US$4 million Lump sum

DLIs	Total Financing Allocated to DLI	DLI Baseline 2015/16	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
			target, and US$ 200,000 per additional DOR Grant, RIC Grant or ICE Grant awarded up to a maximum of five (5) additional grants		target, and US$ 200,000 per additional DOR Grant, RIC Grant or ICE Grant awarded up to a maximum of five (5) additional grants		

Note: [a/] The current share of females in the university STEM enrollment is about 51 percent. This share is likely to remain substantially the same over the life of the Program. [b/]For the purpose of AHEAD Operation.

DLI Verification Protocol Table

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
DLI 1: HEI STEM degree programs increase intake	**Definition:** First-year enrollment will consist of new students admitted to the HEIs to follow the STEM degrees. **Description:** The DLI will be met when the number of first-year students enrolled in the university and other HEI STEM degree programs reaches agreed targets. **DLI achievement triggers:** **Year 1:** First-year enrollment in the HEI STEM programs reaches at least 16,000 students. Year 1 is defined as the academic year 2017/18. **Year 2:** First-year enrollment in the HEI STEM programs reaches at least 17,500 students. Year 2 is defined as the academic year 2018/19. **Year 4:** First-year enrollment in the HEI STEM programs reaches at least 19,500 students. Year 4 is defined as the academic year 2020/21.	No	MHEH, UGC, Universities	OMST TPVA	Evidence will be based on official enrollment records of the MHEH and UGC. The OMST will undertake an initial assessment. A TPVA will be contracted to confirm the accuracy of these records, using a random sample of the STEM degree programs.
DLI 2: Higher Education Development Strategy (HEDS) implemented and regularly updated	**Definition:** Status of implementation of the HEDS (issued in 2016) and regular update **Description:** Achievement of this DLI will be based on (a) an assessment of the implementation of the HEDS and (b) an assessment of its regular update. Implementation of the HEDS will be assessed according to the (a) budget allocations and expenditures for the three results areas; (b) actions taken to achieve the objectives of the HEDS by the various GoSL agencies such as the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs; and (c) results achieved up to the	No	MHEH, UGC	OMST TPVA	Evidence of achievement will bsed on: (a) an assessment of the extent to which the HEDS has been implemented and (b) an assessment of the regularity and quality of its update to reflect past progress and alignment to

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
	relevant year. The updating of the HEDS will be assessed according to the (a) fine-tuning of the HEDS in the light of implementation experience and/or new information; (b) extension of the HEDS to additional years, with extra targets for the years added; and (c) the introduction of new/additional policy priorities over time. The implementation of the AHEAD will require institutional development plans by the HEIs according to a template provided by MHEH and UGC as well as national level initiatives. The template will be developed with technical assistance under the POTS component. **DLI achievement triggers:** **Year 3:** HEDS implemented and updated for 2019–2025 **Year 5:** HEDS implemented and updated for 2021–2026				possible changing sectoral or external conditions. The OMST will be responsible for the preparation of the assessment of the implementation of the HEDS. A TPVA will conduct an independent verification covering the MHEH, UGC, SLIATE, and a statistically valid sample of universities, ATIs, and other HEIs.
DLI 3: Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and	**Definition:** Number of science, management, and arts faculties that are awarded and implement an ELTA-ELSE grant. ELTA-ELSE grants will include a selection of actions and outcomes covering OBE and LCT, digital-based learning, improving English language skills of students, industry placements of students, workplace exposures for students, staff exchanges between academia and workplaces, strengthening career guidance for students, entrepreneurship development for students, career fairs, and other innovative activities. **Description:** Achievement will be based on two criteria: (a) the number of faculties being awarded an ELTA-ELSE grant and (b) the progress made by the faculties awarded with an ELTA-ELSE grant against their outcome targets. **DLI achievement triggers:**	Yes	MHEH, UGC, University	OMST TPVA	(a) Collecting evidence regarding the number of faculties that have been awarded an ELTA-ELSE grant promoting academic learning combined with interactions between university staff and students and employers will be the direct responsibility of the OMST. (b) Evidence regarding the progress made by the faculties who were awarded with an ELTA-ELSE grant against their performance targets will be monitored in

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
science degree programs	**Year 1:** The OMST has awarded the first round of competitive ELTA-ELSE grants to at least 10 faculties. US$ 3,000,000 upon achievement of the target of 10 faculties, and US$ 500,000 per additional Faculty thereafter up to a maximum of two additional Faculties **Year 2:** At least 10 ELTA-ELSE faculties who were awarded ELTA-ELSE grants under the first round have achieved 50 percent of their outcome targets related to the promotion of academic learning combined with interactions between university staff and students and employers. **Year 3:** The OMST has awarded the second round of competitive ELTA-ELSE grants to at least 10 faculties. US$ 4,000,000 upon achievement of the target of 10 faculties, and US$ 500,000 per additional Faculty thereafter up to a maximum of two additional Faculties **Year 4:** At least 10 faculties who were awarded ELTA-ELSE grants under the second round have achieved 50 percent of their outcome targets related to the promotion of academic learning combined with interactions between university staff and students and employers. **Year 5:** At least 20 faculties who were awarded ELTA-ELSE grants have achieved 80 percent of their outcome targets related to the promotion of academic learning combined with interactions between university staff and students and employers.				two steps. First, the OMST will check the quantitative compliance with the outcome targets because they will have been precisely defined in the memorandum of understanding signed by the Deans of the Faculties. Secondly, a TPVA will verify the qualitative aspects of progress, based on a survey of a statistically valid sample of these faculties. The progress of all faculty-level competitive grants will be covered in the assessment. Surveys will include students and staff and employer feedback.
DLI 4: Department-level systems for Enriching Learning, Teaching, and	**Definition:** Number of science, management, and arts departments that are awarded and implement an ELTA-ELSE grant. ELTA-ELSE programs will include a selection of options covering OBE and LCT, digital-based learning, improving English language skills of students, and promoting academic learning with employers' interactions such as industry	No	MHEH, UGC, University	OMST TPVA	(a) Collecting evidence regarding the number of departments that have been awarded an ELTA-ELSE grant promoting academic learning combined with

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs	placements, workplace exposures for students, staff exchanges between academia and workplaces, strengthening career guidance, entrepreneurship development, career fairs, and other innovative activities. **Description:** Achievement will be based on two criteria: (a) the number of departments being awarded an ELTA-ELSE grant and (b) the progress made by the departments awarded with an ELTA-ELSE grant against their performance targets. **DLI achievement triggers:** **Year 1:** The MHEH through OMST has awarded the first round of competitive ELTA-ELSE grants to at least 12 departments. **Year 2:** At least 12 departments that were awarded ELTA-ELSE grants under the first round have achieved 50 percent of their outcome targets related to the promotion of academic learning combined with interactions between university staff and students and employers. **Year 3:** The OMST has awarded the second round of competitive ELTA-ELSE grants to at least 12 departments. **Year 4:** At least 12 departments that were awarded ELTA-ELSE grants under the second round have achieved 50 percent of their performance targets related to the promotion of academic learning combined with interactions between university staff and students and employers. **Year 5:** At least 24 departments that were awarded ELTA-ELSE grants have achieved 80 percent of their performance targets related to the promotion of academic learning combined				interactions between university staff and students and employers will be the direct responsibility of the OMST. (b) Evidence regarding the progress made by the departments awarded with an ELTA-ELSE grant against their outcome targets will be monitored in two steps. First, the OMST will check the quantitative compliance with the performance targets as they will have been precisely defined in the memorandum of understanding signed by the Heads of the Departments. Secondly, a TPVA will verify the qualitative aspects of progress, based on a survey of a statistically valid sample of these departments. Surveys will include students and staff and employer feedback. The progress of all department-level competitive grants will be covered in the assessment.

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
	with interactions between university staff and students and employers.				
DLI 5: PhD and master's degrees and professional doctorates completed by university, non-state HEIs, and SLIATE academic staff	**Definition:** Number of young academic staff from universities, SLIATE, and non-state HEIs pursuing postgraduate programs leading to PhD degrees, master's degrees, and professional doctorates through the Program scholarships. PhD degrees will be for university academics. Master's degrees and professional doctorates will be for SLIATE academics. For PhD degrees and professional doctorates, only scholarships awarded to attend programs in foreign universities will be counted. Such scholarships can be either for full overseas programs or for split programs (where awardees spend at least 1.5 years in the overseas university). Completing a PhD degree typically takes at least 4 years (hence, actual completion will take place in the outer years of the Operation for staff being awarded a PhD scholarship after Year 2). Master's degrees for SLIATE staff and professional doctorate can be pursued in domestic universities and typically take 3 years to complete. **Description:** Achievement of the DLI will be assessed at three stages. (a) Stage 1: academic staff are pursuing the program for which they were awarded a scholarship; (b) Stage 2: academic staff are making satisfactory progress in the program for which they were awarded a scholarship; and (c) Stage 3: academic staff have completed the master's degree, the professional doctorate, or the PhD degree in the program for which they have been awarded a scholarship. **DLI achievement triggers:** **Year 3:** At least 200 university, SLIATE, and non-state HEI academic staff who were awarded an MHEH/UGC scholarship are pursuing postgraduate degree programs leading to PhD degrees, master's degrees, and/or professional doctorates.	No	Foreign (host) universities and Sri Lanka universities and non-state HEIs	OMST TPVA	(a) Stage 1: Pursuing a postgraduate degree program will be evidenced by an official letter signed by the awardees' thesis adviser and senior academic officer of the host university. The letter will refer to the terms of the initial letter of acceptance of the scholarship signed by the host university official responsible for admission. It will confirm that the awardees are in compliance with the conditions of the program in the host university. In the case of a split program, the letter will describe the current status of the split and will be countersigned by the awardees' adviser from the Sri Lankan institution. (b) Stage 2: Progress will be evidenced by a detailed report by the awardees regarding the status of their research and by a short letter from the awardees' thesis adviser of the host university (and co-signed

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
	Year 4: At least 100 academic staff members have made satisfactory progress in PhD programs and professional doctorates and/or have completed master's degrees. **Year 5:** At least a cumulative number of 200 academic staff have completed their PhD degrees, master's degrees, and professional doctorates.				by the Sri Lankan adviser in the case of a split program). (c) Stage 3: Evidence of completion will be based on PhD degrees, master's degrees, and professional doctorates diplomas awarded by the host university. The diplomas will be signed by the president of the host university (and co-signed by the chancellor of the Sri Lankan institution in case of a split program) and include the university seal. All evidence, including eligibility, attendance, number of scholarships, progress reports, and copies of award certificates, will be collected by the OMST and shared with the World Bank. Verification of progress (Stage 2) will be undertaken by a TPVA.
DLI 6: University-level systems for Research and	**Definition:** Number of competitive RDIC grants for STEM and HEMS disciplines and interdisciplinary partnerships (STEM and HEMS) awarded and implemented	Yes	MHEH, UGC	OMST TPVA	(a) Stage 1: The number of RDIC grants awarded will be supplied by the OMST. Verification will involve

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved	**Description:** Achievement of this DLI will be assessed at two stages of each of the two rounds of the RDIC programs. (a) Stage 1: the number of RDIC grants being awarded and (b) Stage 2: the progress made by the grant awardees against their outcome targets. **DLI achievement triggers:** **Year 1:** The MHEH has awarded at least 24 RDIC program grants under the first round. US$2,000,000 upon achievement of the target of 24 grants, and US$200,000 per additional DOR Grant, RIC Grant or ICE Grant awarded up to a maximum of five (5) additional grants **Year 2:** At least 24 RDIC program grants under the first round have achieved 50 percent of their outcome targets. **Year 3:** The MHEH has awarded at least 24 RDIC program grants under the second round. US$ 2,000,000 upon achievement of the target of 24 grants, and US$ 200,000 per additional DOR Grant, RIC Grant or ICE Grant awarded up to a maximum of five (5) additional grants **Year 4:** At least 24 RDIC program grants under the second round have achieved 50 percent of their outcome targets. **Year 5:** At least 48 RDIC program grants under the first and second rounds have achieved 80 percent of their outcome targets. *Note:* The 'research and innovation key performance targets' are a generic name for outcomes of the RDIC system. These outcomes will vary across disciplines (for example, scientific communications, presentations at conferences, working papers, journal articles, books, monographs, patents, copyrights and/or				compliance of the selection process with norms spelled out in the OM (for example, eligibility, selection criteria, panel members' selection, and scoring). (b) Stage 2: The RDIC grant progress and completion will be assessed on the basis of reports submitted by the awardees and signed by the university's Vice-Chancellor (and following the template, milestone, and targets of the initial implementation plans). Reports will include outcomes linked to the research area of the RDIC grant. Reports will also attach evidence of outcomes linked to innovation and commercialization (for example, patents, copyrights and/or related rights, trademarks, industrial designs, memoranda of understanding, contracts, partnerships, and IP). The OMST will gather

DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
			Data Source/ Agency	Verification Entity	Procedure
	related rights, trademarks, and industrial designs). Research papers will be peer reviewed and only publications by recognized publishers will be counted.				documentation. Verification will be conducted by a TPVA (which will include an expert familiar with research and development and university-industry collaboration).

Note: (i) Only specific DLRs under DLI 3 and DLI 6 are scalable; and (ii) The overall verification process will be done by a professionally qualified independent institution under the supervision and guidance of the OMST and Steering Committee. The selection of the TPVA should be done by the MHEH (through OMST) with concurrence of the WB. Based on the annual detailed progress report received from the OMST on achievements under each DLI the Steering Committee can review and analyze achievements under each DLI. This TPV report will be the third party verification by a TPVA.

Bank Disbursement Table

Number	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Prior Results	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements for Bank Financing	Maximum DLI Value to Be Achieved for Bank Disbursement Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s)
1	HEI STEM degree programs increase intake	22	—	June 30, 2023	16,000	19,500	Pass/fail
2	Higher Education Development Strategy (HEDS) implemented and regularly updated	8	—	June 30, 2023	1	2	Pass/fail
3	Faculty-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs	24	—	June 30, 2023	10	24	Scalable

4	Department-level systems for Enriching Learning, Teaching, and Assessment (ELTA) and English Language Skills Enhancement (ELSE) through competitive grants developed and outcomes achieved for arts, management, and science degree programs	11	—	June 30, 2023	12	24	Pass/fail
5	PhD and master's, degrees and professional doctorates completed by university, non-state HEIs, and SLIATE academic staff	12	—	June 30, 2023	100	200	Pass/fail
6	University-level systems for Research and Development, Innovation, and Commercialization (RDIC) programs developed and outcomes achieved	16	—	June 30, 2023	24	58	Scalable

Note: Only specific DLRs under DLI 3 and DLI 6 are scalable,

Annex 4: Summary Technical Assessment

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Program Description

1. Sri Lanka is seeking to develop the higher education sector to promote economic growth and prosperity and attain UMIC status over the medium term. The GoSL has recognized the importance and urgency of this challenge. It has made higher education development an immediate priority to elevate Sri Lanka to the status of a UMIC. This new emphasis on high-end HRD constitutes the background of AHEAD, whose objective is to expand enrollment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector.

2. The World Bank-supported Operation will comprise two components: (a) a Program component (US$93 million) and (b) a POTS component (US$7 million). The first component will use a PforR instrument and is referred to as the Program. The second component will use an IPF instrument and is referred to as the Project.

Program Scope

3. The Operation will cover (a) the 15 public universities that are under the UGC and (b) the ATIs of SLIATE and the non-state HEIs that are under the MHEH. The development activities of these higher education agencies will be supported under the Program except for special infrastructure projects that are already being financed by other development agencies and overseas governments. Activities of institutions outside the MHEH that are managed by other line ministries will also be outside the scope of the Program.

Program Areas

4. The Program will provide support in three strategic areas.

Results Area 1: Increasing Enrollment in Higher Education in Priority Disciplines for Economic Development

5. The objective of this results area is to increase enrollments in higher education programs of strategic importance for economic development. The GoSL will promote the expansion of enrollment in state universities and ATIs, with a focus on STEM degree programs through a combination of demand- and supply-side initiatives. It will take place both in existing and new STEM faculties and ATIs. To address the scarcity of qualified academic staff, the Program will implement a scholarship program for young academics in universities and in SLIATE to obtain postgraduate degrees. Financial assistance will also be extended to academics of non-state HEIs. The strategy will promote the use of methods based on open educational resources and learning software to enable large numbers of students, regardless of their location, to set up interactive teaching sessions. The Program will also pilot MOOC initiatives through partnership with well-established providers. The EDPs will be adapted to various types of clientele, their enrollment will be managed, and their delivery system will be updated. In addition, expansion of enrollment will be promoted in non-state HEIs through financial assistance for qualified students.

6. **Strategic planning for enhanced quality.** The Program will promote sectoral planning with a special emphasis on enrollment, quality, and research related to result-based financing. It will facilitate the continuous monitoring of the HEDS implementation according to annual targets and its regular updating to adjust the latter to changing sectoral/exogenous circumstances, while not departing from national priorities.

Results Area 2: Improving the Quality of Higher Education

7. This results area aims to support HEIs to produce students who are well prepared for the world of work and for wider civic and social life. Four main channels will be used to achieve this objective.

- **ELTA.** A system of competitive grants for ELTA will be established to support innovative approaches to the combined development of academic excellence and socioemotional skills. These grants will assist university faculties and departments in introducing modern curriculum approaches, delivery modes, and assessment approaches; expanding the use of digital resources and blended learning; and facilitating international linkages, industry placements for students, and staff exchange programs between universities and private firms. Special attention will be given to humanities, management, natural science, and social science programs because graduates from these programs experience greater employability challenges.

- **ELSE.** A program of ELSE competitive grants will be set up. The ELSE funds can be used either through the ELTUs or other relevant English language training institutions—including private ones—to enhance the English proficiency of students. This program will contribute to keep students abreast of the latest academic knowledge in their subjects, and it will enable graduates to obtain jobs in the private sector, especially the high-end companies.

- **Professional development of staff.** The Program will support university academics to obtain PhD qualifications and SLIATE academic staff to obtain master's degrees and professional doctorates from reputed universities. The Program will also support short-term training programs for the capacity building of academic, managerial, and technical staff of the state and non-state HEIs and ATIs. Universities' skills upgrading programs will be organized mainly through existing SDCs. Staff development will use programmatic training, cohort training, and on-the-job training.

- **QAA.** External QA reviews will be undertaken in the 15 universities, all the EDPs, postgraduate education, and the ATIs. The SCAQA of the MHEH will undertake the registration and accreditation of non-state HEIs. Simultaneously, internal QA mechanisms will be strengthened in the universities and ATIs' IQAUs in the universities and IQACs in the ATIs will be reinforced so that they can function efficiently and comply with the standards spelled out in specific scorecards.

Results Area 3: Promoting Research, Development, and Innovation

8. This results area will promote RDIC activities, which is an extremely important next step in the development of higher education in the country. A three-pronged strategy will be followed. First, competitive, performance-based research grants for DOR programs in universities will be granted, while non-state HEIs will separately target STEM subjects, HEMS subjects, and STEM-HEMS (interdisciplinary) research. Second, competitive, performance-based RIC grants will be awarded to universities undertaking innovation activities of direct relevance for industrial and service sector development (including ICE grants). Third, the Program will support the development of UBL offices. The UBLs will assist university academics in increasing collaboration with professional expertise in technology transfer and business model development, establishing open innovation spaces and business incubators and enabling academics and students to obtain professional business advice and training.

Project Component

9. The Program will be supported by a Project component called POTS, using the IPF modality. The POTS component will provide TA; help the coordination of the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs; and strengthen their technical and operational capacity to achieve the objectives of the Program. Under this component, there will be an OMST in the MHEH, with links to the UGC and SLIATE and with OTS branches in universities, to coordinate, monitor, and provide academic and operational expertise for the Program activities at the national and institutional levels. The OMST will support program coordination and monitoring across the various agencies, policy studies, and communication. It will support TA and capacity-building initiatives. This includes both the state and non-state HEIs. It will strengthen the capacity of the SLQF that creates a national framework for learning achievements. This component will also finance equipment, software, transport, and office furniture for the OMST and OTSs and incremental operating costs.

Description and Assessment of Program Strategic Relevance and Technical Soundness

Strategic Relevance

10. Sri Lanka is in a particular situation, both as to where the country currently stands and where it wants to be in the near future. The present situation is the result of a paradoxical combination of the following factors: (a) the country has already passed the peak of its demographic dividend period and its population is already aging; (b) the level of education of its labor force is very low—17.7 percent of the labor force has a higher education level as compared to 22.3 percent in Malaysia or 25 percent in Philippines;[8] (c) yet, the new cohorts are not catching up rapidly, as reflected by a low 20.7 percent tertiary education GER, which does not even match the LMICs' average (23 percent) and lags behind countries such as Malaysia (30 percent), Indonesia (31 percent), or Philippines (36 percent), let alone the UMICs' average (36 percent)[9]; (d) the supply of highly educated youth is not only limited in quantity, but also poorly relevant to the pressing and changing needs of the economy, resulting both in skill shortages—especially in technical fields—and in graduate unemployment and underemployment—especially in the crowded social science and humanities fields; (e) research capacity is weak, due, in particular, to the shortage of highly qualified faculty staff and, consequently, research outputs are also low; and (f) the public higher education sector is underfunded, but private (official) provision—lacking proper incentives—is very low[10] and does not suffice to respond to the growing social demand fueled by the increasing flows of secondary education graduates.

