Financing Higher Education in Nepal: Issues and Challenges

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Abstract

The Strategic financing decisions of higher education have multifaceted effects on creating knowledge economy and equitable access, quality, relevance, research and innovation in particular. This paper is primarily based on secondary data sources and examines financing policies, programs, practices, trends and challenges. Low level of funding, inefficiency of the higher education system, inconsistent funding policies, programs and practices, weak financial management system, shadowed equity and access and rising cost of higher education are traced as major challenges of funding higher education. Based on discussions, possible strategic options like revisiting funding policies, need for more investment from the government, adaptation and strengthening of formulae and performance based funding, improving spending pattern, reducing cycle cost and inefficiency by improving internal efficiency, reducing cost and performance gap among providers, diversifying sources of funding higher education, private sector involvement, financial assistance/scholarship scheme for poor but bright students, and financial management reform are suggested to realize higher education's strategic goals of equity, access, quality, relevance, research and innovation.

Keywords

Strategic financing, Higher education, Privatization, Knowledge economy

Context

Education generates knowledge, skills, values and attitude. It is essential and critical to a nation's social and economic development. It also contributes to disseminating the accomplishments of human civilization. These characteristics make education a key area of the public policy in all countries (Paik, 1995). The hallmark of the 21st century is the creation of knowledge-based economies and democratic societies (Sijapati, 2004). Higher education is beneficial at all levels, for students, parents, societies, economy and general well-being. For the same, governments around the world engage in providing higher education. It is based on institutional design, financing modality and model for operation (Acharya, 2013).

There is a close link between financing higher education and its mission at system and institutional level. Burton (1983) identifies knowledge, beliefs and authority as the major steering of higher education. The mission of the system and the institution becomes strong by funding sources, transforming the steering mechanisms as explained by the Sanyal & Martin (2010). Financing modality has a broader impact on the overall development of higher education system, including governance, quality, equity, access, and efficiency as a whole.

It is a common trend that demand for higher education is rapidly growing over the decade in all types of economics around the world. Total higher education enrollment increased from 68.6 million to 110.7 million between 1991 and 2001 (Munene, 2015). The growth rate of higher education in developing countries is almost doubled (Sanyal & Martin, 2010). Between 2000 and 2010, the percentage of adults worldwide who have received tertiary education rose from 19 percent to 29 per cent, the number of students around the globe enrolled in higher education will reach 262 million by 2025, up from 178 million in 2010 (Gibney, 2013). The governments are not in a position to accommodate all aspirants of higher education mainly due to the financial crisis, addressing the pertinent problems emerging in many countries. Numerous countries are facing the problems of inequality in access and differences in quality of higher education received by the students.

In relation to providing higher education to the people of Nepal, questions such as who ultimately pays for the education? Who finances its immediate costs? How payments are made? Who benefits most from higher education? Therefore, a central issue comes in the financing policies, strategies, plans, programs and practices of the governments and its impacts on access, equity, quality, efficiency and effectiveness etc. of higher education.

Objectives of the study

The general purpose of this article is to examine the existing funding system of higher education in Nepal and provide strategic funding modalities to achieve higher education goals of access, equity, relevance, quality research and innovation. More specifically, it aims:

1. To examine financing policies in higher education at present,
2. To analyze the trends of public financing in higher education in terms of GDP, public budget and the education budget,
3. To explore the status of per student allocation in public financing at present
4. To examine the diversification of source of higher education funding
5. To identify major challenges associated with higher educational funding, and
6. To uggest strategic funding measures to achieve higher education goals of equity, access, relevance, quality, innovation and research.

Methods and Data Sources

The paper is mainly based on secondary data. Various sources that have been used to understand the existing funding system, the cost per student, pattern of income and expenditure. To the same, data were gathered from universities, university publications, publications from the Ministry of Education (MOE), Ministry of Finance (MOF), University Grants Commission (UGC) as well as other publications. Gathered data were stored, retrieved, analyzed, tabulated using appropriate tools and techniques to answer the raised questions under investigation.

