1. Key development issues and rationale for Bank involvement

Education is recognized as one of the main propellers of growth, both through the production of a skilled and agile workforce and, in the case of higher education, through its role in R&D and innovation. Pakistan lags most other countries, including those in South and East Asia, in education indicators at all levels, including tertiary education.

Until the early 2000s, the tertiary education sector in Pakistan suffered from neglect for many years and had been blatantly under-funded. The increase in the sector budget allocations since 2002 has been accompanied by parallel growth in student enrolments; however universities enroll only 2.8% of the corresponding age group. If enrolment in provincial colleges is included, the participation rate in higher education sector still hardly reaches 4.5%, making it one of the lowest participation rates in the world. On the supply side, qualified faculty is in short supply and universities lack adequate infrastructure to meet growing demand. On the demand side, student aid mechanisms are insufficiently developed. While impressive strides have been made in recent years to improve sector-wide governance, much more needs to be done to ensure optimal functioning of universities and greater accountability.
In 2002 the Higher Education Commission (HEC) was created as an autonomous institution with the declared intention of reforming and expanding the higher education sector to make Higher Education Institutions (HEIs) more relevant to the needs of the 21st Century. The HEC developed a Medium Term Development Framework for Higher Education (MTDF-HE) which outlined development priorities for 2005-2010. The framework focused on measures to improve access, learning and research, relevance, governance and management, quality enhancement and technological development. The Bank’s technical assessment of the MTDF-HE 2005-2010, published in the Higher Education Policy Note (HEPN, 2006), found that the Framework was an articulate response to the decay that characterized the sector until the creation of the HEC. The Bank technical support was followed by a financial support through the Higher Education Support Program (HESP, 2009) in the form of a Development Policy Credit (DPC) of US$ 100m.

Important sector wide reforms are currently under implementation and the Government of Pakistan has sent a formal request for continued financial support by the Bank of its reform and development program in the tertiary education sector. The Government is also in the process of finalizing the Higher Education's Medium Term Development Framework for 2010-2015. The measures launched – and those planned – by the HEC have the potential to sustain the momentum of the positive changes initiated earlier in the decade, to redress the effects of the long period of neglect of Pakistani Higher Education Institutions so that they will substantially contribute to future economic growth and progress. In the long run, a shortage of qualified labor would hinder prospects of further progress and would become of a bottleneck as the country transitions toward a knowledge-based economy and may even prevent sustaining a healthy growth. This is why constituting a strong pool of skilled workers is a long term strategic goal, and why the existence of such a pool is a prerequisite without which the Pakistani economy will not be able to adapt itself and compete in the global market. However, short of strengthening and deepening the reforms engaged, there is a risk that this prerequisite will not be met, and that the benefits of the earlier measures will be partially lost.

2. Proposed objective(s)

The project development objective is to support the GoP program of reform in Tertiary Education aiming to enhance the capacity of Pakistani institutions of higher learning to produce high quality graduates, support innovation, and improve the overall governance and management of the sector.

Progress towards meeting these objectives will be assessed by using the following indicators

a. Ensuring all public sector universities are equipped with Quality Enhancement Cells, along with a scorecard based system of measuring their performance.

b. Increase in enrollments in scientific, technological and engineering fields

c. Increase in the number of PhDs produced by Pakistani universities

d. Increase in the number of publications in international refereed journals by Pakistani faculty staff
3. Preliminary description

The Government is committed to important sector wide reforms already under implementation, and seeks Bank support it further develop the sector in the medium term. Given this background, a Specific Investment Loan (SIL) is the most suitable instrument to channel its support to further reforms in which disbursements will be linked to performance. Using this approach not only enables the continuation of the reforms initiated through the Bank’s technical assessment of the MTDF-HE 2005-2010 and the HESP, but also deepens the focus on implementation and results. The Bank will provide $300 million over a three year period to support the Government’s ongoing activities and the Higher Education Medium Term Development Framework of 2010-2015.