11. All these challenges (analyzed in detail in the recent World Bank assessment that was carried out ahead of the preparation of the proposed Operation)[11] pose a serious threat to the country's ambition to move up to the UMIC stage, and they require radical and immediate actions. The GoSL's recent HEDS provides appropriate answers, while acknowledging that the skills issues are rooted in a broader macroeconomic context and that the supply of skills is not restricted to the higher education sector—and is closely interrelated both with upstream general education and with vocational and technical education. Hence, the HEDS is conceived not in isolation but as a building block in the global employment and economic growth strategies.[12] The HEDS is echoed and supported by the recent shift in the public budget

[8] *Source:* EdStats. Data for Sri Lanka and Malaysia: 2014; Philippines: 2012.
[9] *Source:* EdStats. Data for 2014 (except LMICs and UMICs with data for 2013).
[10] The share of enrollments in private institutions in Sri Lanka (6.5 percent in 2013) is one of the lowest in the world (it was 13.8 percent in Vietnam, 15.1 percent in Pakistan, 30 percent in Malaysia, and over 50 percent in India, the Philippines, and Indonesia). *Source:* UNESCO Institute for Statistics.
[11] See World Bank. 2017. *Higher Education in Sri Lanka: An Assessment.*
[12] The GoSL's manifesto aims to create 1 million jobs.

allocations in favor of the sectors contributing to the development of a skilled labor force, including higher education.

12. The objectives and design of the proposed Operation are squarely aligned with the HEDS and address all the major areas of concern and activities flagged by the strategy. Like the HEDS, the Operation views the small and outdated higher education sector to be hampering the transformation of the Sri Lankan economy toward a knowledge- and innovation-driven one. Like the HEDS, the Operation prioritizes a selective expansion of enrollments in critical fields; the upgrading and updating of the curricula, delivery, and assessment methods; the retooling of the quality assessment mechanisms; the reskilling of the academic staff; and the takeoff of a genuine and development-oriented research culture.

13. Worldwide evidence confirms the importance of the converging strategic objectives of the HEDS and the Operation. It strongly demonstrates the interdependence between the quantitative and the qualitative issues faced by higher education systems in a transition phase. It establishes the fact that to invigorate such systems, dealing with only one dimension is not an adequate approach and it is necessary to resort to a mix of complementary interventions. Accordingly, it also validates the need for a multidimensional approach to tackle these issues and for combining efforts to address, at the same time, the expansion and the relevance of HEIs, through both demand- and supply-side interventions. These lessons are fully reflected in the design of the Operation. Numerous examples can be found in Asia, Europe, and elsewhere of countries that have made tremendous progress on their development path owing to substantial and appropriate investments in high-end human capital.[13] Positive wage premiums associated with a higher education degree are observed in most countries in the world, especially in the low-income and middle-income countries where the supply of graduates is still low. The average return to higher education was estimated at 14.6 percent worldwide and at 17.3 percent for South Asia. In Sri Lanka, various estimates at different points in time converge to an average return to an undergraduate degree of around 14 percent.[14] As there is still a large share of demand for qualified graduates, returns are not likely to dwindle in the near and medium future.

Technical Soundness

14. Scaling up the higher education sector and making it a driving force in the growth and transformation of the economy requires a multipronged strategy and the initiation and implementation of reforms and activities on several fronts. This is the approach followed by the Program.

15. First, opportunities to study in degree programs that are in high demand by productive sectors has to be broadened, with the contribution of the private sector and by building on the chances provided by new technologies to expand the delivery of services. Even though there is no universal rule to define what should be the minimum size of university enrollments, it is clear that in Sri Lanka, the number of youth attending an HEI is below this minimum and it needs to be substantially increased. This is shown both when comparing Sri Lanka's tertiary education GER and the GER in other countries (see paragraph 10 in this annex) and by gathering employers' opinion regarding the difficulty in recruiting appropriately skilled graduates. The ambitious plans to fast-track the development of innovation-led, skilled, labor-intensive

[13] See for instance European Center for Strategic Management of Universities. 2010. *Funding Higher Education: A View across Europe*; World Bank. 2012. *Putting Higher Education to Work: Skills and Research for Growth in East Asia*; ADB. 2012. *Shaping Higher Education for Global Competitiveness: Bangladesh, Nepal, Sri Lanka*; and UNESCO Institute for Statistics. 2014. *Higher Education in Asia: Expanding out, Expanding up – The Rise of Graduate Education and University Research*. Even the sheer density of universities in a country has been associated with GDP growth (Valero, A. and J Van Reenen. 2016. "The Economic Impact of Universities: Evidence from across the Globe." National Bureau of Economic Research Working Paper 22501).

[14] Montenegro, C. and H. Patrinos. 2014. "Comparable Estimates of Returns to Schooling around the World." World Bank Policy Research Working Paper 7020 and World Bank. 2014. "Sri Lanka: Investment in Human Capital." South Asia Human Development Sector Report 69.

sectors concur to corroborate this need. Expanding the pool of graduates is a prerequisite; however, such expansion cannot occur purely on the basis of social demand and should not happen in a wholesale, indiscriminate way. It needs to be channeled to fields of study relevant to the economy and where job creation is anticipated to be sturdy. This is why the Program will prioritize increased enrollment in the STEM streams. The Program will support several initiatives, including a more systematic reliance on e-learning, IT-based, and open source teaching techniques that have proven to be cost-effective alternatives to face-to-face teaching in selected fields and for EDP students. Recent experiences of MOOCs in developing countries suggest that this approach—when carefully tailored to specific environments and sanctioned by robust assessment practices—is a powerful complement to traditional teaching and allows catering to a diversified student population, including adults and freshmen living far from university facilities. The capacity of public universities will not be sufficient to absorb all the additional intakes; therefore, private HEIs will have to share the burden. To that effect, and inspired by positive experience worldwide, the Program will support an innovative financial aid scheme for academically qualified students who cannot access public HEIs, which already function at full capacity, to enroll in non-state HEIs.

16. Second, to avoid compromising quality, the move to expand student enrollments must be complemented by a parallel increase in the pool of qualified academics. The availability of academic staff with proper qualifications in their field of study is a critical factor for the transmission of knowledge and for conducting research. There is also a low proportion of PhD-level academics in Sri Lanka universities; therefore, a vigorous effort will be made to increase the supply of these instructors. This will take the form of scholarships for young academics in public universities to help them obtain postgraduate degrees. In accordance with the Program's stance to promote the involvement of the private sector in the development of higher education, financial assistance will also be awarded to academics of non-state HEIs. In addition to upgrading their subject knowledge, the faculty staff also need to be apprised of modern teaching approaches such as LCT and OBE and the mastering of soft skills that they will have to impart to their students. To that effect, ELTA grants will be provided to universities and departments (with an emphasis on programs with low employability prospects). Based on the observation that linking funding and performance produces better results, these grants will be awarded on a competitive basis. In parallel, the Program will support short-term training to the managerial, administrative, and technical staff of the HEIs.

17. Third, the increased sophistication of most occupations and the globalization of labor markets require that, in addition to building their academic credentials, students have to be equipped with soft skills and be English proficient. Worldwide, employers complain that graduates applying for a job lack the socioemotional skills and the minimum level of functional English to perform at the workplace. Similarly, graduates are often found by employers to lack experience and exposure to the world of work. Sri Lankan employers and graduates are not different, and effort needs to be made to remedy this situation. The Program will support a program of ELTA grants and ELSE grants to universities and departments, which will be awarded on a competitive basis. These grants are expected to have a positive impact on the employability of graduates owing to a strong emphasis on students' and academics' interaction with employers. The HETC Project showed the major importance of student exposure to industrial and service sector workplaces in improving the employability skills of graduates.

18. Fourth, even with competent faculty staff available and relevant curricula upgraded, reliable QAA mechanisms need to be in place to ensure that institutions are on the right track to improve their performance for the benefit of their students. The need for solid and objective QA mechanisms is recognized in all countries, from the most advanced ones to those still struggling on their development path. The seeds for such mechanisms have been sowed in Sri Lanka, but they need to be better rooted institutionally and further nurtured. Of particular importance, their coverage must be extended to non-state HEIs and their guidelines and criteria need to be standardized. The Program will support endeavors to achieve these objectives, both at the national and institutional levels.

19. Fifth, without a vibrant culture of academic research and innovation open beyond the walls of universities, it is unlikely that Sri Lanka will be able to propel innovation and drive its economy to an advanced technological stage. Despite some isolated bright spots, such a culture is still largely absent, putting Sri Lanka's ambitions at risk. On this premise, learning the lessons of the HETC Project and observing the successful experience of countries such as Malaysia, the Program will support several initiatives to incentivize faculty staff to engage in research. They will include a first set of grants to conduct research in development-oriented areas. A second group of grants will be targeting proposals explicitly aimed at moving research products to a commercialization stage. Again, these grants will be awarded on a competitive basis. In addition, the POTS component will also support the capacity building and institutional strengthening of the UBL offices, which have the potential to greatly foster the transformation of research results into marketable goods or services.

20. Sixth, there is a strong trend to relate university funding to their self-defined outcomes, and experience suggests that theses linkages tend to improve efficiency, as long as they are carefully designed and strictly monitored. It is time for Sri Lanka to follow this trend. Even though a radical departure from the current historic-based financing and a full-blown performance-based financing system may prove disruptive,[15] a gradual approach seems to be the best way for the Sri Lankan context. The Program will support the promotion of the performance-based principle through the competitive grants for teaching-learning (ELTA and ELSE) and for research.

21. Seventh, the considerable challenge faced by the country to upscale, upgrade, and retool its higher education sector will not be successfully overcome without harnessing a more substantial contribution of the private sector. Despite the commitment of the new Government to prioritize human capital formation, public funding will not suffice to take on the challenge, given the magnitude of the task—and the reduced fiscal space. Cognizant of this situation, the GoSL will promote non-state higher education for teaching and research activities.

22. Finally, all the reforms and new initiatives to scale up previous efforts and to rejuvenate the higher education sector need to be orchestrated in a coherent way. Recent examples of countries as diverse as Bangladesh, Pakistan, India, Malaysia, the United Kingdom, or Ireland show that national higher education strategies are necessary to ensure the coalescence of efforts toward common economic and social goals. The GoSL has articulated such a strategy (HEDS), which is a decisive first step toward the stewardship and piloting of the higher education sector. However, strategies remain meaningless if they are not updated on a continuous basis and implemented at the institutional level. To that effect, the HEDS will be regularly monitored and updated to reflect changes as needed. Likewise, each HEI in Sri Lanka will define and operationalize its own business plan on a rolling basis and in full consistency with the HEDS.

The Proposed Disbursement Linked Indicators

23. The DLIs have been selected to help achieve the key objectives of the Program. The DLIs and rationale for their selection are summarized in Table 4.1.

[15] All experiences have not been as successful. There is a variety of performance-based funding systems, each of them with their own parameters, risks, and benefits. See Dougherty, K., and V. Reddy. 2012. "The Impacts of State Performance Funding Systems on Higher Education Institutions: Research Literature Review and Policy Recommendations." Community College Research Center Working Paper 37.

Table 4.1. DLIs Rationale and Protocols

	Selection Rationale	Protocol Summary
DLI 1 **US$22 million** **IDA**	The HEIs need to increase intake annually to expand the overall stock of students enrolled in the STEM degree programs.	The DLI will be met when the number of first year students enrolled in the HEI (university and other HEI) STEM degree programs reaches agreed targets. Evidence will be based on official enrollment records of the MHEH and UGC. Periodically, a TPVA will be used to confirm the accuracy of these records.
DLI 2 **US$8 million** **IBRD**	HEDS needs to be regularly updated in the light of past performance, new information, and changing circumstances.	Evidence of achievement will be based on (a) an assessment of the extent to which the HEDS has been implemented and updated and (b) an assessment of the regularity and relevance of its updates to reflect past progress and alignment to new information and changing sectoral or external conditions. The OMST will be responsible for the preparation of the assessment of the implementation of the HEDS. A TPVA will conduct an independent verification of implementation based on a random sample of universities and ATIs.
DLI 3 **US$24 million** **IBRD**	University faculties have to promote academic quality in their broad programs through the modernization of curricula, teaching, learning, and assessment. Similarly, study programs need to equip students with the socio-emotional skills that are in demand by private and public sector employers.	The DLI will be met when the number of faculties receiving an ELTA grant reaches agreed targets for: (a) OBE and LCT and (b) initiatives enabling students to interact with firms and industries and wider society. Evidence regarding this requirement will be based on university records, periodically by direct classroom observation by an independent TPVA, and feedback from students, academics, and employers.
DLI 4 **US$11 million** **IDA**	University departments have to promote academic quality in specialized degree programs through the modernization of curricula, teaching, learning, and assessment. Similarly, study programs need to equip students with the socio-emotional skills that are in demand by private and public sector employers	The DLI will be met when the number of specialized departments receiving an ELTA grant reaches agreed targets for: (a) OBE and LCT and (b) initiatives enabling students to interact with the world of work. Evidence regarding this requirement will be based on university records, periodically by direct classroom observation by an independent TPVA, and feedback from students, academics, and employers.
DLI 5 **US$12 million** **IBRD**	The availability of a pool of well-qualified academic staff is a prerequisite for the improvement of quality in HEIs.	The DLI will be met when the number of young academic staff from state and non-state HEIs who are awarded a scholarship to enroll in a postgraduate program leading to a PhD or master's degree or a professional doctorate reaches agreed targets. Only scholarships awarded to attend programs in foreign universities will be accounted. Scholarships can be either for full overseas programs or for split programs (where awardees spend at least 1.5 years in the overseas university). Evidence will be based on official registration documents and progress reports from overseas host universities.
DLI 6 **US$16 million** **IBRD**	Academics undertaking research, especially applied research and DOR, are key for a good UMIC university system. Developing research results into marketable products in partnership with the corporate world is an important step for universities to contribute to innovation and growth and for the country to move toward a UMIC economy. Competitive funding has been found to motivate academic staff and build up a genuine and	The verification process will involve different instruments and/or entities for the two stages of the two rounds of the DOR and RIC competitive grants: (a) the number of DOR and RIC grants awarded will be supplied by the OMST and (b) satisfactory completion of agreed targets of the DOR and RIC grants will be assessed based on completion reports (including lists of research publications as journal articles, books and monographs by reputed publishers, and innovation products as defined by WIPO such as patents, copyrights and/or related rights, trademarks, and industrial designs) to be reviewed and assessed periodically by a TPVA for corroboration.

	Selection Rationale	Protocol Summary
	sustainable culture of research and innovation.	

The anticipated annual flow of IBRD and IDA funds, based on the above allocation among DLIs and the pattern of DLI based disbursements presented in Annex 3, is summarized in table 4.1a below.

Table 4.1a. Expected Pattern of Annual IBRD and IDA Disbursements (US$ Million)

	2017	2018	2019	2020	2021	2022	2023	Total
IBRD	1	6	9	12	12	15	12	67
IDA		6	8	8	8	3		33
Total	1	12	17	20	20	18	12	100

Note: The numbers above refer to expected disbursements in calendar years, which are the same as the GoSL financial years.

Lessons Learned from Previous World Bank Operations

24. The following key lessons have been learned from previous World Bank operations in higher education in Sri Lanka and elsewhere and incorporated into the Program design.

- Applying the principle of subsidiarity is important. Empowering universities to implement development initiatives creates more ownership and facilitates smoother implementation. This was quite evident under the HETC, as nearly all the activities were successfully implemented by the universities. The only activities at the central level should be at the level of policy, setting of national standards, program development, and monitoring and evaluation.

- Competitive funds are a good way of promoting high-quality academic work, both teaching-learning and research, in universities. Resources allocated on the basis of competitive proposals are based on demand, and academics come up with the best possible ideas for development. Competitive funds also need to be provided through multiple rounds. This enables study programs that are unsuccessful in winning grants under the earlier rounds to improve their proposals to win grants in subsequent rounds. In turn, this helps to broaden and deepen competitively funded initiatives to improve teaching and learning and research and development in universities.

- Less-developed universities, such as the universities that were established relatively recently (such as from 1995 onward) or were affected by the 30-year armed conflict in the Northern and Eastern Provinces, need extra implementation support for capacity building and institutional strengthening. It is very important to provide such additional support for these universities.

25. The relationship between AHEAD and the recently completed HETC Project is described in box 4.1.

Box 4.1. The Relationship between the Recent HETC Project and AHEAD

The HETC Project is a recently completed project in the higher education sector in Sri Lanka. AHEAD builds on the achievements of the HETC, but broadens and deepens the scope of the World Bank's engagement in the higher education sector in several ways. First, AHEAD will support the overall GoSL higher education development program, whereas the HETC was a project that focused on a specific set of activities. Second, the Program component of AHEAD will provide World Bank assistance through a PforR approach, while the HETC was a traditional investment project that followed a transactions-based financing approach. The PforR financing modality proposed for AHEAD is intended to provide an incentive and reward for good performance. Third, AHEAD will assist important new initiatives that were not part of the HETC. The expansion of enrollment in university STEM degree programs is a completely new initiative. Also, the provision of support for the development of private HEIs is original. Fourth, AHEAD builds on the foundation laid by the HETC to deepen a set of higher education development initiatives. The establishment of a system of competitively funded, multiyear programs of ELTA grants builds on competitive teaching-learning project grants from the HETC. The establishment of a system of competitively funded, multiyear programs of RDIC builds on the success of a pilot initiative under the HETC. The support for the development of IQAUs in universities and external QA of HEIs, too, builds on the HETC under which the content, guidelines, and protocols for QA were modernized.

Institutional Arrangements

26. The MHEH, UGC, and SLIATE will implement the Program at the national level. The universities and ATIs and non-state HEIs will implement the AHEAD activities at the institutional level. The Program will be implemented in the entire country and across all HEIs under the MHEH. There are also a large number of development initiatives that are either new or significant expansions of existing small-scale activities.

27. This is a challenging program, and the MHEH, UGC, and SLIATE need assistance to manage and coordinate it. Therefore, an OMST in the MHEH with close links to the UGC and SLIATE and to the universities through OTSs will be established to provide this assistance. The OMST will support TA and expertise; program coordination; capacity building and institutional strengthening; policy analysis; evaluation; and communication. The universities will be assisted by the OTSs to coordinate, monitor, and facilitate the work of the various faculties and departments and campuses and institutes of the university system. The OMST and OTSs will be financed under the POTS component.

Program Expenditure Framework

General Background: Public Expenditure on Higher Education

28. Whether gauged as a share of the GDP (0.4 percent) or of total government expenditure (2.2 percent), spending on higher education in Sri Lanka is low by international standards, especially in light of the country's ambition to become a UMIC. Sri Lanka is clearly below where it 'should' be with regard to the share of its wealth devoted to higher education spending, compared to countries with the same level of GDP per capita. Sri Lanka currently spends around 25 percent of its GDP per capita on each tertiary education student, which is twice less than Indonesia (whose GDP per capita is akin to Sri Lanka's) and 2.5 times less than Malaysia (with a GDP per capita 3 times higher than Sri Lanka's).

29. However, a recent, gradual shift is noticeable. Budgetary allocations to higher education are growing faster than those to general education. While the budget for the entire education sector rose by 16 percent per year (in current terms) since 2005, the higher education budget rose by 18 percent per year, boosting the share of the latter in the former by 4 percent to over 20 percent. This shift reflects the new priority given to higher education, which had been out of sight for many years, when the country was still consolidating the foundations of its education system. As a result, within the overall education budget, higher education is now 'relatively' well resourced.

Program's Financial Sustainability and Efficiency

30. The resources to be allocated to the overall Program are projected to be about US$283.2 million in 2017. Based on the MoF's projections for 2016–2018 and assuming that the same evolution will continue until 2022, the Program will cost approximately US$2,056 million over its six-year lifetime (Table 4.2).[16] Funding will come from three sources (Table 4.4): the MHEH (for the ATIs), the UGC (for universities), and the World Bank loan (for the ATIs and universities). At the implementation level, the World Bank's support will not be distinct from the Government's expenditure. These estimates do not take into account the contributions made by the universities themselves from their self-generated funds.

Table 4.2. Higher Education Budget and Program Expenditure Framework (US$, millions)

	MHEH AND UGC - AHEAD						
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Recurrent Expenditures							
Personal Emoluments	174.0	190.6	209.1	209.1	209.1	209.1	1,200.9
Supplies, Maintenance, and Services	23.7	26.0	28.5	28.5	28.5	28.5	163.8
Total Recurrent Expenditures	**197.8**	**216.6**	**237.6**	**237.6**	**237.6**	**237.6**	**1,364.7**
Capital Expenditures							
Rehabilitation and Improvements of Capital Assets	1.5	2.3	2.0	2.1	2.1	2.1	12.0
Acquisition of Capital Assets (Equipment, Machinery, and Buildings)	76.7	105.9	90.6	93.0	94.3	95.1	555.6
Capacity Building - Staff Training	3.9	17.6	15.1	15.5	15.7	15.7	83.5
Research and Development	3.4	8.1	7.0	7.2	7.2	7.2	40.2
Total Capital Expenditures	**85.4**	**134.0**	**114.7**	**117.7**	**119.3**	**120.1**	**691.4**
Total Expenditure	**283.2**	**350.6**	**352.3**	**355.3**	**356.9**	**357.7**	**2,056.0**

Note: The expenditures for 2017 and forecasts for 2018-2019 are based on the GoSL Budget for 2017. The annual expenditurse forecast for 2020-2023 is assumed to be the same as the annual expenditure for 2019. This is a conservative forecast. The actual expenditures are likely to be higher.

