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EDUCATION BUDGET BRIEF

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PREFACE

This education budget brief is one of four budget briefs that explore the extent to which Nepal's national budget addresses the needs of Nepal's children in terms of sufficiency, equity, efficiency, effectiveness and transparency. These objectives are grounded in UNICEF's global Public Finance for Children (PF4C) framework and expected to lead to outcomes that give children an equitable chance in life, such as the freedom to learn and be healthy, the ability to be protected and live in a clean and safe environment, and the capacity to survive and thrive, among others. To assess the efficiency, equity and adequacy of spending, the brief analyses the magnitude and structural composition of budget allocations and – to the extent the data permit – actual expenditures over recent years. In light of Nepal's recent transition to a federal structure with three levels of government, the implications of changing financing patterns over time and financing patterns at the subnational level are also examined. Global evidence is mounting on the strong and positive multiplier effects of investing in children. It would, however, be fair to say that public finance and governance challenges, especially in a transitional context, can pose risks to the delivery of services. The main objective of the brief is to synthesize complex budget and sector specific data to support stakeholders to advocate for budget allocations that utilize the budget optimally to fulfill the rights of Nepal's children. The budget brief focuses on the school education sector in Nepal. It was produced by the Social Protection, Evaluation and Evidence section of UNICEF Kathmandu Country Office Nepal with guidance provided by the Education section in the same office.

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ABBREVIATIONS

CEHRD	Centre for Education and Human Resource Development
COFOG	Classification of Functions of Government
CWDs	Children with Disabilities
DEOs	District Education Offices
DHS	Demographic and Health Survey
DTCOs	District Level Treasury Comptroller Offices
ECED	Early Childhood education and development
EMIS	Education Management Information System
IEMIS	Integrated Education Management Information System
GFS	Government Financial Statistic
JFA	Joint Financing Arrangement
JFPs	Joint Financing Partners
GDP	Gross Domestic Product
GER	Gross Enrolment
GPI	Gender Parity Index
LGs	Local Governments
GoI	Government of India
GoN	Government of Nepal
MICS	Multiple Indicator Cluster Survey
MoF	Ministry of Finance
MoE	Ministry of Education
MoEST	Ministry of Education Science and Technology
MoHA	Ministry of Home Affairs
MoPIT	Ministry of Physical Infrastructure and Transport
MTEF	Medium-term Expenditure Framework
MTR	Mid-term Evaluation Report
NER	Net Enrolment Rate
NEC	Not Elsewhere Classified (COFOG category)
NDHS	Nepal Demographic and Health Survey
NEAs	National Education Accounts
NLFS	National Labour Force Survey
NPR	Nepalese Rupees
NRA	National Reconstruction Authority
PF4C	Public Finance for Children
PFM	Public Financial Management
PPE	Pre-primary Education
PRF	Program Results Framework
SDG	Sustainable Development Goal
SSDP	School Sector Development Plan (2016-2023)
SSRP	School Sector Reform Plan (2009-2015)
STR	Student-to-Teacher Ratio
UGC	University Grants Commission



1 INTRODUCTION

1.1 EDUCATION SECTOR OVERVIEW

This section provides a brief overview of education in Nepal, focusing on the school sector. It examines recent developments and challenges for school education in relation to the broader context of Public Finance for Children (PF4C) within the new federal structure of Nepal.

Nepal has a long tradition of implementing its education sector plans through a sector-wide approach. There is a strong preference among the Government of Nepal and its education sector development partners towards the pooled-budget support modality, which is supported by a Joint Financing Arrangement (JFA). The pooled-budget support is fully aligned with the national sector budget, thereby allowing full and timely use of these funds. The modality of JFAs allows signatories, known as Joint Financing Partners (JFPs), to rely on joint mechanisms such as sector reviews and reporting. The broad subscription to the overall JFA modality has underwritten the strong sector-wide approach and instilled a high-level of confidence and trust between the Government of Nepal (GoN) and JFPs. The JFA modality provides a dynamic mechanism and a broad public financial management bandwidth that can adapt to emerging challenges and issues, such as the ongoing transition to a federal system of governance.

Nepal's school sector development during the last 10 years has been guided by the School Sector Reform Plan from 2009 to 2015¹, and the School Sector Development Plan from 2016 to 2023², with SSDP's programme running from 2016 to 2021.³ Contributing nearly 90 per cent to the consolidated government's budget on education, the School Sector Development Plan (SSDP) promotes, inter alia:

- Basic education to develop the physical, socio-emotional, cognitive, spiritual, and moral potential of all children aged 4-12 by ensuring school readiness and universal access to quality basic education, and to promote life skills and value-based education;
- Secondary education that makes students ready for work by developing skilled human resources, providing options between technical and general secondary education, strengthening institutional links and facilitating the transition to higher education; and
- Literacy and lifelong learning to enhance functional literacy and cultivate reading and learning habits among youths and adults.