Observations and findings

Present scenario of higher education: With the adoption of the multi - university concept by Government of Nepal (GON), there have been nine universities in the country at present.

These are Tribhuvan University (TU) established in 1960; Nepal Sanskrit University (NSU) established in 1986 (2043 B.S.); Kathmandu University (KU) established in 1992 (2048 B.S.); Purbanchal University (PU) established in 1994 (2052 B.S.); Pokhara University (POKU) established in 1996 (2054 B.S.), Lumbini Bouddha University (LBU) established in 2005 (2062 B.S.), Far Western University (FWU), Mid Western University (MWU) and Agriculture and Forestry University (AFU) are established in 2012 (B.S. 2067). In addition to this, B.P Koirala Institute of Health Sciences (BPKIHS), National Academy of Medical Science (NAMS), Patan Academy of Health Sciences (PAHS) and the Karnali Academy of Health Sciences (KAHS) were established in 1998 (2055 B.S.), 2006 (2063 B.S.), 2008 (2064 B.S.), and 2011 (2068 B.S.) respectively and they are also in operation as deemed to be university in the country.

In Nepal, higher education has been provided through university's own campuses/schools named as constituent and affiliated campuses. The entire control over the constituent campuses lies at the university, whereas the academic control lies at the university and financial, administrative, appointive and other institutional control lies to the management committee or investor of affiliated campuses. According to the latest available data, there are at present 94 constituent campuses/schools of nine universities and more than 1218 affiliated campuses under the six[1] universities. In those institutions, altogether more than 530 thousand students are studying up to research level.

Table 1: Present Higher education scenario

University	Constituent Campuses	No of student	Affiliated Campuses	No of Student	Total Campuses	Total Student
Tribhuvan University	60	148,141	981	303,732	1,041	451,873
Nepal Sanskriti University	14	1,436	4	208	18	1,644
Kathmandu University	6	4,878	15	8,076	21	12,954
Purvanchal University	3	905	128	23,424	131	24,399
Pokhara University	4	1,747	49	22,633	53	24,380
Lumbini Bouddha University	2	121	5	181	7	302
Far Western University**	1	787	0	0	1	787
Mid Western University**	1	2,472	0	0	1	2,472
Agriculture & Forestry University**	3	140	0	0	3	140
Foreign Affiliated HEIs	-	-	36	10,000	36	10,000*
Total	94	170,627	1,218	358,254	1,312	528,951

Source: UGC, Universities, 2071

Nepal's higher education sector is relatively new, small and albeit fast growing has not been able to adequately meet the human resource needs of the economy (World Bank, 2015). GON gives high priority to education and a large share of the exchequer money has been allocated to the education sector and averaged around 16.9 percent over the decade (UGC, 2014). The higher education sector has been getting around average 8.55 percent over the decade. All the universities receive public funds, in varying degrees.

1 *** researchers' estmate; ** FWU, MWU & AFU does not have affiliated colleges till now.**

Today, higher education financing is facing several challenges such as education spending of government has been reducing over the years in one hand and demand for higher education growing on the other. Secondly, the per unit cost of higher education is growing day by day. This is due to the inflation, increase in the salary of academic and administrative staff and inefficiency of university management. The increasing cost associated for educating people is ever growing not only alien to internal factors, but also due to external factors and it is growing more vastly in coming days (Acharya, 2009). Thirdly, there is a high level of inefficiency and demands of value for money. Next, stakeholders raised over the issue of transparency. Higher education funding still serving well -off people of the society and the need for prioritization. Major objectives of higher education are to be fused on access and equality, relevance, quality, excellence and research. However, it is under scrutiny.