Table 4.3. Higher Education Budget and AHEAD Program Component: Forecasts 2017–2022 (US$, millions and %)[17]

		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
MHEH	Recurrent + capital	15.4	20.5	18.6	18.6	18.6	18.6	110.3
UGC	Recurrent + capital	259.1	315.8	319.5	319.5	319.5	319.5	1,853.0
MHEH + UGC	Recurrent + capital	274.5	336.3	338.1	338.1	338.1	338.1	1,963.3
MHEH + UGC + AHEAD	Recurrent + capital	283.2	350.6	352.3	355.3	356.9	357.7	2,056.0
Total Program [a.]		**283.2**	**350.6**	**352.3**	**355.3**	**356.9**	**357.7**	**2,056.0**

Note: [a.] Excluding donor-funded projects and IPF.

31. The past, present, and future outlook for the economy and committed public finances lead to anticipation that the Program will be sustainable. The average annual growth of 6.4 percent since 2000 due to the resilience of the economy that has bounced back from the 2013 slump bodes well for the future. Annual growth is projected to be slower over the rest of the decade and to hover in a 4.5–5 percent range. In the past, the country has managed to deliver public goods and services at a relatively high level, and there are indications that the effectiveness of core government systems will be globally ensured over the long term. Despite a low tax basis and weak (and decreasing) revenue collection, fiscal discipline has been

[16] Not discounted.

[17] Exchange rate used is LKR 150 = US$1.

maintained, even though at the price of spending rigidity.[18] Skill development and higher education in particular are being flagged repeatedly by the new Government as priorities. The budget for the higher education part of the MHEH is projected to increase by 27 percent between 2016 and 2018, while total government expenditures are projected to decrease by 3 percent.[19] This bold increase in an environment of austerity gives credence to the Government's commitment to ramp up higher education (and other levels of education). With such publicity, it is unlikely that the Government will renegade this commitment, even in the case of a resource squeeze. Indeed, fiscal consolidation remains a central challenge on which public spending at large hinges, and the actual figures may be revised somewhat downward, but without a reversal of the intersectoral priorities.

32. As the ministry and the UGC have already embarked on a number of measures included in the Program, it is expected that the implementation of the latter will not pose major challenges. It is also probable that the budgetary support to the Program—and more broadly to the HEDS—will not only continue throughout the Operation lifetime, but also survive it, after the World Bank support's closing.

33. The Program itself includes provision to train HEIs' administrative staff to update their managerial skills, with the aim to boost their efficiency and their handling of the budget. The Program will also promote the HEIs' performance by linking it to the allocation of funds. This will be done through the use of competitive grants (for teaching as well as for research). The Program also comprises the gradual introduction of a more comprehensive performance-based mechanism applying to the bulk of recurrent expenditure and ultimately replacing the current allocation formula in the medium to long term.

34. More systematically resorting to non-state HEIs as envisaged under the Program will contribute both to improved efficiency and long-term sustainability. First, the contribution of private providers to the production of graduates will be a precious complement to public supply. On the other hand, the ministry's support to non-state HEIs will enhance their quality. Second, the promotion of university-industry linkages will also spur the involvement of private firms in the higher education sector—including financially—and will encourage academics to engage in applied DOR.

35. It is expected that the various reforms and activities under the Program will act as incentives for universities to generate additional revenues and to use them for academic purposes similar to those sought by the Operation. Finally, higher education is expected to attract the support of more donors, including those such as ADB (which was not involved in the sector until now).

Adherence of the Program Expenditure and Its Execution to the Government's Priorities

36. The alignment of the expenditure framework with government priorities is evidenced by the large share of the higher education budget allocated to the Program objectives (50 percent overall). The surge of the higher education budget started in 2015 and is projected to continue for at least five more years (albeit at a slower rate)—also testifying to this alignment. The internal distribution of expenditure by categories also suggests adherence of spending patterns with the objectives of the Program. The relatively low share of the wage bill in the recurrent budget leaves space for the promotion of new initiatives whether in the areas of staff development, curricula, teaching methods, and QA or in research and innovation—all areas constitutive of the Operation and the Program.

[18] World Bank. 2015. *Sri Lanka. Ending Poverty and Promoting Shared Prosperity. A Systematic Country Diagnosis.*

[19] Excluding public debt amortization.

37. Budget execution appears to be free of major problems. In 2015, the total difference between income and expenditure for all 15 universities was 2.2 percent. Only one university recorded a difference of more than 10 percent—and the difference was a surplus.

Description and Assessment of the Program Results Framework and Monitoring and Evaluation

38. A comprehensive Results Framework has been devised to allow the continuous monitoring of the overall PDOs and of the various interventions under the Program. A set of well-articulated key outcome indicators, intermediate indicators, and DLIs (for the PforR part of the Operation) has been designed to ensure that all aspects of the Operation are being implemented, remedial actions can be taken in case of delays or unexpected bottlenecks, and the Program is on track to achieve its development objectives. Indicators have been selected according to their functionality. The indicators cover each results area of the Program. Two vital indicators serve both as PDO indicators and DLIs (ELTA systems grants and RDIC grants). A summary of the indicators showing the distribution of PDO indicators, DLIs, and intermediate indicators is provided in Table 4.4.

Table 4.4. Distribution of Indicators by Results Areas

Results Areas	PDO Indicator (PDOI)		DLI	Intermediate Results Indicators (IRI)	Total
Results Area 1 - Access	PDOI # 1		DLI # 1		7
	PDOI # 2		DLI # 2	IRI # 1	
Results Area 2 - Quality	PDOI # 3			IRI # 2	5
	PDOI # 4	=	DLI # 3	IRI # 3	
			DLI # 4		
			DLI # 5		
Results Area 3 - Research	PDOI # 5	=	DLI # 6	IRI # 4	3
Total	**5**		**6**	**4**	**15**

Note: The table does not show the Intermediate Results Indicators # 5 and 6, which apply to the release of funds and audits and are not related to any specific results area.

Program Economic Evaluation

39. AHEAD's objective is to bolster the capacity of the higher education sector to contribute to the development of the Sri Lanka economy by increasing the size and enhancing the quality of the talent pool needed to boost innovation and competitiveness. Currently, this pool is limited, which constitutes a major bottleneck in the development of a knowledge-driven economy and is a deterrent to attracting domestic and foreign investment. It is expected that AHEAD will help in the medium and long term to alleviate this constraint. Its interventions will translate into both social and private benefits.

40. A cost-benefit analysis of AHEAD has been conducted. It projects the Program's expected benefits and its anticipated costs to estimate the net present value and the internal rate of return (IRR) of the Program. It is based on assumptions regarding both costs and benefits, aligned with the objectives of the Program.

Benefits

41. By increasing the number of graduates in fields where the demand is high and skills shortages are significant, and by improving the relevance of curricula and the quality of teaching and learning, employment opportunities will gradually rise. Simultaneously, it will have a positive impact on the quality of the goods and services offered by the productive sector. The same interventions will also positively affect graduates' remuneration, owing to the premium attached to the additional knowledge and skills provided

by the universities (enhanced productivity). A total of about 553,000 university undergraduates from regular programs and 46,000 ATI students are expected to benefit from the various interventions of the Operation over its six-year lifetime.

42. Better equipped both with academic and behavioral skills, more functionally proficient in English, and having been taught with SCL methods by qualified teachers in more systematically assessed institutions offering more relevant curricula—owing to the Program's interventions—graduates will gain on two fronts: employment and income. On the employability side, it is assumed that average employment rates one year after graduation will be lifted by 10 percentage points from their current 75 percent level and will reach 85 percent. Similarly, not only will students benefiting from the Program be more employable, but they are also expected to find better, more qualified jobs than their predecessors. It is assumed that the premium expected from the improvements brought by the Program's interventions will yield an additional 15 percentage points (compared to the currently observed wage differential between graduates and non-graduates in a situation with no intervention). The benefit stream is calculated over the entire period of activity of former students (that is, from 25 years to 62 years). Benefits have been estimated separately for men and women. On the one hand, despite having higher enrollment rates than men (at the undergraduate level), women have lower labor participation rates and employment rates than men.[20] On the other hand, however, once employed, their wage differential is higher than those enjoyed by men (higher returns for females are common in many countries, regardless of their level of development). At the aggregate level, these two effects tend to offset each other.

43. These benefits will not accrue only to students: higher employment rates are also important for society as a whole, as they will reduce the many costly ills associated with unemployment. Higher remunerations also entail increased domestic demand and consumption and a larger tax base. These indirect—but important—benefits are not taken into account in the cost-benefit analysis conducted. The same goes for the various positive externalities and intangible benefits that higher education carries.

44. The Program's focus on research and innovation and especially on strengthening non-state HEIs and university-enterprises linkages is also expected to bring about significant returns, as demonstrated by past and present experiences both in the South and East Asian countries and in emerging economies outside the region. Research and development is a prerequisite for Sri Lanka to transform its economy and make it competitive. Scaling up research efforts by universities, making academic research more targeted toward the specific needs of the country, and associating universities with leading firms in innovative initiatives are critical for the ascension toward a UMIC status. Still, these benefits are not taken into account in the balance sheet developed for the Program. Hence, what is factored into the analysis is limited to direct monetary benefits accruing to students in public institutions.

Costs

45. The costing of the Program is based on budgetary projections that take into account the expenditures directly linked to the Program's objectives. These come from two sources. The first one consists of the totality of the outlays coming from the World Bank's loan, because they are exclusively targeted to the Program. The second one is the additional spending by the Government to achieve the Program's targets. Only recurrent expenditures are captured, because capital expenditures (which are mostly financed from foreign funds) are not directly linked to the Program itself.

[20] World Bank. 2016. *Increasing Women' Labor Force Participation in Sri Lanka: An Update*. Washington, DC: World Bank.

Summary Results

46. Based on the abovementioned assumptions, it is expected that AHEAD will generate a net present value of US$2,820 million and an IRR of 13.7 percent. These results are in the same order of magnitude as those found for similar programs in other countries. The IRR is also close to the return on private investment on higher education.[21] Overall, the IRR found under the described assumptions may be underestimated because only the direct benefits have been accounted for.

47. A sensitivity analysis shows how the IRR will vary with alternative assumptions regarding the two main parameters used to estimate the benefit streams (Table 4.5).[22] The analysis suggests that, although fairly sensitive to the assumptions, the IRR remains positive and above 10 percent in all cases, reaching 17 percent in the high case. Therefore, even in purely monetary terms and with conservative assumptions, the investment is largely justified.[23] In addition, the supply of higher education graduates is still highly limited, and it is unlikely that its increase will catch up soon with the continued vigorous growth of demand. Therefore, the prospect of a decline of the private returns to university degrees in the medium term is very small.

Table 4.5. Program IRR under Alternative Assumptions

Scenario	Employment Rate (%)	Wage Differential (%)	IRR (%)
Low case	80	15	10.4
Base case	**85**	**20**	**13.7**
High case	90	25	17.1

Equity

48. The equity performance of higher education sectors is heavily determined by the admission capacity and policies. In countries where access is still very limited as is the case in Sri Lanka (GER of 21 percent), access is usually reserved to a social urban elite. However, the Sri Lankan situation is different, owing to a university admissions policy into STEM programs based on a geographical quota system. The first 40 percent of places are made available purely on marks obtained at the GCE A/L. For the next 45 percent of places, highest performers from each of the 25 districts, after the students who enter under the merit quota, are given university admission. The balance 5 percent of places are given to students from specially disadvantaged districts, which are the districts in the Northern and Eastern Provinces that were affected by the 30-year civil conflict. The latter are also the districts that have the highest proportion of minority ethnic and religious groups in the country. Therefore, the policy of regional equity of access automatically flows over into greater equity in enrollment for minority ethnic and religious groups. This is clearly illustrated in Figure 4.1, which shows university undergraduate intakes by merit marks and according to marks within the district and special quotas. Wealthy districts with better-developed education systems, such as Colombo, Kandy, Kurunegala, Galle, and Matara, have a high proportion of students who are admitted on the merit intake. Less-developed districts, especially those in conflict-affected regions such

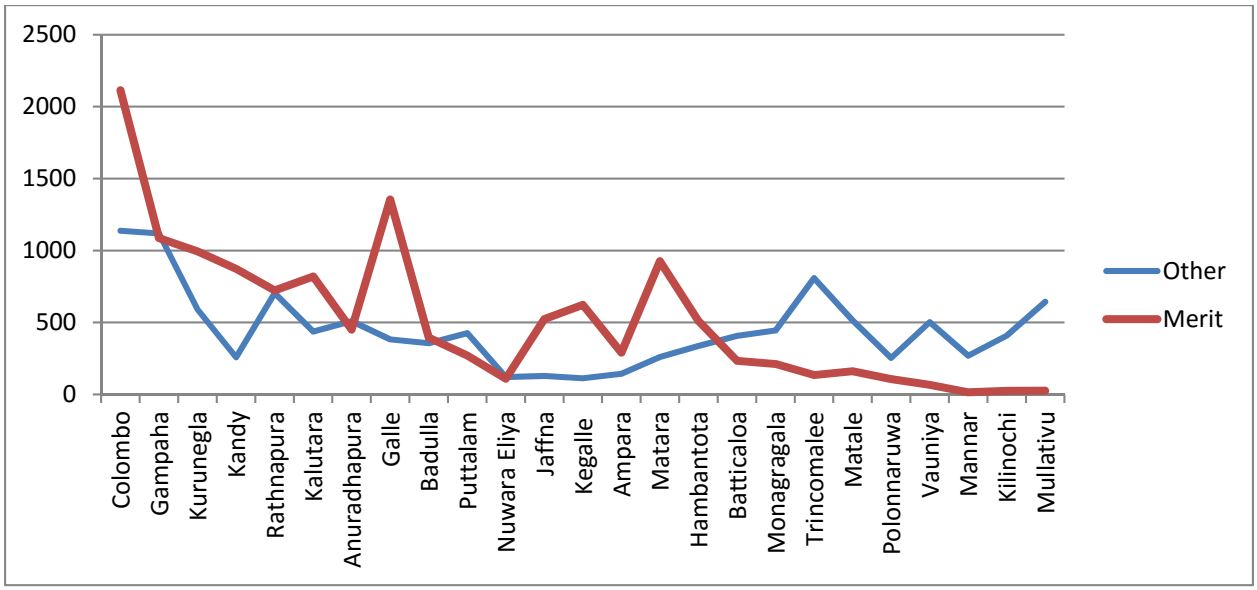
[21] The average return to higher education was estimated at 14.1 percent in 2009 (Montenegro and Patrinos 2014). Another estimate based on 2012 data gave a similar figure for bachelor's degree holders and around 22 percent for postgraduates (World Bank 2014).

[22] Due to the strong predictability of the expenditures, no alternative assumption is made regarding the costs.

[23] More drastically pessimistic scenarios have been run to test what would happen with even lower benefits (although highly unlikely to materialize given Sri Lanka's economic history and future expectations) as follows: (a) employment rate = 80 percent and wage differential = 10 percent and (b) employment rate = 85 percent and wage differential = 15 percent. They yield an IRR of 7.4 percent and 11.0 percent, respectively.

as Trincomalee, Vavuniya, Mannar, Kilinochchi, and Mullativu, have a low proportion of students who are able to qualify on merit marks, but benefit from the district quota system.

Figure 4.1. Undergraduate Intakes by Merit Marks and District and Special Quota Marks



Inputs to the PAP

49. The following activities have been planned to ensure effective and timely implementation of the Program in the first twelve months of program implementation:

- The OMST made functional with minimum 80 percent of academic and managerial positions filled
- The Operations Manual updated
- Third-party verification reports provided as evidence of achievement of DLIs

Technical Risk Rating

50. The overall risk of the proposed Operation is rated Substantial. Key risks on political and governance and technical design of the Operation are as follows.

51. **Political and governance.** This has been rated Substantial. The political and governance risks in the university sector are related mainly to periodic episodes of student unrest at some universities that are often motivated by national political interests. These episodes of student unrest could delay Program activities in affected universities. The Operation will indirectly mitigate these risks by improving the skills needed by students to obtain jobs, because student unrest is highest in degree programs where employment prospects are poor, though the Operation cannot directly address issues, especially when these stem from national politics.

52. **Technical design of the Operation.** This has been rated Substantial. This is the first operation using the PforR lending instrument in Sri Lanka. The counterparts may take some time to fully understand the new modality that the engagement between the Government and the World Bank will cover the full

higher education sector rather than only the transactions directly financed by the World Bank. However, the design is technically sound and based on considerable experience from human development projects in Sri Lanka as well as other higher education operations in several other countries funded by the World Bank. In addition, the Operation will provide continuous capacity building, TA, coordination, and communication under the POTS component to mitigate this risk.

The Program Implementation Support Plan

53. The implementation support strategy is based on several mechanisms that will enable enhanced implementation assistance to the GoSL and timely and effective monitoring of the progress and results of the Operation. These mechanisms comprise (a) supervision and implementation support missions; (b) regular monitoring and technical meetings and field visits by the World Bank team members based in the Colombo country office and overseas; (c) OMST reports based on AHEAD internal monitoring; (d) independent third-party verification of DLIs; (e) stakeholder feedback surveys; and (f) internal audit and FM reporting. The implementation support activities will focus on the educational, operational, and economic content of AHEAD, the fiduciary and safeguards requirements, and the mitigation of risks identified in the risk assessment of the Program.

54. There will be formal reviews of AHEAD's implementation semiannually and more frequent missions at least in the first year of the program life (for example, for the program launch and for extensive technical expertise in support of the development strategies of this first PforR operation in Sri Lanka). These missions will be complemented by continuous communication and follow-up between missions by the Colombo-based team.

55. The main semiannual missions will cover, among other things, (a) strategic policy dialogue on major higher education sector matters, especially in relation to the three key results areas of the Program; (b) review of the Program implementation status, including progress in implementation of the POTS component, and progress and performance to date with respect to the PDO-level and intermediate results indicators, DLIs, and legal covenants; and (c) advising on any actions and measures (including risk mitigating measures) required to keep program implementation on track and performing at expected levels. Before the implementation support missions, the OMST will provide a comprehensive progress report to the World Bank on program activities, issues encountered and proposed corrective actions for improvement, an updated work program and budget, and copies of studies and evaluations completed since the last mission. These reports will be short and issues-focused, complementing the information included in the monthly Operation progress reports.

Annex 5: Summary Fiduciary Systems Assessment

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

1. **The Public Expenditure and Financial Accountability Assessment carried out in 2012 identified areas of relatively strong Public Financial Management (PFM) performance and weaknesses:** The assessment noted an orderly budget preparation process that ensures adequate time for budget preparation and consultations and timely approval of the budget, timely preparation of annual financial statements, thorough legislative scrutiny of the annual budget law, timely audit of the country's annual financial statements, and good follow-up on audit findings. The Public Expenditure and Financial Accountability Assessment also noted areas where the PFM performance in Sri Lanka lags behind performance in LMICs, including comprehensiveness and transparency of the budget, budget credibility, and predictability and control in budget execution. Particular challenges were noted in monitoring of payment arrears, oversight on aggregate fiscal risk, public access to key fiscal information, taxpayer registration and tax collections, internal audit and payroll controls, procurement procedures and transparency, and predictability in the availability of funds. The GoSL has initiated a number of PFM reform initiatives in the past decade—these include the development and ongoing implementation of the Revenue Administration and Management Information System and the Integrated Treasury Management Information System, strengthening the AGD, and an Institutional Development Fund Grant to strengthen the financial oversight committees of Parliament.

2. **More recently, the new Government has signaled greater priority for addressing the fiscal challenges and strengthening the PFM framework.** In May 2015, the Constitution was amended to provide constitutional authority to the Commission to Investigate Allegations of Bribery or Corruption (CIABOC), for establishing a new Audit Service Commission and a new National Procurement Commission. The 19th constitutional amendment further significantly expanded the mandate of the Auditor General to examine the accounts of state-owned enterprises incorporated under the Companies Act, thereby providing for legislative oversight over such entities. The recently approved Development Policy Financing provided by the World Bank supports measures to (a) enhance transparency and public sector management and (b) improve fiscal sustainability. IMF's Extended Fund Facility Arrangement supports a set of reforms which essentially focuses on addressing the fiscal stress under six pillars: (a) fiscal consolidation, (b) revenue mobilization, (c) PFM reform, (d) state enterprise reform, (e) enhancing monetary policy effectiveness, and (f) supporting trade and investment. Some of the key reform actions under the PFM reform pillar, which demonstrates the Government's commitment to PFM reforms include (a) enacting the Right to Information legislation with *suo moto* disclosure requirements; (b) drafting a legislation to establish an independent National Audit Office and an Audit Act; and (c) drafting a legislation for PFM to enhance the regulatory environment and authority for PFM. IMF's program supports fiscal consolidation with a goal of overall deficit of 3.5 percent of GDP by FY20; This is sought to be achieved by (a) enhancing revenue mobilization through tax policy, tax expenditure rationalization, and tax administrative reforms including rollout of revenue IT systems and new income tax laws; (b) managing expenditures better by institutionalizing systems to manage expenditure commitments and payment arrears; (d) enabling rollout of the Integrated Treasury Management Information System and (e) addressing state-owned enterprises' obligations, both debt and noncommercial obligations. The Government has recently requested the World Bank to provide support to strengthen other areas of PFM that complement the ongoing fiscal and PFM reforms and help implement the policy changes.

