

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON A
PROPOSED LOAN
TO THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
FOR THE
DISTANCE EDUCATION MODERNIZATION PROJECT**

May 2003

CURRENCY EQUIVALENTS

(as of 8 May 2003)

Currency Unit	–	Sri Lanka Rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.010301
\$1.00	=	SLRs97.075

ABBREVIATIONS

ADB	–	Asian Development Bank
DEPP	–	Distance Education Partnership Program
EIRR	–	economic internal rate of return
GDP	–	gross domestic product
IA	–	implementing agency
ICB	–	international competitive bidding
ICT	–	information and communication technology
ILO	–	International Labor Organization
IT	–	information technology
JICA	–	Japan International Cooperation Agency
MPD&I	–	Ministry of Policy Development and Implementation
MTET	–	Ministry of Tertiary Education and Training
NDEN	–	National Distance Education Network
NORAD	–	Norwegian Agency for Development Cooperation
OUSL	–	Open University of Sri Lanka
PMO	–	project management office
PPSI	–	private postsecondary institutions
Sida	–	Swedish International Development Cooperation Agency
SLIATE	–	Sri Lanka Institute of Advanced Technical Education
SMEs	–	small and medium-sized enterprise
TA	–	technical assistance
UGC	–	University Grants Commission

NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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SUPPLEMENTARY APPENDIXES (available on request)

- A. Draft National Employment Policy for Sri Lanka (Government, 2002)
- B. e-Sri Lanka: An ICT Development Road Map (Ministry of Economic Reform, Science and Technology, 2002)
- C. The Future - Regaining Sri Lanka (Government, 2002)
- D. Connecting to Growth: Sri Lanka's Poverty Reduction Strategy (Government, 2002)
- E. TA 3598-SRI: Feasibility Study for Postsecondary Education Modernization (ADB, 2002)
- F. Fresh Look at Unemployment. (World Bank, 1999)

LOAN AND PROJECT SUMMARY

Borrower	Democratic Socialist Republic of Sri Lanka
Classification	Other Development Intervention: Thematic: Human Development and Economic Growth
Environment Assessment	Category C: Environmental implications were reviewed, and no significant adverse environmental impacts were identified.
Project Description	<p>The Project will increase educational opportunities throughout Sri Lanka for secondary school graduates who cannot attend conventional universities due to limited capacity. It will also benefit all others who need to acquire knowledge more directly related to employment in the private sector, since the public service is contracting rapidly. Severe budget constraints are curtailing the growth of the public education system, whereas private postsecondary institutions (PPSIs) have a more narrow range of offerings and lack the physical capability to significantly increase enrollment for traditional face-to-face instruction. Consequently, it is problematical, under the actual structure, to provide enough meaningful learning opportunities for the ever-growing number of secondary school graduates who qualify for further education. The Project will support distance education technology to increase access to diploma and degree programs, especially among the rural educated poor. Institutional support will go to the (i) Distance Education Partnership Program (DEPP), which provides on-line self-study; (ii) public and private postsecondary institutes; and (iii) the Open University of Sri Lanka (OUSL).</p>
Rationale	<p>Sri Lanka, like many other developing economies, has a pressing need to increase skill levels but faces great difficulty in providing educated labor and modern skills due to market failures that yield poor access to postsecondary education. The whole economy has thus adjusted to low skill levels as wages have stagnated and the educated poor cannot upgrade their only real asset? education. Postsecondary education in Sri Lanka also suffers from inefficiencies. Less than 3% of the relevant age group is enrolled, compared with 8% in South Asia as a whole, while about 25% percent of the age cohort qualifies for entry. Tertiary education resources are not allocated according to performance criteria, resulting in little incentive to increase enrollment or enhance performance. In many cases, the curriculum is not in line with economic and social requirements, leading to a continuing decline in educational relevance, access, efficiency, and financing. Addressing these sector constraints will require (i) information awareness campaigns that encourage public-private partnerships to increase quality, relevance, and access to postsecondary education; (ii) distance education to promote greater flexibility at low cost for students outside Colombo to gain access to quality programs; (iii) accreditation and standard setting within a national accreditation board; (iv) program expansion in high-demand fields such as business, computer science, foreign languages, and engineering; and (v) introduction of user fees to offset the cost of on-line study. The Government supports these policies, and the Project will help implement them by addressing market failures through support for distance education and public-private partnerships.</p>

Objectives and Scope

The Project will support the Government's human resource strategy laid out in three recent documents: (i) *The Future - Regaining Sri Lanka*, (ii) *The Draft National Employment Policy for Sri Lanka*, and (iii) *e-Sri Lanka: An ICT Development Roadmap*. The Project will help the Government to implement these strategies by modernizing the postsecondary education system, especially through the introduction of distance education and the promotion of public-private partnerships to reduce pressure on public sector enrollment. The Project will promote economic growth and social cohesion, including among plantation workers and social conflict areas. The Project aims to boost enrolment, quality, and relevance of learning through distance education that can facilitate on line learning for the 165,000 external degree students of traditional universities, qualified PPSI training programs offered by at least 15 recognized private institutions with over 40,000 clients, conventional public institutions that wish to migrate to mixed-mode environment, and some 20,000 learners attending the 26 OUSL campuses across the country. The combined capacity of the PPSIs, Sri Lanka Institutes of Advanced Technical Education (SLIATE), and OUSL will effectively double over the next 5 years. Thus, an additional 50,000 learners will have access to a full range of quality courses of study through the national network of telecenters and affiliated facilities. In addition, the Project will support the key thrusts of government policy to make Sri Lanka computer literate (e-Sri Lanka), and it will stimulate value-added services such as electronic government (e-government), small business connectivity, and community development. This initiative complements World Bank- and ongoing ADB-funded projects aimed at training the educated unemployed so that they will acquire employment-related qualifications by interlacing distance education, public-private partnerships, and open university study.

Cost Estimates

The total project cost is estimated at \$60 million equivalent, including physical and price contingencies, taxes and duties, and service charge; \$24 million (40%) comprises the foreign exchange cost, and \$36 million equivalent (60%), the local currency cost.

Financing Plan

	(\$ million)			
Source	Foreign Exchange	Local Currency	Total	Percent
Asian Development Bank	24	21	45	75
Government	0	10	10	17
Beneficiaries	0	5	5	8
Total	24	36	60	100

Loan Amount and Terms

It is proposed that the Asian Development Bank (ADB) provide a loan in various currencies equivalent to SDR33,005,000 (\$45 million equivalent) from ADB's Special Funds resources. The loan will have a term of 32 years, including a grace period of 8 years, with an interest charge of 1.0% per year during the grace period, and 1.5% per year thereafter.

Period of Utilization

31 December 2009

Estimated Project Completion Date

30 June 2009

Executing Agency	Ministry of Policy Development and Implementation
Implementation Arrangements	The Ministry of Tertiary Education and Training (MTET), the Implementing Agency, will establish the project management office (PMO) to carry out the day-to-day operations of the Project.
Procurement	DEPP will require procurement of computer and network equipment, software licenses, specialized learning and content creation services and products, subscriptions to learning services, electronic libraries and related maintenance, and some specialized transmission and receiving equipment to provide access to on-line education nationwide. The Project will upgrade existing amenities and establish new facilities on selected campuses of OUSL. Goods and services will be procured in accordance with ADB's <i>Guidelines for Procurement</i> . Civil works contracts above \$2 million will follow international competitive bidding (ICB), while those \$2 million or less will follow local competitive bidding. Procurement of equipment above \$500,000 will follow ICB, while contracts valued \$500,000 or less will follow international shopping. Furniture, learning materials, and software costing less than \$100,000 per item may be procured by direct purchase.
Consulting Services	The Project will require 703 person-months of consulting services, consisting of 203 person-months of international and 500 person-months of domestic consultants. Separate packages will be prepared for consultants working under OUSL and DEPP. MTET will select individual consultants to conduct policy studies. All consultants will be engaged in accordance with ADB's <i>Guidelines on the Use of Consultants</i> and other arrangements acceptable to ADB for the engagement of domestic consultants. Quality- and cost-based selection procedures will be used to select consultants to be engaged through a consulting firm. A select number of short-term domestic consultants for the PMO, OUSL, and DEPP may be engaged individually.
Project Benefits and Beneficiaries	The Project will strengthen the postsecondary education system outside the conventional university system by increasing enrollment through greater internal efficiency, application of new distance learning technologies, and promotion of public-private partnerships to share all services and infrastructure provided under the Project. The Project will support World Bank and ADB initiatives in postsecondary education and training. It will provide the vital distance education network for the future multimedia university, will foster partnerships between public and private institutions to share facilities, and will make relevant and topical course materials and knowledge directly accessible to at least 200,000 students within 5 years. Teachers and administrators at OUSL and at public and private educational institutes will have opportunities for staff development, and about 150 public and private institutions, including OUSL and its 26 regional centers, will benefit from access to funds to provide local in-service training and curriculum development for academic programs on-line.

Risks and Assumptions

The Project is not subject to major technical or financial risks. However, (i) continued liberalization of telecommunications; (ii) modernization of the sector administration as a whole; (iii) the adoption of policies and measures designed to stimulate the use of information and communication technology (ICT) and to standardize their applications and processes; (iv) resistance in the strategy to give the private sector a greater role in postsecondary education; (v) continued improvements in development and expansion of rural infrastructure to increase access by the marginalized; and (vi) careful attention to financing the subsector will be necessary to ensure long-term support for distance education. The Government is scheduled to liberalize telecommunications by the end of 2003; connection rates will fall automatically as competition and capacity increase. *e-Sri Lanka: An ICT Development Roadmap* has been finalized and will be coordinated by the Ministry of Economic Reform, Science and Technology through an ICT agency that has recently been created, and the policy is supported by the World Bank within its effort to strengthen capacity to carry out the economic reform agenda. The ICT Roadmap will help MTET to develop specific policies related to the national ICT policy for education, which will shortly lead to telecommunications tariff reductions for educational institutions using the Internet. The Project will require many international consultants to configure, install, and operate the DEPP; to transfer technical knowledge to local experts; and to develop operating policies, procedures, and performance monitoring mechanisms. At present, qualified technical expertise to develop and place course materials on the web for easy student on-line access is very scarce. The e-SRI Lanka Roadmap includes a program on ICT human resource development that seeks to mainstream ICT technology and professional staff training for broad-based tertiary education service delivery across the country. The Project will provide initial resources for computer hardware, software, and staff development inputs under private sector auspices to start up a distance education network. These efforts will be reinforced by current plans to establish multimedia university courses in selected public universities that will provide the expertise both to operate DEPP and to support a proposed multi-media university (MMU). The project's short-term goals will help establish on-line distance education, support public-private sharing of resources, and establish national accreditation standards for institutes and academic courses.

A small financial risk pertains to OUSL and DEPP financial sustainability, as recurrent costs after the Project are expected to average as little as \$1 million per year. OUSL is the only public postsecondary education institute in Sri Lanka that is allowed to charge fees. Project resources will allow OUSL to provide the quality necessary to attract new students and retain existing ones who might otherwise drop out if they cannot access sufficient equipment, materials, and instruction, especially in regional campuses. Increasing fees for improved quality and enrolling more students will allow OUSL to recover its recurrent costs for all its nonsalary and incremental contract staff required under the Project. Beneficiary fees will help make OUSL sustainable, although government grants for salary support to permanent staff will still be required. DEPP is expected to be entirely self-financing by the fifth year of the project.



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Democratic Socialist Republic of Sri Lanka for the Distance Education Modernization Project (Appendix 1).

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

A. Performance Indicators and Analysis

2. Past failure to ensure an adequate supply of relevant skills has forced the economy to adjust to low skill levels, thus perpetuating poverty and low economic growth. Sri Lanka needs to modernize its economy and allow the educated workforce to grow. The rate of return to postsecondary education is relatively high (16-19%), yet unemployment among educated youth is also high (13% compared with 8% nationwide), precluding dynamic economic growth and indicating that the labor market is not functioning effectively. For the economy to function well, it needs macroeconomic stability, openness to competition, and labor market growth through human capital formation for all citizens. Sri Lanka has made some progress in these areas. Since the shift to an open economy started around 1977, the country has experienced over 5.0% growth in gross domestic product (GDP) annually, unemployment declined from 20.0% to 8.0%, the population rate stabilized at 1.1% per annum, and inflation has averaged about 7.9% each year. Consumption and economic poverty have lessened to a little over 26%, while rural poverty remains problematic. Economic growth with low population growth and inflation has allowed the economy to grow fast enough to begin rural transformation, expand small and medium-sized enterprises (SMEs), and reduce the size of the public sector. This structural change has started a shift from low value-added agricultural production to high-value manufacturing and services, resulting in a gradual increase in the education and income level. Sri Lanka is modernizing and diversifying its economy¹ despite the Asian crisis and civil war that until recently consumed 2% of GDP each year. Continued sustainable economic growth is likely if the civil conflict abates; the urban-rural income gap narrows; and the cost of borrowing declines, offering financial relief to SMEs.

3. Continuing structural economic change will depend on private sector growth and a shift to manufacturing and services. At the same time, the supply of educated labor is artificially constrained by a public sector-dominated education system that is unresponsive to the changing needs of the economy. Only 12% of the labor force have a high-school degree or above; only 2% of this group have a university degree, because only 3% of qualified secondary-school graduates gain admission to university. For the economy to become globally competitive, these numbers need to double over the next 10 years. For historical reasons, education supply has been artificially constrained and narrowly focused on a few professions and a one-to-one matching of public sector education placement to public sector employment openings when the economy was dominated by government service. Human resource planning never addressed self- or private sector employment, leading to skill mismatch and labor shortage. At the same time, the social demand for postsecondary education continues, with 25% of the relevant age cohort meeting university entrance requirements but only 3% gaining entrance to conventional universities.

4. The Government is keen to expand enrollment capacity in postsecondary education to meet rising social demand: 200,000 secondary-school graduates compete for about 50,000 places each year. However, the government cannot do so without increasing budgets or

¹ The Government came to power in December 2001 and is committed to the peace process and an open economy.

charging fees in conventional universities; neither measure is likely at present. With limited budget growth over the past 10 years, postsecondary education enrollment has stagnated, and quality has not kept pace with innovations in knowledge and new technologies elsewhere. Dropout reduction and additional intake could make postsecondary school operations significantly more efficient. Introducing new technologies such as distance learning could also increase enrollment, with only initial capital inputs to develop the infrastructure. Encouragement of public-private partnerships to employ distance education could lead to cost sharing associated with expanded capacity to meet social demand without increasing investments in the public system.

B. Analysis of Key Problems and Opportunities

5. Postsecondary education in Sri Lanka suffers from many problems. Less than 3% of the university age group is enrolled in public universities (private postsecondary institutes are not accredited by the government) compared with 8% for South Asia as a whole, and 20% for Thailand and 34% for Singapore – two countries that Sri Lanka would like to emulate. Institutional resources in tertiary education are not allocated according to performance, giving universities little incentive to increase enrollment or enhance results. The relatively low quality and quantity of tertiary education output reflects the sector's continuing decline in quality and the relevance of its programs, restricted access, low efficiency, underfinancing, and excessive state control over admissions and curricula. Because tertiary education is free, students and their parents have little interest in reforms. Traditionally, graduates have been content to queue for years for public sector jobs. All these problems are being addressed by the government reforms in tertiary education, which provide for amended policies to (i) create an enabling environment for private sector participation; (ii) establish performance-based educational accreditation standards, especially in high-demand fields such as business, management, computer science, engineering, economics, and natural sciences; (iii) replace line-item with performance-based budgeting; and (iv) modernize educational pedagogy through new learning technologies such as distance education supported by multimedia university courses in selected universities (Appendix 2).

6. New learning technologies such as distance learning can deliver excellent academic programs to a wide audience that is currently excluded from the conventional system (Appendix 3). There is no national delivery system for distance learning, and the core skills needed to develop materials and to train teachers to operate in a learner-centered environment are still in early infancy, as are the hardware and software for web-based learning with online-on-line tutorial support. The best approach to establish a National Distance Education Network (NDEN) may be to link hardware and specialized software and services to the establishment of a technically competent business enterprise. This business enterprise labeled Distance Education Partnership Program (DEPP) can offer curriculum and training expertise to create, migrate, and upgrade existing courseware to the web and to deliver knowledge and learner support to a extensive variety of conduits nationwide. Multimedia learning centers can be located in schools, in Internet cafes, and in many other institutions, depending on the need for access to the distance learning network around the country. The services should be made available to public and private institutions on a cost-shared basis to engender competition, raise academic standards, and promote linkages among institutions.

7. This information and communication technology (ICT) approach to distance education boosts the Government's ongoing efforts to develop ICT multimedia university programs on several campuses of leading universities, where course offerings provide curriculum development, training, and marketing skills for on-line learning. Currently, OUSL has the basic regional infrastructure for distance education outreach but lacks capacity, materials, and skills to introduce distance learning. In the context of the Government's determination to favor the

private sector as a key instrument in education, the DEPP partnership model enlists the private sector to manage and operate a distance education network within a framework of well-defined policies, guidelines, and jointly agreed upon outputs of quality and quantity. Given appropriate monitoring mechanisms, this strategy represents a practical approach to professionally develop distance education programs and learning exchanges for new and ongoing courses, including those at OUSL, other public institutions such as Sri Lanka Institute of Advanced Technical Education (SLIATE), and for private postsecondary institutes. In 5 years, when professional staff are readily available in Sri Lanka, and when distance education programs are up and running on-line for a wide range of postsecondary institutions, it may be possible to either fully privatize the DEPP, or integrate it within OUSL or some other public or private institution. Under the World Bank Tertiary Education Project, support for ICT programs at public universities will be encouraged to provide the foundation for ICT courses that will eventually lead to mixed mode and multimedia universities. Since the need is great and continues to expand, the government will incubate several sustainable small-scale programs in different regions of the country rather than aim for one single large multimedia university. The very nature of a multimedia university implies connectivity that can link campuses easily.

8. The Project supports the Government's policies by increasing access to quality programs at low cost for those excluded from conventional universities (Appendix 4). OUSL was constituted in 1980 under the Universities Act No. 16 of 1978 and OUSL Ordinance No. 1 of 1989. OUSL enrolls about 10,000 students annually in mostly certificate, diploma, and degree programs that provide a progressive ladder of educational opportunities through nontraditional teaching methods. OUSL also addresses the need to transfer the knowledge and skills capabilities required in secondary education, teacher training, social services, agricultural extension, and continuous professional development of workers in many fields. OUSL has a wide network of 26 existing and planned campuses nationwide for students who cannot leave their jobs or families to study full-time away from home. The rationale for a public-supported OUSL is that it provides public goods, especially in the social sectors, and contributes to economic growth, human development, and poverty reduction by providing postsecondary education in remote areas. OUSL enrollment peaked in 1998 and slowly fell as the quality and relevance of the programs and facilities declined due to budget cut-backs. To reinvigorate growth, OUSL needs to upgrade existing faculties on regional campuses and to streamline administrative procedures, including student admissions and tracking. OUSL has several key advantages over the conventional education system. Its unit costs are only 20% of conventional university costs on average, and with improvements in procedures and upgrading of facilities, enrollment can double over the next 8 years along with student completion rates. With a larger budget from increased enrollment, OUSL will help increase the pool of educated labor and level of public services provided outside the capital.

9. Another avenue to help double access to educational opportunities is to encourage public and private schools to share common resources and activities. Government policies to build public-private partnerships include (i) public awareness campaigns to share information on career guidance and job information among students; (ii) transparent accreditation policies that lead to flexible enrollment admission, accountability for monitoring academic standards, accreditation, and transfer across institutions; (iii) distance learning technologies to disseminate quality programs and information around the country; (iv) foreign and local institutional twinning arrangements; and (v) public funds for cost-sharing ventures with private institutions to increase enrollment and support the needy through scholarships. Of special interest is the Government's provision of matching grants to private postsecondary institutions for ICT and multimedia services that allow private schools to migrate academic programs on-line. The Government is willing to provide matching grants to promote institutions to cover the high costs of borrowing for ICT and multimedia equipment and services to go on-line. The matching grant also supports stipends for needy students to attend private schools.

C. Government Strategy and Policy

10. The Government that took office in December 2001 is committed to modernize the economy to broaden and deepen the labor market through a flexible education system with special attention to minimizing differences across regions, especially through ICT and new learning technologies.² Starting with *The Future - Regaining Sri Lanka* framework released in 2002, the Government has signaled its policy agenda to stabilize macro policies, financial investment, infrastructure development and productivity in key sectors and public sector reform. The document sets the tone for reforms to support self-employment and encouragement of job creation for SMEs while looking into education finance reform and public-private participation in tertiary education. The draft National Employment Policy for Sri Lanka also sets forth the strategy for modernizing the labor force. The policy stresses career guidance and employment information, education, and training for lifelong employability; support for self-employment and SMEs; and cooperation among government, employers, and employees to reduce labor regulations and create investment incentives to encourage growth of SMEs. These policies and priorities will help refocus government efforts to expand jobs outside the public sector. Along similar lines, the Government's poverty reduction strategy aims to give citizens the chance to participate in the pro-poor growth process by enhancing livelihoods, increasing incomes, and ensuring access to essential local social services. Priorities worked out with aid agencies and nongovernment organizations will (i) create opportunities for the poor to benefit from higher productivity by fostering broad-based rural development, competitive industrialization, and service sector development; (ii) improve market access by linking poor regions to dynamic markets, including through telecommunications deregulations; (iii) raise productivity to broaden market access for SMEs, including programs to liberalize labor regulations; and (iv) increase access to quality education for upward socioeconomic mobility.