Rationale of public funding in higher education

Education is considered to be one of the classic public goods (Grace, 1989). Economists define a public good as satisfying up to three conditions- indivisibility, non-rivalry and non-excludability. The public good is goods where the benefits of engaging in the activity are acquired not just to the individual, but to society at large thus is susceptible to under/over provision. Its benefit goes to the larger society through human capital formation and knowledge. However, it is considered as a private good because it provides benefit to the people. The debate surrounding around the issues with financing higher education is primarily because education is considered to be a quasi public good. People aligning either concept debate for or against public funding in higher education. Research evidence shows that school level education provides more social benefits over private benefits where as higher education provides more private benefits over public benefits (Pascharopoulos & Patrions, 2002). So, many rationalizes to invest less from the exchequer and more from the beneficiaries. However, the reasons for state intervention in the financing higher education are high returns, enhanced equity, externalities, information asymmetries and market failure (Patrion, 1999).

Global trend of financing higher education

Historically, the financial burden of education was borne by the state. Globally, demand for higher education is growing and it calls upon more and sustainable funding. The decline in public expenditure on higher education has been a global crisis and the most important trend (Tilak, 2005). Compelled by economic reform policies or convinced of the rationale for the reduced role of the state in funding higher education, most countries have moved to cuts in public budgets for higher education. This trend exists in many countries, The decline is not confined to developing countries, though it is more prevalent in developing than in developed countries (Tilak, 2005). More prevalent trend includes an increasing focus on cost recovery, student loan, increasing non governmental resources, privatization, internationalization

Existing policies that guide financing higher education in Nepal

Public funding in higher education started in Nepal with the establishment of Trichandra College. After the establishment of TU, public funding has been continued. There is the provision of student fees as well. National Education System Plan (1971) mentioned that technical education has been financed wholly from the government sources, whereas in general subjects 70 percent cost has been financed from government source and the rest from

local sources (NESP, 1971). However, this financing policy has not come into implementation due to various reasons. In 1981, the government was not in a position to bear the cost of higher education due to the growing demand of higher education. As a result, the government allowed TU to grant affiliation to campuses from the private sector. These affiliated campuses generate resources and from student fee and other sources. After the democratic movement in 1990, the demand for higher education grew further. Due to the introduction of liberal economic policy, private providers came to the higher education scenario. In 1991, the government started to provide grants to the affiliated campuses.

The government policy has been shifted to state funding to higher education to cost recovery. Alternatively, it is considered as cost sharing. The ninth plan mentioned that the government funding policy in higher education is cost recovery basis (NPC, 2059). The 10th plan (2059-2064) speaks out about the cost recovery principles in higher education, but it lacks definition of cost recovery, forms and goals for cost recovery. There is a lack of a holistic view on which the cost recovery principle to be applied (UGC, 2004). The Three Year Interim Plan (2007/08-2009/10) mentioned that an open university will be established to increase access to higher education opportunities, scholarship facilities and student loans on easy terms will be arranged for students in higher education (for disadvantaged groups, gender groups and disadvantaged areas) and initiative will be taken for establishing a Science and Technology University (NPC, 2071). The Three Years Plan (2067/68-2069/70) mentioned that higher education has been directed towards creating a knowledge society that linked to national development and production (NPC, 2071). In the similar fashion, the Thirteenth Plan (2070/71-2072/73) stressed on equitable access, relevancy, efficiency, effectiveness and accountability in higher education. For the same, the plan articulates the strategy to make higher education based research as well as diversification of opportunities, guaranteed return on investment through an accountability system (NPC, 2071). If one analyzes the plan documents over the years, frequent shift of policies, strategies and tactics. There is a lack of coherence on means to ends. Similarly, there was the lack of ownership of plan documents, who owned it, who implements it, who monitors it and so forth. For example, since the eighth plan, the establishment of open university to enhance access has been mentioned and till date it is not materialized.