3. **IFSA for AHEAD.** As part of the AHEAD preparation, in accordance with the World Bank Policy framework for 'Program-for-Results Financing,' the World Bank carried out an IFSA of the Program to determine whether the fiduciary systems provide reasonable assurance that the program expenditures will be used appropriately to achieve the intended purposes. The IFSA is broadly based on work done by the World Bank staff assisted by World Bank consultants working on procurement and FM. The MHEH, UGC,

15 state universities, and SLIATE/ATI were defined to be the relevant entities identified to be included in the Program. The institutions that the IFSA covered include the MHEH, UGC, a sample of 5 universities out of the 15 state universities, and SLIATE/ATI. During preparation of AHEAD, the IFSA covered both recurrent and capital expenditure of the UGC, universities, and SLIATE, from a procurement perspective and recurrent expenditure items for FM. However, later on, it was determined that the capital items of the UGC, universities, and SLIATE should also be included in the Program and hence the expenditure framework also had to include the same. As the current IFSA FM review of capital items was not complete, it was decided that the assessment of capital items would be completed by the FM team within three months into effectiveness and suitable improvements based on findings will be incorporated into the Program as appropriate. Accordingly, capital expenditure shall be considered part of the Program expenditures and will be considered eligible for financing under the credit or the loan, after (a) the implementing agencies have provided the World Bank with all necessary information, as required by the World Bank, for the World Bank to assess the nature and need for such capital expenditures under the Program and (b) the World Bank has thereafter confirmed in writing to the GoSL its acceptance with the inclusion under the Program expenditures of all or part of the capital expenditure so assessed. A clause to this effect has been included in the Financial Agreement.

I. Financial Management

Planning and Budgeting Arrangements

4. The annual budgeting exercise for the GoSL funds, which starts as early as April, is based on the budget circular issued by the MoF every year to all GoSL ministries and departments. A bottom-up approach is followed in the budget process where requirements are obtained from the lowest implementing entity and the information is fed upward to the highest implementing entity. In the case of the MHEH, there are multiple implementing entities in the higher education sector, such as the UGC, state universities, SLIATE, and several postgraduate institutions. Each of these entities will submit their budget requests to their respective immediate reporting entity. In the case of universities, the UGC provides the guidelines for the preparation of the annual budget estimates. No ceiling is given for budgeted expenditure at the commencement of the budgeting process. The initial budget requests of universities are forwarded to the UGC on account of activities implemented by the GoSL funds, which comes to them as block grants classified under recurrent and capital expenditure. The UGC, in turn, submits the consolidated budget allocation request to the MHEH. In the case of SLIATE/ATI, the same is submitted to the MHEH.

5. For all donor-financed projects, the request is submitted to the MHEH through the separate PMUs established for donor-financed projects under the MHEH. The MHEH, in turn, consolidates all requests and submits the same to the MoF. There will be many budget discussion sessions between the MoF and MHEH, and final budget estimates will be approved for the MHEH and will be subsequently reflected in the GoSL budget estimates that will be made publicly available. The budget process involves the submission by each of the respective universities of its annual budgeted estimates for the GoSL funds to the UGC by the month of August. The UGC thereafter informs the universities of their respective budget allocation for the GoSL funds by around January of the following year, according to which the budgets at the university level are revised based on internal discussions to identify priority disciplines. The revised budgets are thereafter approved by the respective university councils and sent to the UGC.

6. During the assessment, it was observed that during FY16, the UGC had informed some of the universities to include additional capital allocations relating to faculties of engineering and technology streams and construction projects over and above the budget allocation approved initially for FY16. It appears that these have been included under the UGC budget, but have not been transferred to the universities. However, these additional budget allocations given to universities are informally communicated to the same and no documentation is available at the university level to prove the same.

7. Under the overall budget head of the MHEH, there is a separate budget head for the UGC. More than 75 percent of the overall funding allocations relevant to higher education activities under the scope of the MHEH gets reflected under the UGC budget head. All allocations reflected under the UGC budget head are on account of the GoSL funds. The GoSL funds for universities are reflected under the UGC, in separate line items under each university, appearing as block allocations under two broad headings of recurrent and capital expenditure. The GoSL funds for SLIATE is a separate line item and appears under the MHEH, as block allocations for recurrent and capital. All donor-financed operations are also included as separate line items under capital expenditure, which is reflected at an aggregate level under the MHEH.

8. The overall higher education budget, which also includes all allocations under the UGC and reflected under the overall head of the MHEH, for 2016 is LKR 53,000 million (US$362 million). The figure for 2015 was LKR 45,000 million (US$312 million). A subset of the overall budget is selected as AHEAD. Therefore, the Program is assumed to be consisting of the specific budget line items as reflected in the expenditure framework under the UGC and MHEH. The recurrent expenditure block allocations selected in the expenditure framework mostly comprise the personal emoluments expenditure (85 percent) of the UGC, universities, and SLIATE. Other minor recurrent expenditure items comprise the balance. There is only one capital expenditure line item used in the expenditure framework. This is proposed to be created under the MHEH specifically for the Program on account of the World Bank finances. This arrangement has been particularly requested by the MHEH. All other line items appearing in the MHEH budget head and UGC budget head are excluded from the expenditure framework.

Program Funds Flow Arrangement

9. The MHEH is funded generally through (a) consolidated GoSL funds for activities implemented by the GoSL and (b) donor funds that come through donor-financed operations. The GoSL funds are directly remitted by the GoSL Treasury to a common bank account at the MHEH. Donor funds are remitted to each ring-fenced bank account maintained at each PMU under the MHEH.

10. The UGC, SLIATE, and universities are funded by (a) block grants of the GoSL, remitted by the GoSL Treasury to the universities/UGC/SLIATE; (b) donor finances with funds flowing from ring-fenced arrangements through PMUs established at the MHEH; and (c) self-generated funds.

11. **The GoSL funds flow for the UGC and universities.** Budget allocations under each university and the UGC (for the UGC's own activities) are reflected under the UGC budget head as block grants. Monthly requests are made to the UGC by each university based on forecasted expenditure requesting remittance of funds for the activities implemented at the university level by using the GoSL funds. The UGC reviews and consolidates the requests along with its own request and in turn, submits the same to the MoF. The Treasury releases the available funds directly to universities from the consolidated funds of the GoSL for university fund requests into a common bank account maintained at each university. The Treasury releases funds on account of the UGC's own activities directly into the UGC common bank account. There appears to be no fund transfers on account of capital expenditure such as hostel projects to the universities/UGC, because all such funding activities are generally handled by the MHEH.

12. The existing fund flow arrangement to the universities for the GoSL funds is shown in figure 5.1.

Figure 5.1. Existing GoSL Funds Flow

GoSL Treasury (Consolidated Funds)

University/UGC/SLIATE
(General Bank Account)

13. **The GoSL funds flow for SLIATE.** Budget allocations under SLIATE are reflected under the MHEH budget head as two block grants classified for recurrent and capital. Monthly requests are submitted to the MHEH by SLIATE based on forecasted expenditure requesting remittance of funds for the activities implemented by using the GoSL funds. The MHEH reviews and consolidates the requests and in turn, submits the same to the Treasury. The Treasury releases the available funds directly to SLIATE from the consolidated funds of the GoSL.

14. **Donor-financed project funds flow.** All donor-financed projects are implemented through ring-fenced PMUs under the MHEH. Separate budget line items will appear under the MHEH for each donor-financed operation with the source identified as foreign funds. Requests for fund releases are made by the PMUs with intimation to the MHEH directly from the Treasury. Separate segregated Designated Accounts (DAs) and Sri Lanka rupee accounts, which are part of the single treasury system adopted in Sri Lanka, are established under the MHEH for each PMU and separate Sri Lanka rupee accounts are maintained at each of the PMUs and universities for each donor. These accounts are used to receive donor funds and transfer/incur expenditure from the same.

15. **Self-generated funds.** Separate bank accounts are used by universities to collect funds for self-generated income and the same accounts are used to process payments for expenditure incurred from such self-generated funds.

16. **With regard to receiving the GoSL funds, there are issues on predictability of funding.** There are times that inadequate funds are transferred to the UGC, MHEH, and universities, particularly for capital expenditure. There is also the issue of delayed receipt of funds that may result in payment to suppliers being withheld by each entity and resulting in accumulation of supplier invoices running into overdue status.

17. The fiduciary oversight and accountability arrangements will be applicable for the entire expenditure framework that has been identified for the Program. World Bank funds will not be tracked separately under the Program component. However, for the proposed World Bank funding for the Program, it has been requested by the GoSL that a separate account be opened at the MHEH which will be managed by the OMST. Separate Sri Lanka rupee accounts will also need to be opened at the OMST and at each university to receive World Bank funds and process payments. SLIATE and the UGC will not receive World Bank funds, and, hence, no separate Sri Lanka rupee accounts will be required for them; however, they will be considered and will be part of the expenditure framework defined for the Program. Upon verification of the achievement of DLIs, the applicable World Bank funds will be remitted to the account managed by the OMST. The OMST, through requests made to the Treasury, will transfer the funds in the account (in U.S. dollars) to its Sri Lanka rupee account (in Sri Lanka rupees). The relevant funds will then be distributed by the OMST to the relevant universities in the Program by crediting the Sri Lanka rupee accounts maintained at the university level for World Bank funds. This arrangement is being facilitated and agreed upon based on the specific request from the GoSL to have this arrangement for the Program. The balance of the program expenditure (93 percent) will still use the existing funds flow channels that remits the GoSL funds to the respective universities/UGC and SLIATE. The above explained arrangement of channeling World Bank funds through the use of a separate account can be reviewed at the midterm of the

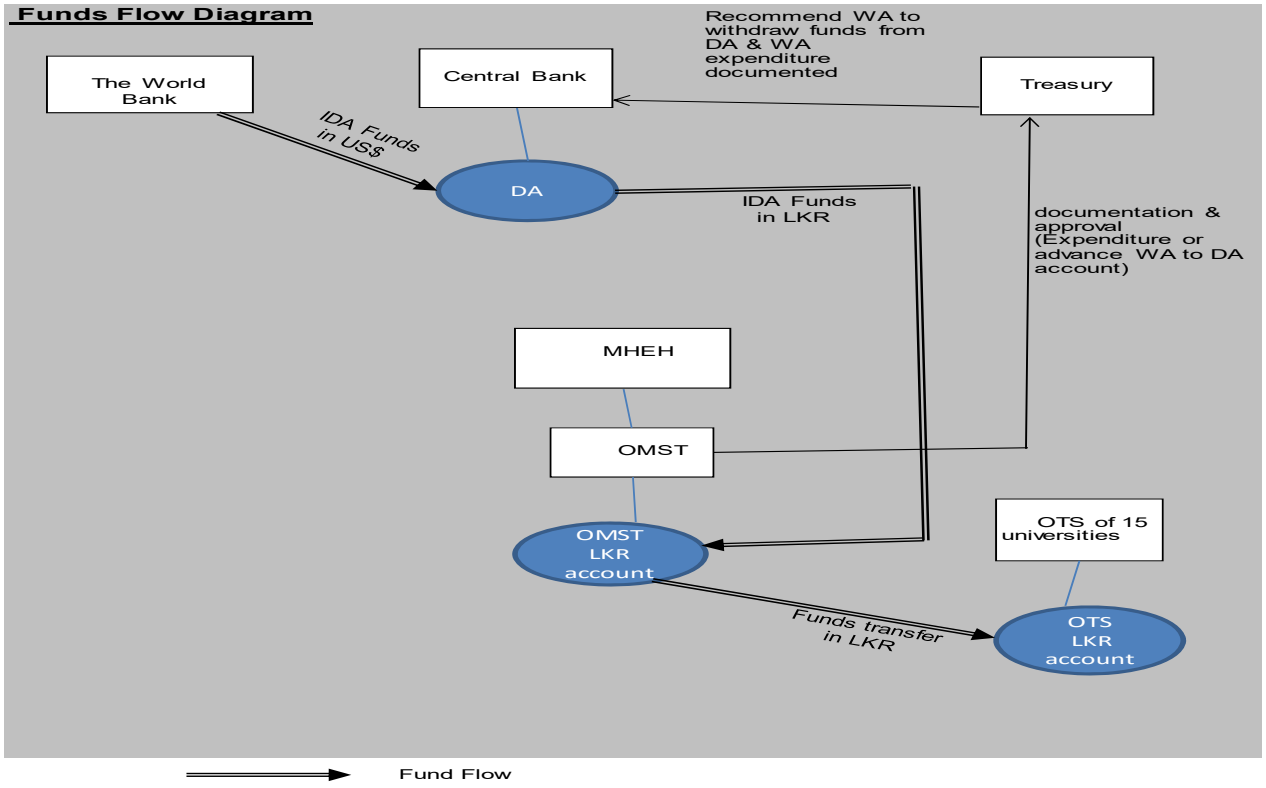
Operation. In a PforR approach the standard approach is to rely and make use of the existing country system, including for World Bank funds. The task team will consider the possibility of using the country system for World Bank funds in a phased and progressive approach, provided the Government requests this approach at midterm. With this in mind, an intermediate outcome indicator has been developed to assess the performance (timeliness of cash releases comparison to the cash flow requests) of the resources of the program items that are channeled through the regular treasury system. This indicator will be applicable for the expenditure items identified in the program expenditure framework other than the items funded through World Bank funds. During the midterm of the Operation, the performance related to this indicator will be assessed. If the indicator meets the required target, the task team will consider channeling the World Bank funds also through the treasury system if the Government wishes.

18. **Research and innovation grants to non-state HEIs.** Currently, there is no existing mechanism in the higher education sector program of the GoSL that facilitates arrangements for transmitting funds for research and innovation grants to non-state HEIs. Therefore, non-state HEIs were not included in the IFSA. Under the proposed Operation, the OMST will develop a mechanism for implementing the same, which will be managed by the OMST and executed through the POTS component from FY18 onward. The OMST will ensure that no grants are transmitted to these identified non-state HEIs until the proposed and agreed arrangements are put in place, including the relevant fiduciary controls required, in each of these non-state HEIs.

19. **Advance.** In this Operation, it is proposed to include an advance to the borrower to finance the activities until the DLI of Year 1 have been achieved. The World Bank has agreed to make an advance payment following the effectiveness of the Legal Agreement. The aggregate amount of all such advances made in respect of amounts allocated to DLIs may not exceed the equivalent of US$ 15,000,000 under the Loan and SDR 6,100,000 under the Financing. When the DLIs are achieved, the amount of the advance will be deducted (recovered) from the amount due to be disbursed under the DLI. The advance amount recovered by the World Bank would be available, as needed, for additional advances (‘revolving advances’). The World Bank requires that the borrower refund, no later than six months after the Legal Agreement closing date, any advances (or portions of advances) if the DLIs have not been met (or have been partially met) by the Program closing date.

20. See the proposed funds flow diagram in figure 5.1 for World Bank-financed Program interventions.

Figure 5.2. Funds Flow Diagram



Program FM Staffing

21. The finance department at the UGC is headed by an accountant and has an approved cadre of 12, consisting of four deputy accountants, five senior assistant accountants, and three assistant accountants. Five cadre positions of two deputy accountants and three assistant accountants were vacant at the time the assessment was carried out.

22. The finance department of three of the universities assessed was headed by a bursar, while two universities were headed by acting bursars (UoSJ and UoJ). Approved cadre positions were filled with respect to one university, while the balance four universities had vacant positions (RUSL) - 3, UoSJ - 2, SUSL - 2, and UoJ - 1) at the time of the FM assessment.

23. The FM staff were found to possess suitable FM-related qualifications and experience required to carry out their FM functions. Two of the bursars are chartered accountants (UoSJ and UoK), and another is a chartered management accountant (RUSL). Several chartered accountants as well as bursars having final-level and intermediate-level qualifications of the Institute of Chartered Accountants of Sri Lanka serve as senior assistant bursars and assistant bursars at the five faculties visited. At least one or a few members of the FM staff at each of the universities were found to have had experience in the implementation of the IRQUE and HETC Projects, which were both World Bank-funded projects. The FM staff at the UGC, however, has not had any prior exposure with regard to handling and managing World Bank-funded projects.

24. For AHEAD, it is proposed to establish a unit (OTS) in each of the universities to manage the FM arrangements and requirements of the Program. There will be a deputy director (DD) of Finance appointed to head the respective OTS. The DD of Finance will be appointed from the existing FM staff at the

universities who will be a suitable experienced and qualified person. Supporting FM staff will also be appointed either from the existing cadre in the universities or as contract staff. The OMST, which is established under the MHEH, will also have a suitably qualified finance manager to manage the FM arrangements related to the OMST activities as well as consolidate, coordinate, guide, direct, and exercise oversight of the entities involved in the Program on FM aspects. Hence, the OMST finance manager will need to closely coordinate with identified/assigned FM staff at the MHEH, UGC, universities, and SLIATE as required throughout Program implementation. The OMST finance manager will be held responsible for the overall successful management of the FM arrangements designed for the Program and will be the main focal point to the World Bank with regard to FM.

Program Accounting

25. The MHEH follows generally accepted accounting principles, as followed by any other ministry or department of the GoSL, and operates on the cash basis of accounting. Based on the same, appropriation accounts are prepared aligning the budget coding system and accounting coding system for the budget allocations appearing under the MHEH level and the appropriation account is being subjected to annual audits.

26. The UGC and the universities have adopted SLPSAS that are in line with the corresponding International Public Sector Accounting Standards and are on the accrual basis of accounting. Year-end annual financial statements are prepared on SLPSAS, and the same are being subjected to audit. However, monthly accounts submitted to the university councils and monthly expenditure items reported to the UGC adopt the cash basis of accounting.

27. All five universities assessed use some form of an automated accounting system to account for the GoSL/self-generated funds. However, these systems used for the GoSL/self-generated funds across universities appear to be different. Four of the five universities assessed currently use versions of PACKS accounting software package (UoK, UoJ, SUSL, and RUSL). The UoSJ uses a partly computerized information system for its accounting function developed by The Arthur C. Clark Institute. Some of the universities assessed intend to implement a new system in the near future. The UGC processes its accounts on ACCPAC. In general, the universities that report to the UGC do not process accounts in a uniform accounting system. Also, the accounting systems used in the universities are mainly used to account the GoSL funds and own sources of revenue. Accounting of donor-financed operations are entirely carried out separately by centralized ring-fenced PMUs mostly through manual-based systems and do not get captured in the automated accounting systems used at the universities.

28. The five universities assessed have decentralized their payments to a few of their faculties to varying extents for the GoSL/self-generated funds. The RUSL has decentralized its payments to all of its five faculties, subject to limits. However, the UoK has decentralized only some of its payments relating to the faculty of medicine, subject to limits, similar to the faculty of medical science at the UoSJ, which prepares check payments relating to most of its recurrent expenses subject to prevailing limits. Similarly, the UoJ has decentralized many of its payments to its regional office established at Kilinochchi and its Vavuniya campus according to the delegation of financial authority by the UoJ's council. The SUSL, however, has not decentralized any of its payments, and all payments are made at its main finance division.

29. All ledger postings and generation of financial statements for the GoSL funds and own-source funds are done in the main finance divisions at three of the five universities, that is, the UoSJ, UoK, and SUSL. The same is applicable with respect to 5 of UoJ's 10 faculties except for the regional office established at Kilinochchi and its Vavuniya campus, which posts its ledger entries and generates its monthly financial statements. The RUSL is the only university assessed where ledger entries are posted to the PACKS accounting package at the faculty level of its five faculties.

30. Consolidation of accounts takes places manually at the main finance division in four of the five universities assessed, that is, the UoSJ, UoK, UoJ, and SUSL. For instance, the financial statements prepared by the regional office established at Kilinochchi and at the Vavuniya campus are sent to the main finance division at the UoJ where they are manually consolidated along with the financial statements of the rest of the faculties. The RUSL is the only university where consolidation of the monthly accounts of its five faculties and that of the main finance division takes place on the PACKS accounting package. Monthly accounts are prepared by each of the universities according to formats prescribed by the UGC for the GoSL funds and submitted to the UGC every month. A copy of the monthly accounts is sent to the university council as well as each of the universities. It is noted that the monthly accounts or the annual financial statements of the universities do not capture the operations that are financed by donor funds. The accounting for donor funds is carried out separately, and separate financial statements/reports are generated for the same, which will be shared with the donor/MHEH. Currently, the UGC does not receive the utilization details/reports related to donor-financed operations.