11. The Government recently released its vision of Sri Lanka connected via ICT to provide the smooth flow of knowledge connectivity throughout the country. *e-Sri Lanka: An ICT Development Roadmap* offers a five-pronged program to (i) establish an agency to develop the ICT strategy and policy; (ii) develop the national hardware and software infrastructure through telecommunications network and regulatory policy; (iii) develop ICT human resource capacity through qualified professionals to use ICT for broad-basing tertiary education across the country; (iv) develop e-government service delivery; and (v) use the e-government to leverage economic and social development through access to internet, computer literacy, and telecenters to connect communities to the mass media. Specific education policies include (i) accreditation for easy transfer of course credit across institutions, (ii) performance-based school assessment, (iii) public-private partnerships and link programs across institutions, and (iv) distance-learning programs to provide outreach through quality on-line academic programs to working rural students who cannot leave their jobs or families to study in cities. These distance-learning approaches involve ICT and accompanying user fees. A list of policies is found in Appendix 5.

D. Funding Agencies' Strategy in Education

12. The Asian Development Bank (ADB) Country Strategy and Program Update (2002) and *Poverty Reduction Strategy in Sri Lanka*³ highlight poverty reduction and emphasize pro-poor investments to strengthen public-private partnerships. In education, this means that ADB will support reform efforts to (i) open access and improve quality, particularly in rural and conflict areas; (ii) promote social cohesion through provision of educational opportunities nationwide

² Government of Sri Lanka. 2002. *The Future – Regaining Sri Lanka*. Colombo; Government of Sri Lanka. 2002. *Connecting to Growth: Sri Lanka's Poverty Reduction Strategy*. Colombo; Ministry of Employment and Labor, 2002. Draft National Employment Policy for Sri Lanka. Colombo; Ministry of Economic Reform, Science and Technology. 2002. *e-Sri Lanka: An ICT Development Roadmap*. Colombo.

³ ADB. 2002. *Poverty Reduction Strategy in Sri Lanka: Issues, Findings, Approaches*. Manila.

through distance education for skill development, career guidance, and institutional capacity building; and (iii) improve public-private institutional resource management. The ADB policy on education supports efforts in postsecondary and tertiary education, where millennium development goals already have been substantially achieved to improve internal and external efficiency and equity. Priorities include providing course information, attitude change, and skills essential for sustainable economic growth, with emphasis on equity, access, quality, capacity building, resource mobilization, public-private partnerships, and new learning technologies. The Project includes subsidiary priorities: (i) reaching the poor; (ii) improving quality; (iii) increasing efficiency; (iv) mobilizing resources; (v) collaboration with beneficiaries; and (vi) supporting innovation. The Project supports increasing educational opportunities in rural areas for those unable to attend formal schools; improving quality of and access to improved academic programs, especially on-line; increasing the internal efficiency of OUSL and the Ministry of Tertiary Education and Training (MTET); mobilizing resources outside the government grant system; collaborating with public-private institutions; and introducing distance-learning technologies to raise standards.

13. ADB previously supported skill development for junior secondary-school leavers by providing wider choices in vocational and technical programs.⁴ ADB provided technical assistance (TA) to improve the financing of social sectors (1995) that looked at trend data showing how the Government allocated and budgeted funds across the sectors. ADB provided TA to improve educational planning in 1998. The study provided valuable information in the form of an employment survey on how students sought employment after school. The study culminated in a policy agenda that recommended (i) expanding university education to qualified nonpublic and private sector institutions through rules and regulations on opening, operating, and closing schools, maintaining standards, and fair trade practices to protect students; (ii) improving the quality of course content through an accreditation board; (iii) offering career guidance and job search information; (iv) recommending financial management of resources to replace line-item budgeting with performance-based budgeting; and (v) harnessing new learning technologies to improve access and quality. Based on discussions, visits, interviews, and focus groups, these reviews and employment survey provided government with important information to develop the university reforms agenda.⁵

14. In September 2000, the Government sponsored a tertiary education workshop for donors in Kandy. ADB was requested to support public and private postsecondary education institutions outside the conventional, academically oriented university system.⁶ At the same time, the Government requested the World Bank to help rationalize the traditional university system. Both agencies spent 2002 engaged in project preparation. ADB prepared the distance education project. The World Bank prepared a tertiary education project to increase graduate employment through competitive-based funding proposals from conventional university faculties. Throughout ongoing discussions on educational reform since 1996, government officials, beneficiaries, private stakeholders, and other financial agencies were consulted closely. The Norwegian Agency for International Cooperation (NORAD) and Swedish International Development Cooperation Agency (Sida) are helping universities reform their

⁴ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Skills Development Project*. Manila.

⁵ ADB. 1995. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Study on Financing of Social Services*. Manila; and ADB. 1998. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Improving Education Planning*. Manila, which included Vol. 2, Chapter 1: The Labor Force Experience of Secondary School Graduates with University Degree Holders in 1993 and 1997; Vol. 2, Chapter 2: Population Change and Labor Supply in Sri Lanka; Vol. 2, Chapter 3: Survey Sample of Employed and Unemployed Secondary School and University Graduates from Public and Private Post Secondary Schools and Universities; and Vol. 2, Chapter 4: A Survey of Selected Growing (sunrise) Industries.

⁶ ADB. 2000. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Postsecondary Education Modernization Project*. Manila.

management, information, financial, and accounting systems. The Japan International Cooperation Agency (JICA) is helping develop ICT skills for web writers and is supporting a bachelor's degree in teaching at the University of Colombo. The International Labour Organization (ILO) is helping the Ministry of Employment and Labor develop a job-listing databank for public consumption. Together with the World Bank,⁷ NORAD, Sida, ILO, and JICA, the aid strategy on higher education is designed to improve internal and external efficiency, boost quality, and ensure sustainability of the tertiary education system for the greatest number of students (Appendix 6). More recently, the World Bank has been involved in developing a major ICT project, based on e-Sri Lanka.

E. Lessons Learned from Experience in Education

15. Worldwide experience shows that education systems can be expanded to meet increased social demand for improved quality, even with budget constraints. When additional public funds are limited, careful attention must be paid to limit the scope to public programs that enhance the public good. Adequate public funds are needed to pay the base costs for quality teaching inputs. Another approach is to promote public-private partnerships, which can provide resources to help institutions employ new learning technologies to meet social demand.⁸ ADB experience in setting up a private university in Ho Chi Minh City, Viet Nam, indicates that where demand exists, the private sector and prospective students are willing to share costs. In Sri Lanka, private schools are reluctant to start because of the financial risks associated with high borrowing costs and financing of student services, including on-line libraries, and ICT.

16. ADB experience in establishing the Open University in Dhaka, Bangladesh, showed that without adequate resources, efficiency suffers unless schools are allowed to charge tuition. The Open University also required sound management and administration to encourage the Government to provide additional funds to fully utilize the facilities. In open universities worldwide, students are generally willing to pay for services, provided that the amounts are affordable, services are of high quality, school administration is efficient, and schools make full use of facilities. In Nepal, ADB learned that vocational and technical training requires close cooperation with the private sector, and surveys of demand for specific occupations. The proposed Sri Lanka project stresses demand-driven academic programs and close cooperation with the private sector, because education must be closely linked to employer needs. To promote social equity, charging for services and seeking exemptions through socially targeted stipends is better than simply providing free services across the board. While politically difficult to implement, the best policy is to provide the highest quality to the most people at least cost while ensuring options to the poor who lack the resources to access quality programs.

17. Project implementation in Sri Lanka previously suffered from cumbersome procurement procedures that are now being addressed by ADB's Sri Lanka Resident Mission. Typically, project implementation works well when the implementation office and executing agency are experienced in project administration and work together. ADB education projects have been fairly successful. Projects have been completed within cost and on time. Proper administration ensured that overseas study tours and procurement of goods and services were effective. However, continuous supervision of MTET capacity will be required to ensure successful implementation of existing and new ADB projects. Likewise, care will be required to ensure that

⁷ World Bank. 2002. *Construction Knowledge Societies: New Challenges for Tertiary Education*. Human Development Network. Washington DC; and World Bank. 2002. University Education Improvement Project. Aide Memoire, Appraisal Team. 2002.

⁸ ADB. 2000. *Report and Recommendation of the President for the RMIT International University of Vietnam*. Manila.; ADB. 2000. *Project Completion Report. Open University of Bangladesh*. Manila.; and ADB. 2002. *Project Performance Audit Report on the Technical Education and Vocational Training Development Project in Nepal*. Manila.

policy reforms for tertiary education are coordinated between the Ministry of Policy Development and Implementation (MPD&I) and MTET.

III. THE PROPOSED PROJECT

A. Objectives

18. The Project supports the Government's human resource strategy laid out in three recent government documents: (i) *The Future - Regaining Sri Lanka*; (ii) *The Draft National Employment Policy for Sri Lanka*; and (iii) *e-Sri Lanka: An ICT Development Roadmap*. The Project aims to boost the enrollment, quality, and relevance of learning through distance education such that it will immediately facilitate on-line learning for the 165,000 external degree students of traditional universities, qualified PPSI training programs offered by at least 15 recognized institutions with over 40,000 clients, conventional universities that wish to migrate to a mixed-mode environment, and some 20,000 learners attending the 26 OUSL campuses across the country. The combined capacity of the PPSIs, SLIATE, and the OUSL will effectively double over the next 5 years. Thus, an additional 50,000 learners will have access to a full range of quality courses of study through the national network of telecenters and affiliated facilities. In addition, the Project will support the key thrusts of e-Sri Lanka, and it will stimulate value-added services such as e-government, small business connectivity and community development. This initiative will interweave three inter-dependent components of distance education, public-private partnership and open university study. It will complement World Bank- and ongoing ADB-funded projects aimed at training the educated unemployed so that they will acquire employment-related qualifications.

B. Components and Outputs

19. The Project will have three components that will increase access to and quality of educational opportunities for secondary school graduates. The first component will improve program content and course distribution by establishing the DEPP to provide access to curriculum, training, and multimedia services through more than 100 multimedia centers nationwide. The DEPP also includes the NDEN, linking the 26 OUSL centers and other public and private postsecondary institutions via web-based multimedia courses and training, tutorial chat rooms, and on-line electronic access to OUSL and other member PPSI electronic libraries, multimedia, and university press services. These services will be provided for up to 200,000 students in public and private postsecondary institutes participating in the Project. The second component will stress public-private institutional sharing through matching grants for (i) stipends for the poor, (ii) information sharing on career and labor market awareness, (iii) participation in standardized accreditation setting, (iv) access to on-line distance education programs and funds for ICT and learning materials, and (v) participation in program sharing with foreign universities. Component two also includes project management activities. The third component will use consultants and staff training to make OUSL more efficient by modernizing school administration, including by streamlining the information technology (IT), financial and accounting, budgeting, and student registration systems for all campuses. The component will also expand and upgrade facilities at all OUSL campuses, including providing science and computer laboratories, staff offices, equipment, furniture, and vehicles. The Project is outlined in more detail in paras. 20-27.

1. **Component 1: Establishment of the DEPP to Raise Quality and Enhance Capacity**

20. The DEPP will be established to raise quality and enhance capacity by setting up and managing a distance education network that provides curriculum content, training, mentoring, peer group support and interaction, and related undertakings, plus maintenance of hardware and software. The projected cost is \$15 million for expertise, capacity building, technology transfer, equipment and software, and recurrent costs. The DEPP will operate as a corporate entity located within public premises. This component will have two parts. Part A will include the establishment of the DEPP office to provide curriculum development, training, research, marketing, and contract outsourcing management services for on-line distance education academic courses for up to 150 public and private postsecondary institutes. The DEPP board will comprise the same members as the project steering committee along with MPD&I. DEPP activities will include international and domestic consultants to develop the business and marketing plan, set up a curriculum program department, and train local web writers and on-line tutors to operate distance education programs on-line. A system evaluation will be carried out to assess the long-term sustainability of the DEPP. Budgetary support for local staff and training, and recurrent operating costs will be provided under the Project to cover costs for the first 5 years when revenue growth is weak.

21. Part B will include the establishment of the NDEN under DEPP. The NDEN is the hardware side of the DEPP and includes consultants, some equipment, and recurrent operating costs to configure, install, and operate the national distance education system needed to support DEPP service delivery of on-line educational courses to 150 public and private member institutions, including OUSL campuses. Outputs will include the establishment of a national network of multimedia centers to provide on-line learning. Activities will include hiring of international and domestic consultants, leasing capacity and delivery systems, purchase of a limited range of equipment, payment of recurrent costs for contract workers, and operation and maintenance during project implementation to establish the NDEN at all OUSL campuses and another 100 multimedia centers in public and private postsecondary institutions assisted under the Project.

22. DEPP and NDEN technicians will guide the setup of the national hardware and software network, in close collaboration with the private sector service providers, to connect multimedia centers nationwide. The network will consist of the distribution center at the DEPP and the multimedia centers around Sri Lanka. Multimedia centers are similar to computer labs found in schools but they include radio, audio, multimedia, facilities, facsimile, copying, telephone, and web browsing services. The administration, engineering, and technical services; multimedia center operations; and facilities and equipment setup will be handled by the DEPP. MTET will outsource the establishment and operation of the DEPP to a private contractor. Outputs will include establishment of DEPP facilities and staff training, configuration and installation of hardware and software, and servicing day-to-day operations to expand the system into a profit-making venture before project completion. Outputs will include an on-line delivery system of quality academic programs, training and tutorial support, admissions and billing system, career guidance, and job listing. The NDEN will provide the delivery system and technical servicing for facilities and equipment, including connectivity for multimedia centers and numerous public and private educational institutions. In all, up to 80,000 external degree students and students attending public and private institutions will gain access to DEPP distance education programs each year.

2. Component 2: Public-Private Partnerships to Increase Access

23. Policies will be introduced to promote more fluid private sector participation in postsecondary education. Policies include support for (i) universal accreditation standards, (ii) private participation in on-line distance education, (iii) link programs with foreign and domestic institutions, and (iv) scholarships and stipends to support education and training. Particular importance will be attached to matching grants provided to private sector institutes to offset high costs of borrowing, and to promote expansion to increase enrollments. Stipends and scholarships for the poor will also be encouraged along with allowances for short-term training on-line with postsecondary education institutes to meet immediate skill shortages in key labor market segments. This component will have two parts. Part A will include matching grants to support several new MPD&I policies affecting postsecondary education. The Project will support the Government's establishment of an autonomous accreditation board under the University Grants Commission (UGC) for all tertiary education institutions to set standards and monitor institutional qualifications through data collection. The Project will provide studies and public awareness campaigns to alert students to career guidance, job search skills, and understanding of labor market requirements through information sharing on the web. The project management office (PMO) will carry out studies to (i) audit OUSL capacity to provide quality education, (ii) establish ICT policy for distance education for external degree students, and (iii) establish guidelines for licensing and accrediting academic programs for private postsecondary schools to ensure fair trade practices. The Project will provide funds for foreign and domestic postsecondary education institutions to exchange faculty and curricula. The Project will provide support for stipends for poor students in public and private institutions and for unemployed secondary school leavers. Approximately 4,500 needy OUSL students, needy students registered at DEPP, and unemployed A-level graduates seeking short term training will qualify annually for need-based stipends to pay tuition fees. The Project will support ICT policies by providing public and private postsecondary institutions with matching funds to achieve these goals. MTET will provide matching grants under the Project to public and private postsecondary education institutes that can demonstrate increased enrollment through increased access to distance learning, programs linked with foreign institutions, and stipends for the poor. Part B will include the recurrent costs for staff and domestic consultants to operate the PMO, which will handle the day-to-day operations of the Project and implement educational policy. A Task Force under MTET will be set up to evaluate proposals from private institutes (Appendix 6).

24. Outputs will include policies that support (i) development of on-line career guidance programs, school-rating systems, on-line job search, school certification assessment, and school ranking through an accreditation board; (ii) stipend programs for the poor and for rapid training of unemployed educated youth; and (iii) ICT for school multimedia centers, and on-line access to academic programs and digital learning materials for up to 100 mostly private postsecondary institutes through matching grants. Matching grants will be provided to private postsecondary institutions that submit proposals for grants to upgrade ICT facilities and convert program syllabuses to on-line learning and outreach to a wider audience in towns across Sri Lanka. Matching grants will be contingent on schools providing additional stipends for the poor and will help reduce the high cost of borrowing for computers and transferring academic programs to the web.

3. Component 3: OUSL Expanded Capacity

25. The Project will modernize OUSL to bring it up to world-class standards in distance education. The Project will support developing OUSL human and material assets that will be made available to over 20 PPSIs. By project completion, enrollment capacity will be doubled, with 60% of new clients in rural areas. Approximately \$8 million will go toward upgrading central facilities, and \$10 million for refurbishing regional educational amenities accessible for shared

use by other public and private educational institutes. The OUSL outreach is unique in supporting poorer students in rural areas for whom there are few other options to obtain an academic diploma or degree.

26. OUSL capacity expansion will have two parts. Part A will include administrative streamlining and staff development to modernize the (i) accounting, budgeting, and financial systems; (ii) the IT system; (iii) the student admission system, including a tracer study and tracking system; and (iv) a staff development program, including curriculum revision. To double enrollment and increase the completion rate, OUSL will strengthen its administrative computer operations with the help of consultants, who will train staff in the use of new equipment and software. Part B will include renovation and upgrading of central and regional campus facilities. At the central campus, the Project will support construction of two much-needed buildings: (i) a science and technology center for the faculty of engineering and natural sciences, which will include science laboratories and staff offices; and (ii) an educational learning technologies building, which will also house the education faculty and the IT center. Other buildings will be rehabilitated, including the library, multimedia center, and university press. Construction of new buildings and rehabilitation of the other OUSL regional and study centers will support staff offices, science laboratories, and computer centers. All civil works on OUSL campuses were determined by need. Two new regional centers will be upgraded from study centers at Batticaloa and Anuradhapura. Hatton, Dambulla, Gampaha, Hambantota, and Puttalam will have 5 new study centers for a total of 6 regional and 20 study centers. New centers will be established on government lands; no resettlement is required.

27. Outputs will include (i) doubling of enrollment from 20,000 to 40,000 students; (ii) modernizing the OUSL accounting/budgeting and financial system; (iii) strengthening the ICT system; and (iv) improving the admissions system, which will be put on-line, and the staff training program, which will provide foreign and local training for OUSL faculty and staff. The successful candidates will be required to return to OUSL and teach for a minimum of 3 years after training. An OUSL social audit will be carried out to determine performance-based budgeting, which will link enrollment growth to budget growth so that performance-based budgeting can be implemented. Other outputs will include construction of the two important buildings on the OUSL central campus and numerous rehabilitations at all other regional and study centers. Furniture, equipment, vehicles, consulting services, and recurrent costs for new contract staff will be provided to ensure enrollment growth. Increased outreach capacity to regional campuses will be met through additional contract staff paid by fees from new students, and improved registration and counseling, which will lead to higher enrollment and fees.

C. Special Features

28. **New Learning Technologies.** The DEPP will provide a platform for an ICT network of hardware and software linking 26 new and existing OUSL centers around the country via the Internet, with provision to expand to additional multimedia centers in 100 public and private educational institutions over 6 years. The DEPP will offer the technical competence to develop a business and marketing plan to provide, on a cost-recovery basis, online (i) curriculum content development, (ii) tutorial training, (iii) course design production, and (iv) management and marketing. Learning content available on-line will include OUSL core programs, and courses for any other PPSI that seeks to migrate its course content onto the web for ready access throughout the country. The DEPP will combine technical expertise and access to web-based on-line multimedia, a national professionally trained system of tutors, and digital learning materials targeted at external degree students. The DEPP will support multimedia courseware being developed by selected universities, and eventually, it may be absorbed into a private multimedia university or it could be set up as a stand-alone organization owned and operated by member PPSIs for their common benefit.

29. **Public-Private Partnership Model.** Aside from establishing the DEPP to support public-private partnerships to create and deliver new learning technologies, the PMO will encourage public-private sharing of startup costs to access distance learning and improve computer and library facilities by providing matching funds to acquire and migrate print materials to interactive mode, and to localize foreign-sourced materials for on-line delivery, including tutorial support systems and electronic library facilities. Private postsecondary institutions are normally licensed degree-granting establishments recognized by MTET. They may also qualify for student stipends to encourage on-line study, and for capital funding for equipment, shared access to labor market surveys and career guidance counseling, public awareness campaigns sharing information on educational opportunities, and foreign and local institutional linkages. The Project will provide access to these services by encouraging public and private postsecondary institutions to participate in project activities. The Project will accomplish this by providing matching funds for educational institutions to reduce borrowing costs, strengthen ongoing programs to increase enrollment, and support student scholarships.