Preamble of newly established AFU, FWU & MWU state that the university has been established by the investment through the government funding (MOLJPA, 2010). People and the officials associated with these universities have been demanding to bear the entire cost by the government. However, the concerned university act mentions diverse sources of university funding, including student fees, government grants, donation, endowment, gift, loan, foreign assistance and so forth. The subcommittee commissioned by the UGC to recommend funding policy of these universities proposed various policies, including diversification of the sources of funding and GON should shoulder major responsibility for university establishment and operation (Subcommittee to recommend funding policy for newly established universities, 2012). In addition to these policy postures, there is consensus to finance higher education institutions as well as to students from poorer households to guarantee the access who are excluded due to various reasons.

Existing public financing pattern in higher education

Governments across the nation have been engaged in funding higher education. It varies across regions and countries significantly in terms of GDP, national budget and educational budget. The table 2 portrays public financing in education and higher education sector in Nepal over the period of 2004/05 to 2013/14.

Table 2: Financing pattern from FY 2004/05 to 2013/14 (In million NPR)

FY	GDP	National Budget	Education Budget	Higher Education Budget	National Budget as % of GDP	Education Budget As % of GDP	Education Budget As % of National Budget	Higher Education Budget		
								As % of GDP	As % of National Budget	AS % of Education Budget
04/05	533,540.00	111,689.90	18,059.654	1690.90	20.93%	3.38%	16.17%	0.32%	1.51%	9.36%
05/06	603,673.00	126,885.10	21,250.50	1,934.00	21.02%	3.52%	16.75%	0.32%	1.52%	9.10%
06/07	670,589.00	143,912.00	23,005.50	2,037.60	21.46%	3.43%	15.99%	0.30%	1.42%	8.86%
07/08	744,923.00	168,996.00	28,390.00	2,300.00	22.69%	3.81%	16.80%	0.31%	1.36%	8.10%
08/09	991,320.00	236,016.00	39,086.40	3,077.90	23.81%	3.94%	16.56%	0.31%	1.30%	7.87%
09/10	1,171,905.00	285,930.00	46,616.70	3,686.20	24.40%	3.98%	16.30%	0.31%	1.29%	7.91%
10/11	1,346,816.00	306,496.00	57,827.50	4,661.90	22.76%	4.29%	18.87%	0.35%	1.52%	8.06%
11/12	1,689,540.00	384,900.00	62,053.00	5,327.00	22.78%	3.67%	16.12%	0.32%	1.38%	8.58%
12/13	1,900,000.00	404,820.00	63,431.00	5,957.00	21.31%	3.34%	15.67%	0.31%	1.47%	9.39%
13/14	1,928,521.00	454,720.20	80,958..08	6640.887	23.57%	4.20%	15.65%	0.34%	1.46%	8.20%

Source: MOF, 2004/05 to 2013/014

GON Financing in terms of GDP

The table 2 presents an overview of financing pattern in education and higher education sector in terms of GDP and national budget. Over the period average GDP growth rate has been around 16 percent. The average growth rate of national budget for the same period is 17%. The education budget as percentage of GDP stood between 21.02% to 24.40 % over the periods. Similarly, education budget in terms of GDP remains 3.43% to 4.29% for the same period.

As Percentage of National and Education Budget

The table 2 further presents an overview of financing pattern in education and higher education sector in terms of percentage of the national budget and the education budget. Education budget remains 15.67 percent to 18.87 percent over the periods. Likewise, higher education budget remains between 7.87 to 9.39 percent over the periods. In real terms higher education budget is decreasing over the periods as the number of students has been growing, the number of universities and campuses has been growing. Further to this, improvement in the school and higher secondary education, natural pressure comes to higher education which can be considered as natural phenomena across the globe.

Existing financing patters of universities and HEIs

On the approval of the legislature, the GON allocates public resources through national budget and has been channeled through the Ministry of Education to University Grants Commission (UGC). The UGC allocates budget to universities and higher education institutions under the category of recurrent and capital grant either from GON source or foreign source. It allocates the budget by considering the proposed, approved budget for higher education as well as predetermined criteria. UGC funds to universities in the form of block grants, which are of two types: operational and developmental.