31. Under AHEAD, an OTS at each university will maintain separate accounting records and documentation related to the World Bank funds. However, it is proposed to submit this accounting information to the main finance department of the university, so that this in turn can be incorporated/consolidated into the university accounting system and financial statements. This arrangement will ensure the utilization of information related to all sources of funds, including the Program funds, and expenditure is captured in the overall university system and gets submitted to the UGC as well, through the regular process that is practiced for the GoSL funds. Using this established reporting mechanism by the universities to the UGC, the OMST can in turn, obtain the required information on the program expenditure framework related to universities directly from the UGC and incorporate the same into the PFS rather than getting this information from 15 different universities.

32. Under AHEAD, it is also proposed to introduce a uniform automated accounting system across all universities. The proposed accounting system will be used on a pilot basis initially for the accounting of World Bank funds at the OTS level and later can be adapted to the overall system in universities as an attempt to strengthening the university system.

Program Reporting

33. Regular financial reporting for the GoSL funds received by the MHEH is carried out through the government accounting system called the Computerized Integrated Government Accounting System (CIGAS) at an aggregate level, as done in all ministries and departments of the GoSL.

34. The UGC also generates regular financial reports for its own activities and captures the same from its automated accounting system after entering the required accounting entries in the system. These entries are made based on the actual utilization of funds by the UGC. In addition, the expenditure incurred at the UGC level is transmitted to the GoSL Treasury, which, in turn, will capture the same at an aggregate level in CIGAS. The cash releases that happen against all block grants against the UGC and universities are treated as expenditure by the Treasury at the time of release of funds in CIGAS.

35. Regular financial reporting for use of the GoSL funds by the universities is carried out on a monthly basis to the UGC. Monthly actual expenditure is reported in a prescribed format to the UGC alongside budget estimates on a month-wise and cumulative basis for capital and recurrent expenditure. University monthly accounts are also attached to fund requests submitted to the Treasury through the UGC. Currently, reporting on the use of donor funds by the PMUs established under the MHEH and universities for donor-financed operations is carried out to the MHEH.

36. Going forward, the information on the Program is proposed to be consolidated at the university level and to be included in the reports submitted by the universities to the UGC. Therefore, for program financial reporting, the regular reports sent by the universities to the UGC and reports sent by SLIATE to the MHEH may be used by the OMST to prepare a consolidated PFS of the program on the expenditure line items identified under the expenditure framework. The OMST will prepare this report, coordinating and obtaining relevant information from the UGC, MHEH, and universities as required. As this operation is a PforR, the consolidated PFS will be used only after the close of the Program to compare the total cumulative eligible program expenditure with the total cumulative amount disbursed by the World Bank and determine if any refund is due to the World Bank from the GoSL. However, the OMST will be required to prepare the consolidated PFS on an annual basis and share the same with the World Bank for regular review so that issues if any related to the expenditure framework can be identified and required actions may be taken as needed. The finance manager who will be appointed to the OMST will be responsible for the preparation of the PFS and the same will be included in his/her TOR among other tasks that are expected from him. The PFS for each fiscal year can be submitted to the World Bank by March 31 of the subsequent year.

Program Internal Controls and Internal Audit

37. All of the higher education entities coming under the purview of the MHEH are governed by FRs and circulars issued by the UGC and guidelines issued by respective universities/entities. If there is conflict between university circulars issued under the consent of the council and government FRs, the UGC needs to review the same if required with the Treasury and make a decision. In the case of self-financed projects, university councils can issue circulars on their own and there is no requirement to obtain the approval of the Treasury/UGC.

38. The internal audit units of the five universities assessed were headed by officers holding the following positions, namely, deputy internal auditor (UoSJ), senior assistant internal auditor (UoK and SUSL), and assistant internal auditor (UoJ and RUSL). The UGC internal audit division is headed by an internal auditor. Disparities were observed between approved cadre and the current staff strength at internal audit units visited under the assessment. For instance, although the approved cadre includes the position for a deputy internal auditor at the UoJ, the unit is currently headed by an assistant internal auditor. The internal audit unit at the RUSL has an approved cadre of two consisting of an assistant internal auditor and one audit assistant, although the unit currently has only a computer application assistant to assist the assistant internal auditor. Similarly, the internal audit unit at the SUSL has an approved cadre of two consisting of a senior assistant internal auditor and one audit assistant, although the unit currently has only one clerk to assist the senior assistant internal auditor. Cadre approvals are expected to strengthen the internal audit units of the UoSJ (by five audit assistants), UoK (by an additional assistant internal auditor), SUSL (by an additional audit assistant), and RUSL (by an additional audit assistant).

39. Further, the vast areas the respective internal audit units are to cover have posed many challenges. The internal audit unit of the UoK with a current staff strength of seven (two senior assistant internal auditors, one audit assistant, one computer application assistant, and three clerks) for instance has to cover seven faculties, two postgraduate institutes, and two other institutes of higher education. The internal audit unit at the RUSL with staff strength of two has to cover five faculties. The unit admits that most of their time is spent on non-audit work. The internal audit unit of the SUSL is headed by a chartered accountant. The heads of the internal audit units assessed were found to have strategic, business, or executive-level qualifications of the Institute of Chartered Accountants of Sri Lanka. It was noted that at all universities other than at the RUSL, the internal auditor reports to the university council, through the audit committee, which has a chairman and two members who are all independent non-executive members of the university council, selected by the UGC. The reporting arrangements at the RUSL have been structured so that the internal auditor in practice directly reports to the vice-chancellor, rather than the audit committee, although

nothing in writing formally prevents the auditor from also reporting to the audit committee. The audit committee meetings are held quarterly at which both internal audit reports and external audit reports are reviewed.

40. The annual audit programs prepared by the IAUs were approved by the university council with the approval of the audit committee. It was noted that either the chairman or at least one member of the audit committees at the universities assessed possessed requisite FM skills. In the absence of chairman/member possessing FM skills, it was noted that a member nominated by the Institute of Chartered Accountants of Sri Lanka was coopted to this committee at some universities. A representative of the Auditor General and a Treasury representative are also required to attend audit committee meetings as observers.

41. For its internal audit, AHEAD will try to rely on the existing internal audit arrangements at the MHEH, UGC, SLIATE, and universities. From the assessment findings, the need to strengthen the internal audit function particularly in almost all universities is evident. This could be managed mainly with regard to training and capacity building that may cover new procedures/techniques in internal auditing, carrying out risk-based high-impact audits, value-for-money/performance audit and so on. Given the constraints related to limited number of staff, an approach to risk-based auditing should be considered to increase the value addition by carrying out a small number of high-impact audits versus a large number of low-impact audits. The OMST will coordinate to develop a risk-based internal audit program commencing from FY18 in consultation with the internal auditors of the universities/UGC/SLIATE and the MHEH. In parallel, the discussion to review existing cadre positions can also be considered in the form of consultations with relevant authorities led by the OMST and MHEH.

42. The recent Management Audit Circular issued in June 2016 warrants the appointment of an internal auditor to work on each development project funded by foreign financing where the total project cost exceeds US$10 million. The OMST may explore the possibility of this option so that the program internal audit can be coordinated in an efficient and effective manner during implementation.

Program External Auditing

43. The AGD of Sri Lanka audits all entities defined in the program. For the GoSL funds, the MHEH prepares annual appropriation accounts that are required to be submitted to the AGD by March 31 each year for the preceding year. Currently there are no outstanding audit reports for any World Bank projects under the MHEH. The UGC/universities and SLIATE are required to prepare their financial statements according to SLPSAS and submit the same to the AGD by February 28 each year. The audit reports are due to be made available for the UGC and universities by April 30. However, for FY15, the audit reports were received with four months, five months, five months, six months, and nine months later than the due date for the UoSJ, UoK, RUSL, SUSL, and UoJ, respectively. The review findings indicate that there are delays in the submission of audit reports, particularly at the university level compared to the due dates defined by their own regulations as well as otherwise.

44. At the university level, as donor-financed operations are not included in the university financial statements, the AGD audit performed on the university does not capture the donor-financed activities. For donor-financed projects, separate audits are carried out based on project financial statements prepared by the PMUs established. Universities submit the financial figures related to the donor-financed operation performed at the university level to the PMU for consolidation, and this is audited by the AGD/other external auditors separately. There are different dates agreed for the submission of audit reports according to the requirements of different donors.

45. For the audit of AHEAD, it is proposed to rely on existing audits carried out by the AGD for the sector entities. There will be an agreed action plan with the universities/UGC/SLIATE as well as with the

AGD (a) to audit university consolidated financial statements that will in future include World Bank-financed activities as well; (b) to improve the timeliness of finalizing financial statements for audit; and (c) to improve the timeliness of submission of audit reports. Required training/capacity building can be given for FM staff and external auditors through the POTS component of AHEAD. The audit reports generated by the AGD for the universities, UGC, and SLIATE will be used to prepare a consolidated audit report for PFS that will only capture the relevant audit observations related to the expenditure framework identified for the program. To do this, the Auditor General will include a separate disclosure to reflect the audit observations related to the program expenditure framework in the overall entity audit reports of the UGC, universities, and SLIATE. The consolidated audit report will be prepared by the Auditor General using these separate disclosures appearing in each of the audit reports and compiling the same into one single report. The PFS audit will be required to be carried out annually, and the PFS audit report will need to be submitted to the World Bank by the OMST by December 31 for the preceding year. The submission dates for audit reports have been agreed during appraisal.

46. To improve the timeliness of submission of audit reports of the universities, UGC, and SLIATE, an intermediate outcome indicator will be incorporated that will monitor the timeliness of the audit report submissions. The due dates for submission of the same are expected to have an incremental approach, whereby flexibility will be given to the entities to submit the audit report within a longer time frame during initial years and will gradually reduce at the later stages.

47. See table 5.1 for the individual entity audit report submission dates for the 15 universities/UGC/SLIATE and the corresponding consolidated PFS audit report submission dates for the Program. This arrangement has been discussed and agreed with the AGD.

Table 5.1. Submission of Entity & Consolidated PFS Audit Reports

Result Indicator in	Audit Report for FY	Entity Audit Report Due Date for UGC/SLIATE and 15 Universities	Consolidated PFS Audit Report Due Date
Year 1, 2018	2016	by November 30, 2017	by December 31, 2017
Year 2, 2019	2017	by November 30, 2018	by December 31, 2018
Year 3, 2020	2018	by October 31, 2019	by December 31, 2020
Year 4, 2021	2019	by September 30, 2020	by December 31, 2021
Year 5, 2022	2020	by September 30, 2021	by December 31, 2022

Program Fiduciary Capacity Building

48. The POTS component is proposed to be used to facilitate various capacity-building and system-strengthening initiatives including FM aspects such as FM staff training and strengthening internal controls/internal audit, accounting systems, and external audit, covering the MHEH, UGC, universities, and SLIATE.

Disbursements

49. **PforR component.** Initially an advance will be provided under this component. Subsequently disbursements for the PforR component are conditional on the achievement of reform actions or results measured by the DLIs. Against this component, the World Bank will reimburse the GoSL upon achievement

of the agreed results. The cumulative amount of the PforR financing should be equal to or less than the total Program expenditures. If by the end of the Program, the amount of PforR financing disbursed exceeds the total amount of expenditures under the Program, taking into account contributions from other financing sources, the borrower (the GoSL) is required to refund the difference to the World Bank.

50. **IPF component.** Disbursements under the POTS component will be made against eligible expenditures for activities under the component upon submission of quarterly IUFRs. Eligible expenditures will comprise (a) consulting and non-consulting services, (b) goods, (c) workshops and training, and (d) other operating costs.

Key Fiduciary Risks and Mitigation Measures

51. Table 5.2 provides the key fiduciary risks identified during the assessment and proposed mitigation measures.

II. Procurement Assessment

52. This assessment encompasses a general overview of the procurement in the country context essentially covering the sector and the institutes.

53. The GoSL's public procurement process is primarily governed by the Procurement Guidelines and the manual drafted by the NPA and now published by the DoPF. The standard bidding packages developed by the NPA (published by the DoPF) for goods procurement and the standard bidding packages developed by the Institution for Construction Training and Development for works are aligned, by and large, with the international best practices. However, there is a requirement for a more harmonized Public Procurement Regulation which is in line with the fundamental governance principles applicable to all government institutions across the board given the magnitude of procurement-related government spending in the national budget of Sri Lanka.

54. The DoPF is responsible for oversight and support of public procurement in the country. Actual conduct and management of procurement is the responsibility of procuring entities. These procuring entities are supported by different levels of procurement committees, such as Cabinet-Approved Procurement Committee, Ministry Procurement Committees, and Technical Evaluation Committees (TECs). Procuring entities are required to prepare the bidding documents in accordance with the guidance or instructions as provided in the bidding document. Specific instructions or conditions of the contracts need to be incorporated into the bid data sheet or the special conditions of contract. Shopping is also carried out adapting the national procedures mostly.

55. There is a scarcity of expertise in the market as the procurement function is not professionalized in the government system. Only a few key procuring entities have trained procurement staff while in others, procurement is carried out by public officials as a secondary task. The officials involved in procurement decision making lack the required experience and knowledge in public procurement and there are no performance standards or measures to assess the quality of their performance. This has attributed to unnecessary delays in the procurement process. Bid/proposal evaluations are generally carried out by public sector staff but with little regard to timely service, as the projects are not directly under their mainstream responsibilities. This has caused protracted bid/proposal evaluation time.

56. There is also a significant price increase of the goods, works, and services in the recent past. This is more visible in the construction industry as the bills of quantities and estimated costs have been inflated beyond international benchmarks.

57. Internal audit exists albeit needing strengthening; external audit is carried out by the staff of the Auditor General on an annual basis. Procurement performance and compliance monitoring is not given adequate attention by government auditors, with only a cursory check done by the Office of the Auditor General, for most projects. Procurement is advertised widely in national newspapers and websites. A bid complaint review mechanism exists.

58. On-site assessments were carried out at the Policy Planning and Development Unit (PPDU), UGC, and a sample of five universities. A sample of five universities has been selected representing all the state universities as the processes followed by the universities are common across the board. Non-state universities generally follow commercial procurement practices and annual external audits are being carried out on them.

59. Most staff in these institutes are generally familiar with the GoSL Guidelines and procedures for procurement of goods and works. All of the institutions have carried out procurement using the GoSL funds subject to the NPA Guidelines. They have also been beneficiaries of the HETC Project. Procurements under the HETC Project conformed to World Bank Procurement Guidelines.

60. Although the HETC Project is now disbanded, the capacity and the knowledge built in and the processes and models developed as a result of the HETC interventions still remain within the organization which will be helpful for the new Program. Even as of date, all of the tiers have staff who contributed to the HETC Project and they were seen as a valuable resource. HETC procedures and structure were reviewed to the extent of assessing their potential contribution to the new Program.

61. Generally, the World Bank-financed projects are managed by implementing units outside of the ministries' mainstream activities, and these units rely on contracted staff for processing the procurement activities.

62. Document review, key person interviews, and a review of a sample of procurement files were the key tools used in the review.

63. The main documents reviewed included:

- University websites and the UGC website
- University procurement plans
- Organization charts
- Internal audit reports
- Procurement Plans for the HETC Project
- Guidelines for research grants
- Guidelines for travel grants
- Sample of travel grant award files
- HETC HRD - OM
- HETC HRD plan

- HETC instructions for OTS - HRD - local travel
- HETC selection of candidates - process
- HETC completion report - from PPDU

64. Key persons interviewed were from among the following, subject to availability in some cases.

At universities

- Registrar/deputy registrar
- Bursar/senior assistant bursars/assistant bursars
- Internal auditor
- Director - OTS
- Secretary/manager - OTS
- Grant coordinators
- DD - procurement
- Works engineer
- Management assistants

At PPDU

- Manager - procurement

At UGC

- Accountant
- Senior assistant secretary

General Observations

65. **Typically, there are three streams for procurement.** The Supplies Department under the bursar is responsible for goods purchase, both capital items and consumables; the Capital Works Department under the registrar is responsible for works; and the Administration Department under the bursar is responsible for the procurement of nonprofessional services. Professional services other than design and construction supervision of large works were not observed at any of the universities.

66. **Government FRs are viewed with seriousness.** Procurement audits are being carried out by the Internal Audit Department, and their findings are given due consideration and are being addressed where necessary.

67. **Processes documentation and delegation of authority guidelines have been initiated in several places.** A delegation of authority guideline has been published at the UoJ. The UGC has recognized the need for flowcharting processes and formalizing responsibility for procurement. It has made some progress but lacks resources for expedient completion.

68. **Monitoring and evaluation of capital works is satisfactory.** Minor works and rehabilitation contracts typically have schedule overruns, often without formal extensions. Extensions, where granted, have not been properly justified. Liquidated damages are rarely claimed.

69. Procurement documentation and the archiving facilities need to be improved to facilitate ease of document retrieval.

Procurement Planning

70. The universities submit requirements through the vice-chancellor and the UGC to the Treasury. The Treasury makes a block allocation for higher education. The UGC together with the Treasury distributes it among universities considering the requirements stated, as well as prior year spending and any unusual circumstances.

71. The vice-chancellor along with the deans and registrar distribute the allocation among faculties and general administration. The initial requirements that were submitted are prioritized in line with available funds, and a faculty-wise Master Procurement Plan (MPP) for the university is made by the bursar and registrar. It is periodically reviewed during the year.

72. The MPP is the key reference for procurement. It is tied to the budget. There is no Procurement Implementation Plan. The MPP is produced in a people-driven mode with little support from structured processes or technology. MPPs only have small shopping procurements, mainly for goods, and a few NCB procurements.

73. Procurement of goods and services is not consolidated.

74. University procurement planning processes can be enhanced by adopting the detailed and comprehensive Procurement Implementation Plan of the HETC Project with which key staff are already familiar. The PPDU has been overseeing the activity, and the World Bank concurrence was obtained for the finalized Procurement Implementation Plan. The Procurement Implementation Plan was prepared annually and updated every six months.

Procurement Processes and Procedures

75. Staff do not typically refer to the NPA Guidelines albeit these materials are available to the public on the DoPF website. There was an effort at the UoK and to a limited extent at the SUSL to extract relevant parts of these documents for use by staff. The UoJ has made a considerable effort to publish a delegation of authority guideline. Process documentation was work in progress at the RUSL.

76. Documented procedures, even where they exist, do not appear to be referred to in practice. A word-of-mouth approach to how and what needs to be done seems the norm. There is no ownership of processes.

77. Procurement rules, however, appear to be generally adhered to.

78. University procurements by and large consist of small-value shopping procurements for goods. Somewhat high-value (>LKR 1 million) procurements were advertised in the national press in some instances.

79. Procurement arrangements were typically provided for wide bidding opportunities.

80. The qualification, evaluation, and award criteria were defined in bidding documents and were relevant and nondiscriminatory. However, all reviewed items were small-value and simplistic procurements. Data collation for the purpose of evaluation (particularly where multiple quotations are received such as for computers) is weak, and it is difficult to comprehend how the TEC assimilated data. Call for quotations in shopping was somewhat out of control with as many as 30 vendors invited to quote in some cases. The response in most cases, however, was around five or six quotes but higher in some instances.

81. Contract conditions were generally equitable.

82. TEC and Procurement Committee appointments could always be verified. The authorization from the ministry secretary for the vice-chancellor to appoint these committees was on file.

Controls and Integrity

83. Segregation of responsibility with regard to goods procurement was satisfactory. The end users prepared the specification and the Procurement Committee approved them on TEC recommendation. The supplies function handled the process from that point to contract award. The RUSL is an exception in this regard as the Supplies Department prepares specifications and the bidding document for furniture, computers, and the like. The specifications for specialized equipment are made by user departments.

84. Contract management from the purchase order to goods receipt is probably supplier driven. Delivery of goods, however, triggers a goods receipt process. Completeness and quality were checked and confirmed by knowledgeable end users and verified and signed off by the TEC. Payment was then approved.

85. The works procurements had an issue with regard to segregation of responsibility. The works engineer typically served in the TEC. He prepared the bill of quantities and was the only technical resource in the TEC to approve it. Similarly, he was the only technical resource in bid evaluation and recommendation for awards. He then managed the contract, confirmed completion, and approved payment. The RUSL had outside engineers (State Engineering Corporation, Central Engineering Consultancy Bureau, and so on) in the TEC.

86. No issues were observed with regard to the integrity of the bidding process (for example, the chain of custody of the bids and confidentiality of evaluations).

87. A complaint mechanism is in place.

88. The Internal Audit Department also provided a degree of internal control and is the most visible internal control for university procurements. Audit reports on procurement were seen. However, procurements were not subject to ex ante or ex post reviews, as such.

Procurement Capacity

89. Existing staff need greater capacity building to implement the Program efficiently. The procurement functions are being carried out satisfactorily but barely. Staff have not received adequate

structured or subject-specific procurement training. An in-depth capacity-building plan should be developed to overcome the capacity constraint.

90. The HETC Project has been satisfactorily completed at the universities. The capacity built under this project will be useful for AHEAD.

91. The required procurement capacity building and systems strengthening can be supported under the POTS component.

Contract Administration

92. Contract administration has been a weak area, and it needs close monitoring. Time overruns are frequent in contracts.