**Government Program:** The Government’s program is articulated around the following pillars: (i) improving the quality and relevance of teaching and research; (ii) enhancing access and equity of higher education; (iii) improving the governance and management of higher education; and (iv) ensuring effectiveness of expenditure in higher education.

**To enhance quality and relevance of teaching and research,** ongoing and proposed interventions by the Government include the following key elements: (i) continuation of the scholarship program to feed the pool of qualified faculty staff, with the gradual replacement of foreign scholarships with split PhD programs and an expansion of indigenous scholarship programs; (ii) systemization of the performance-based tenure track system in order to ensure the steady improvement in the quality of faculty staff; (iii) reinforcement of the quality assurance apparatus through the systematic monitoring of the Quality Enhancement Cells (QEC) at the university level and through the extension of accreditation councils to new professional areas at the national level; (iv) initiation and implementation of a strategy aiming at providing affiliated colleges with quality assurance support by universities in order to enhance college graduates’ academic performance; and (v) strengthening the relevance and value added of research undertaken in HEIs and spearheading the commercialization of the outputs of academic research through (inter alia) funding the establishment of Offices of Research and Innovation (ORIs) to liaise with the industry and to facilitate the development of technology incubators at key HEIs.

**To expand access,** key interventions include: (i) expansion of needs-based scholarships to remove financial obstacles for meritorious students from low-income families in public and private universities; (ii) development and implementation of a Students Loan Program to allow students to discharge the costs of attending a higher education institution; (iii) scaling up of distance education facilities in Virtual University (VU), Allama Iqbal Open University (AOIU), as well as in public and private universities; and (iv) supporting enhancement of the scale and scope of private-public partnerships in higher education in view of promoting further private provision of higher education services and more cooperation between HEIs of different institutional status.
To **strengthen governance, management and accountability**, the GoP will launch/continue the following main interventions: (i) development of a set of criteria and international standards for the assessment of the institutional performance of HEIs in view to strengthen their internal governance, management mechanisms and practices; (ii) scaling up of the network of QECs by gradually equipping all public universities with such cells; (iii) completion of the interim faculty placement program for returning PhD scholars, in parallel with the PhD scholarship program, and consistent with the performance-based tenure track system gradually put in place; (iv) development of a comprehensive, reliable and timely Higher Education Management Information System (HEMIS) including integrated budget and expenditure system at both institution and national levels, in order to allow information-based management of HEIs and sector-wide planning; (v) reinforcement of the communication strategy of HEC in view of reaching out to the stakeholders of the higher education sector; and (vi) completion of a pilot study of corporate management practices in HEIs to rationalize financial planning and management in the higher education sector.

To improve **fiscal sustainability and expenditure effectiveness**, key interventions include: (i) supporting financing of the government Medium Term Financing Framework for higher Education; (ii) ensuring the development and monitoring of a protocol timely release and use of funds to ensure adequate funding for HE within a sustainable overall fiscal framework; and (iii) refinement of the resource allocation formula to improve HEC resource allocation mechanism for HEIs.

**Project Design:** The project proposes to support the above Government program under two components:

**Component I - Program Financing:** This component will account for about 95% of the total financing provided through the proposed project. The Bank will appraise the full sector program, and, in consultation with the Government, will select 5 to 6 Eligible Expenditure (EE) items (out of a range of overall expenditure items) that will contribute most directly to the desired outcomes of the program. Examples of possible EEs include: Student scholarships development of an HEMIS, tenure-track faculty staff salaries, and research grants.

**Component II – Capacity Building and Technical Cooperation:** Support will be provided to strengthen existing capacities for implementation and monitoring. About 5% of the project could be allocated in two sub-categories:

i) Capacity building of HEC and strengthening HEIs capacity.

ii) Technical assistance including workshops, training, evaluation of ongoing programs and development of new initiatives such as the Student Loan Scheme and the research commercialization program.
4. Safeguard policies that might apply

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<tr>
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5. Tentative financing

Source: ($m.)
Borrower 1200
IDA 300
Total 1500

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