

Memorandum of Understanding (MoU)
between
The University Grants Commission
(hereinafter referred to as "UGC")
and
Kathmandu University
(hereinafter referred to as "Beneficiary")
regarding
Second Higher Education Project SHEP ("SHEP")

1. Preamble

WHEREAS Nepal ("Recipient") and International Development Association ("IDA") have entered into Financing Agreement ("Agreement") of the Project on April 30, 2007.

WHEREAS the objectives of the Project are: i) enhanced quality and relevance of higher education and research through a set of incentives for promoting effective management and financial sustainability of academic institutions; and ii) improved access for academically qualified under-privileged students, including girls, *Dalits* and educationally disadvantaged *Janajati*, to higher education through financial assistance and enhanced capacity of higher secondary schools.

WHEREAS Beneficiary agrees to the reform agenda of the SHEP.

WHEREAS UGC has agreed on the basis, inter alia, of the forgoing to provide the financial assistance – Subproject Grants - under the provision of the Project to Beneficiary upon the Terms and Conditions set forth in this MoU.

NOW THEREFORE the parties hereto hereby agree as follows:

2. Obligations and Responsibilities of the Parties

2.1. Information

The Parties shall keep each other continuously informed about all matters of importance relevant to the overall co-operation and the implementation of the tasks to be performed under this MoU.

2.2. Kathmandu University (The Beneficiary)

- 2.2.1. The Beneficiary will use the proceeds of the Subproject Grant to finance only activities and expenditures included in the Beneficiary's duly approved strategic plan.
- 2.2.2. The Beneficiary will carry out its responsibility with due technical, financial, and managerial standards maintaining adequate records to reflect the accounting practices related to operations, resources and expenditures related to the sub-project.
- 2.2.3. The Beneficiary will procure goods, works and services to be financed from the proceeds of the sub-project Grant in accordance with procedures ensuring efficiency and economy and in accordance with the provisions in Annex 1, and use the sub-project Grant exclusively for carrying out the sub-project.
- 2.2.4. The Beneficiary disseminates to the public the information regarding the use of the sub-project Grant (including a description of the activities and expenditures financed by the sub-project Grant) on a trimester basis through the university website and national daily newspapers. A copy of this information will be made available to UGC within 35 days after the end of the trimester.

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- 2.2.5. The beneficiary shall sign with the UGC an agreement for formula-based funding for recurrent costs, and participate in the SHEP activities within the scope and provisions of Performance and Matching grants, accreditation, research funding.
- 2.2.6. The beneficiary shall report on all its activities concerning the Project activities to UGC as per agreed routine as well as when necessary.
- 2.2.7. The Beneficiary agrees to submit applications to UGC with duly approved work plans with time frame to release the designated Incentive, Performance and Matching Grants.
- 2.2.8. The Beneficiary will support by cooperating and collaborating in the establishment of baseline data, collection and analysis of data for progress monitoring, annual reviews, mid-term review and Project evaluation.
- 2.2.9. The Beneficiary shall submit a copy of the entity audit consistent to its prevailing rules and regulations to UGC within nine months after the end of the fiscal year.

2.3. The University Grants Commission

- 2.3.1 The UGC shall approve and disburse the subproject grants to the Beneficiaries and monitor the uses of all such Grants in accordance with the eligibility and selection criteria, disbursement procedures and criteria, monitoring procedures and other provisions relating to such Grants as set forth in the Grants Framework, and the UGC Operations and Financial Management Guidelines.
- 2.3.2 In order to ensure consistency of project activities with Operation and Financial Management Guideline, UGC shall provide technical and supervision support.
- 2.3.3 UGC will release Incentive Grants of Rs 13,000,000 to the beneficiary in a single tranche upon signing of an agreement with UGC for formula-based funding of recurrent costs.
- 2.3.4 UGC will release Performance Grants in a single tranche upon receipt of a request for the same and based on verification of the documents as per criteria and the procedures listed in Annex 2.
- 2.3.5 UGC will release Matching Grants upon receipt of a request for the same and based on verification of the documents as per criteria and procedures listed in Annex 3.
- 2.3.6 UGC will provide access for Beneficiary to research funding under the project following the procedures set forth in the Research Guidelines.
- 2.3.7 UGC will assist the Beneficiary in quality assurance and accreditation of the programs/institution following the procedures set forth in the Quality Assurance and Accreditation Guidelines.
- 2.3.8 UGC will provide necessary technical support to beneficiary for implementation of the Project activities.
- 2.3.9 UGC in consultation with IDA will undertake performance and financial management reviews of the sub-project Grants on a periodic basis.
- 2.3.10 UGC reserves the right to
 - 2.3.10.1 Inspect by itself, or jointly with the IDA (if the IDA so requests) the goods, works and sites and construction included in the Subproject, the operations thereof and relevant records and documents.
 - 2.3.10.2 Obtain all information as UGC or the IDA shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and
 - 2.3.10.3 Suspend or terminate the right of the Beneficiary to use the proceeds of the Subproject Grant upon the failure by the Beneficiary to perform any of its obligations under the Memorandum of Understanding.