The objectives of the SSDP are structured around improving equity, quality, efficiency, governance and resilience.

The education sector has undergone several changes in recent years:

- The 2016 Education Act Eighth Amendment (MoE 2016a) realigned the roles of school management committees, streamlined education into general and vocational education, endorsed the National Qualification Framework as the guiding instrument for certification, and formed a National Examination Board. It also recategorized school education into basic and secondary levels. The previous pre-primary education (PPE), primary education (Grades 1-5) and lower secondary education (Grades 6-8) levels were merged into basic education – from early childhood education and development/pre-primary education (ECED/PPE) to Grade 8. The secondary education (Grades 9-10) and higher secondary education (Grades 11-12) were merged into secondary education (Grades 9-12). Furthermore, basic education was made free, including compulsory and secondary education. The School Leaving Certificate exam at the end of Grade 10 was replaced by the Secondary Education Exam at the end of Grade 12.
- The Constitution of Nepal, 2015, defines the exclusive and concurrent powers relating to education across federal, provincial and local tiers of government (GoN 2015). It devolves responsibilities for basic and secondary education

1 GoN 2011

2 GoN 2016

3 Additional and separate reforms exist for both Technical and Vocational Education Training and higher education.

to local governments and some responsibilities for tertiary education to provincial governments, and it defines areas of shared responsibility. Given the nascent federal structure, there are probably gaps and variations in the capacity and willingness of the 753 local governments to execute their new responsibilities as well as challenges in cooperation and coordination about roles and responsibilities on important issues, such as assessments, the curriculum and teacher management.⁴ The Ministry of Education, Science & Technology (MoEST) has submitted a Federal Education Act to the federal parliament for approval to provide a legal framework for the roles of local, provincial and federal governments on school education service delivery. And a number of acts have been adopted to facilitate the transition to the federal system of governance in the education sector, most notably the Local Government Operation Act (MoFAGA 2017), the Civil Servants' Adjustment Act and Regulations (MoFAGA 2019), the Intergovernmental Fiscal Transfer Management Act (MoF 2017), the Natural Resource and Fiscal Commission Act (MoF 2017), and the Appropriation Act (MoF 2018).

1.2 FEDERALISM AND EDUCATION

In 2015, the Constitution promulgated a three-tiered federal structure comprising federal, provincial and local governments. Prior to the new federal structure, the Ministry of Education (MoE) released its budget to 75 district education offices (DEOs). The Financial Comptroller General Office and its district level treasury comptroller offices (DTCOs) executed payments on behalf of government entities. DEOs executed the budget by sending requests to the concerned DTCOs. The DTCOs were responsible for making payments – subject to all documentation being in order and only if the requests were within budget allocations. The control of funds was through a single treasury account modality. The MoE and the DEOs were responsible for M&E. The transition to the federal system has shifted authority of most functions associated with basic and secondary education service delivery to 753 local governments (LGs). MoEST and the Centre for Education and Human Resource Development (CEHRD) are responsible for policy and regulatory roles and monitoring sector developments. This implies that there are now 753 treasury accounts for each LG. As per the Local Government Operation Act 2017, LGs are required to provide Trimester Financial Reports to the MoF (federal and provincial levels). And as per the Inter-Governmental Fiscal Management Act 2017, if LGs fail to deliver these reports, the MoF and the Financial Comptroller General Office may withhold/suspend further transfers.

Several challenges and opportunities arise for the education sector within the transitional federal context. Institutional structures, with respect to the modalities of education management and service delivery, have been completely altered or made new. The SSDP was conceptualized under the concept of 'centralized governance'. The new decentralized structure of governance has required the SSDP to initiate transitional and structural changes in the program. What was once an 'output' (something over which the federal government contributed to and had control over) has now become an 'outcome' (something over which the federal government contributes to but has little control over). Progress on indicators designed under the centralized framework, therefore, must be viewed with caution. At the same time, this situation could present opportunities to work with new stakeholders from provinces and local governments to invest in schools and education. The MoEST has worked out a transitional plan and a roadmap for implementing the SSDP within Nepal's new government structures.⁵ This plan has been critical in ensuring that service disruptions are minimized.

Some of the factors emerging from the new federal structure could jeopardize progress in the school education sector. These relate to:

Human Resource Gaps: Redeployment of staff to LGs is still ongoing and has resulted in a situation where some localities are understaffed. This situation creates the risk of basic and secondary education service disruption as understaffed localities would probably not be able to utilize funds. Furthermore, it is also quite likely that skills are not placed where they should be. These risks are compounded by the uneven capacity of staff already deployed and lack of certainty regarding the pace of deployment.