93. Delivery periods for goods are specified with little consideration of lead times to procure equipment from overseas. TEC/end users review goods before payment.

94. Works contracts (all minor) are sometimes a problem area. The works engineer reports to an assistant registrar. His monthly progress report is the only evidence of any kind of monitoring. Quality indicators or quality monitoring could not be observed. Retention provides the only quality safeguard. Approval of payments is based on measurements and works engineer sign-off.

95. Cost overruns are not observed as most contracts are fixed-cost contracts.

96. **Applicability of the Anticorruption Guidelines of the World Bank for the Operation.** The GoSL is fully committed to ensuring that the Program's results are not affected by fraud or corruption. Through the Program's legal documents, Sri Lanka is formally committed to the obligations under the Anticorruption Guidelines for PforR operations. The 'Guidelines for Preventing and Combating Fraud and Corruption in Program-for-Results Financing' dated February 1, 2012, and revised July 10, 2015, will apply to the Program Component of the Operation. In particular, in the context of this Program, Sri Lanka has agreed to report to the World Bank any credible and material allegations of fraud and/or corruption regarding the Program as part of the Program's reporting requirements. Information shared with WB through reports will need to contain the following basic details: (i) basic information and description of the allegation; (ii) date of allegation; and (iii) status of allegation handling. The World Bank will inform the recipient about any allegations it receives. Sri Lanka has also agreed to ensure that persons and/or entities debarred or suspended by the World Bank will not be awarded a contract by verifying the same before the award of contracts under the Program during the debarment or suspension period. The World Bank's right to investigate allegations regarding the Program's activities and expenditures and related access to persons, information, and documents will be observed in accordance with standard arrangements for this purpose between the GoSL and the Institutional Integrity unit of the World Bank. With respect to any inquiry conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program, GoSL is expected to cooperate fully with representatives of the World Bank and to take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to its jurisdiction. The 'Guidelines for Preventing and Combating Fraud and Corruption in Projects Financed by IBRD loans and IDA Credits and Grants', October 2006, and revised in January 2011, will apply to the Project (POTS) part of the Operation.

Anticorruption Laws and Activities in Sri Lanka

97. Sri Lanka has adopted over the years, a comprehensive legal framework to fight bribery and corruption. It has signed the UN Convention Against Corruption Act in 2004, thereby strengthening the

National Bribery Act of 1994 and the CIABOC. Likewise, Sri Lanka has a long-standing Act on the Declaration of Assets and liabilities (Act No. 1 of 1975). This law compels certain specified categories of public officials to make periodic declarations of their assets and liabilities in and outside Sri Lanka to their relevant heads of institution or to Parliament for Chairman and Board of Directors of Public Corporations. There is a prescribed form to declare assets and liabilities and every year assets and liabilities as at March 31 need to be declared before June 30. The Attorney General, the CIABOC, the Commissioner General of Inland Revenue, and the Head of the Department of Exchange Control shall have the right to call for and refer to any declaration. Failure to make a declaration is an offence under the act. However, there is no verification process of these declarations and they are not made public. Sri Lanka also adopted a law on the Prevention of Money Laundering (Act No. 5 of 2006). All acts of corruption by public officials have also been brought under this act. However, in the absence of statistics on the number of investigations and resolved court cases it is difficult to assess the actual enforcement of the legal framework.

Parliamentary Oversight Committees

98. The Parliament has two Multiparty Oversight Committees, namely the Committee on Public Accounts and Committee on Public Enterprises, each having 31 members set up under Standing Orders 125 and 126 as mechanisms for monitoring and ensuring that public funds are not mismanaged. The former looks at the government ministries and departments and the latter the public corporations and statutory boards. Reports of these committees are tabled in the Parliament and published. In 2007, the Committee on Public Enterprises issued reports, which drew public attention on corruption, waste, and inefficiencies in the management of the public corporations. The Parliament referred 16 public corporations to the CIABOC for necessary action mentioned in this report. These committees summon the officers of the respective institutions and are assisted by the Auditor General and the MoF in their oversight examinations.

National Procurement Commission

99. The 19th amendment to the Constitution recently passed has made provision for establishment of a National Procurement Commission. The function of this commission as stated in the Constitution is to formulate fair, equitable, transparent, competitive, cost-effective procedures and guidelines, for the procurement of goods and services and works, consultancy services, and information systems by government institutions, and cause such guidelines to be gazetted and placed before the Parliament. This commission has been already appointed and commenced its operations. Further this commission is required to investigate reports of procurements made by government institutions outside established procedures and guidelines and to report the officers responsible for such procurements to the relevant authorities for necessary action.

Offences against Public Property Act No. 12 of 1982

100. This act was enacted to make provision of certain offences committed against public property which includes, mischief, theft, robbery, misappropriation, criminal breach of trust, cheating, forgery, and falsification of accounts. In the recent past, a number of public officers were summoned by the Financial Crimes Investigation Division in relations to investigations on offences against public property.

Right to Information Act

101. Most recently, the 19th amendment of the Constitution has introduced the Right to Information to foster a culture of transparency and accountabilities in public authorities. This right has been specified in Act No. 12 of 2016, whose implementing regulations entered into force on February 3, 2017. The act is strong and comprehensive, covering all public bodies and types of information with clear and limited exceptions. It further provides for an independent information commission tasked notably with supervising

its enforcement and addressing citizen's recourses. It also foresees proactive disclosure of information, including on new projects over US$100,000, if foreign funded, or over LKR 500,000, if locally funded, after three months of the commencement.

102. This act applies also to the MHEH, its 17 universities and 22 statutory boards and institutions, which are required to appoint information officers and to establish the mechanisms and means for the proactive disclosure of information and for citizen to request and obtain information or to appeals in case their requests are not satisfied.

Statutory Audit as a Tool to Mitigate Fraud and Corruption

103. The Auditor General in Sri Lanka is the constitutional office with a mandate to audit all the public institutions. This includes the offices of the cabinet ministers, government departments, and boards and institutions established by the law. The recent 19th amendment to the Constitution has enhanced independence and the audit coverage by establishing a National Audit Commission and empowering it to prepare annual estimates of the National Audit Office, which is to be established by law to ensure the administrative and financial independence of the Auditor General. The Constitution does not specify the scope of audit for the Auditor General thus allowing the discretion to decide the scope without any limitation. The audit of the Auditor General is guided by the auditing standards specified by the international auditing standards and auditing guidelines of the International Organization of Supreme Audit Institutions which includes auditor responsibilities relating to fraud, transparency, and corruption. The Auditor General tabled his reports in the Parliament as required by the Constitution. Reports tabled in the Parliament revealed several instances of mismanagement, noncompliances with rules, laws, and regulations, as well as weaknesses in systems and controls. Corrective action on these observations become necessary by the respective institutions which will contribute to mitigation of possible corruption.

104. MHEH, the UGC, and the universities fall within the purview of the above process. In the case of statutory boards and institutions there is another act which provide provisions for the audit by the Auditor General, in addition to the constitutional provisions. The Finance Act No 38 of 1971 has made provisions to require the Auditor General to submit a detailed audit report in addition to the parliamentary reporting on which respective institutions have to take necessary action and report back to the Auditor General. All the Institutions including universities under the MHEH fall within this requirement.

Table 5.2. Key Fiduciary Risks and Mitigation Measures

Key Risk	Potential Impact on the Program	Key Mitigation Measures
Limited capacity of fiduciary staff at the OMST/universities	Significant bottleneck for program implementation	Action for establishment of the OMST/OTS with key staff included in PAP
Outdated and nonuniform accounting systems used at university level	Lack of consistency in accounting and reporting and inefficiencies	An automated accounting system will be installed for World Bank-funded activities, and this activity will be funded by the POTS component
Adequacy and timeliness issues of funds flow from the GoSL to implementing agencies poses a risk.	Significant bottleneck for program implementation	Separate funds flow mechanism agreed for receipts and payments for World Bank finances that will be revisited in the midterm. An intermediate outcome indicator is also developed to track the resource inflow for the program expenditure items channeled through regular treasury system.

Key Risk	Potential Impact on the Program	Key Mitigation Measures
Geographically dispersed entities in the program poses risk of inadequate oversight of fiduciary functions.	Weak program oversight Enhanced risk of fraud and corruption Lack of transparency and accountability and equity	The OMST will have a stringent supervisory role. The Program design includes a comprehensive midterm performance review of the Program including fiduciary aspects.
Considering weak internal audit and hence the dispersed nature of the Program, internal control monitoring may pose a threat.	Risk of program funds being misused	Internal audit to be strengthened and an action included in PAP. Risk-based internal audits will be encouraged.
Considering that the Program will be implemented involving several entities, there may be delays in financial reporting and submission of audit reports.	Risk of weak program governance and oversight due to lack of information	Submission of timely annual audit reports has been built in as an intermediate outcome indicator. Guidelines on financial reporting and auditing arrangements are developed and included in the OM by the OMST to ensure consistency at all levels of implementation. Monitoring and coordinating these aspects have also been included under the TOR of the OMST finance manager.
Requirement for enhanced capacity in fiduciary staffing, internal audit, and external audit	Weak program implementation	Training/capacity building will be provided under the POTS component for fiduciary staff and internal and external auditors as required.
Poor contract administration	Weak program implementation and administration	Build contract management capacity, and provide industry tools for contract management and centralized supervision with support from the POTS component.

Annex 6: Summary Environmental and Social Systems Assessment

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Environmental and Social Assessment

1. AHEAD is organized under two components: (a) a Higher Education Development Program (PforR) component and (b) a POTS component, which will follow an IPF modality. These components are different in nature, but complementary. The first component supports the national HEDS. The flow of funds under this component will follow a results-based financing arrangement. The second component will assist the implementation of the first component through TA, coordination, capacity building, monitoring and evaluation, policy research, and communication. The flow of funds under this component will be provided against specific investments, as is typical under the World Bank's IPF modality.

2. The purpose of the ESSA is to ensure that PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits. The ESSA assesses the borrower's authority and existing organizational capacity and performance, in the context of Sri Lankan laws and regulations, to achieve the social and environmental objectives associated with AHEAD. The report describes the regulatory framework for both environmental and social assessments. It analyses the degree to which the regulatory environment is adequate and whether the system allows key environmental and social impacts to be predicted accurately and adequately mitigated.

3. At the higher education level, the assessment considers human and financial resources and the degree to which they are able to comply with regulations and implement environmental and social systems. The portfolio of projects to be undertaken is analyzed to identify typical environmental and social effects in a municipal context, to ensure that no major negative impact is likely to occur that the municipalities will not be able to readily mitigate.

4. The assessment determines the areas of risk resulting from the analysis: risks of non-achievement of program objectives and the risk of significant negative environmental and social effects. Recommendations are made that should be implemented to bring these risks to acceptable levels.

ESSA Aims and Approaches

5. The objectives of this ESSA were

- To document the environmental and social management procedures, standards, and institutional responsibilities that will apply to the proposed Program;
- To evaluate the institutional capacity to manage the likely environmental and social effects in accordance with the country's own requirements under the proposed Program;
- To assess the consistency of the borrower's systems with core principles and attributes defined in the PforR Guidance Note on Environmental and Social Assessment;
- To establish the risks and potential negative environmental impacts of the Program and ensure that these will be subjected to an adequate initial screening so that relevant mitigation measures can be identified, prepared, and implemented; and
- To recommend specific actions for improving counterpart capacity during implementation to ensure they are able to adequately perform their mandate.

6. These measures will be agreed on between the client/borrower and the World Bank and will be included in the activities to be supported by the World Bank and the borrower during the life of the Program.

7. The Program component of AHEAD is being supported under the World Bank's PforR financing instrument, which links the disbursement of funds directly to the delivery of defined results. This instrument builds on increased reliance on the borrower's safeguard and oversight systems. The ESSA for this program examines Sri Lanka's existing environmental and social management system that is the legal, regulatory, and institutional framework guiding the program. It defines measures to strengthen the system and integrates these measures into the overall program. The ESSA is undertaken to ensure that AHEAD is consistent with the six 'core principles' outlined in paragraph 8 of the World Bank's OP/BP 9.00 Program-for-Results Financing to effectively manage program risks and promote sustainable development.

8. The six principles are as follows:

(a) Promote environmental and social sustainability in the program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision making relating to the program's environmental and social impacts.

(b) Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the program.

(c) Protect public and worker safety against the potential risks associated with (i) construction and/or operations of facilities or other operational practices under the program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.

(d) Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.

(e) Give due consideration to the cultural appropriateness of and equitable access to program benefits, giving special attention to the rights and interests of the indigenous peoples and the needs or concerns of vulnerable groups.

(f) Avoid exacerbating social conflict, especially in fragile states, postconflict areas, or areas subject to territorial disputes.

Environmental and Social Effects of the Program

9. Under the PforR modality, the Program will finance activities such as the construction/rehabilitation/refurbishment of lecture halls, tutorial rooms, science laboratories, ICT centers, and engineering and medical laboratories. The foreseen environmental and social risks associated with the aforementioned interventions are not significant and irreversible in nature. Rehabilitation/refurbishment would involve minor repairs, painting, interior décor work, procurement of furniture, and so on. All such rehabilitation/refurbishment is to be confined within the existing premises and will not require additional lands. Meanwhile, the Program may also result in induced/downstream environmental impacts, resulting from policies, procedures, and strategies that may lead the borrower to build new buildings and infrastructure services to meet the broader long-term country higher education transformation goal. These impacts will entail environmental and social risks associated to planned programs. It has been observed that the mainstreaming of safety, hygiene, and health including community health-related issues linked with infrastructure undertakings have been weak in Sri Lanka. In addition, issues related to solid wastes,

effluents from laboratories, and waste water generation remain a challenge to address when it comes to implementation and enforcement due to lack of commitment and low capacity. This is predominantly due to the lack of staffing, capacity, and equipment needed for monitoring within the Central Environmental Authority (CEA), which is the main environmental regulatory body in the country. Poor enforcement has thus led to a lack of compliance across sectors.

10. The planned PforR operation is consistent with the requirement of the World Bank Policy in that it does not undertake and support activities or interventions that may pose high social and environmental risks. The operations under the PforR will consist of a set of activities that have positive impact on the social and environmental context of related institutions and stakeholders, comprising awareness raising, training, and capacity building in the areas of implementation, improving the prevailing country system, and monitoring and supervision.

11. This ESSA has been prepared by the World Bank to assess the borrower's existing capacity and available resources and challenges to overcome any foreseeable negative environmental and social impacts that may result from the implementation of the Program. The ESSA also evaluated the borrower's performance in implementing its environmental and social management system as well as assessed the extent to which the borrower's environmental and social management systems are consistent with the World Bank's core environmental and social principles spelled out in the World Bank policy and associated guidance materials. It presented a set of recommendations and actions that the borrower has agreed to undertake to improve the implementation of applicable systems.

ESSA Findings

12. Generally, the assessment finds that the fundamental environmental and social legal regulatory structure of Sri Lanka is reasonably well developed and articulated with respect to its parameters and, as a whole, these can be considered appropriate and comprehensive. However, in some cases, important environmental and social regulation and laws appear to have gaps related to the principles of the ESSA, which have been overlooked when it comes to application, supervision, and compliance reporting. Nevertheless, the overall nature of the regulatory system is acceptable to address underlying social and environmental risks related to PforR interventions and from the induced nature of the program outcome.

13. Results-based monitoring and evaluation processes incorporated into the program will provide gender-disaggregated information on studies of job searches and employment experiences of graduates. This will enable the development of better-focused follow-up programs that will constructively address issues of male and female student proportions as well as specific measures to promote higher labor force participation of women in line with the Sri Lanka Gender Action Brief.

14. It has been acknowledged that the subnational institutional arrangements including processes and procedures are more challenging, where greater human, technical, and financial issues are in place, requiring prudent and systematic approaches to tackle the issues.

15. From a labor and community safety perspective, the health and safety regulations have reasonable references to labor and community safety, including provisions in the Occupational Safety and Health Act, No. 38 of 2009.

16. On environmental management and regulation of cross-sectoral operations and potential environmental impacts, key regulations include the National Environmental Act (NEA) of 1980, its amendment in 1988, and Gazette Extraordinary No. 772/22 and No. 11064 of 1993, which mandate the need for the screening of a proposed project by a Project Proponent (PP), in which a detailed list of thresholds for projects that need to follow environmental screening is presented in the regulations along

with designated reviewing bodies. The PP submits preliminary information about the respective project to a Project Approving Agency to initiate an Environmental Impact Assessment/Initial Environmental Examination process. The PP submits preliminary information through the Basic Information Questionnaire, which could be obtained from the CEA Head Office or Provincial/District Offices, or downloaded from the CEA website. The NEA screening guidelines use the type, scale, and magnitude of the proposed project as well as its location to determine the category of the project to be prescribed or non-prescribed. If the category is 'prescribed', then the Project Approving Agency decides whether an Environmental Impact Assessment or Initial Environmental Examination should be prepared for the project, based on the information provided. The World Bank's core policy principle and procedures are congruent with that of Sri Lanka's environmental and social screening process and are applicable to the proposed program. The Sri Lanka policies that will apply for AHEAD are therefore consistent with the World Bank policies.

17. The NEA and its amendments and regulations also provide sufficient instructions to avoid pollution or, when avoidance is not possible, minimize or control the intensity or load of pollutant emissions and discharges, including direct and indirect greenhouse gases emissions, waste generation from civil work or any other related process, and release of hazardous materials from their production, transportation, handling, and storage. It also provides instructions to avoid the use of hazardous materials and to purchase, use, and manage pesticides based on integrated pest management approaches and reduce reliance on synthetic chemical pesticides. It is, therefore, evident that the prevailing Sri Lankan guidelines and regulations for safeguards regulatory framework generally meet the World Bank's core operation policies for results-based financing. General recommendations are for more training, awareness raising, and capacity building among project personnel and contractors. Similarly, the local regulations also sufficiently provide workers with safe and healthy working conditions and prevent accidents, injuries, and diseases that may arise from a work site. Establishing preventive and emergency preparedness and response measures will be important for each project site.

18. There is now a clear need to ensure that further support is provided to achieve observable and measurable results by following through from the planning stage of projects through implementation to the delivery of significant improvements in the environmental and social system through AHEAD. The assessment also identifies challenges related to greater human and financial resource constraints, including lack of trained officers, lack of modern technology, lack of skills to carry out/conduct environmental and social assessments, consultation, and monitoring and evaluation, and lack of technical background to generate useful reports.

Citizen Engagement

19. Citizen engagement was an integral part of the design of the Operation. Consultations were conducted for the preparation of the national HEDS and for the design and content of the Operation with a wide range of stakeholders. This included government policy makers and officials from the Ministry of National Policy and Economic Affairs, MoF, MHEH, UGC, and SLIATE and vice-chancellors of universities, deans of faculties, academics, and students from universities. Consultations were also undertaken with employers, especially through the Employers Federation of Sri Lanka, and with non-state higher education providers, especially the members of SLANSHEI. In addition, consultations were undertaken with development partners active in the tertiary education sector. The consultations fed into the design of the Operation across a variety of initiatives. The selection of STEM programs for enrollment expansion was the result of employers expressing the need for a substantially larger flow of engineers, scientists, technocrats, IT personnel, medical doctors, mathematicians, and statisticians into the economy. The importance of academics adopting new teaching-learning and assessment methodologies that combine academic excellence with the promotion of socio-emotional skills was identified by employers, policy makers, and academics. The importance of competitively funded programs to provide incentives for

performance through ELTA grants was suggested by policy makers and academics. The design and content of the RDIC programs to support DOR and the commercialization of research and innovation was identified in discussion with policy makers, representatives of the private sector, and academics. The support for promoting UBL cells was developed in consultation with employers and academics. The support for the non-state HEIs was developed in consultation with the private HEIs, especially the members of SLANSHEI.

20. The citizen engagement process will continue during the implementation of the Operation. An explicit intermediate outcome indicator has been included for stakeholder consultation during the life of the Operation. These consultations will provide voice to stakeholders and enable the MHEH, UGC, and SLIATE to fine-tune the operation during implementation. There will also be other surveys and research activities, such as labor force participation studies and job search studies that will enable citizen engagement with stakeholders such as students, employers, and academics. The preparation and implementation of the ELTA and the RDIC grants will involve consultation with stakeholders from the industry as well as the university community. Overall, there will be considerable opportunities for citizen engagement and stakeholder feedback.

Environmental and Social Safeguards Category for the Project Component of AHEAD

21. This is rated as a Category C Project for the IPF component of this hybrid Operation. The IPF component will fund mainly services and some equipment for the staff of the OMST and OTS offices. No negative environmental or social impacts are anticipated under such investments.

Recommendations and Agreements

22. The summary of recommendations, presented below, has been made on the basis of minor but fundamental gaps identified during ESSA preparation to ensure that environmental and social performance of the Program is adequately addressed. This will also ensure that efficient systems are in place and that they are implemented during the lifespan of the Program.

23. A programmatic approach is required for AHEAD to support institutional strengthening, its task management, and multi-level capacity building to creating opportunities to enhance practical performance of existing arrangements. The environmental and social management compliances should be embedded into the subproject documents so that they comply with environmental protection laws, regulations, safety and health related covenants, and the prevailing construction codes and guidelines for public buildings that are expected to be financed by the borrower.