30. **Education Policy Coordination.** Previous ADB TA provided the government with a framework to advance tertiary education goals. The Project will support new governmental proposals expressed in *e-Sri Lanka*, and it will provide mechanisms to implement the related goals. The Project will support government policies to harness the private sector as a strategic partner to rationalize the expansion of intake capacity through public-private partnerships and distance learning at OUSL. MPD&I will closely coordinate these activities with ongoing government efforts to undertake tertiary education reforms and, with the World Bank, to modernize conventional universities to provide relevant courses. MTET and UGC will establish an autonomous accreditation board by 2005 to audit postsecondary institutes, and train staff in self-evaluation so that results-based budgeting will take precedence over traditional line-item budgeting. MPD&I will coordinate with OUSL to extensively review OUSL operations to improve efficiency and monitor enrollment growth and budgeting. MTET will coordinate career guidance and labor market employment information systems with the Ministry of Labor to provide information on curriculum and courses at postsecondary education institutes. MPD&I will establish a task force to formalize the links between university education and postsecondary institutes to facilitate cross-enrollment and standardization of academic requirements through a framework for cooperation among postsecondary institutions. The study will recommend adoption of clearly defined rules and regulations on opening, operating, and closing institutes; requirements for accreditation through the accreditation board; and listing of fair trade practices to protect students.

D. Cost Estimates

31. The total project cost is estimated at \$60 million equivalent, including physical and price contingencies, taxes and duties, and interest charge; \$24 million (40%) comprises the foreign exchange cost, and \$36 million equivalent (60%), the local currency cost. The foreign and local project cost estimates by component are summarized in Table 1 and Appendix 8.

E. Financing Plan

32. It is proposed to provide a loan of \$45 million equivalent from ADB's Special Funds resources. The Borrower will be Sri Lanka. The loan will have a term of 32 years, including a grace period of 8 years, with an interest charge of 1.0% per year during the grace period and 1.5% during the remaining term. ADB will finance 70% of the project cost, including \$24 million (100%) of the foreign exchange cost and \$21 million equivalent (58%) of the local currency cost. The Government will finance \$10 million equivalent (17%) of total costs for civil works, special programs, incremental recurrent cost, taxes, and duties, with local beneficiaries financing the remaining \$5 million equivalent (8%) of total costs through course fees, and private institution matching funds for ICT facilities and multimedia equipment (Table 2).

Table 1: Project Costs by Component
(\$ million)

Project Component	Foreign Exchange	Local Currency	Total
A. Base Cost^a			
1. Component 1 Distance Education Partnership to Raise Quality	12.3	4.6	16.9
2. Component 2 Public-Private Partnership to Improve Access	1.0	16.7	17.7
3. Component 3 Expanded OUSL Capacity	7.0	11.0	18.0
Subtotal (A)	20.3	32.3	52.6
B. Contingencies			
1. Physical Contingency ^b	1.0	1.4	2.4
2. Price Escalation ^c	1.0	2.3	3.3
Subtotal (B)	2.0	3.7	5.7
C. Interest Charge^d	1.7	0	1.7
Total	24.0	36.0	60.0
Percentage	40.0	60.0	100.0

^a Taxes and duties included in base costs at 10% of civil works, furniture, and instructional materials; and 15% of equipment.

^b Computed at 5% for all categories.

^c Computed at 2.4% per year for both foreign exchange and local currency.

^d Computed at 1.0 percent% per year.

Table 2: Financing Plan
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percentage
Asian Development Bank	24	21	45	75
Government	0	10	10	17
Beneficiaries ^a	0	5	5	8
Total	24	36	60	100

^a Beneficiary costs include student user fees for the Open University of Sri Lanka (OUSL) and the Distance Education Partnership Program (DEPP), and private postsecondary school counterpart funds to match government support for information and communication technology (ICT), multimedia equipment, link programs with foreign universities, and stipends for poor students.

33. Asian Development Fund loan funds are justified to upgrade the OUSL campus network and expand its outreach to double enrollment and provide seed funds for the DEPP to place core programs on-line for external degree students. Most students benefiting from these programs reside in rural towns and lack access to educational opportunities. Cost sharing through course fees will recover up to 40% of OUSL nonsalary recurrent expenditures and salary expenditures for contract staff after 6 years. These fees will provide the resource base to operate OUSL thereafter. OUSL needs government support to strengthen public services.

F. Implementation Arrangements

1. Project Management

34. The project steering committee, chaired by the policy development and implementation secretary, will include the tertiary education secretary; the project director of the PMO (as recording secretary); and representatives from the National Education Commission, OUSL, private postsecondary institutes, Chamber of Commerce, public-private partnership Task Force, UGC, and University of Moratuwa. The steering committee will serve as the apex decision-making body and will meet quarterly to review progress and take decisions. The PMO has been established by MTET, offices have been identified, and core staff appointed. The PMO at minimum will include the project director, deputy director, two accounts officers, procurement specialist, building engineer, and monitoring and evaluation officer. It will also include two staff members to prepare the Project's OUSL activities, one full-time staff member to manage DEPP activities, and one special programs coordinator. To implement special programs, a public-private partnership task force composed of outside academics and representatives from OUSL, MTET, and the private sector will ensure transparency in reviewing and selecting proposals submitted for scholarship and matching grants. Scholarships for the poor will be reviewed by the PMO, and recommendations on recipients will be based on a review of existing criteria considering financial need and academic performance, which will be agreeable to ADB. MTET will set up the Task Force within 1 month of loan effectiveness. The Task Force also will review the public-private partnership applications for matching grants and make recommendations to the steering committee for approval. The Task Force will recommend policy guidelines on public-private partnerships to operate and maintain quality standards. The DEPP technical committee, composed of representatives from MPD&I OUSL, MTET, and a management firm, will oversee all issues related to DEPP management and NDEN installation and servicing.

2. Implementation Period

35. The Project will be implemented over 6 years, from June 2003 to 2009 (Appendix 9).

3. Procurement

36. The Project will upgrade existing facilities and establish new ones in OUSL central and regional campuses. Furniture and equipment for these buildings and for the DEPP and the NDEN, including standard network equipment, science equipment, and office computer equipment, will be provided under the Project. The goods and services financed under the loan will be procured following ADB *Guidelines for Procurement*. Civil works will take place on government land and will not engender any involuntary resettlement. Civil works contracts above \$2 million will follow international competitive bidding (ICB), while those valued at \$2 million or less will follow local competitive bidding. Procurement of equipment above \$500,000 will follow ICB, while contracts valued \$500,000 or less will follow international shopping. Furniture, learning materials, and software costing less than \$100,000 per item may be procured through direct purchase to ensure local relevance and quick delivery. Civil works and equipment packages are in Appendix 10.

4. Consulting Services

37. The Project will require 703 person-months of consulting services, consisting of 203 person-months of international and 500 person-months of domestic consultants. Separate packages will be prepared for consultants working under OUSL (72 person-months, international; 55 person-months, domestic) and the DEPP (121 person-months, international; 304 person-months, domestic). An additional 10 person-months of international and 122

person-months of domestic individual consultants will be provided to the PMO. All consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for engagement of domestic consultants. A select number of short-term domestic consultants will work for the PMO. OUSL and the DEPP may be engaged individually to respond rapidly to problems (Appendixes 11 and 12).

5. Advance Action

38. The Government has requested advance action to ensure that the Project activities start on time. Aside from ensuring that the PMO is established and core staff are identified before loan negotiations, the implementing agency (IA) will prepare the ICB procurement package for DEPP hardware and the shortlist of DEPP consultants. OUSL will prepare the ICB contract for new civil works at OUSL so that construction can be tendered within 6 months after loan effectiveness. ADB has approved advance action for the procurement of the civil works contract at OUSL and the supply contract for the DEPP, and the consulting services for the DEPP and the NDEN on the understanding that such advance action does not commit ADB to finance the Project.

6. Selection Criteria for Stipends, Public-Private Partners, and Foreign-Domestic Links

39. The PMO, with the assistance of the Task Force, will advertise requests for poor students enrolled at OUSL, poor unemployed secondary school graduates, and educated unemployed seeking skills training to apply for stipends to pay their tuition fees. Criteria will be based on an income means test and other socio-economic factors approved by PSC and ADB. Annual enrollment and academic performance will determine continuous eligibility scholarship holders. Training programs for educated unemployed will be submitted to ADB for approval within 3 months of loan effectiveness.⁹ The PMO will ask postsecondary institutions to submit proposals for matching funds to upgrade ICT facilities and develop academic courses on-line. Proposals will not exceed \$50,000, of which the Project will pay half through matching grants. Only postsecondary private institutions recognized by MTET can apply, and they must show significantly increased capacity as a result of the upgrade as outlined in the proposal. To qualify for the grant, schools must provide the PMO with detailed information on their existing and proposed additional stipend program for the poor. Public-private partners may also request, as part of the grant, permission to join link programs with foreign institutions to gain access to foreign degree-granting institutions. Under the foreign-domestic link program, funds to pay for course material and faculty exchange may be requested through a proposal to be evaluated by the advisory program in consultation with the PMO and ADB.

7. Disbursement Arrangements

40. To expedite the disbursement of loan funds, the Government will establish an imprest account at the Central Bank of Sri Lanka in Colombo. The imprest account will be established, managed, replenished, and liquidated in accordance with the *ADB Loan Disbursement Handbook*, dated January 2001, and detailed arrangements agreed on by the Government and ADB. The ceiling for the use of statement of expenditure procedures will be \$100,000 (*Loan Disbursement Handbook*, para. 9.17). The initial advance to the imprest account should cover the anticipated expenditures for 6 months but not exceed \$2 million. The flow of funds will be approved by the PMO, with funds for local training and consultants provided directly to OUSL

⁹ Alternatively, the Government may seek ADB concurrence to implement scholarships through the ongoing ADB-assisted pilot Self-employment Promotion Initiative revolving fund established under Loan 1707-SRI(SF): Skills Development; the ongoing Tharuna Aruna Program jointly operated by government and private sector; or the ongoing student scholarship program.

via an imprest account I/A subaccount as noted in the project administration memorandum. The PMO will provide funds to public and private schools under special programs for ICT equipment, learning materials, and rehabilitation improvements to raise enrollment, increase access to distance learning, and support scholarship programs for the needy. The PMO will pay suppliers through direct payment or direct purchase for proposal-based applications submitted to the PMO, screened by the task force, and approved by MTET and ADB.

1. Accounting, Auditing, and Reporting

41. The Government will ensure that records and accounts are maintained to identify the goods and services financed from the loan proceeds. Separate project accounts will be maintained and audited annually in accordance with sound auditing standards acceptable to ADB. A separate opinion on the use of the imprest account and statement of expenditure will be included in the annual audit report. Certified copies of such audited accounts will be submitted to ADB within 9 months after the close of each fiscal year. The PMO will prepare quarterly reports on the implementation of project-funded activities. The report will be in a format acceptable to ADB, and will indicate progress made against established targets, problems encountered during the quarter, steps proposed and taken to solve problems, compliance with loan covenants, and project activities to be undertaken during the next quarter. A project completion report will be prepared within 3 months of the physical completion of the Project.

2. Project Performance Monitoring and Evaluation

42. In addition to system evaluation of the DEPP by PMO staff and consultants, performance monitoring will be evaluated on baseline data under the Project collected from UGC, OUSL, SLIATE, and other public and private educational institutions participating in the Project. The baseline data include annual enrollment registration, attendance and graduation or completion rates by course and program, and unit costs based on output and budgets. These data will be disaggregated by gender, campus, and program. Tracer studies will be carried out in the fifth year of the Project to determine the employment problems facing OUSL students, external degree students studying on-line, and private school students under the Project. The ADB project performance monitoring system will provide the project-monitoring framework. Result-based performance will be monitored by the PMO and evaluated against institution improvement plans. The results of the tracer studies and surveys of OUSL and DEPP students will be included in the analysis of impact. Benefit evaluation will be measured qualitatively against stated goals of improving the number of enrollees, and against cost-effectiveness measures. The performance-based management systems at OUSL, SLIATE, and participating private institutions will be based on management and budget-related performance indicators developed under the Project (Appendix 13).

3. Project Review

43. Given the labor-intensive nature of enhancing skills in Sri Lanka, the project approach will be long term, and monitoring will be process and output oriented. Comprehensive reviews of project performance will be conducted at the end of the first and third year of implementation. The first review will focus on the success of the implementation procedures. The second (midterm) review will focus on overall benefits, achievements, and restructuring and reallocation of project funds. Financial compliance monitoring will focus on agreed-on criteria and guidelines established by the PMO to ensure that funds flow efficiently, transparency is maintained, and audits are carried out annually.

IV. PROJECT BENEFITS, IMPACTS, AND RISKS

A. Benefits and Impacts

44. The Project offers many benefits to postsecondary education institutions and students. Overall, educational opportunities will increase for an additional 100,000 postsecondary school students, who will benefit from better course content structured for easy transfer of academic credits across schools. As students gain access to a wider choice of institutes and programs, progress from certificate to diploma to degree courses within and across educational institutions will become easier. OUSL is expected to double enrollment from about 20,000 to 40,000, and the student completion rate from about 6.5% to 12.3%. At the end of the Project, over 25,000 students pursuing self-study in private institutions will have access to on-line distance learning, which is expected to increase the number of students completing external degrees. About 35,000 additional students in PPSIs will gain access to student services and course content on-line. About 20,000 unemployed secondary school graduates will gain access to semiprofessional job training. A wide variety of postsecondary institutions will benefit from the Project. OUSL will be a major beneficiary. About 125 private postsecondary profit and nonprofit institutes will also benefit. In all, about 150 public and private institutes and 80,000 additional students will benefit from the Project each year by 2012. Over 18 years, about 1.4 million more student enrollees will have access to postsecondary education due to the Project. The Poverty Reduction and Social Strategy is found in Appendix 14.

45. As educational opportunities increase, so will the number of students completing their studies. The Project will improve economic opportunities, with dependence on the public sector giving way to economic restructuring to modernize the labor force through promotion of demand-based job skills required in the private sector, such as accounting, business, computer, and language skills. Job mobility will increase as workers have more choice, in or outside Sri Lanka. The project economic internal rate of return estimate has been calculated at 14% for the low scenario, and 23% for the likely scenario once the social conflict is resolved and the market is deregulated. Job mobility creates job vacancies throughout the structure while raising skill levels and expectations. The Project will support the ADB and government strategy to increase postsecondary education opportunities to improve skills needed for the modern economy. The economic analysis is consistent with the fiscal impact of public sector investment, including recurrent costs. The evaluation provides for a cost-benefit analysis with collection of data, and identifies underlying risk factors of new technologies; the move to open markets; and the lack of physical infrastructure. The Project will support the institutional capacity of MTET, and policies supporting public-private partnerships, ICT, and support for beneficiaries outside Colombo. The economic and financial criteria of the Project support its feasibility up to 14 years after completion. Abandoning the Project will leave the postsecondary education sector in disarray, with little prospect of rationalizing expansion intake of capacity; harnessing the private sector as a strategic partner; encouraging quality improvement, especially through new learning technologies; or supporting improvements in OUSL to double enrollment, especially outside Colombo. The Economic justification is found in Appendix 15.

46. As OUSL graduates more government workers from rural areas, social services in government offices will improve: rural towns will gain more human resources, and communities will become more efficient in sharing and using information and knowledge needed to utilize social services. OUSL will become semiautonomous and be able to recover 40% (up from the current 25%) total annual expenditure by 2008, and 50% by 2010. As government expansion of tertiary education is unlikely, OUSL will lead the way toward recovering as much as half of the cost of daily operation, thereby supporting cost-containment policies to expand enrollment without sacrificing quality or increasing budgets. Improved public-private participation will enhance cooperation among 150 major postsecondary educational institutions, including OUSL,

technical colleges, and private profit and nonprofit institutions that provide diploma and degree programs. Shared information, including career guidance and job information, national standards for course content and school admissions, and link programs between foreign and local and public and private institutions will help improve efficiency and offer students a choice in educational opportunities. Establishment of the NDEN will help develop the means to provide on-line educational learning across the country, especially to areas outside major urban centers. Special attention will be provided to the conflict areas in the north and northeast and to plantation areas in the highlands. As Sri Lanka modernizes, it will not remain isolated from the flow of global information, knowledge, and technology. The DEPP will link Sri Lanka with the outside world through link programs with foreign universities and web-based institutions, while linking public and private partnerships within the country. This coordination function to mainstream access to information and knowledge is essential to economic development.

47. **Gender.** Females are well represented at all levels of the education system, with over 50% graduating and gaining entrance to the next higher level at every stage of education. However, female university graduates are twice as unlikely to find jobs after graduation due partly to a disproportionately large number of females studying in the arts and humanities, which are less marketable than the sciences and professions. Females once comprised a large proportion of the new teaching staff recruited by government. Professional growth in teaching positions has declined over the past 5 years as enrollment in primary education declined, directly affecting educated female labor. Certain cultural and social factors, including geographic mobility, have prevented educated women from taking jobs. The Project addresses these inequities by providing career guidance and job search skills from which females may disproportionately benefit, and performance monitoring indicators will be disaggregated by gender.

48. **Conflict Areas.**¹⁰ For the past 20 years, people living in conflict areas have experienced severe trauma. Aside from being separated, many families have been dislocated from their communities or unable to leave their community to avail themselves of educational and economic opportunities. The Project will provide alternatives to the educated poor unable to migrate who seek low-cost educational study via distance education.

49. **Ethnicity.** Sri Lanka's population is divided into several main cultural and ethnic divisions: Sinhalese (75%), Tamil (15%), Muslim (8%), and Christian (2%). While all groups provide educational services to their own community, many from each group still require access to public education. The civil conflict is mostly a result of ethnic and cultural differences. The Project will strengthen the public system to provide low-cost quality distance education nationwide to all, regardless of ethnicity. Efforts will be made to support plantation districts and conflict areas, where ethnic minorities and vulnerable groups generally are isolated from mainstream opportunities.

50. **Poverty Reduction.** Outside metro Colombo, Western Province, and other large major cities, poverty is widespread, especially in plantation areas in the highlands, where economic opportunities are limited to tea plucking, especially for males. The north and northeast, where social conflict has kept the economy from expanding, are also especially poor. The Project will help poor areas raise the level of educational skills and educational opportunities via access to distance education. Educational opportunities yield the educational mobility needed by expanding economies.

¹⁰ World Bank. 1999. *Rural Poverty in Sri Lanka*. Washington DC; ADB. 2000. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Preparation of the North East Emergency Rehabilitation Project*. Manila.

51. **Environmental Impact.** The Project will have no adverse environmental impacts, as it involves only expanding existing facilities at OUSL. The low-cost distance learning component may provide alternatives to building physical education facilities in many public and private institutions and thus bring environmental benefits by reducing potential construction-related impacts.

B. Risks

52. Distance education projects supporting postsecondary education in Sri Lanka face technical, institutional, and financial risks, which are, however, outweighed by the integrated benefits and impacts.

53. **Technical Risks.** Distance education will not expand rapidly in Sri Lanka if high telecommunication costs and poor access to infrastructure persist. The DEPP will be phased, starting with basic facilities and expanding by taking advantage of the web-based Internet connectivity with outreach first through OUSL campuses. In the third year, multimedia centers will be added to SLIATE, public and private institutions, and eventually Internet cafes. The Government has taken initiatives to deregulate the telecommunications industry, and connection charges are expected to decline as service improves. Over 6 years, technology will get simpler, awareness of it will rise, and the youth will gain experience in the use of Internet and other ICT features. Generally, growth in new technologies tends to be exponential, with diffusion of the innovation upon implementation. The Project provides the major up-front costs for equipment and technical expertise. By project completion, the transfer of technical expertise will be complete, and recurrent costs will be contained. At that time, the Government may choose to incorporate the DEPP into the private sector multimedia university system.

54. **Institutional Risks.** Public sector institutions in Sri Lanka still require significant capacity building to become effective. OUSL still has weak administrative and financial structures that prevent efficient and timely registration and follow-up of student enrollments. Before fees can be accurately collected and tracked, the administration and coordination system of all campuses needs to be streamlined. While the academic side of OUSL appears strong enough to fully utilize development funds under the Project, OUSL may find it difficult to upgrade its academic courses and migrate them to the web and provide the backup support for on-line students. For this reason, the DEPP management will be outsourced to a private contractor to develop the procedures and technical capacity to provide these services, and to market and distribute them to numerous institutes around the country. The Project provides funds for training of staff. MTET is a new ministry that recently split off from the Ministry of Education and Higher Education. MTET needs to be strengthened if it is to pursue a coherent approach to policymaking. MPD&I is tasked with overseeing tertiary education reform, educational employment strategies, and ICT learning technologies for the country. The PMO will support MTET, provide training for key activities, and liaise with assistance programs and all postsecondary institutes. The task force to screen proposals for scholarships and facilities funding, and the DEPP technical committee to review and recommend technical issues facing DEPP will support the steering committee and the PMO.