Similarly, UGC has begun funding to universities on the formulae basis agreed with the universities. The underlying formulae is based on the principle that undergraduate programs are to be designed to recover the cost. To guarantee the access of the poor student, a total of twenty percent of the enrolled students must have the opportunity of scholarship based on their poverty. Master level programs are to be designed to recover 80 percent of the associated cost. To guarantee the access of the poor student, a total of twenty percent of the enrolled students must have the opportunity of scholarship based on their poverty. The formulae consist of core funding for maintaining the university system, not recovered cost equal to 20 percent of master level programs and the income lost by the university by providing 20 percent scholarships are to be financed by the UGC. In the case of the community campuses, grants based on predetermined criteria (formulae) have been provided. The formulae consist of the minimum grant (Currently 300 thousand per campus) plus additional grant on the basis of the number of students, number of the programs being run, geographical location of the campus, availability of constituent campuses, programs offered on S&T subjects and so forth.

Development funds are provided on the basis of need as well as the availability of government funds. Basically, the developmental grants focus on creation of new infrastructure and maintenance of existing infrastructure.

Table 3: UGC funding to universities and programs

S.N.	Particulars	Grant in the F.Y. 2070.71 (In thousand NPR)			
		Recurrent	Development	Total	Share in %
1	Tribhuvan university	4,263,830.03	340,000	4,603,830	69.91%
2	Nepal Sanskrit University	321,857.00	127,655	449,512.00	6.83%
5	Kathmandu University	20,000.00	30,000	50,000.00	0.76%
3	Purvanchal University	33,000.00	25,000	58,000.00	0.88%
4	Pokhara University	75,345.70	25,000	100,345.70	1.52%
6	Lumbini Boudha University	20,000.00	30,000	50,000.00	0.76%
7	Mid Western University	70,000.00	85,000	155,000.00	2.35%
8	Far Western University	85,000.00	90,000	175,000.00	2.66%
9	Agriculture and Forestry University	252,300.00	80,000	332,300.00	5.05%
10	Medical College Promotion Dev. Committee	7,500.00	40,000	47,500.00	0.72%

13	Open University Infrastructure Dev. Committee	5,000.00	3,500	8,500.00	0.13%
11	Grant to Community based Affiliated Campuses	310,000	150,000	460,000.00	6.99%
13	Quality Improvement Program	45,000	5,000	50,000	0.76%
14	UGC Administrative Cost	45,000	0	45,000	0.68%
	Total	5,553,832	1,031,155	6,584,987	100.00%

Source: UGC, 2014

The table 3 shows that TU solely got 69.91 %, whereas NSU got 6.83% of UGC grant in the FY 2013/014. In 2005/06 share of TU and NSU was 88.1% and 6.30%, respectively, whereas in 2010/11 it stood 81% and 7.40% of TU and NSU respectively. If we compare the student enrollment of the respective period, TU and NSU have been getting more grants than before.

Financing through the Foreign Assistance in higher education

Foreign assistance is instrumental in achieving educational objectives both at the national and international level (Thapa, 2015). Foreign assistance in higher education traced back to 1970s. Institutes have been getting more foreign assistance than faculties under TU. Engineering Education Project under the IDA assistance worth equivalent USD 26 million was remarkable project that augmented the academic infrastructure of IOE and the constituent campuses offering engineering education under it. The higher education project, funded by the IDA on credit basis supports the TU and its constituent campuses worth USD 23.10 million was instrumental in the development of the TU. But due to numerous problems within TU, the reform initiated under the project could not yield the sustained results. A seven year Second Higher Education Project (SHEP) funded by IDA on grant basis has been completed on June 30, 2014 and for the whole period USD 60 million was pulled on the education system of Nepal on which about 14 million was spent on higher secondary level, 4 million on student financial assistance, 4 million on research and rest into the reform activities of the universities and community campuses. The reform grant was based on incentive, performance and matching grant. The SHEP has implemented and completed from 2007 to 2013 and the SHEP support was about the 11.43% of higher education budget during the entire period of 2007/08 to 2013/014. In continuation of the reform initiated, the World Bank has been going to support the higher education sector with the USD 45 million credit to GON and designed on Disbursed Linked Indicators for the 5 years.