24. The program will also offer improved coordination among relevant institutions and agencies by putting in place necessary resources and commitment for allocation of required financial support to ensure that broader objectives of ESSA are achieved.

25. The IPF and PforR streams of the program are committed for capacity building and training of the related agencies (primarily the CEA and MHEH but also at a wider stakeholder level). Where feasible, awareness-raising on the importance of environmental and social sustainability sections will be included in the technical and vocational courses for long-term sustainability. Specific focus will be on compliance monitoring to cover workers' safety, community safety, disposal of construction debris, general rehabilitation, and/or construction related pollution, for example, air quality, heating, cooling, noise, water quality, sanitation, waste management, water treatment system, toxic material, and safety of workers and pedestrians. While no land acquisition is expected, if any land acquisition is needed, the relevant government legal regulations, including resettlement of displaced people, will apply. These areas will be specifically covered under future training and sensitization programs organized by the OMST.

26. Citizen engagement mechanisms will promote transparency and access to information on criteria associated with the targeting of vulnerable groups and beneficiaries. The OMST will have access to technical expertise for the capacity building of the universities and SLIATE to implement the social and environmental regulations applicable for various activities. This will include building institutional capacity to ensure timely disclosure of documentation of public interest.

27. A citizen feedback and Grievance Redress Mechanism will be instituted within the OMST with qualified personnel trained in handling such complaints from different constituencies reached through AHEAD.

28. Results-based monitoring and evaluation processes incorporated into the program will require gender-disaggregated information on studies of job searches and employment experiences of graduates. This will enable the development of better-focused follow-up programs that will constructively address issues of male and female student proportions as well as specific measures to promote higher labor force participation of women in line with the Sri Lanka Gender Action Brief.

Annex 7: Systematic Operations Risk-Rating Tool (SORT)

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Stage: Appraisal

SORT	
Risk Category	**Rating (H, S, M, L)**
Political and Governance	S
Macroeconomic	M
Sector Strategies and Policies	M
Technical Design of Project or Program	S
Institutional Capacity for Implementation and Sustainability	M
Fiduciary	H
Environment and Social	M
Stakeholders	M
Other	—
OVERALL	**S**

Note: H = High; S = Satisfactory; M = Medium.

Annex 8: Program Action Plan

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
Program Related					
The OMST made functional with minimum 80% of managerial and academic positions filled		X	Within three months after effectiveness	MHEH, UGC	Contracts signed with OMST staff and copies submitted to the World Bank
OM updated			September 30, 2018, and annually thereafter	OMST	Updated OM submitted to the World Bank
Third-party verification reports provided as evidence of achievement of the DLIs			October 31, 2018, and annually thereafter	MHEH, UGC, OMST	Third-party verification reports submitted to the World Bank
Monitoring and Evaluation					
Citizen engagement: Stakeholder consultation and feedback activities conducted with policy makers, academics, employers, and students			December 31, 2018, and annually thereafter	MHEH, UGC, OMST	Stakeholder consultation reports submitted to the World Bank
Procurement					
The MHEH and universities to set up the required AHEAD procurement committees with appropriate delegation to the OMST and OTS offices			August 31, 2017	MHEH, UGC, universities	Manual submitted to and approved by the World Bank
Complete the recruitment of the first set of consultants under the POTS component			December 31, 2017	OMST	Contracts submitted to the World Bank
FM					
Finalize a system for government funds to support a loan scheme for students enrolled in non-state HEIs		X	Within 6 months of effectiveness	OMST	Manual submitted to and approved by the World Bank
Develop an internal audit plan for FY18 with a risk-based approach to auditing		X	June 30, 2018	OMST, universities	Plan submitted and reviewed and provided a no-objection by the World Bank
Automated accounting system installed for World Bank-financed activities of the OMST and universities		X	December 31, 2018	OMST Universities	Financial reports generated from the system submitted to the World Bank
Environmental and Social Safeguards					
Appoint environmental and social focal points at UGC and SLIATE			Within 6 months of effectiveness	UGC, SLIATE	A compliance report on the status of implementation of

					ESSA recommendations and biannual coordination meeting minutes.
Prepare and implement an annual training and capacity building plan and learning module on environmental and social management within the Program context.			June 30, 2018, and annually thereafter	UGC, SLIATE	An annual training plan for each year of the Program and subsequent biannual implementation reports. One comprehensive module syllabus by the end of the first year of program implementation.
Complete the program for MHEH and UGC to monitor safeguards compliance in the university sector from FY18 onwards		X	December 31, 2018 and annually thereafter	MHEH, UGC, OMST	Program completion report shared with the World Bank

Annex 9: Implementation Support Plan

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

Strategy and Approach for Implementation Support

1. The World Bank's implementation support strategy has been developed based on the structure and contents of AHEAD and its risk profile. It aims to provide continuous support to the MHEH, UGC, SLIATE, and HEIs to implement the Operation efficiently and flexibly and maximize development impact through (a) a stronger focus on results, (b) better implementation and risk management, and (c) greater attention to systems strengthening and capacity building.

2. The implementation support strategy is based on several mechanisms that will enable enhanced implementation assistance to the GoSL and timely and effective monitoring of the progress and results of the Operation. These mechanisms comprise (a) supervision and implementation support missions; (b) regular monitoring and technical meetings and field visits by the World Bank team members based in the Colombo country office and overseas; (c) OMST reports based on AHEAD's internal monitoring; (d) independent third-party verification of DLIs; (e) stakeholder feedback surveys; and (e) internal audit and FM reporting. The implementation support activities will focus on the educational, operational, and economic content of AHEAD, the fiduciary and safeguards requirements, and the mitigation of risks identified in the risk assessment of the Program.

Implementation Support Plan

3. **Implementation support missions.** The World Bank will formally review the implementation of AHEAD semiannually. However, more frequent missions are expected at least in the first year of the Program life (for example, for the Program launch and for extensive technical expertise in support of the development strategies of this first PforR operation in Sri Lanka). These missions will be complemented by continuous communication and follow-up between missions by the World Bank task team based in Colombo and other relevant staff.

4. The main semiannual missions will cover, among other things, (a) strategic policy dialogue on major higher education sector matters, especially in relation to the four key results areas of the Program; (b) review of the AHEAD implementation status, including progress in implementation of the POTS component, and progress and performance to date with respect to the PDO-level and intermediate results indicators, DLIs, and legal covenants; and (c) advice on any actions and measures (including risk mitigating measures) required to keep Program implementation on track and performing at expected levels. Before the implementation support missions, the OMST will provide a comprehensive progress report to the World Bank on Program activities, issues encountered and proposed corrective actions for improvement, an updated work program and budget, and copies of studies and evaluations completed since the last mission. These reports will be short and issue-focused, complementing the information included in the monthly Operation progress reports.

5. **Midterm review.** A midterm mission will be conducted in 2020. This midterm review will serve as an opportunity for the Government and the World Bank to evaluate the efficacy and effectiveness of the Program design and implementation approach and make adjustments as needed. During this mission the Government and the World Bank, based on an assessment of overall Program performance including systems strengthening and capacity building, will discuss the extent to which the development objectives are being fulfilled and remain achievable within the Program time frame. Based on the midterm review, the GoSL and the World Bank will agree on appropriate actions in relation to AHEAD, including restructuring if needed.

6. To ensure high-quality implementation support, the World Bank team will comprise higher education specialists and specialists in FM, procurement, and safeguards, with the specific team composition for each mission determined based on implementation support requirements at that time.

7. **Aide memoires.** Findings and recommendations from the semiannual review missions will be recorded in aide memoires. The aide memoires will be issue-oriented and cover AHEAD implementation progress and performance following a standardized format. This will include an overview of implementation status, evidence-based assessments of results including DLIs, the implementation status of AHEAD themes, compliance with legal covenants, risks and risk management measures, and pending issues and actions. The aide memoires will provide specific suggestions to the MHEH and OMST for corrective actions to be taken, by whom and by when. The aide memoires will benefit from AHEAD progress reports, based on agreed formats and guidelines, submitted by the OMST on a semiannual basis each year.

8. **Overall Program management.** The task team leader will coordinate with the World Bank team to ensure that AHEAD is implemented according to the World Bank's requirements as specified in the Financing Agreements. The task team leader will engage in regular dialogue with the senior officials in the Government to monitor implementation progress and to help resolve issues and address constraints as and when they arise. He/she will be assisted by team members, including the World Bank staff based in Washington, DC.

9. **Analytical support.** The World Bank will assist the client by regularly undertaking higher education research and impact evaluations on themes and topics that are considered high priorities for future policy formulation and strategy development in the higher education sector. These studies and evaluations will be undertaken collaboratively with the Government. AHEAD makes provision to support research and policy analysis.

10. The main focus of implementation support and staff skills mix required for implementation support is summarized in table 9.1.

Table 9.1. Implementation Support and Staff Skills Mix Required

Time	Focus	Skills Needed	Resource Estimate
First 12 months	• Operation supervision and coordination • Technical review and support • Fiduciary review and support • Safeguards review and support	• Higher education • Operations and implementation • FM • Procurement • Environmental safeguards • Social safeguards	• Higher education task team leader and team member - 24 weeks • Operations and implementation - 8 weeks • FM - 4 weeks • Procurement - 4 weeks • Environmental safeguards - 2 weeks • Social safeguards - 2 weeks
12–60 months	• Program supervision and implementation support • Fiduciary review and support • Safeguards review and support	• Higher Education • Operations and implementation • FM • Procurement • Environmental safeguards • Social safeguards	• Higher education task team leader and team member - 20 weeks • Operations and implementation - 6 weeks • FM - 4 weeks • Procurement - 4 weeks

			• Environmental safeguards - 2 weeks • Social safeguards - 2 weeks

Table 9.2. Skills Mix and Number of Trips

Skills Needed	Number of Staff Weeks Annually	Number of Trips	Comments
Task team leader	16	Field trips as required	CO-based
Senior higher education specialist	8	Two annually and field trips as required	HQ-based
Senior higher education operations specialist	8	Two annually and field trips as required	HQ-based
FM specialist	4	Field trips as required	CO-based
Procurement specialist	4	Field trips as required	CO-based
Environment specialist	2	Field trips as required	CO-based
Social development specialist	2	Field trips as required	CO-based

Note: CO = Country Office; HQ = Headquarters.

Annex 10: Program Operations Technical Support Component

Sri Lanka: Accelerating Higher Education Expansion and Development Operation

1. The POTS component will be an IPF loan for an amount of US$7 million. The main objective of this component is to assist the implementation of the AHEAD PforR component through academic, technical, and operational assistance for systems strengthening and capacity building. The POTS component will also assist the coordination of the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs and promote synergy between their academic, technical, and operational activities.

2. There will be an OMST in the MHEH with links to the UGC and SLIATE and to the universities through OTSs. The OMST will support program coordination; academic, operations, and monitoring support for the MHEH, UGC, SLIATE, universities, ATIs, and non-state HEIs; TA and capacity building; pilots and innovations; research, evaluation, and policy studies; and communication.

3. The activities financed under this component will provide TA for the following activities:

   (a) Building capacity for alternative modes of higher education service delivery such as e-learning (for example, MOOCs) and the use of blended learning in universities

   (b) Enhancing the policy environment for the development of non-state HEIs

   (c) Developing a loan scheme for students to attend non-state HEIs

   (d) Strengthening the capacity of universities and ATIs for the promotion of English language skills of staff and students

   (e) Strengthening the institutions and systems of the MHEH and UGC to update and fine-tune the rolling HEDS

   (f) Strengthening the universities and SLIATE to prepare and implement rolling IDPs

   (g) Introducing innovative modern methods of teaching-learning and assessment

   (h) Promoting commercialization of research and innovation

   (i) Developing University Business Linkage offices

   (j) Strengthening the capacity of the QAAC and SCAQA

4. This component will also support activities to

   (a) Strengthen the Program coordination and monitoring capacity of MHEH, UGC, and SLIATE through an OMST;

   (b) Strengthen the capacity of the universities through branches of the OMST called OTSs;

   (c) Enable the MHEH, UGC, and SLIATE to undertake program monitoring and evaluation, third-party validations of the DLIs, and the design and implementation of stakeholder feedback surveys and graduate tracer studies. These activities will enable policy makers and stakeholders to monitor the effectiveness of Program implementation and take corrective

action where needed. In addition, these activities will assist policy makers to assess the benefits and outcomes of the Program;

(d) Support implementation of the fiduciary recommendations for the Program; and

(e) Support implementation of the environmental and social safeguards recommendations for the Program.

5. The main set of institutional development, technical assistance, and capacity-building activities are outlined in table 10.1. Other activities will be identified as further needs of the higher education sector evolve during Program implementation.

Table 10.1. Main Institutional Development, Technical Assistance, and Capacity-Building Activities

POTS Component	2017	2018	2019	2020	2021	2022
1. Measures to strengthen the policy environment for non-state HEIs and develop a pilot financial scheme for students to attend non-state HEIs						
1.1 Consultant		x		x		
1.2 Resource persons	x	x	x	x	x	x
1.3 Workshops	x	x	x	x	x	x
2. Dvelopment of e-learning (for example, MOOCs) and blended learning						
2.1 Consultant			x			
2.2 Resource persons		x	x	x	x	
2.3 Workshops		x	x	x	x	x
3. Training and capacity building of academics for OBE and LCT and related assessments						
3.1 Consultant		x				
3.2 Local resource persons	x	x	x	x	x	
3.3 Workshops	x	x	x	x	x	x
4. Capacity building of MHEH and UGC to implement and fine-tune the rolling HEDS and to monitor and report progress made on IDPs						
4.1 Consultant		x	x			
4.2 Resource persons		x	x	x	x	x
4.2 Workshops		x	x	x	x	x
5. Systems strengthening and capacity building for QAA activities						
5.1 Consultant	x	x	x			
5.2 Resource persons	x	x	x	x	x	x
5.3 Workshops	x	x	x	x	x	x
6. Measures to strengthen the RDIC system and development of the UBLs						
6.1 Consultant		x	x			
6.2 Resource persons	x	x	x	x	x	x
6.3 Workshops		x	x	x	x	x
7. Stakeholder feedback surveys						
7.1 Firm		x	x	x		x
8. Graduate employment studies						
8.1 Consultant			x	x	x	x
9. Third-party validations of the DLIs for AHEAD						
9.1 Firm		x	x	x	x	x
10. Implementation of the environmental and social safeguards framework for higher education						
10.1 Consultant		x	x			
10.2 Resource persons		x	x	x	x	x
10.3 Workshops		x	x	x	x	x
11. Training and capacity building of fiduciary, internal audit and external audit staff at universities, UGC and SLIATE						
11.1 Consultant		x	x			

11.2 Resource persons	x	x	x	x	x	x
11.3 Workshops	x	x	x	x	x	x
12. The design and implementation of accounting system for World Bank-financed activities						
12.1 Firm		x				

Note: Consultants could be national or international. International consultants will be recruited only if no suitable national consultants are available. Other technical assistance and consultancy activities will be identified during the implementation of the Operation, with a no objection from the World Bank. The updates will be reflected in the Operations Manual.

6. The estimated costs of the POTS component are given in table 10.2.

Table 10.2. Cost of the POTS Component

S. No	Activities Under the POTS Component	Cost (US$)
1	Goods and equipment (OMST and OTS)	750,000
2	Consultant services and resource persons	2,500,000
3	Workshops, conferences, seminars, and training programs	600,000
4	OMST and OTS staff (academic) for coordination and institutional strengthening by technical experts	750,000
5	Third-party validation	500,000
6	Policy analyses and studies, monitoring and evaluation	750,000
7	OMST and OTS (Incremental Operating Expenses)	750,000
8	Bank charges	167,500
9	Contingencies	232,500
10	Total	7,000,000

Note: Numbers may not add up fully due to rounding. The amounts given in the Table above are indicative and can change during the implementation of the Operation, with a no objection from the World Bank. The updates will be reflected in the Operations Manual.

OMST

7. There will be an OMST in the MHEH with OTSs in the universities to coordinate, monitor, and provide operations support for activities to enable the achievement of the overall AHEAD objectives. The OMST will be staffed by academic experts linked to the three results areas of AHEAD. These will be academics with high-quality expertise and a proven track record of performance in the relevant areas. In addition, the OMST will have managerial and administrative staff. The managerial and administrative staff will be recruited under the GoSL circular applicable for Cadre and Remuneration Management of Projects. The academic staff will be recruited under the World Bank Consultant Guidelines for the IPF component of AHEAD, initially through the UGC to establish the OMST, and subsequently by the OMST once it has been formed. All expenditures under the POTS component will follow UGC-approved rates where relevant, such as for the recruitment of resource persons and for travelling and allowances for field visits. The structure of the OMST and OTS offices are given in figures 10.1 and 10.2 respectively.

8. The POTS component will be managed by the OMST and will finance goods, and consultant and non-consultant services. This will include equipment, software, staff payments and other incremental operating costs, rental of space for the OMST office, workshops, conferences, symposia, resource persons, transport, and office furniture for the OMST and OTSs. All activities under the POTS component will be subject to technical prior review and no objection by the World Bank's higher education task team. This will include the prior review of the TORs for studies and consultancies and the consultants selected, and all

overseas HRD programs. In addition, the World Bank higher education task team will provide technical inputs into the various AHEAD results areas, including strategic development plans, IDPs, the ELTA-ELSE grants, the DOR, RIC and ICE grants, UBLs, QA, SLQF, and activities under the POTS component.

Financial Management

9. FM responsibility will rest with the FM unit at the OMST for the POTS component. FM responsibilities include (a) ensuring compliance with all financial covenants in the IPF legal agreements; (b) obtaining funds from the IDA credit and IBRD loan and managing such funds in an efficient, effective, and transparent manner; (c) furnishing financial reports and project audit reports to the World Bank; and (d) carrying out overall management of payments and accounting functions of the POTS component and any other requests relating to FM made by the World Bank's task team.

10. IDA credit proceeds will be used to finance eligible expenditures necessary to meet the development objectives of the POTS component with due attention to considerations of economy and efficiency in accordance with the provisions of the Financing Agreement. If the World Bank determines that the credit and/or loan has been used to finance ineligible expenditures, the amounts used for such expenditures shall be refunded to the World Bank by the GoSL.

11. **FM staffing.** Under the OMST, the FM unit will handle the POTS component of the Operation, in addition to the PforR component. The FM unit will be headed by a qualified and experienced accountant who would preferably have prior experience in FM under the World Bank or donor-financed projects. The accountant will work on a full-time basis and provide guidance and direction to ensure that the FM arrangements are implemented to the satisfaction of the GoSL and the World Bank. FM support staff assigned or recruited for the Operation by the OMST will work under the accountant to support the management of routine accounting and FM activities of the POTS component. The accountant in the OMST will be responsible for managing day-to-day FM activities for the POTS component, which may include (a) project budgeting, disbursement planning, and forecasting; (b) operating the DA, including claiming replenishments, disbursement of funds, and making required payments; (c) maintaining books and records for project financial transactions; (d) submitting quarterly IUFRs; (e) preparing annual project financial statements; and (f) interacting with project internal and external auditors on audit issues and follow-up.

12. **Budgeting.** The OMST will forecast the required resources to be budgeted for the project under the POTS component. These forecasts will be incorporated into the MHEH budget, which is then submitted to the MoF. A separate budget code (line item) will be set up for the accountant under the MHEH for this POTS component (separate from the PforR component). The OMST will prepare detailed implementation plans in line with the detailed project budget to clearly specify the funding requirement for the POTS component and activities. The OMST can implement the activities under the POTS component by using the budgetary provision provided for this under foreign funds.

13. **Fund flow and disbursement arrangements.** A separate DA will be opened for the OMST for the POTS component. This will be in addition to the separate account proposed to be opened for the PforR component. The DA will be operated and managed by the OMST, which will maintain separate sets of accounts for the POTS component. Disbursement of funds will be report-based. The OMST will submit quarterly IUFRs to the World Bank within 45 days of the end of each quarter. The World Bank will advance funds to the DAs in adequate amounts to meet forecasted expenditures for a period of six months, as reflected in the respective IUFR. Withdrawal applications will be prepared by the OMST and replenishments to the DA will be based on the IUFRs approved by the World Bank. The specific format of IUFRs, designed for the POTS component in accordance with the guidelines issued by the World Bank, were agreed during negotiations and are attached to the Disbursement Letter.

14. The OMST will also open a dedicated Sri Lanka rupee account (separate from the Sri Lanka rupee account proposed to be opened for the PforR component). The OMST will operate this account to make payments for eligible expenditures and track the inflow and outflow of the POTS component funds. Exchange losses arising due to the transfer from the DA to the Sri Lanka rupee account will not be considered eligible expenditure and will not be absorbed under the IDA credit or IBRD loan. The OMST will have the option of requesting a direct payment to suppliers by (a) the Central Bank of Sri Lanka, using the proceeds in the DA or (b) the World Bank against the credit for large payments. It is agreed that all payments related to the POTS component will be handled centrally by the OMST, and no funds will be transferred to any other agency/unit. Payments for non-state HEIs for PhD scholarships for academics and financial assistance for students will also be handled by the OMST. In addition, all fund transfers will be between bank accounts and no cash transfers will take place, except for petty cash.