55. **Overall Project Financial and Economic Sustainability.** The Project will depend on synergies between the public and private sectors to ensure full utilization and wide application of distance education and open learning. The extensive upgrading of OUSL is designed to double enrollment while providing varied high-quality educational opportunities on-line. A financial analysis of OUSL current and future expenditure and income suggests that 25% cost recovery through fees can easily be increased to 40% by the end of 2008 by increasing fees by 10-15% each year and doubling enrollment. OUSL can follow the world lead in employing new technologies to increase access and will be sufficient to cover all incremental recurring costs

after project completion. Likewise, the incremental recurrent costs incurred by the DEPP after project completion are projected at about \$1 million. This amount will sustain DEPP operations at their current level in 2008. However, the DEPP needs to continuously expand to meet changing demands of on-line learning and additional program and training initiatives. For this, curriculum and training staff will need to increase. Servers, main connection lines, and computers will require upgrading and replacement from time to time. The costs and benefits of the new technologies will rise as users increase, spreading the flow of information to a wider audience at reasonable cost (Appendix 16).

V. ASSURANCES

56. In addition to the standard assurances, the Government has given the following assurances, which are incorporated in the legal documents:

(i) **Open University of Sri Lanka and Distance Education Partnership Program Management and Finance**

- (a) Within 6 months of loan effectiveness, MTET, in coordination with MPD&I, will ensure that OUSL is allowed to utilize its discretionary funds from student fees to hire full- and part-time academic and technical staff.
- (b) Within 6 months of loan effectiveness, OUSL will submit building plans for new construction to ADB for approval.
- (c) Within 2 years of loan effectiveness, the PMO will complete an extensive baseline study of OUSL internal and external efficiency to determine future growth and funding requirements and to set targets and guidelines for enrollment and fee structures.
- (d) Within 4 years of loan effectiveness, the PMO will review the performance-based operations and enrollment growth of OUSL campuses to recommend the need for and cost-effectiveness of additional expansion to meet the social demand for education and training.
- (e) All OUSL overseas fellowships will require that participants return to OUSL and serve 3 years as a condition of study.
- (f) Within 3 years of loan effectiveness, MTET will carry out a study to recommend a transparent system for future DEPP management services and will act on these findings.
- (g) Within 5 years of loan effectiveness, MTET and the Ministry of Finance will analyze OUSL finances to determine the level of OUSL financing recoverable from existing fees. Anticipated fees are expected to be at least 40% of total recurrent expenditure, with the government assuring a basic grant to OUSL to cover recurrent expenditures to meet the remaining 60% of OUSL operating costs after 2008.

(ii) **Policy**

- (a) Within 1 year from loan effectiveness, MTET will introduce a career guidance public awareness campaign promoting the availability of postsecondary education opportunities and their linkages to the labor market, with a special focus on females.
- (b) Within 2 years of loan effectiveness, the PMO will establish a foreign-domestic institutional exchange program, under the guidance of the steering committee, that allows project institutions to apply for funds to exchange staff, curriculum, and degrees.

- (c) Within 2 years from loan effectiveness, MTET will finalize a policy with guidelines and evaluation criteria for standardizing accreditation of all programs employing distance education, including admission policy and transfer of credit across programs and institutions.
- (d) Within 2 years of loan effectiveness, MPD&I will ensure implementation of the national IT policy as it relates to hardware, software, and connection charge discounts for postsecondary education institutions.
- (e) Within 3 years of loan effectiveness, MTET will develop a time-bound action plan to address the demand for programs through DEPP and other institutions.
- (f) Within 3 years of loan effectiveness, MTET will develop a time-bound action plan to (a) oversee the implementation of policies on establishing, operating, and monitoring accreditation standards; and (b) provide fair trade practices to protect students in postsecondary education institutions.
- (g) Within 3 months of loan effectiveness, MPD&I and MTET will assure implementation of a need-based scholarship program agreeable to ADB for (i) needy OUSL students, (ii) needy external degree students registered at DEPP to apply for free on-line service implemented under the Project, and (iii) unemployed high school leavers.
- (h) Within 2 years of loan effectiveness, MPD&I and MTET will establish a permanent Board to replace the task force in managing and monitoring student stipends and scholarships.

VI. RECOMMENDATION

57. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 33,005,000 to the Democratic Socialist Republic of Sri Lanka for the Distance Education Modernization Project from ADB's Special Funds resources with an interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

Tadao Chino
President

19 May 2003

PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<p>I. Goal</p> <p>Increase socioeconomic growth to raise human development levels.</p>	<ul style="list-style-type: none"> • Increased private sector employment (SMEs) from 25% to 30% of total employment by 2009 • Decreased educated unemployment from 15% to 10% by 2012. • Increased economic growth above 6% annually • Poor regions linked to better-off Colombo through public-private initiatives in distance education 	<ul style="list-style-type: none"> • Household surveys • Government/funding agencies poverty assessments • Public-private business statistics 	
<p>II. Purpose</p> <p>Develop distance education to expand postsecondary school enrollment to develop a modern, high-quality human resource base.</p>	<ul style="list-style-type: none"> • OUSL enrollment doubling from 20,000 to 40,000 by 2012 • Core policies on academic accreditation, ICT for on-line distance learning, career guidance, and private participation in postsecondary education • DEPP system established to accommodate 25,000 external degree students (2012) • Public-private partnership task force operating among 150 postsecondary institutes by 2005 • MTET helps private schools increase enrollment by 35,000 through equipment purchase, stipends for the poor, and access to distance learning by 2012 • 20,000 unemployed secondary school leavers to be provided semiprofessional job training 	<ul style="list-style-type: none"> • Project reports • PPMS • Surveys • OUSL, DEPP, project data records • ADB tracer studies • MPD&I, MTET monitoring reports 	<ul style="list-style-type: none"> • The Government is committed to reforms linking education to relevant employment. • Educational institutes have the motivation and capacity to employ distance education methodologies to increase program quality and access. • MTET sets up a task force to facilitate policies for participation of the private sector in degree programs.
<p>III. Project Deliverables/Outputs</p> <p>A. Distance Education Partnership Program (DEPP) established to increase educational opportunities</p>	<ul style="list-style-type: none"> • DEPP national distance learning network operational in all OUSL campuses by 2006 • DEPP learning network available to 150 public and private educational institutions on a cost basis by 2006 • DEPP management; business plans; marketing strategy; and curriculum web writing, training, and multimedia operational by 2006 • DEPP engineering and technical services operate 150 multimedia centers hookups by 2005 • DEPP on-line admission system, career guidance and labor market information system, and accreditation of transcript evaluation exist by 2006 	<ul style="list-style-type: none"> • ADB project reports • MPD&I, MTET, and PMO reports • OUSL reports 	<ul style="list-style-type: none"> • OUSL is determined to be a key player in distance learning and will share its distance education ICT network with other postsecondary schools. • External degree students will recognize the quality and convenience of DEPP distance learning.

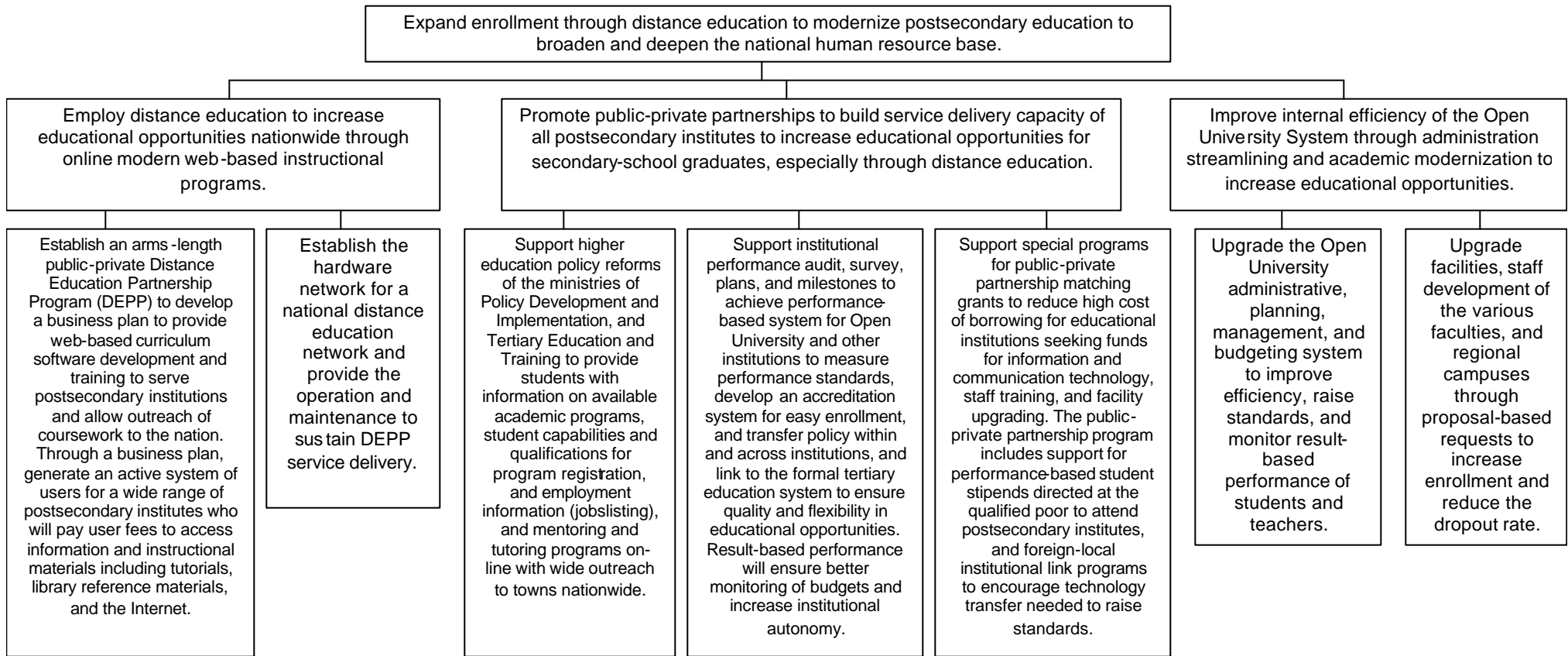
ADB = Asian Development Bank, DEPP = Distance Education Partnership Program, ICT = information and communication technology, MIS = management information system, MPD&I = Ministry of Policy Development and Implementation, MTET = Ministry of Tertiary Education and Training, OUSL = Open University of Sri Lanka, PMO = project management office, PPMS = project performance management system, SME = small- and medium-sized enterprise.

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
B. Consortium of public-private partnerships established to improve standards	<ul style="list-style-type: none"> • MPD&I and MTET policy in place to support public-private partnerships in postsecondary education institutes, by 2006 • Career guidance program linked to academic prerequisites, and labor market demand for male and females by 2006 • Foreign-domestic link programs in 150 schools to increase technology transfer by 2006 • Policy for accreditation tied to transcript transfer across postsecondary institutions and academic programs by 2005 • Stipends for 4,500 (annually) needy OUSL students, needy DEPP students and unemployed A-level graduates seeking short term skill development • Public-private fund to 150 schools for equipment and stipends operational by 2004 • National ICT policy for distance learning completed by 2006 	<ul style="list-style-type: none"> • MPD&I, MTET, and PMO reports • ADB studies 	<ul style="list-style-type: none"> • DEPP will provide high-quality programs that attract clients to purchase services at reasonable cost.
C. OUSL (central and regional centers) upgraded	<ul style="list-style-type: none"> • Effective MIS, cost accounting system using modern management practices for outreach to all campuses, training and programs in budgeting, admission on-line, performance-based evaluation, with results based budgeting in place by 2006 • Student-centered admissions system for males and females by 2006 • Establishment of modern facilities and equipment in educational learning technologies and in natural and engineering sciences to train master trainers and provide advanced labs for students in core science programs, functioning by 2006 • Upgrade of OUSL central university press, library, and multimedia facilities for use in preparing and upgrading curriculum to multimedia on-line web-based learning, by 2006 • Staff development of administrative, academic, and technical staff in key areas by 2007 • Proposal-based upgrade of facilities of one new and four regional centers, and staff development by 2006 • Proposal-based upgrade of 21 of 17 existing and 5 new OUSL study centers by 2009 • Regional outreach admissions and accreditation by 2008 	<ul style="list-style-type: none"> • Project reports • PPMS • Government policy on public-private partnerships • OUSL progress reports • MPD&I, MTET, and PMO reports 	<ul style="list-style-type: none"> • Government can develop and implement policy on public-private partnerships in postsecondary education. • OUSL administration is willing to modernize administrative procedures to improve efficiency. • OUSL regional and study center staff can be increased using contract staff to supplement existing professional and technical staff.

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<p>IV. Project Activities</p> <p>A. Quality and efficiency of content and service delivery</p> <ul style="list-style-type: none"> • Establish DEPP to develop online quality programs on a cost-recovery basis • Establish a business and marketing plan, curriculum, and training unit to produce multimedia materials for online access by students • Establish an ICT system network linking all OUSL centers with 150 postsecondary institutes 	<ul style="list-style-type: none"> • MPD&I, MTET, and PMO to outsource development of business plan and operations: mid-2003–mid-2007; turn over to OUSL or private firm to be decided in 2008 • MPD&I, MTET, and PMO to supervise contractor to organize and operate DEPP production and distribution services: mid-2003–mid-2008 • MPD&I, MTET, and PMO to contract hardware configuration and installation and operation: start–end 2003 - end-2007 	<ul style="list-style-type: none"> • UGC program goals • Project reports and monitoring • PMO monitoring of contractors • PMO monitoring of contractor business plan and evaluate recurrent costs and receipts • PMO monitoring of contract for hardware installation, operation and maintenance, and servicing costs • UGC decision on performance-based systems • ILO development and installation of labor market information system and job-listing for on-line access 	<ul style="list-style-type: none"> • MPD&I and MTET are committed to working with foreign postsecondary institutes to transfer technology. • Public and private postsecondary institutions cooperate to improve capacity of postsecondary education. • Outsourcing of DEPP is cost-effective before project completion.
<p>B. Public-private partnership models to improve efficiency</p> <ul style="list-style-type: none"> • Student stipend program for poor unemployed secondary school leavers and those using distance learning system • School development fund program to support postsecondary institutes • Public awareness for career guidance, job information system, and academic counseling 	<ul style="list-style-type: none"> • Socially targeted program managed by PMO: mid-2003–mid-2008 • Private sector matching grants to support expansion and stipends for the needy, managed by PMO: mid-2003–mid-2008 • Public awareness program to promote career guidance and job information online. PMO through consultants to design and execute DEPP: 2003–2005 	<ul style="list-style-type: none"> • PMO data • Special reports, advisory committee reports • MPD&I and MTET evaluations • ADB evaluation • ILO evaluation 	<ul style="list-style-type: none"> • MPD&I and MTET task force on public-private partnership will develop guidelines on resource sharing. • UGC will implement accreditation board. • ILO will implement job website • MPD&I and MTET will reform tertiary education

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> Foreign link programs to transfer technology to local institutions National accreditation program to set standards and allow flexible transfer of credits Result-based performance program linked to budgeting and recovering recurrent costs 	<ul style="list-style-type: none"> Proposal-based awards through PMO: 2003–2008 National accreditation policy and plan developed by PMO through UGC: 2003–2006 Surveys administered by PMO to establish guidelines and program for OUSL and for public and private postsecondary institutes under the Project: 2003–2006 		
<p>C. OUSL programs to improve access to public goods</p> <ul style="list-style-type: none"> Upgrading of facilities, library, multimedia, university press, courseware, and faculty Staff development for foreign and local fellowships, curriculum materials, research, and training Performance - based administration, financing, budgeting, auditing, and student services 	<ul style="list-style-type: none"> OUSL and PMO: 2003–2006 OUSL and PMO: 2003–2008 PMO and OUSL: 2003–2006 	<ul style="list-style-type: none"> Project documents/reports Evaluation of private sector participation Number of foreign universities linked to local universities 	<ul style="list-style-type: none"> OUSL faculties and regional centers are committed to quality improvements and have budgetary discretion to hire contract staff. OUSL will finance expansion through course fees.
<p>V. Project Inputs</p> <ul style="list-style-type: none"> Research studies Civil works Equipment/ furniture Instructional materials Staff development Consulting services Stipends Matching grants Recurrent costs Project implementation Others 	<ul style="list-style-type: none"> \$0.35 million \$6.5 million \$16.7 million \$1.5 million \$2.4 million \$5.2 million \$9.0 million \$8.0 million \$3.4 million \$1.0 million \$6.0 million 	<ul style="list-style-type: none"> Project monitoring data, progress reports, project accounts 	<ul style="list-style-type: none"> Counterpart funds are available. Procurement and contractor arrangements are well managed.

PROBLEM AND SOLUTION TREE



Project Outputs

- New distance learning technologies to increase enrollment and extend outreach to towns
- Establishment of DEPP using 100% public company ownership with an option to go for 51% private ownership after 5 years
- Web-based system of on-line distance learning, including web-writers, on-line tutors, trainers and mentors, career guidance, and job-net website
- National distance learning network operation and maintenance
- Public-private partnerships to promote cooperation, resource sharing, and technology transfer to encourage the private sector to increase enrollment
- Establishment of job-listing, institutional rating, student career guidance system available on DEPP
- Establishment of an on-line system of tutors and public-private mentoring program
- Audit, study, recommendations, and plan adopted to assure quality of institutional program standards, accreditation, enrollment, and transfer policy
- Establishment of public-private partnership program to support procurement of ICT and facilities and staff training for online learning and stipends for needy students and for those learning online
- Scholarships for poor students and unemployed high school graduates.
- Improved OU internal efficiency to raise enrollment and reduce dropout rates
- Revised OU accounting practices, regional support, administration business plan, admissions, education management information system, monitoring systems
- Proposal-based staff development upgrade to increase academic performance, academic research service delivery organization
- Service upgrade of library, multimedia center, and university printing press
- New ICT and multipurpose laboratory facilities

DISTANCE EDUCATION

A. What is Distance Education?

1. Within a context of rapid technological change and shifting market conditions, the world is challenged with providing increased educational opportunities without increased budgets. Many educational institutions are answering this challenge by developing distance education programs. At its most basic level, distance education takes place when a teacher and student(s) are separated by physical distance, and technology (i.e., voice, video, data and print), often in concert with face-to-face communication, is used to bridge the instructional gap. These types of programs can provide adults with a second chance at a college education, reach those disadvantaged by limited time, distance or physical disability, and update the knowledge base of workers at their places of employment.

B. Is distance education effective?

2. Many educators ask if distance students learn as much as students receiving traditional face-to-face instruction. Research comparing distance education to traditional face-to-face instruction indicates that teaching and studying at a distance can be as effective as traditional instruction, when the method and technologies used are appropriate to the instructional tasks, there is student-to-student interaction, and when there is timely teacher-to-student feedback.

C. How is distance education delivered?

3. A wide range of technological options are available to the distance educator. They fall into four major categories: voice, video, print and data. For data, computers send and receive information electronically. For this reason, the term "data" is used to describe this broad category of instructional tools. Computer applications for distance education are varied and include (i) computer-assisted instruction, (ii) computer-managed instruction, (iii) computer-mediated education such as electronic mail, fax, real-time computer conferencing, and World-Wide Web applications.

D. Key Players in the Distance

4. The following briefly describes the roles of these key players in the distance education enterprise and the challenges they face.

5. **Students.** Meeting the instructional needs of students is the cornerstone of every effective distance education program, and the test by which all efforts in the field are judged.

6. **Faculty.** The success of any distance education effort rests squarely on the shoulders of the faculty. In a traditional classroom setting, the instructor's responsibility includes assembling course content and developing an understanding of student needs. Special challenges confront those teaching at a distance. For example, the instructor must (i) develop an understanding of the characteristics and needs of distant students; (ii) adapt teaching styles taking into consideration the needs and expectations of multiple, often diverse, audiences; (iii) develop a working understanding of delivery technology, while remaining focused on their teaching role; and (iv) function effectively as a skilled facilitator as well as content provider.

7. **Facilitators.** The instructor often finds it beneficial to rely on a site facilitator to act as a bridge between the students and the instructor. To be effective, a facilitator must understand the students being served and the instructor's expectations.

EDUCATION AND POSTSECONDARY EDUCATION SECTOR ANALYSIS

A. Background

1. Sri Lanka has always had a strong commitment to human development and poverty reduction, and can boast of wider coverage of basic social services than other countries in South Asia, but only in basic education (Figure A3.1). The low unit costs, efficient allocation, and high volume of utilization in basic education are not present in postsecondary education, where students are few and unit costs are high. In primary school (grades 1–6), 99% of the age cohort is enrolled. In lower secondary education (grades 7–9) about 90% is still enrolled. Only at the end of grade 11 do the enrollment rates decline, as about half the students do not qualify to continue to grade 12. Those who complete grade 13 take a national examination to determine who may enter university. About half the grade 12 students are successful (about 100,000, or less than 25% of the age cohort). What happens to them? About 15% enter conventional universities, while 5% go to Open University of Sri Lanka (OUSL) or technical colleges. About 10% attend local private colleges (many are newly formed), 10% go abroad to study, and 10% enter external degree programs under university guidance but essentially study on their own and pay for tutoring. Hence, 50% undertake some sort of study. Of the remaining 50%, about 35% have jobs and 15% are unemployed while looking for work and waiting to gain entrance to schools. The Project is designed to increase educational opportunities by expanding OUSL, distance learning, and public-private sector capacity to meet the social demand for postsecondary education. The above approximate percentages are complicated by the fact that students from previous cohorts also sit for national examinations a second time, and so a backlog of youth seeks entrance from the previous years while the general trend has not changed for the past 10 years (Figure A3.1).