Cost sharing in higher education

Cost sharing divides the cost of higher education to the different stakeholder - taxpayer or general public towards specifically to parents, students, donors, the user of higher education, local bodies, communities as well as other stakeholders and beneficiaries. In higher education, complete cost recovery is not possible (UGC, 2004). The major user of higher education is government and its agencies. Thus, the financial responsibility of higher education is the major duties of the governments.

The cost recovery ratio in different universities varies. The largest university of the country, TU faces numerous problems regarding financing. It is in a vicious cycle of inefficiency, excessive

politicalization and anarchy. The already created permanent liability to university can not be minimized over night.

KU, PU and POKU are in a better position in terms of cost recovery. There is a strong voice about their program and fee structure that are not accessible to general students. There should be a strong linkage between grants and equity, accessibility, quality including social responsibility of HEIs towards the weaker section of the society.

Table 4: Cost recovery of universities (amount in NPR thousand)[2]

University	Internal sources	Government sources	Total recurrent budget/expenses.	Cost Sharing
Tribhuvan University	1,202,436.00	4,263,830.03	5,466,313.03	22.00%
Nepal Sanskrit University	25,693.00	321,857.00	347,550.00	7.39%
Kathmandu University	1,218,237.00	20,000.00	1,238,237.00	98.38%
Purvanchal University	240,000.00	33,000.00	273,000.00	87.91%
Pokhara University	396,971.00	75,345.70	471,416.7	84.21%
Lumbini Buddha University	1,264.00	20,000.00	21,264.00	6.32%
Far Western University	28,620.00	70,000.00	98,620.00	29.02%
Mid Western University	16,500.00	85,000.00	101,500.00	16.26%
Agriculture & Forestry University	31,900.00	252,300.00	284,200.00	11.22%

Source: UGC, 2014 & Universities, 2014

The table 4 reveals that KU, PU and POKU have been running on cost recovery principle. NSU, and LBU have been running with single digit cost recovery i.e. most dependent on government grants. TU, FWU, MWU and AFU have been running at 22%, 29.02%, 16.26% & 11.22% cost recovery respectively. TU's cost recovery situation has been increased over the years. To choose cost recovery principle, it is imperative to devise the policy and program that ensure the accessibility of the meritorious but financially poor student for higher education through scholarships and free ships.

Per student investment made by the government

The government funding for different universities has not been practiced scientifically. There are various methods for providing government grants. UGC has been working towards this direction, but yet it is not able to practice it. There were various studies over it, but it cannot be implemented. The clarity over GDP or national budget and the share to higher education is fluctuated from year to year and politics over financing hampered on the issues. It is mostly needed to implement clear-cut funding formulae for higher education. Based upon the government grants provided to different universities by UGC, per student cost of government grants is as follows:

2 **The data is based upon the FY 2070/71 in which audit report, annual report and expenditures of different universities are complied and calculated accordingly and excludes capital expenditures/budget.**

Table 4: Per student government funding in FY 2070/71 (amount in NPR thousand)

University/Program	Recurrent Grants	No. of Student	Per student funding
Affiliated colleges	310,000.00	70,000	4.42
Tribhuvan University	4,263,830.03	148,141	29.00
Nepal Sanskrit University	321,857.00	1,436	217.00
Purvanchal University	33,000.00	905	36.00
Pokhara University	75,345.70	1,747	51.00
Kathmandu University	20,000.00	4878	4.10
Lumbini Buddha University	20,000.00	121	165.28
Far Western University	70,000.00	787	88.94
Mid Western University	85,000.00	2472	34.38
Average funding per student	5,451,333	231,562	23.54