3. Liability

Neither of the Parties shall be responsible, financially or in other ways, for liabilities undertaken by the other.

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4. Compliance with the laws

While carrying out the assignment under this MoU, duly authorised personnel and entities shall comply with the appropriate laws. The Parties will take prompt action with regard to any violation of the law by any of their personnel and entities when carrying out their assignment.

5. Amendments

No amendments shall be made to this MoU unless by written agreement signed by duly authorised representatives of the parties and with IDA's no objection for such amendments.

6. Entry into Force and Duration

- 6.1 This MoU shall enter into force when signed by duly authorised representatives of both Parties: UGC and Beneficiary.
- 6.2 This MoU shall remain in force until the expiration of the Agreement, or as agreed between the Parties.

7. Settlement of the Disputes

- 7.1 If any dispute arises relating to the implementation or interpretation of this MoU, there shall be mutual consultations between the Parties with a view to securing a successful settlement of the dispute and will resolve the dispute amicably.

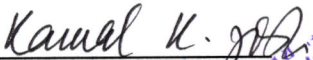
8. Others

Notwithstanding the provisions of this MoU if the financial assistance from the IDA and / or the Project is suspended or terminated this MoU will be automatically considered null and void from the date of such suspension or termination.

In witness whereof, the undersigned, acting on behalf of their respective parties, have signed this MoU in two originals in the English language.

Kathmandu, 16 November, 2007

For University Grants Commission


Dr. Kamal Krishna Joshi
Chairman (UGC)

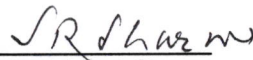
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Date: Nov. 16, 2007



Kathmandu, 16 November, 2007

For Kathmandu University

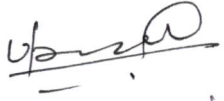
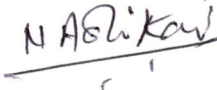

Dr. Suresh Raj Sharma
Vice Chancellor (KU)

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Date: 16 Nov 2007



Witnesses:

1. Professor Dr. Zipendra K. Koivala 
2. Mr. Narayan Bhakta Adhikari 

Annex I
Procurement Arrangements

A. General

1. **Goods and Works.** All goods and works required for the subproject and to be financed out of the proceeds of the subproject grants shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Annex.
2. **Consultants' Services.** All consultants' services required for the subproject and to be financed out of the proceeds of the subproject grants shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Annex.
3. **Definitions.** The capitalized terms used below to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following additional procedures:
 - (i) Bid opening at only one place and immediately after the deadline of bid submission shall be mandatory;
 - (ii) Local institutions where the Government of Nepal (GON) has fifty percent (50%) or more of the capital shall not be exempt from submission of bid and performance securities;
 - (iii) Local bidders shall not be eligible for any preference when competing with foreign bidders;
 - (iv) Bidders' qualification criteria shall be formulated in accordance with the Bank's Standard Bidding Documents; and
 - (v) There shall be no restrictions for foreign bidders to participate in National Competitive Bidding procedures.
3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on Consultants' Qualifications
(e) Single-Source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. (a) Except as the Association shall otherwise determine by notice to the Beneficiary, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods or works procured on the basis of International Competitive Bidding; (b) each contract for goods or works estimated to cost the equivalent of \$200,000 or more; (c) each contract for goods or works procured on the basis of Direct Contracting and estimated to cost the equivalent of \$2,000 or more; (d) each contract for consultants' services provided by a firm and estimated to cost the equivalent of \$100,000 or more; and (e) each contract for consultants' services provided by a firm, procured on the basis of Single-Source Selection and estimated to cost the equivalent of \$50,000 or more.

(b) In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$25,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and

approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraphs 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to the contract. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraphs 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(c) All other contracts shall be subject to Post Review by the Association.

Annex 2
Procedures for Release of Performance Grants

1. The Beneficiary establishes baseline values for performance indicators as contained in the Performance Grants Rates (Annex 4), forwards the baseline to UGC.
2. UGC verifies the baseline through a panel of experts. UGC and the Beneficiary agree on the baseline.
3. The Beneficiary makes requests for release of performance grants with justification for the requested amount of grants.
4. UGC verifies the updated performance indicators through a panel of experts. UGC determines the eligible performance grants based on the verified values of performance indicators, and communicates these to the Beneficiary.
5. The Beneficiary submits to UGC the work plan with timeline, based on the strategic plan approved by the Beneficiary's University Council, to be financed by the grants.
6. UGC release grants equivalent to expenditures to be incurred within a trimester. It will release grants for subsequent trimesters on receipt of the statements of expenditures for the previous trimesters.
7. The Beneficiary submits the final statement of expenditures within 45 days after completion of the activities financed by the grants.