B. Regional Distribution by Poverty Indexes and Gender

2. The number of poor (those in the lowest income quintile) do not normally graduate from high school. Approximate numbers derived from the Asian Development Bank (ADB) report on poverty reduction in Sri Lanka suggest that 95% of these poor are in primary school, about 35% complete lower secondary, about 15% make it through upper secondary, but about 20% are found in universities. University entrance is based on merit along with quotas for the rural poor. However, many rural poor do not receive quality education and do not do well on national examinations. ADB and the World Bank have secondary and basic education projects to help correct this imbalance.

3. The Project will address access of the poor to improve postsecondary education opportunities by increasing access to OUSL Programs (Figure A3.2) regional centers, many of which are in provinces outside metro Colombo and Western Province. The Project will also help increase access of the poor to distance learning through multimedia centers, which will allow students to study, receive quality materials, and have access to a tutor on-line (Figure A3.3). Half of OUSL students (10,000) study at about 20 regional centers and are expected to increase to 25,000 by the end of the Project (Table A3.1). New sites in conflict areas and in poor plantation districts will help increase enrollment disproportionately. About 2,000 scholarships annually will be provided to OUSL students to help cover their fees, and 65% will be provided to also geared to increase educational opportunities for secondary school graduates who do not enter any formal institution and are forced to become external degree students. About 1,000 annual stipends will be provided to these and OUSL students who are able to study on-line. The Project will support scholarships for needy students by offering incentives to private schools to increase their support to poor students.

4. Females exceed 50% of enrollment at all levels of education, facing not lack of access to education but to a wide range of academic programs, especially in the sciences and professions. After graduation, women do poorly in finding jobs in the areas for which they were trained. The Project will provide student career guidance and job search. The Project will help female students think strategically about their educational opportunities and prospects and advise them on how to get jobs.

5. Rural areas outside the Western Province and metro Colombo are generally underserved, especially the plantation districts in the highlands and conflict areas in the north and northeast. Postsecondary private institutions outside the towns are few and of poor quality. Through a media awareness campaign, these institutions will be invited to upgrade facilities to increase enrollment throughout Sri Lanka and to encourage on-line study. Special attention will be given to upgrading the Jaffna campus and connect it on-line to DEPP and to OUSL study centers in conflict areas.

III. The Government Budget

6. The Government has been spending around 3% of gross domestic product (GDP) on education for over 10 years. Higher education accounts for about 20% of this or 0.6% of GDP. Funds for higher education are provided through the University Grants Commission. Budgets are not performance based, and so the Project will help introduce new procedures of zero-based budgeting based on results to encourage quality improvement through demand-driven enrollment and competition. The education budget has not grown because of severe economic constraints on the budget to keep the deficit from rising. The Government knows that enrollment in postsecondary education must be increased and quality raised but without increasing the budget. Innovative ideas must be found to increase enrollment while guaranteeing quality products. The Project will help streamline OUSL so it can double enrollment at minimum cost by employing contract professors and technical staff, for example, and using on-line admissions, tutorials, and modern curriculum materials. The Project will develop DEPP to provide access to quality programming for public and private educational institutions. Special assistance will be provided to external degree students. Finally, the Project will introduce ways to support public-private partnerships so enrollment in private schools can meet some of the social demand that the public sector cannot. The World Bank will help the formal university system, which is free and underutilized, and unemployable graduates. The ADB Project will cater to postsecondary institutes other than conventional universities, including OUSL; technical colleges; private nonprofit professional organizations such as the Ceylon Chemical Society, which wishes to train and license members; and private for-profit schools, mostly in information and communication technology, business, and commerce.

7. OUSL enrolls about 10,000 students annually in certificate, diploma, and degree programs that provide a progressive ladder of opportunity to all students. OUSL also addresses the need to transfer knowledge and skills developed in higher education to other sectors such as secondary education, teacher training, and continuous professional development of workers in many fields. Students pay fees at OUSL, because many are employed and do not qualify for free education. The fees help cover the nonsalary recurrent costs and allow students to learn on-line through print media, audio and video multimedia, and soon, distance learning. OUSL reached its capacity in 1998 when enrollment peaked due to lack of budget growth. Enrollment growth will stagnate until OUSL upgrades its admissions and accounting systems; core facilities; and student services (university press, multimedia center, library, management information system, and educational technology division) to stay ahead of the knowledge curve and expand outreach to the towns and villages to become more client centered.

8. The rationale for OUSL and distance learning is provision of public goods, especially social services for those in remote areas. OUSL courses are demand driven, as most public employees seek to improve their skills through them. OUSL is an in-service provider for the Government and for private businesses with underdeveloped on-the-job training. OUSL needs government support to strengthen the public service workforce in towns and rural areas; to increase the stock of knowledge; and to offer education and, eventually, economic mobility.

Figure A3.1: Structure of Education in Sri Lanka

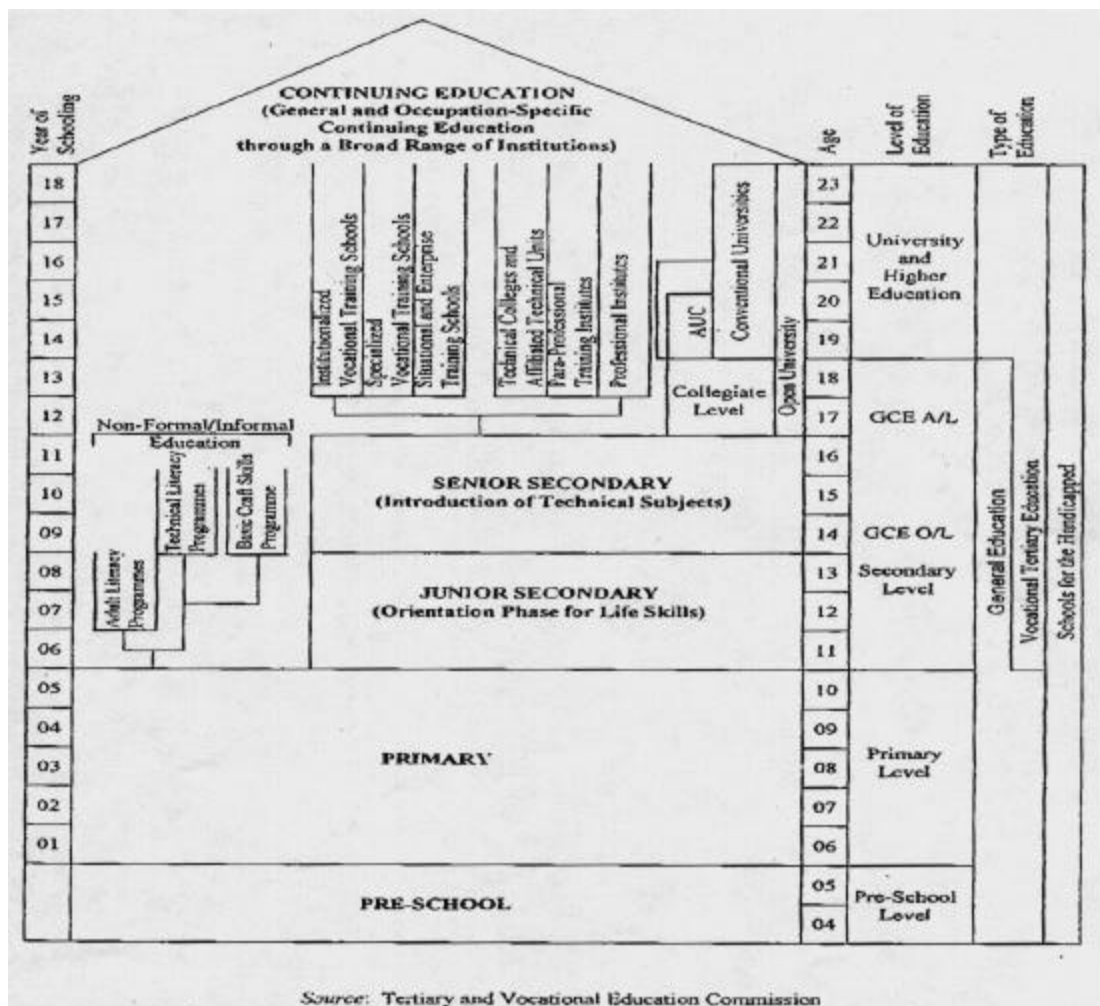


Figure A3.2: Organizational Structure of OUSL

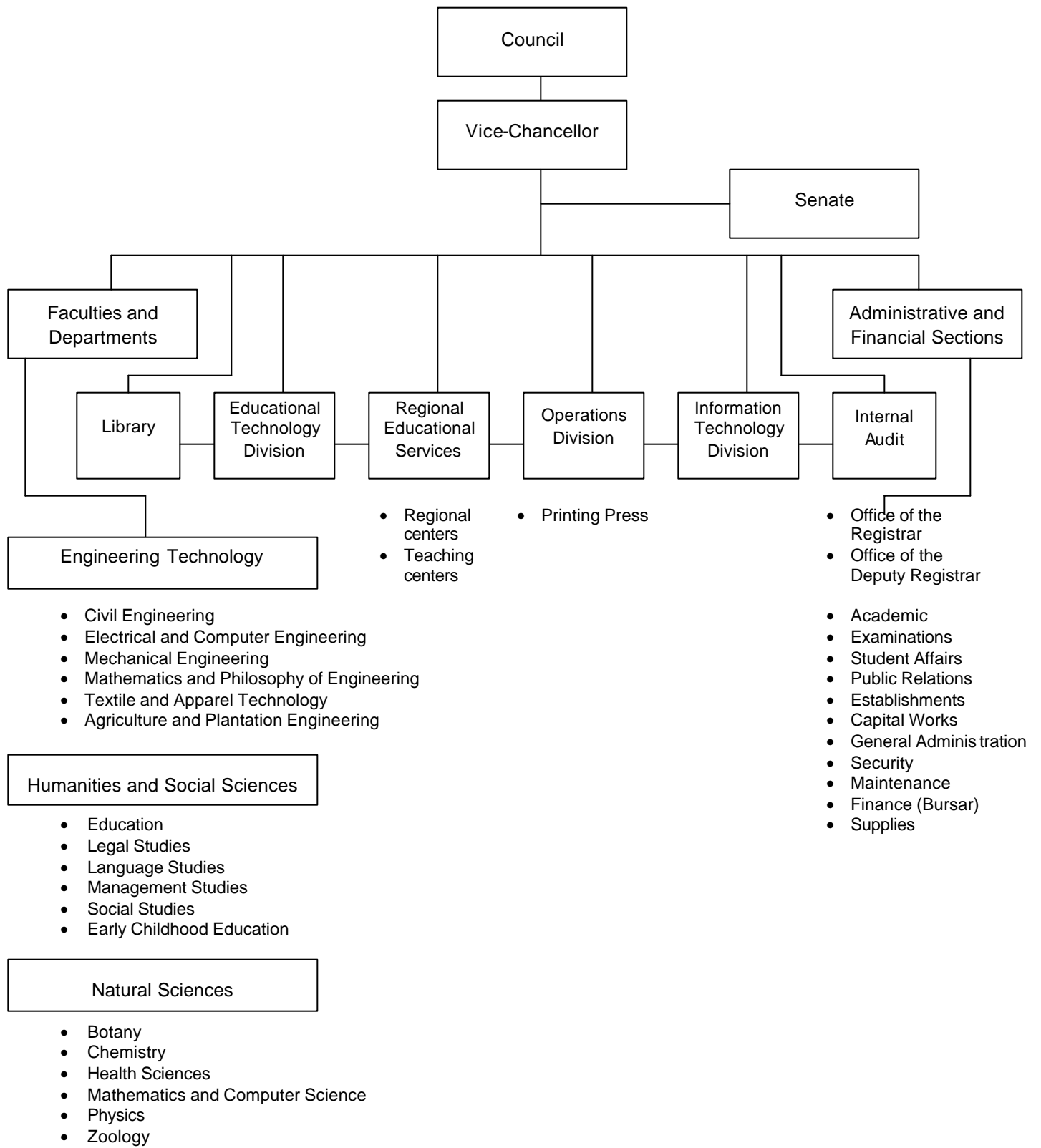
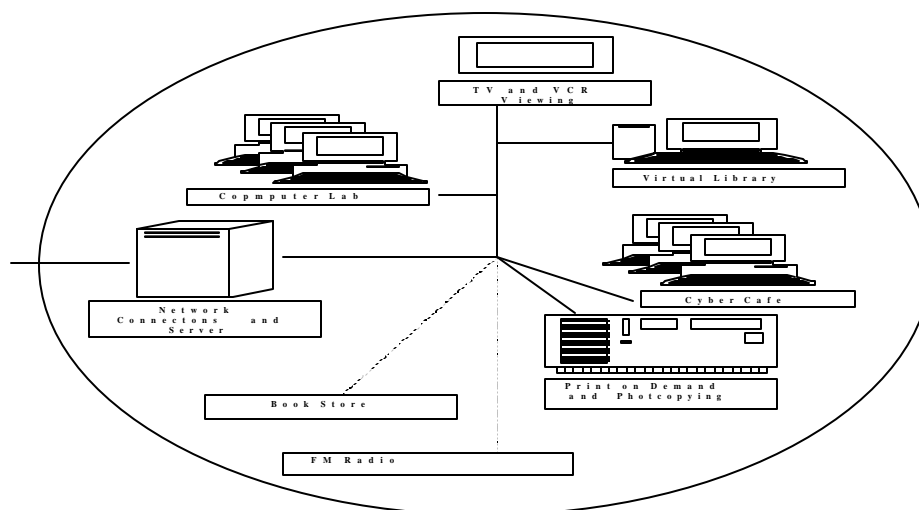


Table A3.1: OUSL Staff and Student Populations, 1999

Center	Center	District	Staff	Students	% of all Staff	% of all Students
Regional	Colombo	Colombo	22	10,200	19.6	52.8
	Kandy	Kandy	31	3,100	27.7	16.0
	Matara	Matara	9	1,150	8.0	6.0
	Jaffna	Jaffna	1	289	0.9	1.5
		Subtotal	63	14,739	56.3	76.3
Study	Ambalangoda	Galle	6	200	5.4	1.0
	Ampara	Ampara		235	0.0	1.2
	Anuradhapura	Anuradhapura	5	265	4.5	1.4
	Badulla	Badulla				
	Bandarawella	Badulla	5	300	4.5	1.6
	Batticaloa	Batticaloa	4	650	3.6	3.4
	Buttala	Monaragal	1	88	0.9	0.5
	Galle	Galle	4	450	3.6	2.3
	Kalutara	Kalutara	1	392	0.9	2.0
	Kegalle	Kegalle	5	300	4.5	1.6
	Kuliyapitiya	Kurunegala				
	Kurunegala	Kurunegala	9	900	8.0	4.7
	Polonnaruwa	Polonnaruwa	5	150	4.5	0.8
	Ratnapura	Ratnapura	4	350	3.6	1.8
	Trincomale	Trincomale		174	0.0	0.9
Vavuniya	Vavuniya		127	0.0	0.7	
		Subtotal	49	4,581	43.8	23.7
New Locales		Gampaha				
		Hambantota				
		Hatton				
		Subtotal	0	0	0.0	0.0
	Colombo	Campus Subtotal	0	0		
		Total	112	19,320	100.0	100.0

Source: Open University of Sri Lanka Regional Education Department Report. 1999.

Figure A3.3: Main Components of a Typical Multimedia Center



POLICY MATRIX OF REFORMS BY COMPONENT

Policy Change	Policy Outcomes	Coordination
Component 1: Establishment of DEPP to Raise Quality and Enhance Capacity		
A. Adapt new learning technologies to improve quality.	<ul style="list-style-type: none"> • New distance learning materials and system at University of Colombo 	<ul style="list-style-type: none"> • JICA
B. Promote distance education to improve access, outreach, support for ICT, distance education	<ul style="list-style-type: none"> • On-line tutorials, multimedia centers • More external degree students 	<ul style="list-style-type: none"> • JICA
C. Provide student services on-line.	<ul style="list-style-type: none"> • Career guidance, admissions, training, and tutorials 	<ul style="list-style-type: none"> • MTET
D. Establish national NDEN network to link postsecondary education institutes and support multimedia university.	<ul style="list-style-type: none"> • Hardware, software, and maintenance 	<ul style="list-style-type: none"> • MPD&I, MTET
E. Provide multimedia center concept to link public-private partnership, Internet cafes, schools, etc.	<ul style="list-style-type: none"> • Network available for hookup for small fee, expanded access to learning for public and private institutes 	<ul style="list-style-type: none"> • MPD&I, MTET
Component 2: Public-Private Partnerships to Increase Access		
Promote Private Postsecondary Education		
A. Coordinate public-private partnerships to increase enrollments in private schools and share facilities and provide student stipends.	<ul style="list-style-type: none"> • Matching grant to increase enrollments • Linkages to share facilities/staff 	<ul style="list-style-type: none"> • MPD&I, MTET
B. Develop public awareness for school prestige rankings, career guidance, and job placement.	<ul style="list-style-type: none"> • Policies • Services on-line 	<ul style="list-style-type: none"> • ILO
C. Establish accreditation standards based on performance and results.	<ul style="list-style-type: none"> • Independent review board • Accreditation so students can transfer 	<ul style="list-style-type: none"> • UGC
D. Promote foreign-domestic link programs to transfer educational, technology, information, and knowledge.	<ul style="list-style-type: none"> • Link programs, staff curriculum exchange, software purchase, degree recognition 	<ul style="list-style-type: none"> • MTET
E. Promote enabling environment for public-private partnerships to expand enrollment in postsecondary schools while raising course quality on a cost-sharing basis.	<ul style="list-style-type: none"> • Upgraded curriculum, access to distance learning, easy registration and transfer of credits 	<ul style="list-style-type: none"> • MPD&I, MTET • UGC
Component 3: OUSL Expanded Capacity		
A. Increase cost recovery through fees and use funds to contract staff.	<ul style="list-style-type: none"> • 25% to 40% through fees and enrollment increase 	<ul style="list-style-type: none"> • OUSL • MPD&I, MTET
B. Improve corporate, business, and marketing plans through modern administrative procedures across 26 campuses.	<ul style="list-style-type: none"> • Raised OUSL prestige • Information and choice for students 	<ul style="list-style-type: none"> • UGC
C. Raise quality of demand-driven course programs and provide greater access to learning through expanded campus upgrades and tutoring to reduce student dropout.	<ul style="list-style-type: none"> • Expanded facilities • Tutorial system • Administrative improvements for admissions 	<ul style="list-style-type: none"> • MTET • OUSL
D. Perform school financial audit; assess student services, and internal and external efficiency.	<ul style="list-style-type: none"> • Surveys, career guidance, expanded quality and capacity 	<ul style="list-style-type: none"> • SIDA • NORAD
E. Assess performance to determine accreditation standards.	<ul style="list-style-type: none"> • Academic audit • Independent accreditation board and course revisions 	<ul style="list-style-type: none"> • WB

DEPP = Distance Education Partnership Program, ICT = information and communication technology, ILO = International Labour Organisation, JICA = Japan International Cooperation Agency, MPD&I = Ministry of Policy Development and Implementation, MTET = Ministry of Tertiary Education and Training, NDEN = National Distance Education Network, NORAD = Norwegian Agency for International Cooperation, Sida = Swedish International Development Cooperation Agency, OUSL = Open University of Sri Lanka, UGC = University Grants Commission, WB = World Bank.

EXTERNAL ASSISTANCE TO THE EDUCATION AND HIGHER EDUCATION SECTORS

Source	Amount (\$'000)	Grant/ Loan	Year of Approval
A. Asian Development Bank			
1. Loans			
a. Financial Management Training	13.1	Loan	1993
b. Secondary Education Development Project	31.0	Loan	1993
c. Science and Technology Personnel	20.0	Loan	1997
d. Skills Development Project	18.8	Loan	1999
e. Secondary Education Modernization	47.9	Loan	2000
Subtotal	130.8		
2. Technical Assistance			
a. Scientific and Technical Personnel Development	0.4	Grant	1995
b. Study on Financing of Social Services	0.4	Grant	1995
c. Resource Rationalization Action Plan under the Department of Technical Education and Training	0.1	Grant	1996
d. Skills Development Project	0.6	Grant	1998
e. Improving Education Planning	0.8	Grant	1998
f. Capacity Building for the Ministry of Vocational Training and Rural Industries Project Implementation Management	0.2	Grant	1999
g. Secondary Education Modernization Project	0.3	Grant	1999
h. Postsecondary Education Modernization Project	0.5	Grant	2000
Subtotal	3.3		
Total	134.1		
B. Other External Sources			
1. Bilateral			
a. Australia	0.6	Grant	1996
b. Korea, Republic of Upgrading Engineering Equipment – University of Peradeniya	1.0	Grant	1996
c. Joint Germany and Sri Lanka Program (Phase I and II)	3.8	Grant	1995
d. Japan Establishment of an Audio-visual Education Unit	6.4	Grant	1992
e. Sweden Support for Bachelor of Information Technology Degree at the Institute of Computer Technology, University of Colombo	2.4	Grant	1998 2000
f. Norway NORAD: Design of Administrative Procedures for Universities	4.8	Grant	2000
g. Sweden Implementation of Administrative Procedures System in Support of NORAD with Software	2.4	Grant	1990
Subtotal	21.4		
2. Multilateral			
a. ILO: Support for job-net at Ministry of Labor	2.0	Grant	2002
b. WB-IDA			
i. Second General Education Project	69.4	Loan	1997
ii. Teacher Education and Teacher Development	61.9	Loan	2001
iii. Distance Learning Project	3.0	Loan	2001
iv. Proposed Tertiary Education Project	30.0	Loan	2003
Subtotal	134.3		
Total	289.8		

IDA = International Development Association (World Bank), ILO = International Labour Organisation, NORAD = Norwegian Agency for International Cooperation, WB = World Bank.