Loss of institutional knowledge: With redeployment of staff at all levels of government, it becomes difficult to access institutional knowledge. This poses a risk in terms of evidence-informed decision-making and long-term priorities.

Lack of awareness and capacity among LGs: The mid-term evaluation report (MTR) noted that LG authorities were not

⁴ Source: Flash 2 Report Draft (MoEST-CEHRD 2019b)

⁵ MoEST, GoN. Transition Plan and Roadmap for the Implementation of the SSDP in the Federal setup (2018)

fully aware of all aspects of SSDP (SOFRECO 2019). There is, therefore, scope and opportunity to enhance awareness and knowledge about the program in LGs.

Loss/lack of comparability of data: First, because of changes in the structure of school education funding, it becomes difficult to compare pre-federal spending data with post-federal spending data. Until fiscal year 2018/19, federal school education spending was allocated along 11 sub-sector budget lines split by capital and current expenditures. Since fiscal year 2018/29, spending classifications have only been classified as federal, conditional grants to provinces, and conditional grants to LGs. Equally critical, the state restructuring process has led to the need to restructure school level data from 75 districts to 753 LGs. The government has prepared to avoid disruptions by setting up a web-based integrated portal (IEMIS) where schools can directly enter relevant data. In addition, there are several gaps in accessing detailed LG fiscal data.

Incomplete legal and regulatory framework: The federal model transferred a range of competencies to provincial and local governments while the legal framework for teacher management and professional development was still being developed and debated. The lack of an agreement about reporting structures between various levels of governments carries the risk of programs being duplicated. Important legal regulations regarding debt and finance for subnational governments have not yet been fully developed.

PFM and PF4C concerns: Public financial management (PFM) and PF4C concerns encompass the above-mentioned areas. And a large number of auditing observations and systems are still under development for financial management, reporting, and coordination between different government layers and entities. Given this situation, the risk of mismanagement of public resources for education remains a concern. At the same time, it creates the opportunity to support investments in systems-based data, evidence and information flows.

1.3 SUMMARY OF RECENT TRENDS

The World Bank's Human Capital Index for Nepal stands at 0.49 (World Bank 2019), which means, basically, that a child growing up in Nepal loses half their potential compared to someone with full education and better health outcomes. Although Nepal fares better than most other countries in the immediate region, it ranks 102 out of 157 countries in the Index. The report also suggests a potential GDP loss of about 1.14 per cent per year due to this situation.

Various sector reports, studies and recent Flash Reports confirm that Nepal's education sector has made progress over the last two decades. More recently, the latest MTR (SOFRECO 2019) reported on more than 75 indicators related to the Program Results Framework (PRF) for the SSDP. A subset of these indicators was selected in the newest Consolidated Flash Report (MoEST-CEHRD 2019c) to report on progress. Overall, both reports reflect mixed progress on the SSDP-PRF indicators, with budget allocations/finance, teacher's professional development and management, and capacity and institutional development seriously off-track (SOFRECO 2019, Table 3) and riddled with information gaps. Basic and secondary education – the primary focus of the present brief, was rated as 'mixed progress with reporting gaps'. The transition to federalism has significantly impacted the SSDP by substantially altering the institutional relationship between inputs and outputs or outcomes, presenting numerous challenges and opportunities. A major challenge, therefore, is to interpret progress on indicators against the extremely difficult context of changing institutional dynamics across different layers of government.

This section has the following objectives. First, it broadly summarizes both the demand side (number of students) and the supply side (number of teachers). Next, it summarizes critical findings from recent sources mentioned above. Some indicators for ECED/PPE, basic education (Grades 1-8) and secondary education (Grades 9-12) – compiled from Flash Reports and the MTR – are analyzed over a five-year time period (2014-2018).⁶ This is followed by an examination of complex issues related to out-of-school children, which combines Flash Report findings with the 2017/18 National Labor Force Survey (NLFS 2017/18).⁷ Finally, issues related to equity are examined, and findings are presented/discussed related to the major drivers of inequities, based on the recently developed Education Equity Index in Nepal and the recent household surveys such as the 2016 Nepal Demographic and Health Survey (DHS 2016).⁸

6 Refer to MTR (SOFRECO 2019) and Consolidated Flash Report (MoEST-CEHRD 2019c) for further details on other aspects of the program.

7 CBS, NPC & GoN. 'National Labor Force Survey 2017/18'. 2020

8 MoH, New ERA & ICF. 'Nepal Demographic and Health Survey 2016'. 2017

1.4 TRENDS IN THE NUMBER OF STUDENTS AND TEACHERS

For purposes of costing, planning and budgeting, it is useful to start with an analysis of trends observed since 2014-2018 in terms of the number of students (demand side), the number of schools, and the number of teachers (supply side).