Source: Universities, 2015, UGC, 2014

The per unit government investment is high in NSU, LBU and AFU and it is questionable from various angles- practicability, and rationality. Per student recurrent investment in the TU is about 29 thousand. Being heavily dominated by students in the general area (Education, Humanities, General Management), it does not consider low funding from the government. FWU, MWU and AFU are in the infant stage of their inspection and struggling for necessary physical and academic infrastructure. Their numbers of students are also growing to become a full fledge university too. Due to this reason, the per unit government investment remains high. The per unit cost of government investment is low in KU but it is getting better money compared to public colleges with nominal fees and most of them are located in remote areas.

Challenges associated with public financing in achieving higher educational goals

Nepal's higher education system is at a crossroad. There is growing demand for higher education in one hand and declining public funding on the another hand. Quality remains poor. Relevancy has been questioned. Universities are not positioned to expand higher education system due to financial austerity. As a result, higher education system expanded from the private sector and about 60% enrollment is in the private sector. System inefficiency is a common phenomenon. Paudel (2014) identified numerous problems related to the secondary education funding in Nepal which are also considerable in higher education funding such as inadequate distribution of available resources, system inefficiency and poor performance with higher system cost, spending pattern highly skewed to current expenditure, frequent change in funding practice, quality deterioration, very low per student spending in comparison to the average spending of the world education indicator (WEI) and OECD countries, unplanned growth of private education providers. A study conducted by CEDA (1995) raised main concern on resource mobilization, increases government financing, institutional reform, internal efficiency and resource utilization, enhanced role of UGC on financing, regionalization and decentralization of higher education. The following are the pertinent issues in higher education funding perspective.

Low level of funding: Government funding over the years remains between 8 to 10 % of the education budget. It is the fact that demand for higher education is growing and about

10 % annual growth rate has been seen. The low level of funding negatively impedes on the accessibility provision of higher education aspirants as indicated by Thapa (1993).

Inefficiency of the higher education system: The higher education system is characterized with high failure rates, high level of cycle cost, over staffing and wastage of resources and ill management or non management on campus and university level as well as government level.

Inconsistent funding policies, programs and practices: Funding policies are inconsistent. The programs designed and practiced are not aligned with higher education goals of equity, accessibility, relevance, quality, research and innovation.

Financial management reform: Higher education system in Nepal moves with several drawbacks in financial management itself. As the indicators of this, the exact figure of internal income with classification of income, expenditure in different classification and investment made in capital formation is difficult to an analyzing due to inadequate or insufficient financial management system particularly in TU and NSU. As a result, it could not yield desired results.

Shadowed equity and access: Present funding is dominantly institutionally based. It directly does not link to equity and access. Mostly, well off people get access to higher education and it shadowed the equity and access. Bottom two Quintiles students are not in a position to get access to higher education due to poverty and most of the benefit from state funding goes to the students from well off families.

Rising cost of higher education: The cost of providing higher education is growing on at public and private providers. Private providers are opting for cost reduction measures while it is not possible at public institutions due to unwillingness as well as rigid inertia within the institutions along with inefficiency at large.

A possible strategic option

Keeping access, equity, relevance, quality, research and innovation are in the center of mission higher education, following policy options deemed feasible based on above discussion.

Revisit funding policies by explicating the central of mission: Existing funding policy is vague and not suitable to address the emerging challenges of higher education funding. It should be crafted by analyzing the SWOT of higher education.

Need for more investment from the government: Present level of funding is not sufficient to maintain the existing system and absorb the growing demand for higher education. Leaving the responsibility on higher education to the private sector will raise serious issues of equity, quality and development of higher education and ultimately it further creates gaps between well off and poor. Thus, it is imperative to invest more in higher education by tied up it with input, process, output based and outcomes and performance based funding indicators to HEIs from public as well as private sector.