TASK FORCE EVALUATION OF PUBLIC-PRIVATE PARTNERSHIP PROPOSALS

A. Draft Procedures

1. The Ministry of Tertiary Education and Training (MTET) will establish a task force composed of public and private sector representatives to review procedures to establish, operate, and maintain postsecondary institutes that grant diplomas and degrees. The task force will conduct interviews and studies and recommend ways to establish a framework for cooperation among postsecondary education institutes under MTET. Cooperation is intended to increase the effectiveness of public-private partnerships to improve postsecondary education, raise standards, and help meet the social demand for postsecondary education. The task force will present policy recommendations to define rules and regulations on opening, operating, and closing institutes; and providing accountability for maintaining academic standards, accreditation requirements, and fair trade practices to protect students. To meet these goals, the task force will review applications under the Project submitted by public-private partnerships seeking matching grants to strengthen institutional capacity to increase enrollment.
2. The Public-Private Partnership Matching Grant Program is designed to provide a maximum of \$25,000 (50% of proposal costs) to qualified private sector institutes requesting assistance to upgrade facilities. About 100 of 200 eligible private sector schools are expected to qualify. To qualify, the postsecondary institute has to be a licensed school in operation for 3 years on its own premises and with at least 150 students studying for diplomas and/or degrees. The proposal will include several features designed to help private institutes expand enrollment capacity (and the poor student population) and raise the quality of programs, especially through outreach to small towns through the Internet. The specific interventions include provision of (i) information and communication technology (ICT) and multimedia for computer laboratories and library facilities; (ii) course content placement on the web; (iii) foreign-domestic link programs between licensed institutes for the benefit of joint access to curricula, staff, and degree-granting privileges; and (iv) stipend programs to help qualified disadvantaged students pay tuition fees.
3. Proposals must prove that the institute is fully licensed, indicate the activities to be pursued, and show how the interventions will increase enrollment. Most important, the proposal must provide details on the school's stipend program for disadvantaged students and indicate names of students being assisted before the proposal application, and of persons to be assisted as a consequence of the proposal. Proposals including budgets will be provided to the task force for review and recommendation for approval to MTET.
4. Upon acceptance, the project management office (PMO) will seek three bids for the proposal. The lowest priced offer will be given the contract to provide hardware and furniture. The PMO will pay the contractor upon certification that counterpart funds from the school have been received by the vendor. Funds for moving academic programs to the web and for setting up the foreign-domestic linkage will be paid upon receipt of contract. Tuition stipends for eligible students will be paid to the school at the beginning of every school term. The PMO will randomly and periodically monitor schools through the use of project consultants.

B. Draft Proposal Format**PUBLIC-PRIVATE PARTNERSHIP APPLICATION
Ministry of Tertiary Education and Training**

Dear Applicant:

Public and private postsecondary education institutes recognized by Ministry of Tertiary Education and Training (MTET) may apply for matching grants to support expansion of information and communication technology (ICT) and multimedia facilities to increase enrollment in bonafide diploma and degree courses offered to students in Sri Lanka.

The MTET is accepting applications from qualified diploma- and degree-granting institutions in Sri Lanka seeking matching grants to support expansion of ICT, distance learning, and multimedia services for students. Grants are available for expansion of (i) school enrollment; (ii) course programs and curriculum to the web; (iii) link programs with foreign postsecondary education institutions to share curriculum, staff, and degree recognition; and (iv) existing stipend programs to include additional stipends for poor students who qualify but cannot afford tuition.

Applications and proposals will be accepted and screened by an advisory committee to MTET. The committee will certify that each institute is a licensed diploma- or degree-granting institute able to provide quality academic programs. The committee will screen applications for accuracy and evaluate proposals for thoroughness before submitting applications to MTET for approval. Approved applications will be submitted to the project management office (PMO) to obtain three bids from suppliers, with the lowest bid acceptable to MTET and the private institute. (Public institutes applying under the program will receive 100% grant financing). Upon certification of the lowest bid, the PMO will pay 50% of total cost to the supplier upon notification that the private institute has paid its share to the supplier. The supplier will then deliver and install the equipment, furniture, and software, and notify the PMO when the work is completed.

The following application and budget proposal should be submitted to MTET for processing. Please respond to each request for information.

I. Information on Institution

Date established, and supporting documentation on the institute
Degree- and diploma-granting status
Address, telephone, facsimile, E-mail
History of institute (brochure)
Contact person

II. Programs, Facilities, Staff, and Students

1. List of programs
2. List of faculty (qualifications/ full time/part time)
3. List of facilities, including square meters of classroom and office space, number of buildings, type of rooms, etc.
4. Number of students enrolled in each course and program (current and projected)
5. Multimedia facilities, including library

III. Current Stipend/Scholarship Program

1. Description of program (start date, number of participants, type and amount of support)
2. Supporting documentation to verify current program (list of students)
3. Projected increase of program based on current and planned enrollment
4. Cost of anticipated increase in program

IV. Current Link Programs with Foreign or Local Degree-Granting Institutions

1. Name of link institute and if degree recognition is being sought
2. Description of program and benefits being planned or under way
3. Financial arrangements under way/planned
4. Request for additional support for the institute
5. Details of support required
6. If link program is desired, submit proposal details of the link programs/ costs for sharing curriculum materials, exchange of staff, etc.

V. Request for Equipment and Software to Improve Enrollments Through Distance Learning

1. Current distance education program and/or use of web-based and computer learning materials
2. Future plan to upgrade computer laboratory and facilities, including additional numbers expected to benefit and how ICT will impact on classroom performance
3. Small-scale building rehabilitation
4. Plan for on-line learning outreach and study programs throughout Sri Lanka, including on-line tutors
5. Electronic library and multimedia requirements
6. Request to participate in on-line career guidance, employment information, and academic institution rating service

VI. Budget Proposal

Category	(Amount in SLRs)
I. ICT hardware/equipment	_____
II. Software	_____
III. Furniture	_____
IV. Multimedia services	_____
V. Connection line and charges	_____
VI. Small-scale building rehabilitation	_____
VII. Programs to be put on web	_____
VIII. Distance Education Partnership Program services requested	_____
IX. Request for link program	_____
X. Request for stipend support	_____
XI. Other (specify)	_____
XII. Contingency (5%)	_____
Subtotal	_____
Interest Charge	_____
Other Charges	_____
Grand Total	_____

COST ESTIMATES AND FINANCING PLAN

Table A7.1: Summary of Project Cost

(\$ '000)

Category	Foreign Exchange ^a	Local Currency	Total	% of Base Cost
I. Base Cost				
A. Civil Works	1.00	5.30	6.30	11.97
B. Furniture, Equipment, and Vehicles				
1. Furniture	0.20	0.45	0.65	
2. Equipment	11.86	2.70	14.56	
3. Vehicles	0.14	0.00	0.14	
Subtotal	12.20	3.15	15.35	29.15
C. Instructional Materials	0.80	0.50	1.30	2.47
D. Staff Development				
1. Foreign	1.30	0.00	1.30	
2. Domestic	0.00	0.80	0.80	
Subtotal	1.30	0.80	2.10	3.99
E. Consulting Services				
1. International	3.90	0.00	3.90	
2. Domestic	0.00	1.20	1.20	
Subtotal	3.90	1.20	5.10	9.69
F. Research Studies	0.10	0.50	0.60	1.14
G. Stipends/Scholarships	0.00	9.00	9.00	17.09
H. Matching Grants	1.00	5.00	6.00	11.40
I. Recurrent Costs	0.00	2.90	2.90	5.51
J. Project Management	0.00	1.00	1.00	1.90
K. Taxes and Duties ^b	0.00	3.00	3.00	5.70
Total Base Cost	20.30	32.35	52.65	100.00
II. Contingencies				
A. Physical Contingency ^d	1.00	1.40	2.40	
B. Price Escalation ^e	1.00	2.25	3.25	
Total Contingencies	2.00	3.65	5.65	
III. Interest Charge^f	1.70	0.00	1.70	
Total Project Cost^g	24.00	36.00	60.00	
Percentage	40	60	100	

Matching grants:

- i. Students' Stipend Program
- ii. Foreign and domestic link program
- iii. Infrastructure Development Fund

^a Exchange rate used is SLRs 95.00 per US\$ 1.00.

^b Taxes and duties at 10% of civil works, furniture and instructional materials; 15% of equipment.

^c Base costs are as of August 2002.

^d Physical contingency is computed at 5% for all categories.

^e Price escalation is computed at 2.4% per year for both foreign exchange and local currency.

^f Interest charge is computed at 1.0 % per year.

^g Totals may not add up because of rounding.

Source: Asian Development Bank estimates.

Table A7.2: Cost Estimates and Financing Arrangements
(\$ million)

Category	Total Cost			ADB Financing			Govt Financing	Beneficiaries
	Foreign Currency	Local Currency	Total	Foreign Currency	Local Currency	Total	Local Currency	Local Currency
1. Base Cost								
A. Civil Works	1.00	5.30	6.30	1.00	1.00	2.00	4.30	0.00
B. Furniture/Equipment/Vehicles	12.20	3.15	15.35	12.20	3.00	15.20	0.15	0.00
C. Instructional Materials	0.80	0.50	1.30	0.80	0.50	1.30	0.00	0.00
D. Staff Development								
1. Foreign	1.30	0.00	1.30	1.30	0.00	1.30	0.00	0.00
2. Local	0.00	0.80	0.80	0.00	0.80	0.80	0.00	0.00
Subtotal (D)	1.30	0.80	2.10	1.30	0.80	2.10	0.00	0.00
E. Consulting Services								
1. International	3.90	0.00	3.90	3.90	0.00	3.90	0.00	0.00
2. Domestic	0.00	1.20	1.20	0.00	1.20	1.20	0.00	0.00
Subtotal (E)	3.90	1.20	5.10	3.90	1.20	5.10	0.00	0.00
F. Research Studies	0.10	0.50	0.60	0.10	0.50	0.60	0.00	0.00
G. Stipends/Scholarships	0.00	9.00	9.00	0.00	9.00	9.00	0.00	0.00
H. Matching Grants	1.00	5.00	6.00	1.00	0.50	1.50	2.00	2.50
I. Recurrent Costs	0.00	2.90	2.90	0.00	0.00	0.00	0.40	2.50
J. Project Management	0.00	1.00	1.00	0.00	0.85	0.85	0.15	0.00
K. Taxes and Duties	0.00	3.00	3.00	0.00	0.00	0.00	3.00	0.00
Subtotal (1)	20.30	32.35	52.65	20.30	17.35	37.65	10.00	5.00
2. Contingencies								5.00
A. Physical Contingency	1.00	1.40	2.40	1.00	1.40	2.40	0.00	0.00
B. Price Escalation	1.00	2.25	3.25	1.00	2.25	3.25	0.00	0.00
Subtotal (2)	2.00	3.65	5.65	2.00	3.65	5.65	0.00	0.00
3. Interest Charge	1.70	0.00	1.70	1.70	0.00	1.70	0.00	0.00
Total	24.00	36.00	60.00	24.00	21.00	45.00	10.00	5.00
Percentage	40%	60%	100%	53%	47%	100%	17%	8%

Source: Asian Development Bank estimates.

IMPLEMENTATION SCHEDULE

Item	Year 0				Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. Distance Education Partnership Program																												
1. DEPP Administrative Operation																												
Contract Tendering																												
2. DEPP On-line Curriculum Software																												
Consultants Services																												
3. On-line NDEN																												
4. On-line ICT Network (Hardware)																												
Contract Tendering																												
B. Public-Private Partnership																												
1. Special Programs/Stipends																												
2. Career Guidance																												
3. Accreditation																												
4. Foreign-Local Link Programs																												
5. Results-based Performance																												
6. Public-Private Policy Agreed																												
7. Distance Education and ICT Policy Study and Approval																												
C. Open University																												
1. Performance Audit/Tracer Study																												
2. MIS System																												
3. Accounting System																												
4. Admissions System																												
5. Central Campus Upgrade																												
a. Consulting Services																												
b. Procurement Tendering																												
6. OUSL Staff Development																												
7. Regional Campus Upgrade																												
Procurement Tendering																												
D. Project Management Office																												
1. Office Operations																												
2. Survey Studies for Performance-based, Admissions, Career Guidance Systems																												
3. Benefit Monitoring																												
a. Baseline																												
b. Midterm																												
c. Government PCR																												

DEPP = Distance Education Partnership Program, ICT = information and communication technology, MIS = management information system, NDEN = National Distance Education Network.

PROCUREMENT PACKAGES AND MODE OF PROCUREMENT

Package	Amount (\$ million)	Mode
A. Key Civil Works		
1. OUSL S&T Building	2.10	ICB
2. OUSL Media Resources Building	0.65	LCB
3. Colombo Rehabilitation	0.16	LCB
4. Kandy Rehabilitation	0.50	LCB
5. Jaffna Rehabilitation	0.49	LCB
6. Matara Rehabilitation	0.24	LCB
7. Anuradhapura Rehabilitation	0.44	LCB
8. Batticaloa Rehabilitation	0.28	LCB
9. Expansion 16 existing study Centers (16 packages)	1.30	LCB
10. Five New Study Centers (5 packages)	1.50	LCB
Subtotal	7.66	
B. Key Educational and ICT Equipment		
1. OUSL Central Campus	3.50	ICB
2. DEPP Computer Network	9.50	ICB
3. Colombo Regional Center	2.00	ICB
4. Kandy Regional Center	0.35	IS
5. Jaffna Regional Center	0.35	IS
6. Matara Regional Center	0.30	IS
7. Anuradhapura Regional Center	0.35	IS
8. Batticaloa Regional Center	0.35	IS
9. 15 Study Centers (15 packages)	1.00	LCB
Subtotal	17.70	
C. Vehicles		
Multipurpose Transport (6)	0.28	IS
D. Locally Procured Furniture		
All Campuses	0.70	LCB
E. Instructional Materials		
1. DEPP Materials	0.30	IS
2. OUSL Regional and Study Centers (25 packages)	1.20	DP
Subtotal	1.50	
Total	27.84	

DEPP = Distance Education Partnership Program, ICT = information and communication technology, OUSL = Open University of Sri Lanka.

TERMS OF REFERENCE FOR CONSULTING SERVICES AND STAFF TRAINING

A. Person-Months for Consultants

Specialist Category	International (person-months)	Domestic (person-months)
I. Package 1		
A. OUSL		
1. Open and Distance Learning	38	15
2. Instructional Design/Multimedia	20	0
3. Social Marketing/Community Outreach	4	24
4. Continuing Education	2	10
5. Accounting/Financial/Admissions System	8	6
Subtotal	72	55
II. Package 2		
A. DEPP		
1. Distance Education	17	50
2. Education and Training	17	50
3. Course Design	17	50
4. Tutorials and Mentoring	17	50
5. Marketing and Administration	15	40
B. NDEN		
1. Management/Marketing	5	7
2. Multimedia Centers	5	7
3. ICT Network and Testing	5	6
4. Educational Technology	5	6
5. Information Technology	5	6
6. Printing Services	5	6
7. Audit MIS and Install New MIS	6	14
8. National Software Licensing	1	4
9. O&M of NDEN and Staff Trainers	1	8
Subtotal	121	304
III. Individual Consultants at MTET and PMO to assist the following:		
A. Matching Grants, Stipends and Foreign-Domestic Link Programs		
1. Accountant/Financial Advisor	0	15
2. Local Lawyer	0	2
3. ISO9002 Consultant	0	2
4. Proposal Screening	0	15
5. Matching Grant Specialists	3	4
B. Career Guidance and Planning Specialists		
1. Career Guidance	3	12
2. Labor Market Analyst	2	6
3. Program Accreditation Analyst	2	6
C. PMO Policy Studies		
1. Career Guidance and ILO Review Study including Gender	0	10
2. Program Accreditation Study (Accreditation Board)	0	10
3. OUSL Audit, Projection, Tracer Study	0	10
4. DEPP Systems Evaluation Specialist	0	10
5. Public Private Partner Study, Task Force	0	10
6. ICT Policy on Distance Education and External Degrees	0	10
7. Architect/Engineer	0	19
Subtotal	10	141
Total	203	500

DEPP = Distance Education Partnership Program, ICT = information and communication technology, MIS = management information system, MTET = Ministry of Tertiary Education and Training, NDEN= National Distance Education Network, OUSL = Open University of Sri Lanka, O&M = operation and maintenance, PMO = project management office.

B. Terms of Reference

1. Package of Open University of Sri Lanka Consultants (international)

a. Open and Distance Learning Specialist (3; 38 person-months total)

1. The open and distance learning specialists will provide (i) coordination and technical assistance (TA) to modernize the central and regional administrative, education management information, and admissions systems; and (ii) TA to plan, schedule, and arrange institutional capacity building through training and curriculum development of all departments of the Open University of Sri Lanka (OUSL), so that it provides quality services at each campus to support student independent learning.

b. Educational Technologist/Instructional Designer/Multimedia Specialist (2; 20 person-months)

2. In coordination with the international open and distance learning specialists, one educational psychologist, instructional designer and one multimedia specialist will provide TA for staff development activities for all OUSL teaching staff. These activities will be related to creating a postgraduate diploma in instructional design and digital education and collaborating in the execution of international open and distance learning activities.

c. International Social Marketing/Community Animation Specialist (4 person-months)

3. The specialist will work closely with the local counterpart to (i) develop marketing and coordinate image building across all campuses, (ii) train staff in social marketing at the community level, (iii) help OUSL select and train staff at each campus in social marketing and revenue generation, and (iv) create linkages with other postsecondary institutes.

d. Continuing Education/Nonformal Education Specialist (2 person-months)

4. The specialist will train the central administrative staff to meet the needs of working students by holding weekend workshops, with students and staff; and help meet the local need for nonformal and continuing education. The specialists will work closely with the social marketing experts.

e. Accounting and Financial Systems Analyst (8 person-months)

5. The expert will review and modernize OUSL accounting and financial systems by upgrading and standardizing existing procedures across departments.

2. Distance Education Partnership Program and National Distance Education Network Consultants (international)

a. Distance Education Partnership Program Distance Education Specialist (17 person-months)

6. The specialist will (i) prepare the plan and implementation procedures for the Distance Education Partnership Program (DEPP) to operate distance education programs through the

National Distance Education Network (NDEN) system; (ii) prepare a staff development plan and implementation procedures; and (iii) mentor and train web writers, tutors, mentors, and trainers.

b. Distance Education Partnership Program Education and Training Specialist (17 person-months)

7. The specialist will develop and implement the plan to establish curriculum development and training units within the DEPP to post programs on-line, and train staff to implement distance education programs. Staff will include web writers, trainers, and tutors.

c. Distance Education Partnership Program Course Design Specialist (17 person-months)

8. The specialist will (i) develop the plan and implementation procedures for the DEPP to establish and operate web-writing capacity to migrate diploma and degree course material on-line, and (ii) transfer this technology to local staff and to domestic consultants, who will help establish procedures.

d. Distance Education Partnership Program Tutors and Mentors (17 person-months)

9. The specialists will determine the qualifications, training procedures, and work routines of on-line tutors and mentors at the DEPP.

e. Distance Education Partnership Program Marketing and Administration Specialist (15 person-months)

10. The specialist will analyze the DEPP strategy and service delivery mechanisms and prepare the marketing and administration plan to operate the DEPP cost effectively. The specialist will (i) establish a detailed marketing strategy and plan, and implementation procedures; and (ii) train local staff in all aspects of developing, marketing, and administering DEPP management.

f. National Distance Education Network Management and Marketing (5 person-months)

11. The specialist will (i) examine the hardware requirements of the DEPP to operate the NDEN; (ii) prepare the strategy, plan, marketing approach, implementation procedures, and staff operations plan; and (iii) train and mentor counterpart consultants and local contract staff to administer the NDEN network.

g. National Distance Education Network Multimedia center Operations Specialist (5 person-months)

12. The specialist will (i) design and implement a flexible multimedia center operation to be followed throughout the NDEN system, (ii) prepare the plan and procedures, and (iii) train local multimedia center staff in operation procedures.

h. National Distance Education Network Information and Communication Technology Network and Testing Specialist (5 person-months)

13. The specialist will (i) plan, direct, and control implementation of specified subprojects related to the ICT network, including setup and operation of the overall system; (ii) implement project management; (iii) assess and certify conformity with work specifications; and (iv) train local staff to sustain, operate, and maintain the NDEN.

i. Educational Technology Specialist (5 person-months)

14. The specialist will (i) assess current educational technology capacity (especially of OUSL and other universities) and media production services; (ii) consider the physical, human, and fiscal resources to develop production and delivery services of distance learning; (iii) identify the current educational technology and media capacity; and (iv) develop plans and implementation procedures to utilize educational technology capacity under the NDEN.

j. Information Technology Specialist (5 person-months)

15. The specialist will (i) help the OUSL library, multimedia, and printing press upgrade their facilities and provide DEPP subscribers with access to these services for a small user fee under the Project; (ii) provide data and recommendations for consulting services and training for management and marketing; (iii) assess the information and communication technology (ICT) services and then link OUSL services to DEPP through the NDEN hookups; and (iv) recommend how and where information technology services should be supported.

k. Printing Services Specialist (5 person-months)

16. The specialist will (i) assess the OUSL printing services, (ii) identify the cost structures and competitiveness, (iii) recommend the best way to maximize use of the printing services under OUSL and under the DEPP, and (iv) prepare the plan and implementation procedures to let OUSL and the DEPP fully utilize printing services.

l. Management Information System Audit Specialist (6 person-months)

17. The specialist will (i) develop a marketing plan for competitively priced products and services at the NDEN and the DEPP, including strategies and tactics such as branding, advertising, and promotion outlets, and media buy recommendations; (ii) develop an ongoing marketing budget for advertising and promotion; and (iii) identify firms able to carry out the activities.

m. National Software Licensing Specialist (1 person-month)

18. The specialist will (i) survey possibilities to establish a means to store and distribute software while licensing its use and collecting fees for the software vendors, (ii) identify stakeholders, (iii) survey demand for software, and (iv) develop the means for multimedia centers to be optimally utilized under the Project.

n. National Distance Education Network Operation and Maintenance and Training Specialist (1 person-month)

19. The specialist will (i) install and test the network covering interactive radio, video, audio, and multimedia; (ii) collect and analyze operating data on time; and (iii) develop a costing model for service provision.