15. **Accounting policies and procedures.** The AHEAD Operations funds allocated for the POTS component will be disbursed through the DA opened at the Central Bank of Sri Lanka and will be routed through the OMST, which will be responsible for funding expenditures, accounting for them, and reporting on the financial and physical progress. Accounting and FM staff in the OMST will closely coordinate with technical staff where a systematic verification of invoices needs to be carried out before payment. The accounting practices will be governed by the GoSL FRs and applicable circulars. Bank accounts will be reconciled on a monthly basis, and trial balances and financial statements will be prepared on a monthly basis to facilitate monitoring of the progress of the Project.

16. **Accounting system.** It is agreed that the OMST will review, select, and install a customized accounting software to handle the POTS component transactions of the Operation. It is envisaged that this system will be used for the generation of financial information, by creating relevant modules/ledgers and chart of accounts for the same. The system will need to facilitate the generation of expenditure reports by budget classification/components and subcomponents thus enabling comparison with the budget/components and effective monitoring of expenditure. A separate chart of accounts will be established for the POTS component that enables separate accounting.

17. **Internal audit.** The POTS component will be subjected to an internal audit. The internal audit team will be agreed/appointed by the Secretary of the MHEH and will work under the overall guidance of the Secretary. The internal auditors will assess whether the funds have been disbursed on time and used effectively and efficiently for the intended purposes. The internal audit team will also examine the physical and qualitative aspects of the assets procured under the Project. This will provide further assurance on the legitimacy and the eligibility of the payments made from the credit proceeds. The findings of the internal audit team will be reviewed by an Internal Audit Committee appointed for the component. The OMST will share the internal audit reports with the World Bank at agreed intervals.

18. **External audit and audit reports.** It is proposed that the external audit of the POTS component will be carried out by the AGD. The external auditing arrangements were discussed and finalized at appraisal in consultation with theMHEH and AGD. The OMST will prepare the annual financial statements for the TA component for auditing by the AGD. The audit will cover all TA component activities carried out by the OMST and all payments made from the Project accounts related to the same. This audit report will be a separate one from that required for the PforR component. The audit will be conducted annually. The audit report will be submitted within six months after the end of the financial year. The OMST will be responsible for the timely submission of the annual audited financial statements to the World Bank. The audit report will be monitored in the World Bank's Audit Reports Compliance System in PRIMA. According to the World Bank's Access to Information Policy, the audit reports received by the World Bank will be disclosed on the World Bank's external website for public access.

Table 10.3. Audit Reports

Implementing Agency	Audit Report	Auditor	Date
OMST	Project Annual Financial Statements	Auditor General	June 30 each year

19. **Financial covenants.** The financial covenants related to this POTS component will include (a) audited annual Project financial statements to be submitted to the World Bank no later than the first six months of the following financial year and (b) IUFRs to be submitted to the World Bank no later than 45 days following the end of the reporting quarter.

20. Consistent with a risk-based approach to FM supervision, FM supervision activities for this component will consist of desk reviews of internal and external audit reports, including verification of the adequacy of the resolution of major audit observations and reviewing of quarterly IUFRs, supplemented by dialogue with the OMST staff as needed, especially during the initial years of Project implementation. FM supervision missions will be conducted at least once every six months. Other supervision tools and resources, such as transaction reviews, site visits, and so on, will be used in an effort to periodically monitor the adequacy of the FM system. In addition to the regular FM implementation support, the World Bank team will provide training, capacity building, and knowledge sharing for FM staff, internal audit staff, and the external audit staff as required.

21. **Disbursement categories.** IDA will finance 100 percent of eligible expenditures for goods, works, non-consulting services, consulting services, TA, training, and workshops, and incremental operating costs of the POTS component including taxes.

22. Under the POTS component, the proceeds of the IDA credit and IBRD loan will be disbursed against eligible expenditures in the categories shown in table 10.4.

Table 10.4. Disbursement Categories

Category	Amount of Financing Allocated (US$, millions)	Percentage of Expenditures to Be Financed (including Taxes and Duties)
(1) Goods, non-consulting services, consultants' services, TA, resource persons, incremental operating costs, and training and workshops, related to part of the Operation.	7	100
Total	**7**	**100**

23. **Incremental operating costs.** Incremental operating cost include the normal expenditures of the Operation, such as reasonable costs of goods and services required for the day-to-day implementation of the Operation, including maintenance of vehicles and equipment; fuel; office supplies; utilities; consumables; office rental and maintenance; bank charges; advertising expenses; salaries, allowances, and benefits of OMST and OTS staff; communications; travel of staff (including per diems and accommodation); and salaries, allowances, and benefits of selected contracted support staff, but excluding salaries and salary top-ups of civil servants of the Government.

Procurement

Procurement Assessment at the OMST

24. The OMST will be responsible for managing the procurement requirements and to provide capacity building and staff training where appropriate. To avoid any gaps in implementation capacity, the OMST

will need to be established and staffed after effectiveness with an adequately skilled procurement specialist, preferably knowledgeable on World Bank-financed operations, and one procurement officer. There will be a need for capacity enhancement to effectively carry out the procurement activities under the Project.

25. The World Bank will work with the OMST to strengthen the procurement monitoring and oversight functions and will continue to support training and continuous professional development programs to strengthen skills and capacities of staff in the public procurement arena.

26. Having considered the above, the overall procurement risk is rated Substantial. However, the procurement risk will be reassessed during the project implementation and readjusted accordingly.

Procurement Arrangements for the POTS Component

27. Procurement of goods and services under the POTS component of the Operation will be carried out in accordance with World Bank's (a) Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, of January 2011 revised July 2014 (Procurement Guidelines) and (b) Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, of January 2011 revised July 2014 (Consultant Guidelines), including the provisions as stipulated in the Financing Agreement.

28. In the event of a conflict between the World Bank's procurement procedures and any national rules and regulations, the World Bank's procurement procedures will take precedence. The general descriptions of various items under different expenditure categories are described below.

29. **Procurement Plan.** The Procurement Plan has been prepared by the OMST envisaging the requirement for the first 18 months of the Project and approved by the World Bank in accordance with the applicable guidelines by negotiations. This will encompass all the contracts to be financed by the credit and/or loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frames as agreed between the borrower and the World Bank team. This plan will be agreed between the OMST and the World Bank at the commencement of the operation and be made available on the MHEH/UGC website and in the World Bank's external website. The Procurement Plan will be updated at least annually or as required to reflect the actual Project needs during implementation.

30. **Retroactive financing.** If requested by the borrower, the World Bank may provide retroactive financing under a World Bank loan. Retroactive financing may only be provided when (a) the activities financed by retroactive financing are related to the development objectives and are included in the Project description; (b) the payments are for items procured in accordance with the applicable World Bank procurement procedures; (c) the total amount of retroactive financing is 20 percent or less of the World Bank loan amount; and (d) the payments are made to the borrower not more than 12 months before the expected date of the signing of the Legal Agreements for the World Bank loan.

31. **Procurement of goods.** Goods shall be procured under this Project using the World Bank's SBDs for all International Competitive Bidding (ICB) and national SBDs agreed with (or satisfactory to) the World Bank for all NCB and Shopping. Small-value procurements may be carried out following Direct Contracting in accordance with the provisions stipulated in paragraph 3.7 of the Procurement Guidelines and as set forth in the Procurement Plan.

32. The following methods will be applicable for the procurement of goods and non-consulting services, consistent with the relevant sections of the World Bank's Procurement Guidelines:

- ICB
- NCB
- Shopping (Quotations)
- Direct Contracting
- Framework Contracting
- Community Participation

33. **Requirements under NCB.** To ensure economy, efficiency, transparency, and broad consistency with the provisions of the Procurement Guidelines, goods, and non-consultant services procured under the NCB method shall be subject to the following requirements:

- Only the model bidding documents for NCB agreed with the World Bank shall be used for bidding.
- Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least 21 days before and issued up to the deadline for submission of bids.
- Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.
- Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time, and place of bid opening).
- Except in cases of force majeure or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed.
- Bids will not be rejected merely on the basis of a comparison with an official estimate.
- Except with the prior concurrence of the World Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.
- A bidder's bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract under which it is furnished.
- Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the World Bank.

34. **Selection of consultants.** Major consultancy services to be procured shall follow the World Bank Consultant Guidelines, and standard documents of the World Bank shall be used. Short lists of consultants for services estimated to cost less than US$500,000 or equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The World Bank's Standard Request for Proposals (April 2015) will be used as a base for all procurement

of consultancy services under the Project. The following methods will be applicable for the selection of consultants, consistent with the relevant sections of the World Bank's Consultant Guidelines:

- Quality- and Cost-Based Selection
- Quality-Based Selection
- Least-Cost Selection
- Selection under a Fixed Budget
- Selection based on Consultants' Qualifications (CQS) for services estimated to cost less than US$300,000 equivalent per contract, in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines
- Single-Source Selection (SSS)
- Selection of Individual Consultants as set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines
- SSS for the Selection of Individual Consultants

35. **Thresholds for procurement methods and prior review.** Review thresholds and requirements for different methods of procurement of goods, non-consulting services, and selection of consultants based on the current procurement risk rating are listed in table 10.5. These thresholds and review requirements may be modified on the basis of reassessed risk ratings during Project implementation in agreement with the World Bank.

Table 10.5. Procurement Methods and Thresholds

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts/Processes Subject to Prior Review
Goods and Non-Consulting Services	≥US$1,000,000	ICB	All contracts ≥US$2,000,000 shall be prior reviewed; all the other contracts subject to post review
	<US$1,000,000	NCB	All contracts subject to post review
	≤US$50,000	Shopping	All contracts subject to post review
Consultant Services (firms)	≥US$500,000	All competitive methods; advertise internationally	All contracts costing more than US$1,000,000 shall be prior reviewed; all the other contracts subject to post review
	<US$500,000	All competitive methods; advertise locally	All contracts subject to post review
	<US$300,000	CQS	All contracts subject to post review
	<US$100,000	SSS	All contracts subject to post review
Individual Consultants	<US$100,000	Individual Consultants (according to Section V: Selection of Individual Consultants of Consultant Guidelines)	All contracts subject to post review
	<US$50,000	SSS	All contracts subject to post review

36. **Procurement capacity.** The procurement unit of the OMST will comprise one senior procurement officer and an assistant. Additional procurement support maybe required as the project becomes fully functional.

37. **Disclosure.** Disclosure of the Procurement Plan and all procurements shall be made in accordance with the provision of the abovementioned World Bank guidelines.

38. The following documents will be disclosed on the borrower's website:

- Procurement Plan and updates
- Invitation for bids for goods and non-consulting services for all ICB and NCB contracts
- Request for expression of interest for selection/hiring of consulting services
- Contract awards of goods and non-consulting services procured following ICB/NCB procedures
- List of contracts/purchase orders placed following the Shopping procedure (on a quarterly basis)
- Short lists of consultants
- Contract awards for all consultancy services
- List of contracts under Direct Contracting, CQS, or SSS (on a quarterly basis)
- Action-taken report on complaints received (on a quarterly basis)

39. The following details shall be published in the World Bank's external website and United Nations Development Business:

- Invitation for bids for procurement of goods and non-consulting services using ICB procedures
- Request for expression of interest for consulting services with estimated cost more than US$300,000
- Contract award details of all procurement of goods and non-consulting services using ICB procedure
- Contract award details of all consultancy services with an estimated cost of more than US$300,000
- List of contracts/purchase orders placed following SSS, CQS, or Direct Contracting procedures on a quarterly basis

40. **Complaint handling**. On receipt of complaints, immediate action will be initiated to acknowledge the complaint and redress in a reasonable time frame. All complaints will be addressed at levels higher than that of the level at which the procurement process was undertaken. All complaints received will be

forwarded to the World Bank for information, and the World Bank will be kept informed after the complaints are redressed.

41. **Post review.** Contracts below the prior review threshold for goods, works, and consultancy services will be subject to post review, according to the procedure set forth in paragraph 5 of Appendix 1 of the World Bank's Procurement and Consultant Guidelines. The borrower shall retain complete documentation for each contract and make it available to the World Bank or its nominated consultant for carrying out the post review. In accordance with the applicable risk rating, a percentage of sample of contracts that have not been prior reviewed will be post reviewed during implementation support missions and/or special post review missions, including missions by consultants hired by the World Bank.

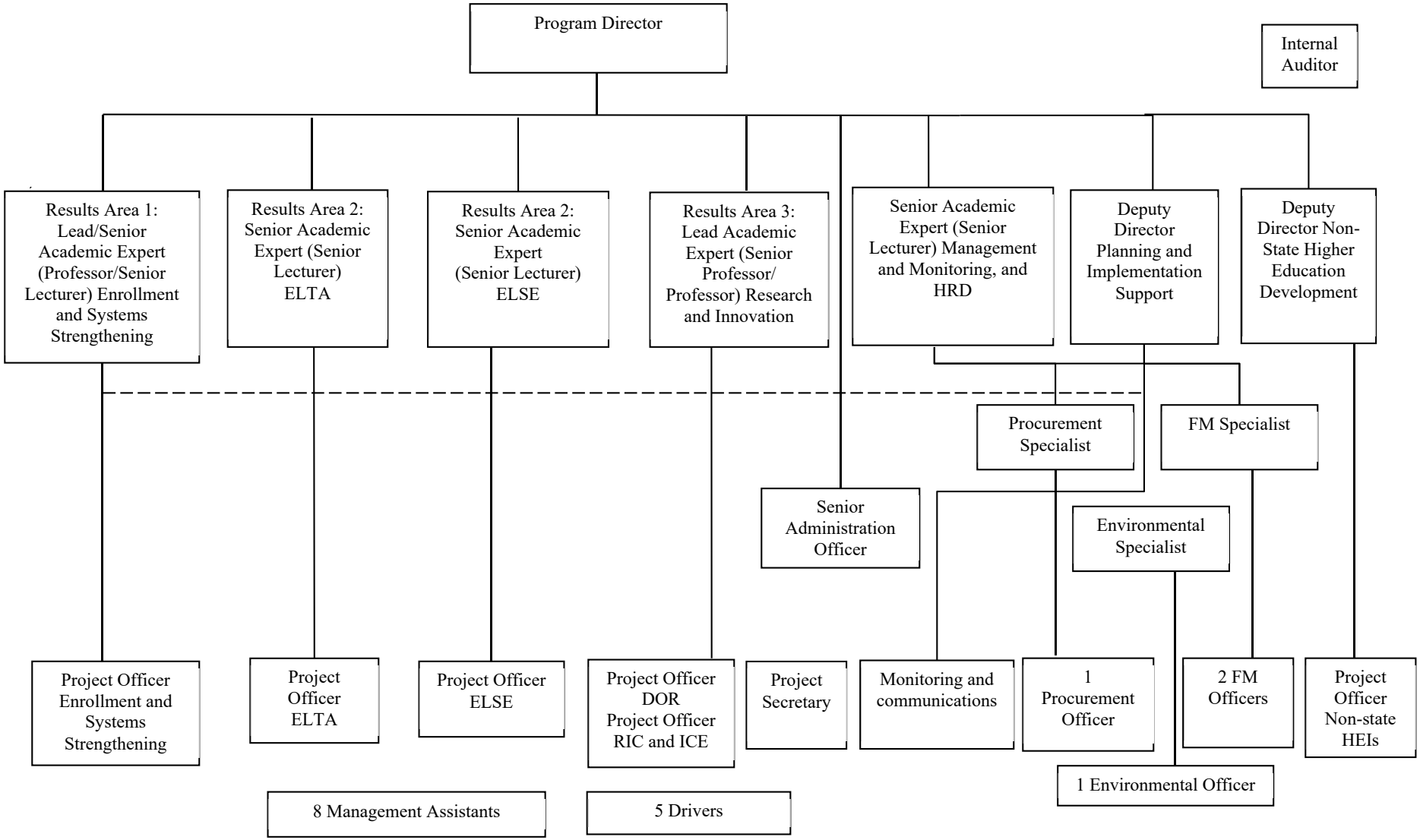
42. The Systematic Tracking of Exchanges in Procurement (STEP) tool for the preparation of Procurement Plans. The World Bank's Procurement Plan Tracking Tool, STEP, will be used to prepare and submit the Procurement Plans for the World Bank's review and no-objection and to communicate various other procurement-related transactions. The World Bank team will provide the necessary training and hands-on support to the OMST and other agencies where STEP will be implemented.

43. **Applicability of the Anticorruption Guidelines of the World Bank for the Operation.** The GoSL is fully committed to ensuring that the Program's results are not affected by fraud or corruption. Through the Program's legal documents, Sri Lanka is formally committed to the obligations under the Anticorruption Guidelines for PforR operations. In particular, in the context of this Program, Sri Lanka has agreed to report to the World Bank any credible and material allegations of fraud and/or corruption regarding the Program as part of the Program's reporting requirements. The World Bank will inform the recipient about any allegations it receives. Sri Lanka has also agreed to ensure that persons and/or entities debarred or suspended by the World Bank will not be awarded a contract by verifying the same before the award of contracts under the Program during the debarment or suspension period.

44. The World Bank's right to investigate allegations regarding the Program's activities and expenditures and related access to persons, information, and documents will be observed in accordance with standard arrangements for this purpose between the GoSL and the Institutional Integrity unit of the World Bank.

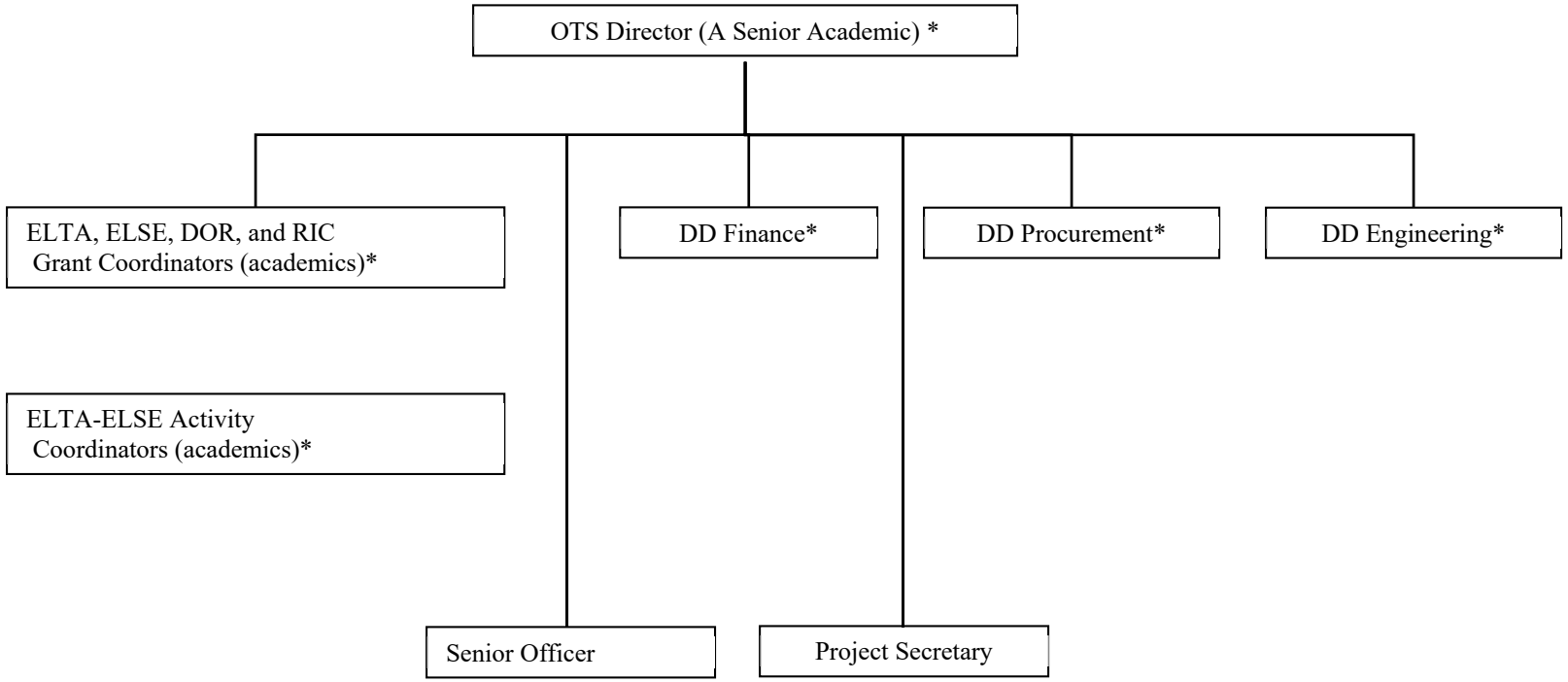
45. The Guidelines for Preventing and Combating Fraud and Corruption in Projects Financed by IBRD loans and IDA Credits and Grants, October 2006, and revised in January 2011, will apply to the Project (POTS) part of the operation.

Figure 10.1. Organization Structure for the OMST



Note: Dotted lines indicate the people supported by the relevant staff. The Deputy Directors ad Senor Administrative Officer will work with and support all academic staff.

Figure 10.2. Organizational Framework of the University OTSs



Note: * These are part-time positions.