Adaptation and strengthening of formulae and performance based funding: Traditional block grant funding does not yield positive results in the performance of higher education. A

transparent formulae that must have the characteristics of focusing access, equity, relevance, quality, research and innovation at the input, process, output and outcomes stages.

Improving spending pattern: The spending pattern of universities and campuses has been skewed towards recurrent expenditure. Nominal amount has been spent on capital formation, introduction of ICT system and infrastructure development.

Reduce cycle cost and inefficiency by improving internal efficiency: Inefficiency and high level of cycle cost is a common phenomenon. Average 30% pass rate is not acceptable at any cost. It indicates the severe problems in inputs and processes. Next, cycle cost is huge which can be reduced through proper funding architecture.

Reduce cost and performance gap among providers: It has been observed that the cost of providing higher education varies among the providers (universities and its constituent campuses, community based affiliate campuses and for profit affiliate campuses). It can be done through establishing performance benchmark and establishing the standard cost of each program.

Diversifying sources of financing in higher education: The Nepalese higher education sector has been setting the example of diversifying the sources of funding. But the density and volume is not sufficient as per need. For example, nominal resources are generated through research and consultancy projects by the publicly funded universities. Next, Universities and campuses have been opting to increase the fees and charges towards students by ignoring the equity aspects as well as their capacity to pay. Thus, the focus should be on other sources rather than shouldering more fees to the students.

Private sector involvement/privatization of higher education

Thapa (1993) studied financing education in developing countries suggested various policy measures, including privatization of higher education. In Nepalese context, private sector involvement is a feasible option but must have the quality, equity, access policy in place to safeguard the interest of the people at large (Acharya, 2013). For the sustainable and feasible development of higher education, private public partnership is an option. For the same, whether a university can be opened from the private sector with for profit motive and reap the benefits from university production in the form of dividends, capital drawback or any other form or not? GON have already allowed to take dividends, capital drawback from investing in the colleges. Is this policy desirable, feasible and adaptable for a country like Nepal? As we believe that education is quasi public good, but the education cannot be traded in the free market as other goods and services. It is the author's view that neither university nor colleges are to be allowed to open, run with the capacity of reaping benefits in the form of dividends, capital drawback or any other form. They are to be allowed to establish and operate as a not for profit making company.

A sound financial assistance scheme such as loans, grants and scholarships: Present fee waiver, free ship and scholarships are grossly inadequate. They are not targeted to the poor. To attract & retain bright and needy student, a sound financial assistance scheme that has the characteristics of fee waivers, free ship, scholarships, loan put in place.

Reforming financial management system: Present financial management system is not transparent and does not contribute to achieving higher education goals (CEDA, 2007) is a significant issue that must be addressed. Thus, financial management reform is a strategic option to align funding higher education with performance. At the same time, capacity development in financial management deemed necessary because most of the staff are recruited, promoted and transferred based on affiliation with sister organization of political parties, or nepotism and favoritism instead of merit and performance base.

Introduction of demand side financing model: Many countries across the world has been moved to demand side financing rather than supply side financing. It puts more pressure to the traditional state funded institutions to be more responsive towards students and quality of higher education they offer including others.

Conclusion

The driving force behind the 21st century economy is knowledge and the developing knowledgeable human capital is the best way to develop knowledge economy. Financing higher education is the central concern for the academic community and policy makers. However, the impact of higher education funding is for all stakeholders at present and in future. There is a broad range of choices in financing higher education. All possible positive as well as negative effects have to be kept in mind while designing and implementing the financing modality at institutional, system, national and international level. The best method of financing education, including higher education, is financed by the state through its tax and non-tax revenues as suggested by Tilak (2005).

Financing of higher education is the strongest element in determining the access and the possibility of successful completion of the studies. There needs not only to increase resources, but also to make equitable and efficient use of available resources strategically in order to improve access, equity, quality, relevance, research and innovation.

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