3. Individual Consultants at the Ministry of Tertiary Education and Training and the Project Management Office

a. Matching Grant Specialist (3 person-months)

20. The specialist will guide the evaluation of matching grant stipends and foreign-domestic links by coordinating activities of local financial advisers and lawyers, quality assurance, proposal screening, and institutional link local specialists. Gender equality will be assured.

b. Career Guidance Specialist (3 person-months)

21. The specialist will review requirements and develop an on-line career guidance program with special attention to the needs of 18–25 year olds to plan education careers based on self-assessment, information on requirements, and available programs in postsecondary education, with special attention to female students for confidence building and business orientation enhancement.

c. Labor Market Analyst (2 person-months)

22. The specialist will review the work completed by the International Labour Organization on joblisting, transfer the program on-line at the DEPP, and link the program to the career guidance programs so that students see the relationship between academic qualifications and requirements and labor market demands for specific jobs.

d. Program Accreditation Specialist (2 person-months)

23. The specialist will (i) review OUSL's ongoing social audit of course program evaluations, and (ii) meet with the University Grants Commission and the universities to prepare plans for the accreditation board to set standards and transferability of course work across programs and institutions served under the Project.

4. Domestic Consultants

24. Under the OUSL package, 55 person-months of consultancy will be provided as backup support to the five international consultant specializations, including 15 person-months for the open and distance learning specialists, 24 person-months (6 persons) to support the social marketing specialist, 10 person-months for continuing education, and 6 person-months for the admissions and financial systems analyst.

25. Under the DEPP and NDEN package, 304 person-months of domestic consultancy will support the five DEPP international specialists and nine NDEN international specialists. Finally, 122 person-months of individual consultancy will be provided to support the four international consultants: 38 person-months to support the matching grant programs, 24 person-months to support career guidance, and 60 person-months to support the policy studies to be conducted by the PMO.

INDICATIVE STAFF DEVELOPMENT AND TRAINING

Training, Fellowships, and Study Visits	No. of Fellows	Total Person- Months
A. Short-Term Training (Foreign)		
1. University administration operations and financial management	16	16
2. Regional educational services administration and management	3	1.5
3. Faculty training in operations and management of open learning systems	24	12
4. Education technology and multimedia training	4	4
5. Education technology and media house (editing, video editing, video equipment maintenance techniques, production techniques for instructional training and promotional activities, international course documentary program making)	8	8
6. Education technology and media house training in silicon graphics, computer animation, computer graphics layout, and visualizing print media	3	6
7. Information technology division training in installation and maintenance of data network system (DNS), proxy, firewall and mail servers, routers, switches and hubs, assembly and repair of computer equipment, web hosting, interworking of networks, and operating systems	8	8
8. Library: Familiarization programs in digitized virtual library environment in open distance learning	2	2
9. Library: Short-term courses of study in the region and developed countries on open learning resource services technologies	4	4
10. Library: Short-term training in acquisition and archiving digital resources, electronic publishing, internet skills, customer care, library management, publicity and marketing, office management and file organization	11	11
11. Digital pre press training in computer/process camera/planning/plate making	2	2
12. Training in offset sheet-fed press operation (for offset printing)	4	4
13. Training in post press technology (for binding)	2	2
14. Training in printing technology at supervisor level	1	1
15. Regional educational services division training in administration and management of regional networks	8	4
Subtotal	100	85.5
B. Long Term Training (Foreign)^a		
1. Department of Civil Engineering: Lecturer geotechnical engineer for M. Phil	1	12
2. Department of Civil Engineering: Senior lecturer in construction engineering and management for PhD	1	18
3. Department of Electrical and Computer Engineering: 3 lecturers in compiler design, biomedical electronics, software engineering for M. Phil.	2	24
4. Department of Electrical and Computer Engineering: Microwave engineering for PhD	1	18
5. Department of Mathematics & Philosophy of Engineering: environmental science for PhD	1	18
6. Department of Mechanical Engineering: 3 in manufacturing engineering, mechanical systems design and materials science for M. Phil.	2	24
7. Department of Mechanical Engineering: Vehicle emissions and atmospheric pollution for PhD	1	18
8. Department of Textile and Apparel Technology: Functional clothing design for PhD	1	18
9. Department of Education: PhD in special education (gifted/learning difficulties/hearing or visual Impairment)	1	18
10. Department of Education: PhD in early childhood education (child development/sociocultural perspectives/teacher education)	1	18
11. Department of Education: PhD in curriculum development	1	18
12. Department of Education: PhD in educational sociology	1	18
13. Department of Education: PhD in educational psychology	1	18
14. Department of Language Studies: PhD in applied linguistics or applied language studies	1	18
15. Department of Language Studies: PhD in english language teaching and teacher education	1	18
16. Department of Language Studies: PhD in language testing and evaluation/computer assisted language learning	1	18

^a Split program only require enrollees to go abroad for 10 months maximum.

Training, Fellowships, and Study Visits	No. of Fellows	Total Person-Months
17. Department of Language Studies: MA in english and teacher education	1	12
18. Department of Legal Studies: PhD in family law	1	18
19. Department of Legal Studies: PhD in public information law	1	18
20. Department of Management Studies : PhD in marketing	1	18
21. Department of Management Studies: PhD in finance and management	1	18
22. Department of Management Studies: PhD in organizational behavior	1	18
23. Department of Management Studies: PhD in operational research	1	18
24. Department of Management Studies: MA in management of technology	1	12
25. Department of Social Studies: PhD in development studies	1	18
26. Department of Social Studies: PhD in policy studies	1	18
27. Department of Social Studies: PhD in conflict and development studies	1	18
28. Department of Social Studies: MA in media studies	1	12
29. Department of Health Sciences: PhD in health care management and pharmacy	1	18
30. Department of Mathematics and Computer Sciences: PhD in computer science, statistics , and mathematics	3	54
31. Department of Chemistry: PhD in synthetic organic chemistry	1	18
32. Department of Physics: PhD in medical physics and general physics	2	36
33. Department of Zoology: PhD in biotechnology/molecular biology	1	18
34. Department of Botany: PhD in environmental impact assessment	1	18
35. Environmental Studies Unit: PhD in wildlife ecology	1	18
36. Library: M. Phil in information science	1	12
Subtotal	41	684
C. Short-Term Training (Local)		
1. Upgrading quality of administrative services (office assistants, clerks and allied grades, assistant registrar)	136	35
2. Printing services (technical staff)	16	160
3. Agricultural engineering (data entry operator, academics)	6	16
4. Electrical and electronic engineering (technical officers, academics, electronic engineer, data entry operators, laboratory attendants)	64	43
5. Civil engineering (academics, laboratory technicians, research assistants)	24	101
6. Mathematics and philosophy of engineering (educational assistants, academics, data entry operators)	15	38
7. Mechanical engineering (technical officers, workshop engineers, educational assistants)	10	45
8. Textile and apparel engineering (technical officers, teaching assistants, academics)	13	106
9. Natural science instrumentation room (Technical officers, lab attendants)	4	8
10. Botany technicians and academic staff (data entry operators, technical officers, laboratory attendants, academics)	12	32
11. Chemistry technicians and academics staff (data entry operators, technical officers, laboratory attendants, academics)	12	32
12. Environmental studies (technical officers, academics)	6	16
13. Physics technicians and academic staff (data entry operators, technical officers, laboratory attendants, academics)	12	32
14. Zoology technicians and academic staff (data entry operators, technical officers, laboratory attendants, academics)	12	32
Subtotal	342	696
Total	383	1,380

PROJECT MONITORING MEASURES

Outcome/Goal	Year 1 Baseline	Year 3 Midterm	Year 6 Final
OUSL Indicators			
1. Enrolment (M/F) (number, %)	10,000 (50%)		
2. Enrolment (M/F) (Central/regional %)	10,000 (50%)		
3. Completion rate (M/F) (diploma/degree) (%)	6.0%		
4. No. of working students employment status of students (M/F) (%)	65%		
5. OUSL unit cost (\$)	\$200/yr.		
6. Self-financing (%)	25%		
7. Permanent/contract staff (number)	50/300		
8. On-line admissions/registration	No		
9. On-line tutoring, testing	No		
10. Staff development/upgrade (M/F) (numbers)	234 PM international 481 PM domestic		
11. Corporate/business plan (y/n)	Yes		
12. EMIS/results-based budgeting (y/n)	No		
13. Curriculum programs migrated to web (number)	0		
14. Number of OUSL functioning centers	22		
15. Number of OUSL scholarships for poor	0		
DEPP Indicators			
1. Business/marketing plan (y/n)	No		
2. Technical transfer to local staff (%)	0		
3. Cash flow monitoring	No		
4. Curriculum course design office	No		
5. Production office	No		
6. Delivery system office	No		
7. Number of curriculum programs on-line	0		
8. Number of students on-line (M/F)	0		
9. Number of students using tutoring (M/F)	0		
10. Number of students using career guidance (M/F)	0		
11. Number of students using job search (M/F)	0		
12. Number of external degree students completing (M/F)	2%		
13. Number of outlets for NDEN	0		
14. Number of contract staff DEPP/NDEN	0		
15. Number of functioning OUSL telecenters	0		
Public-Private Partnership Model Indicators			
1. Student enrollment in project schools public/private (35,000) (M/F)	0		
2. Number of new stipends for poor in project schools (2,000) – target = 2,000 each year (M/F)	0		
3. Career guidance program developed	No		
4. Job-listing program developed	No		
5. Number of foreign-local institutional links	10		
6. Number of public awareness responses	0		
7. Accreditation program in schools (%)	12%		
8. Standard setting criteria approved	No		
9. Zero-based funding linked to results	No		

DEPP = Distance Education Partnership Program, EMIS = education management information system, M/F=male to female ratio, NDEN = National Distance Education Network, OUSL = Open University of Sri Lanka, PM = person-month.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis

Sector identified as a national priority in country poverty analysis?	Yes	Sector identified as a national priority in country poverty partnership agreement?	Yes
<p>Contribution of the sector/subsector to reduce poverty in Sri Lanka: The Country Programming Update (2002) and Poverty Reduction in Sri Lanka Report (ADB 2002) suggest that pro-poor economic growth is central to poverty reduction. Infrastructure (roads, power, and ports) is important, but so are small or medium-sized enterprise development and policy reform to stimulate labor-intensive growth, especially in downsizing and improving the efficiency of the public sector. Social development supports these efforts by streamlining publicly financed social services, especially outside metro Colombo. A major improvement in access and relevance of tertiary training is required for upward social and economic mobility. Tertiary education contributes to poverty reduction by producing high-quality public servants and efficient managers for the private sector. The Asian Development Bank will help the Government to expand access to students from low-income families, restructure educational institutions to enhance efficiency and relevance, and support public-private partnerships, especially in conflict areas and plantation districts.</p>			

B. Poverty Analysis

Proposed Classification: Pro-Poor Economic Development and Human Development

<p>Analysis: Poverty in Sri Lanka has recently increased due to the Asian crisis. At least 25% of the population live below the consumption and human poverty line, and mainly in rural areas, especially highland plantation districts and in the social conflict areas of the north and northeast, where up to 40% of the population are low income or displaced. Low-income students are represented in universities, as students are selected based on merit and on need as defined by income and residence. All students in conventional universities pay no fees and often receive stipends. In OUSL, students must pay fees and often do not receive stipends. Therefore, scholarships for low-income students at OUSL and private schools, and external degree students studying on the web need to be addressed if equity is to be preserved among students. The Project is expected to promote socioeconomic mobility needed to develop the economy outside Colombo. Special emphasis is placed on expanding the OUSL campus network to plantation areas and conflict areas. The Project will provide for activities that sharpen the delivery of public goods, increase the efficiency of the labor market and educational system, and improve overall labor market efficiency, leading to higher wages. The Project will promote economic development and human development, but neither the percentage of funds nor the absolute number of poor beneficiaries are sufficient to qualify the Project as a core poverty or poverty intervention. OUSL is a cost-effective means to increase enrollment of the educated poor in key fields of study necessary for development of regional economies.</p>

C. Participation Process

Stakeholder analysis prepared	Yes
Participation strategy:	Yes
<p>Stakeholder analysis found that approximately 80,000 students annually will enroll in the project institutions by project completion, up from 40,000. Most beneficiaries will live in small towns outside Colombo. The Project will help meet the social demand for postsecondary education and help rationalize cost sharing so that efficiencies can be increased and more students served. The participation strategy followed during project processing included extensive workshops and consultations with public-private employers such as the Ceylon Chamber of Commerce, nongovernment organizations, funding agencies, students, faculty senates, government policymakers, and educators. Project implementation units will include advisory committees represented by public and private stakeholders to screen activities, while follow-up surveys, tracer studies, and workshops will allow monitoring of impacts on beneficiaries.</p>	

D. Social Issues

Subject	Significant, Not Significant, None	Strategy to Address Issues	Output Prepared
Resettlement	None		None
Gender	Not significant	Career guidance will target female students to select programs based on job prospects and become familiar with searching for jobs after graduation.	No

Subject	Significant, Not Significant, None	Strategy to Address Issues	Output Prepared
Affordability	Not significant	The Project will involve cost sharing, but the beneficiaries already participate, and so meeting fee generation targets is highly likely and sufficient to meet the recurrent costs after project completion.	No
Labor	Not significant	The Project will support improving relevant skills that raise wages for educated labor, which has implications for social and economic mobility in support of development.	No
Indigenous People	Not significant	Efforts will be made to support plantation districts and social conflict areas where poverty is above average and people generally isolated from mainstream opportunities.	No
Other Risks/ Vulnerabilities	Not significant	Technical capacity to promote information flow in and outside Sri Lanka is limited, but the Project will provide resources to address these issues, especially through international experts and funds to train local staff, and funds to support foreign-local link programs.	No

E. Client Groups

1. The client target of the Distance Education Modernization Project is the new A-level graduate who cannot qualify or who elects not to go to a public university. In 2000, 183,439 sat for the general certificate examination (A-level), and 91,589 (47.6%) qualified to enter the universities. The 12 conventional universities have only about 12,000 places for A-level graduates, leaving more than 79,000 young people qualifying for admission but unable to secure a seat. A 6-month backlog of students is awaiting admission to the universities due to problems with the selection system. Thus, the average university graduate is 28 years old. Modernization of postsecondary education will also benefit adult O-level graduates and employed adults seeking higher education subjects, certificates, diplomas, and degrees. Subgroups selected for special benefit are poor and low-income A-level graduates and women, rural A-level graduates, those confined to the disputed territories, underemployed young adult A-level graduates, refugees, and the physically disabled.

2. The Project will address access, relevance, equity, and efficiency. Accessibility entails such proposals as scholarships for the poor, increased capacity, outreach of academic programs, and increased student mobility between institutions and through various educational levels from diplomas to degrees. Relevance addresses improved employability of graduates. Quality addresses the need to strengthen institutions and provide improved curricula to world-class standards and employer needs. Efficiency provides improved student ability to complete programs through more effective instructional methodologies and assessment, lower delivery costs within institutions, and meaningful employment upon graduation. The socioeconomic profile of the population to be affected by the Project ranges from the new A-level graduate (the primary target client) to the employed adult who seeks to upgrade qualifications and skills to progress along an existing career path or seek a new one.

3. Admission to state universities is fairly well distributed among districts, due mostly to a government policy that takes only 30% of entrants on merit. The rest are quotas (55%) distributed on district basis, and on the basis of underprivileged areas (15%). Females dominate the arts stream, while engineering-related streams are dominated by males, due mostly to social constraints. Internal strife hampers the mobility of A-level graduates, especially in disputed territories, to travel to educational institutions in the south, particularly Colombo. However, A-level examinations have been conducted uninterrupted even in war-torn areas. Of about 7,250 A-level graduates annually in the disputed sectors, only 1,800 are accommodated in the public

higher education system, and an estimated 2,000 by private higher education providers. An estimated 2,000 students go abroad for bachelor-level education.

4. Unemployment is down to about 8% but is expected to rise with the current economic slump. The highest unemployment rate is among urban job seekers and A-level graduates (22.4%) who seek jobs as well as further education. However, in absolute terms, most of the unemployed (81%) are in the rural regions, especially youth (15–29 years old) who went up to grades 9 and 10.¹ The country has been struggling with the effects of youth unemployment and education mismatch for decades. If anything, it has accelerated with the demands of the new economy for information technology (IT), basic literacy, and English. The poor and rural poor have been left behind in the rush for English and IT literacy, as demonstrated by the large number of schools without electricity and with undertrained and undereducated teachers. The medium of instruction for IT is English, so that the few students who achieve A-levels among the urban and rural poor are faced with the onerous and costly task of acquiring, usually at great expense, English as a second language and IT training. Studies done by ADB on employability of Sri Lankan graduates have identified a set of attributes preferred by employers. The private sector prefers graduates who are English-speaking and literate in office IT, and with a work ethic, which seems often lacking in public university graduates.

5. Adding to the problems of the poor is lack of access to the better programs offered at postsecondary education institutions. The shortage of seats at the public universities for free tuition of A-level scholars is being addressed by the World Bank and by the development policies of the Government. The current backlog may be alleviated by 2004, as universities have begun to take in double batches. The capacity to absorb students is expected to rise from its present 2% of A-level qualified graduates to 4–5%. Adding to the potential to absorb A-level graduates is the possible expansion of the Open University of Sri Lanka (OUSL), the potential expansion of the Sri Lanka Institute of Advanced Technical Education (SLIATE), and the private higher education diploma and degree-granting capacity institutions increasing capacity from 5,000 to 30,000 students.²

6. Many underemployed A-level graduates wish to proceed to higher education and seek part-time education to upgrade. A government initiative encouraging public universities to create external degree programs, and the right of a student to challenge examinations for a degree, have the potential to enable public universities to absorb many of the students. External degrees have helped create spin-off private institutions tutoring students for the university exams. Tutoring has been very successful in IT, with examinations offered by the Institute of Computer Technology Institute of the University of Colombo. Over 9,000 students preparing for them are studying mainly at private IT schools. University Grants Commission statistics indicate 167,000 students are enrolled in external degree programs offered by six public universities.

F. Client Demand

7. Students are determined to enroll in programs despite the bureaucratic hurdles of the public institutions. For example, it is not uncommon for students to forgo a day's pay and travel 3–4 hours just to stand in line to enroll in an OUSL program. The system is too process oriented, and not as student friendly as it should be. A-level graduates tend to migrate from rural

¹ Educational Consultants Ltd., 1989. *Education and Training in Sri Lanka*. Vol. 3. Colombo.

² Numbers vary by sources and way of counting. These figures do not consider certificate programs shorter than 1 year.

areas to Colombo, seeking jobs and education. Those from poor families have to find jobs and study part time. The assumption is that the better-quality education is in Colombo.

8. Typical young A-level graduates who leave their poor rural families and move to an urban center are faced first with having to earn a living. Typically, their income level is Rs3,000–7,000 per month. Private sector education costs are significant, ranging from Rs5,000 to over Rs8,000/month, plus living expenses, estimated at a minimum of Rs2,000–3,500/month. Students prefer to study English and IT basic skills. Focus group sessions with A-level graduates from poor families indicated a lack of knowledge of career opportunities, thus substantiating the Government's focus on introducing career and employment counseling. Students were unaware of education opportunities outside programs offered by the public universities—that is, training opportunities provided by OUSL, SLIATE, and other providers such as the Hotel School. Focus groups also indicated a desire for short training courses that would help graduates get jobs quickly. Once employed, graduates tend to seek part-time education to develop a career path.