Annex 3
Procedures for Release of Matching Grants

1. Matching funds can finance only the programs contained in the strategic plan of the beneficiary. The strategic plan needs to be approved by the university council. Matching funds can be used to finance development activities such physical facility development, procurement of equipment and services, and staff development.
2. The Beneficiary submits to UGC the program to be financed by Matching Grants. The program should contain estimated costs with necessary details that allow verification of the estimates. In case of estimates for civil works these should be certified by an engineer and in case of others by specialists.
3. UGC after review of the request by a panel of experts for Matching Grants communicates to the beneficiary the approval of the plan for funding including the estimated costs, and asks the Beneficiary to submit the financing plan and schedule for implementation of the program.
4. The beneficiary should submit the financing plan, the work schedule and the receipt of the Bank deposit equivalent to the first instalment of the matching grants requested. The amount of any requested instalment should not exceed the cost of the program of the concerned trimester.
5. UGC after review of the request for Matching Grants instalment releases the instalment to the Bank account of the Beneficiary. Subsequent instalments will be released upon submission of statement of expenditures with bank reconciliation statements for the previous trimester. In addition conditions for release of funds stipulated in the Agreement will apply.
6. Upon completion of the program financed by the Matching grants the Beneficiary will submit the completion report to the UGC.

Annex 4
Performance Grants Rates

No.	Performance Indicator	Unit	Per Unit Per Capita Grant, US\$	Quantity	Grant Amount, US\$	Remarks
<i>Quality</i>						
1	Quality assurance cycle completed ¹	Program/institution	1000	1	300,000 ²	Minimum grants: 50,000; maximum: 600,000
2	Program/institution accredited	Program/institution	3000	1	900,000 ³	Minimum grants: 100,000; maximum: 1,200,000
3	First round of tracer studies completed	Batch	200	1	60,000 ⁴	Minimum grants: 50,000; maximum: 600,000
4	Applications per student place	Applications/place	100	+2 ⁵	60,000	
5	Students employed within six months	%	10 for 40%, 20 for 40-70%, 30 for 70-100% ⁶	+30 percentage points	90,000 180,000 270,000	
<i>Financing</i>						
6	Cost sharing rate	% of recurrent costs	10 for up to 40%, 20 for 40-70%, 30 for 70-100%	+30 percentage points	90,000 180,000 270,000	
<i>Efficiency</i>						
7	Pass rates for regular students	%	10 for up to 40%, 20 for 40-60%, 30 for 60-80%, 40 for 80-100%	+20 percentage points	600,000 120,000 180,000 240,000	
<i>Expansion</i>						
8	Enrolment expansion ⁷	%	10	+50 ⁸	150,000	
9	New program bachelor's level	Program	20,000	3	60,000 ⁹	Not per capita
10	New program expansion at master's level	Program	30,000	3	90,000	Not per capita

¹ Cost associated with review of programs/institutions of private campuses will not be borne by UGC for the initial period.

² Linked to number of graduates of programs accredited and not total number of graduates of campus.

³ Number of graduates of programs accredited and not the total number of graduates of campus.

⁴ Number of graduates of programs covered by tracer studies

⁵ Increase of the ratio by 2.

⁶ Per unit per capita grants vary for different ranges of improvement to account for greater efforts needed for improvement from a high base.

⁷ Without additional public funding

⁸ Increase by 50%

⁹ To be paid in multiple instalments: 20% on submission of a plan; 20% after admission; 40% on completion of the first year; and the rest after the second year completion. The instalments may be adjusted as agreed by IDA. The same is valid for master's level.

No.	Performance Indicator	Unit	Per Capita US\$	Unit Per Grant,	Quantity	Grant Amount, US\$	Remarks
<i>Academic upliftment</i>							
11	Publications in refereed journals	Paper	2000		20	40,000	Not per capita
<i>Equity</i>							
12	Gender parity index	%	10		+ 30 % points	90,000	
13	Percentage of disadvantaged students ¹⁰	%	10		+20	60,000	
<i>PCL phase out</i>							
14	Share of PCL enrolment ¹¹	%	30		-100	900,000	

¹⁰ Dalits and educationally disadvantaged janajati

¹¹ Number of PCL graduates applies in this case; PCL phase out without increase in tertiary enrolment entails loss of revenues for campuses. Therefore, a campus restructuring plan is a prerequisite for PCL phase out. This grant is meant to fund the restructuring cost.