G. Absorptive Capacity

9. Project benefits can be enhanced through improved linkages between public and private sector institutions and the provision of mobility for students to advance from technical/vocational certificate programs to diploma and degree programs. Provided that the quality of programs is enhanced, expansion of programming at SLIATE and OUSL can be affected through linkages with the private sector, emulating the Institute of Computer Technology, University of Colombo external degree program. The quality of the public and lesser private institutions can be enhanced by adoption of a quality accreditation system, such as ISO 9002, which has been achieved by the Marine School, or by international accreditation linkages. Programs must meet world standards to enhance graduate mobility.

10. External community organizations that can support the project are the local and national chambers of commerce. The three major chambers—Ceylon, Federal, and the Federation of Chambers of Commerce—are willing to encourage educational opportunities for A-level graduates and help with educational surveys. Public and private participation in programs such as work experience for graduates has a good track record. These partnerships could be co-opted to participate in student loan and scholarship projects. Representatives interviewed from professional associations—accounting, marketing, architecture, chemistry, engineering, and IT school associations—are interested in improving the quality of education and accessibility for A-level graduates. The spirit of cooperation is high.

ECONOMIC JUSTIFICATION

1. Sri Lanka boasts some of the region's better human development indicators. In 1997, its literacy rate was 92%; in 1995, the primary gross enrolment rate was above 90%, and the gross secondary enrolment rate was 75%. At the tertiary level, however, only 5% of the relevant age group was enrolled. Dividends from the peace process, the country's rising industries, and the changing global economy necessitate providing greater access to and strengthening postsecondary education, and a closer match between education and training and labor market needs to provide the required skill mix.

2. Recent labor statistics indicate that the overall unemployment rate is 8%. Unemployment among females is double that among males, and gender parity has not been attained in education. The economic structure is changing. The Sri Lankan labor force is characterized by a large but declining share of agriculture, with a shift away from employment in the primary sector to the secondary¹ and tertiary² sectors. Workers are moving more to self- and private employment and away from the public sector. A distinctive feature of unemployment in Sri Lanka is its high incidence among educated persons (14.6% for those with A-level qualifications and above); the unemployment rate was less among those with lower qualifications (0.5% for those with no schooling and 1.9% for those who attended to grades 2–4). This pattern is partly due to the conventional education system with its traditional courses that do not cater to the emerging demands of the labor market, especially in computer science, financial management, marketing, and English language; and partly due to a mismatch between expectations and opportunities based on the educational qualifications and achievements of the prospective job seekers. The trend to more skilled occupations has contributed to rising income levels. To maintain this momentum, education and training systems need adapt to the changing pattern of demand in the labor market.

3. **The Project.** The Project has three components: (i) developing a modern distance education system through partnerships to increase access and raise the quality of programs at the Open University of Sri Lanka (OUSL) and other public and private postsecondary institutions; (ii) supporting greater coordination and efficiency among public and private postsecondary institutions in Sri Lanka and abroad, including job awareness campaigns and career guidance activities; and (iii) building the capacity of OUSL to expand access and improve the quality and relevance of higher education. A relevant curriculum will increase students' employment potential and serve emerging labor market needs.

4. **Project Benefits.** The Project will increase the educated and skilled labor force necessary to changing requirements for economic development. The Project will (i) expand the capacity of nonconventional higher education institutions to increase postsecondary enrolment, (ii) provide quality learning for external degree students, (iii) improve the quality of learning, and (iv) provide relevant higher education. The major project beneficiaries will be postsecondary students, specifically A-level graduates who, although qualified to enter conventional universities, are left out for lack of space. Demand is high for postsecondary places as evidenced by the number of graduates who apply and are rejected, and by the growing enrolment of external degree students. Project benefits are calculated in terms of working-life incremental income earned as a consequence of obtaining postsecondary education.

5. **OUSL.** Capacity building to increase access and improve quality at OUSL will increase admissions of university-qualified students. Enrollment at OUSL is expected to increase to

¹ Secondary sectors include manufacturing and construction.

² Tertiary sectors include trade, electricity, transport and communications, banking and finance, and other services.

40,000 from the current 20,000 in approximately 10 years. Structural changes in the economy favoring more skilled and educated people will reinforce this trend. Due to competing demands on students' time,³ and partly due to poor OUSL resources, the completion rate⁴ during 1997–2000 was 7% against the universities' 19.8%. Activities to improve the quality of learning, modernize and rationalize the resources of OUSL, and streamline admissions and accreditation are expected to double completion rates to 14.1% in 12 years. Completion rates of nondegree students are expected to increase from the 1997-2000 average of 13.7% to 17.4% in 12 years. Completion rates are expected to be higher in nondegree programs, which are typically shorter than degree programs.

6. As most of OUSL's students are already employed, their employment rate should be above the national rate of 92.3%. For present calculations, however, the initial employment rate is assumed to be the same as for A-level graduates and to improve to equal the national employment rate in 7 years. Employed students will experience an increment in their annual remunerations. The estimated 2002 average nominal wage of A-level graduates is \$1,580; those with less than a degree, \$1,708; and degree holders, \$2,907.⁵ Students' working lives are conservatively estimated at 20 years. As a consequence of the ongoing peace talks and the general optimism of an accord being reached, Sri Lanka's economy is poised to grow quickly in the medium term. Given that this project will increase skilled and educated labor and will align it to structural changes and the needs of the economy, and that peace is expected to reign, the economy is expected to grow rapidly and labor to be productive. For the calculations here, the growth rate of real wages is assumed to peak at a conservative 8% in 8 years and to decline thereafter.⁶

7. Even at the improved "completion rates," many students will still not be able to complete their degrees in 4 years. Before program completion, however, students will increase their productivity, and remuneration structures normally reward additional education and training received. Thus, without completing their degrees, some working students will receive increments to receive "less than a degree" incomes.

8. **Distance Education Partnership Program.** Multimedia center-based education will provide a useful venue for postsecondary classes addressing the needs of external degree students. Access to syllabi, course materials, course reviews, and related materials will be provided. In 1998, of the 104,000 students enrolled, only 2.14% received their degrees. By 2001, enrolment had grown to 166,000. Under this component, an estimated additional 25,000 students per year will be served by year 10. External degree graduates are assumed to be employed in the same pattern as OUSL graduates.

9. **Public-Private Partnerships.** Through the public-private partnership component, funds will be granted on a matching basis to about 100 private postsecondary institutes to improve their quality and increase access. Government training institutes (Sri Lanka Institute of Advanced Technical Education) and other nonprofit institutes will also receive an equivalent amount. Smaller institutions are more agile and can implement improvements more quickly than

³ About 75% of OUSL's students are already employed.

⁴ The completion rate is calculated as the proportion of enrolled students who are awarded degrees (or certificates or diplomas) in a given academic year to the total enrolment in the same academic year.

⁵ In 1997, average nominal wage of A-level graduates was SLRs103,356; those with less than a degree, SLRs111,744; and degree holders, SLRs190,176. These were inflated to 2002 estimates using inflation rates and converted into dollars at the forecast 2002 exchange rates.

⁶ The Central Bank of Sri Lanka has projected real per capita income to grow at an average of 5.7% annually in 2000–2005, and 10% annually in 2005–2010. Real wages are expected to grow incrementally and track these projections.

traditional structures, and will thus be able to enroll more students. An additional 25,000 students per year will be enrolled by year 10. Their completion rates are assumed to be the same as that of OUSL students. This assumption, however, may be pessimistic in view of the different student composition in these institutions, and because fees, which are close to full cost recovery, are being charged.

10. The Project will improve long-term higher education capacity and quality, and not just during project implementation. Increases in enrollment and improvements in learning quality are expected to be sustained beyond the project period. Project benefits are calculated until year 20.

11. **Absorptive Capacity.** The project will increase enrollment by about 70,000 places per year in 10 years, which is likely to be short of the future demand. About 140,000 students sit for the A-level examinations every year. At the end of the 5-year implementation period of the Asian Development Bank Secondary Education Modernization Project, the annual number of A-level graduates sitting for the A-level examinations is expected to increase to about 190,000. Assuming that the pass rate of about 50% is maintained, about 95,000 students should qualify annually for the university. If everyone enrolled for postsecondary education, 360,000 total places would be needed for any given school year assuming 25% of all those enrolled would complete their programs and no one drops out. (Lower completion rates will further increase the total student places required.) As of 1997 (not much different from 2002), the estimated total capacity of the postsecondary system⁷ was about 166,000. If all who qualify enroll, the gap will be about 194,000; if three quarters, then 104,000. Demand for postsecondary education is demonstrated by the number and growth rate of external degree enrollment. Of the 1997 enrollment, 104,000 students were working for an external degree; they grew by 10% from 1997 to 1998. The student places are not sufficient to meet the current and projected increased demand in the traditional university sector and the requirements of the evolving economy, so other parts of the postsecondary education system must thus expand.

12. **Project Costs.** The economic costs of the project include project investment, incremental recurrent costs of the Government, and opportunity costs of students' time. Since most OUSL students are employed and take some time off from their work to study, their opportunity costs are assumed to be 25% of the average A-level wage. The Distance Education Partnership Program (DEPP) and public-private partnership students are assumed to be close to the beginning of their age-wage profile; their opportunity costs are thus assumed to be at 80% of the average A-level wage. In the case of DEPP external degree students, authorities are uncertain of the number of active students until they register for examinations again; in this connection, opportunity costs are calculated only for the change in number of those completing each year, and students are assumed to have spent 4 years preparing for their degree examination.

13. **Economic Rate of Return and Sensitivity Analysis.** The assumptions of the economic internal rate of return analysis are as follows:

- (i) OUSL enrolment will increase from 20,000 to 40,000 by year 10.
- (ii) OUSL completion rates will increase from 7% to 14.1% in 12 years.
- (iii) OUSL nondegree completion rates will increase from 13.7% to 17.4% in 12 years.
- (iv) Growth rate of real wages will peak at 8% in 8 years and decline thereafter.
- (v) Multimedia centers will enroll 25,000 external students by year 10.

⁷ The postsecondary system includes public institutions and private institutions that serve external degree students.

(vi) Public-private partnerships will enroll 25,000 students by year 10.

14. The calculated economic internal rate of return is 23% (Table A14.1). Sensitivity analysis is in Table A14.2. If Sri Lanka's economy does not grow as expected such that real wages are fixed at the estimated 2002 levels, the Project will generate the lower EIRR of 15%. In the event that capacity building at OUSL is not as successful as expected, (i) if the increase in enrollment is 8,574 instead of 20,000, the EIRR will shrink to 15%; and (ii) if OUSL completion rates improve to 10.9% instead of 14%, the EIRR will shrink to 14%. Where the assumption relating to the DEPP's impact on external students' completion rates is less than expected, such that it grows to 4.1% instead of 7%, the EIRR will slightly decrease to 22%. If the cost of the investment project increases by 20%, the EIRR will decrease to 21%. These scenarios present the sensitivity of the project EIRR and demonstrate its viability compared with the 12% hurdle rate.

Table A14.1: Estimated Costs and Benefits of the Project
(\$)

Year	Present Value of Economic Costs	Present Value of Economic Benefits			Total	NPV of Project at 12%
		OUSL Capacity Building	DEPP	Public-Private Partnership		
2003	10,995,215	0	0	0	0	(10,995,215)
2004	10,617,118	0	0	0	0	(10,617,115)
2005	11,664,705	231,424	161,901	44,172	437,497	(11,227,208)
2006	11,347,605	405,223	531,578	126,719	1,063,519	(10,284,086)
2007	9,618,434	3,394,418	964,730	3,148,151	7,507,299	(2,111,136)
2008	13,622,335	4,978,062	1,680,009	5,713,078	12,371,149	(1,251,185)
2009	19,108,694	6,915,392	2,708,387	9,549,798	19,173,577	64,883
2010	24,562,674	9,576,511	3,900,078	12,907,604	26,384,193	1,821,518
2011	29,740,655	12,983,498	5,247,992	16,262,250	34,493,740	4,753,085
2012	33,233,318	17,655,537	7,084,789	18,575,731	43,316,057	10,036,866
2013	32,233,318	19,006,699	7,556,004	18,982,887	45,545,590	13,312,271
2014	31,266,797	20,636,765	8,084,925	19,559,783	48,281,472	17,014,676
2015	29,584,562	19,488,626	7,635,115	18,471,563	45,595,303	16,010,740
2016	27,993,222	18,444,592	7,226,091	17,482,015	43,152,697	15,159,475
2017	26,238,845	17,254,009	6,759,653	16,353,565	40,367,226	14,128,382
2018	24,594,630	16,175,633	6,337,174	15,331,467	37,844,275	13,249,645
2019	23,053,638	15,114,827	5,921,579	14,326,022	35,362,428	12,308,790
2020	21,609,368	14,170,150	5,551,481	13,430,645	33,152,276	11,542,908
2021	20,255,731	13,284,516	5,204,513	12,591,230	31,080,259	10,824,527
2022	18,987,024	12,454,234	4,879,231	11,804,278	29,137,743	10,150,719
NPV at 12%					103,892,537	
Economic Internal Rate of Return						24%

DEPP = Distance Education Partnership Program, NPV = Net Present Value.

Table A14.2: Sensitivity Analysis

Criteria	ERR (%)
Base case entire project	24
Investment project costs 20% more	22
Real wages do not grow	16
OUSL enrollment increases by 8,574 instead of 20,000 by year 10	16
OUSL enrollment increases by 25,000 instead of 20,000 by year 10	27
OUSL completion rate grows to 11% instead of 14%	15
External students' completion rate reaches a peak of 4.1% instead of 7%	23

FINANCIAL PROJECTIONS FOR THE OPEN UNIVERSITY OF SRI LANKA AND THE DISTANCE EDUCATION PARTNERSHIP PROGRAM

A. Fiscal Impact

1. Sri Lanka's growth rate has averaged about 5% per annum for the past 15 years, suggesting that the economy can grow in spite of (i) the social conflict, which drains about 2% of gross domestic product (GDP) each year; (ii) the Asian crisis, which has greatly affected the region; and (iii) general inefficiencies caused by public sector policies that are not pro-growth because they do not provide a sufficient number of relevant skills. The growth is reinforced by low population growth and deficit reduction that has kept the economy stable over the past 10 years in spite of severe external shocks. The government budget grew at about 5% per annum as the Government reduced expenditures by selling off parastatals and reducing social benefits not targeted specifically at the poor. Prospects for continued growth look good once the social conflict is resolved and the global economy picks up.

2. The education budget has remained fairly constant at about 3% of GDP for the past 10 years, with about 20% going for capital costs funded mostly by external borrowing. The budget is slightly skewed toward the upper end of the education pyramid, with 40% going to primary, 20% to secondary, and 20% to higher education; and 20% to teacher education, administration, etc. The key education financing issues facing Sri Lanka center on the no-growth scenario for budget funding and the need for cost sharing under these circumstances in tertiary education, which has traditionally been provided for free. If the formal conventional university system were not small, the system would clearly be unsustainable.

3. Tables A15.1, and A15.2 provide information on the financial sustainability of project impact on the overall national budget and the education budget, especially for the recurrent portion. These percentages are small and indicate that the project will not adversely impact the budget either during or after project completion. The impact on the university portion of the total education budget can be simply estimated by hand because the university portion is 20% each for the recurrent and routine education budgets. Again, the impact will not be unusually large.

Table A15.1: Indicative Budgetary Implications

Item	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1. Government Share in Project	3,967	4,222	4,585	3,803	1,380	971
2. Total Education Budget ^a	352,429	374,109	395,789	417,469	439,149	460,829
3. Percentage of Government Share/Education Budget	1.1	1.1	1.2	0.9	0.3	0.2
4. Government Share in Civil Works	860	860	860	860	860	860
5. Education Development Budget ^a	72,135	76,572	81,009	85,447	89,884	94,322
6. Percentage of Government Share/Education Development Budget	1.2	1.1	1.1	1.0	1.0	0.9
7. Government Share in Recurrent Cost	519	519	519	519	519	519
8. Education Recurrent Budget ^a	280,295	297,537	314,780	332,022	349,265	366,508
9. Percentage of Government Share/Education Recurrent Budget	0.2	0.2	0.2	0.2	0.1	0.1

^a Data from Central Bank of Sri Lanka annual reports and projected to year 2008.

Table A15.2: Projected Education Budget 1993-2008
(\$ million)

	Year	Education	Recurrent	Percent	Development	Percent
Actual	1993	148.1	118.2	79.8	29.9	20.2
	1994	186.5	156.2	83.8	30.3	16.2
	1995	199.0	166.1	83.5	32.9	16.5
	1996	214.8	168.6	78.5	46.1	21.5
	1997	235.3	186.9	79.5	48.3	20.5
	1998	281.0	216.7	77.1	64.3	22.9
	1999	308.4	227.8	73.9	80.5	26.1
	2000	325.6	250.5	76.9	75.1	23.1
	2001	297.7	246.8	82.9	50.9	17.1
Average				79.5		20.5
Projected	2002	330.7	263.1	79.5	67.7	20.5
Year 1	2003	352.4	280.3	79.5	72.1	20.5
Year 2	2004	374.1	297.5	79.5	76.6	20.5
Year 3	2005	395.8	314.8	79.5	81.0	20.5
Year 4	2006	417.5	332.0	79.5	85.4	20.5
Year 5	2007	439.1	349.3	79.5	89.9	20.5
Year 6	2008	460.8	366.5	79.5	94.3	20.5

Notes: Gross domestic product at market prices

Source: Central Bank of Sri Lanka. 2001. Annual Report. Colombo; Central Bank of Sri Lanka. 1997. Annual Report. Colombo.

Projection of education budget from 2002 to 2008 by regression and breakdown into recurrent and development based on averages of 1993 and 2001.

4. The sustainability of the Open University of Sri Lanka (OUSL) is presented in Table A15.3 by showing the current budget and expenditure, including income from fees, which represents 25% of overall unit costs of OUSL operations. Comparing these numbers with the projected expenditures and revenues generated in 2008 at the end of the Project, the fees from additional students will clearly cover the costs of operations at a rate of 40% per annum. OUSL will continue to rely on a government grant of 60% of operating costs, primarily for salaries for permanent staff.

Table A15.3: OUSL Sustainability Analysis
(SLRs'000)

Category	Current	Projected	Increase
Budget Expenditures			
Salaries	212	240	28
Contracts	38	120	82
Nonsalary	61	128	69
Total	311	488	179
Revenue Income			
Grants	207	240	33
Fees	82	190	102
Other Income	15	40	25
Total	304	470	184

5. Table A15.4 shows the cash flow for the Distance Education Partnership Program (DEPP) during and after project completion, and project subsidies to establish the DEPP, configure and install the system, and operate and train local staff before project completion. The net result of the analysis indicates that with as few as 10,000 students on-line and paying user fees of \$100 per year, the DEPP can continue existing operations until the end of 2008. However, with an additional 10,000 students on-line per year and paying the same user fees, the DEPP will have sufficient funds to continue expanding curriculum development through migrating programs to the web and additional upgrading of existing software and hardware.

Table A15.4: Distance Education Partnership Program Cash Flow (2003–2009)
(\$ '000)

Year	2003	2004	2005	2006	2007	2008	2009	2010
1. Income	0	0.05	0.1	0.2	0.3	0.5	1.0	1.5
2. Expenditure								
Capital Expenditure	2.0	2.0	2.0	2.0	0.8	0.2	0.2	0.3
Operational Expenditure	1.0	1.0	1.0	0.5	0.5	0.2	0.3	0.1
Total Expenditure	3.0	3.0	3.0	2.5	1.3	0.4	0.5	0.9
Cash Balance	(3.0)	(2.95)	(2.90)	(2.3)	(1.0)	0.1	0.5	0.6
Project support	3.0	2.95	2.90	2.3	1.0	0.4	0	0
Net Cash Balance	0	0	0	0	0	0.5	1.1	1.6

6. Table A15.5 shows the breakdown of what costs go under the special fund to upgrade public-private institutes seeking grants to improve capacity and increase enrollment and provide additional scholarships for the needy. For every proposal costed, the beneficiary institute will pay 50% of the costs. The remaining 50% share will be paid by the Government and can be broken down as 20% to cover the high cost of borrowing for the institute, 20% to support the additional capacity, and 10% to cover a portion of the stipend component. Given these reasons to use public funds for private institutes, these costs need not be recovered under a loan. The government contribution represents support to the private institutions to increase capacity that would otherwise have to be created long-term by the Government to increase enrollment.

Table A15.5: Matching Grants for Public Private Institutions to Expand Capacity
(\$ million)

Category	Private Institution	Government
Additional Capacity ^a	3.8	1.6
Stipend Increase	0.1	0.8
Cost of Borrowing	0.1	1.6
Total	4.0	4.0

^a Information, communication technology, multimedia, on-line distance education, foreign-domestic link programs.