Table 1 shows the number of students reported in the Consolidated Flash Report (MoEST-CEHRD 2019c) as enrolled in basic and secondary schools over the years 2014-2018. In addition, about one million children were reported in ECED/PPEs. The data suggest some interesting trends, mainly driven by demographic shifts in the school-age group and characteristics of the system (enrolment, completion, transition and drop-out rates). Overall, there was a 10 per cent decline in the number of students enrolled in Grades 1-8 in basic education. The decline was driven primarily due to a 14 per cent decline in the number of students enrolled in lower basic education. Over the same period, the number of students enrolled in secondary schools rose by over 26 per cent, with the rise more significant for upper secondary schools (51 per cent) compared to lower secondary schools (14 per cent). This trend is connected to demographic shifts associated with a rising bulge in the projected secondary school-age population. As reported in the MTR, the trends observed in secondary schools may translate into improved enrolment ratios, especially at the upper secondary level, which, though still low, are on track to meet final programme objectives. An interesting observation emerging from the reported data is the significant increase in the proportion of students enrolling in private/institutional schools between 2017-2018 – spikes are observed in upper and lower basic education schools as well as in upper secondary schools.

Table 1 Students enrolled in different types of schools (2014-2018)

STUDENTS	2014	2015	2016	2017	2018	% CHANGE
BASIC G1-G8	6,170,703	6,057,422	5,994,632	5,836,732	5,555,379	-10%
Males	3,038,427	3,017,628	2,969,145	2,884,008	2,784,137	-8%
Females	3,132,276	3,039,794	3,025,487	2,952,724	2,771,242	-12%
Percent Female	50.8%	50.2%	50.5%	50.6%	49.9%	
% in institutional schools	15.6%	15.9%	16.8%	16.8%	24.6%	
Lower Basic G1-G5	4,335,357	4,205,417	4,135,242	3,970,016	3,730,602	-14%
Males	2,134,038	2,100,710	2,049,084	1,960,702	1,875,410	-12%
Females	2,201,319	2,104,707	2,086,158	2,009,314	1,855,192	-16%
Percent Female	50.8%	50.0%	50.4%	50.6%	49.7%	
% in institutional schools	15.4%	15.8%	16.6%	16.6%	25.1%	
Upper Basic G6-G8	1,835,346	1,852,005	1,859,390	1,866,716	1,824,777	-1%
Males	904,389	916,918	920,061	923,306	908,727	0%
Females	930,957	935,087	939,329	943,410	916,050	-2%
Percent Female	50.7%	50.5%	50.5%	50.5%	50.2%	
% in institutional schools	15.9%	16.2%	17.2%	17.3%	23.6%	
SECONDARY G9-G12	1,317,589	1,389,652	1,451,496	1,554,792	1,659,146	26%
Males	647,193	683,135	686,352	738,392	822,629	27%
Females	670,396	706,517	765,144	816,400	836,517	25%
Percent Female	50.9%	50.8%	52.7%	52.5%	50.4%	
% in institutional schools	22.2%	22.4%	22.9%	22.4%		
Lower Secondary G9-G10	900,587	938,892	958,519	970,720	1,027,512	14%
Males	441,633	460,728	462,165	469,332	511,092	16%
Females	458,954	478,164	496,354	501,388	516,420	13%
Percent Female	51.0%	50.9%	51.8%	51.7%	50.3%	
% in institutional schools	19.1%	19.3%	19.9%	19.8%	21.3%	
Upper Secondary G11-G12	417,002	450,760	492,977	584,072	631,634	51%
Males	205,560	222,407	224,187	269,060	311,537	52%
Females	211,442	228,353	268,790	315,012	320,097	51%
Percent Female	50.7%	50.7%	54.5%	53.9%	50.7%	
% in institutional schools	28.9%	29.0%	28.7%	26.8%		
TOTAL ENROLMENT	7,488,292	7,447,074	7,446,128	7,391,524	7,214,525	-4%

Table 2 shows the number of teachers reported in the Consolidated Flash Report.⁹ The number of teachers teaching at basic and secondary levels increased by 10 per cent. The increases are most significant at the secondary level. Although these data confound different types of teachers with different skills and capacities, this is an encouraging trend. The percentage increase in the number of teachers at upper secondary levels is below the percentage increase in the number of students at the same level, suggesting that student-teacher ratios at this level are under pressure. The representation of female teachers in higher education is low and not at par with the increase seen in female student enrolment at this level. The data, however, suggest that female teacher employment is increasing rapidly. A rapid increase in the share of teachers in private/institutional schools at upper basic and upper secondary levels in recent years is noteworthy.

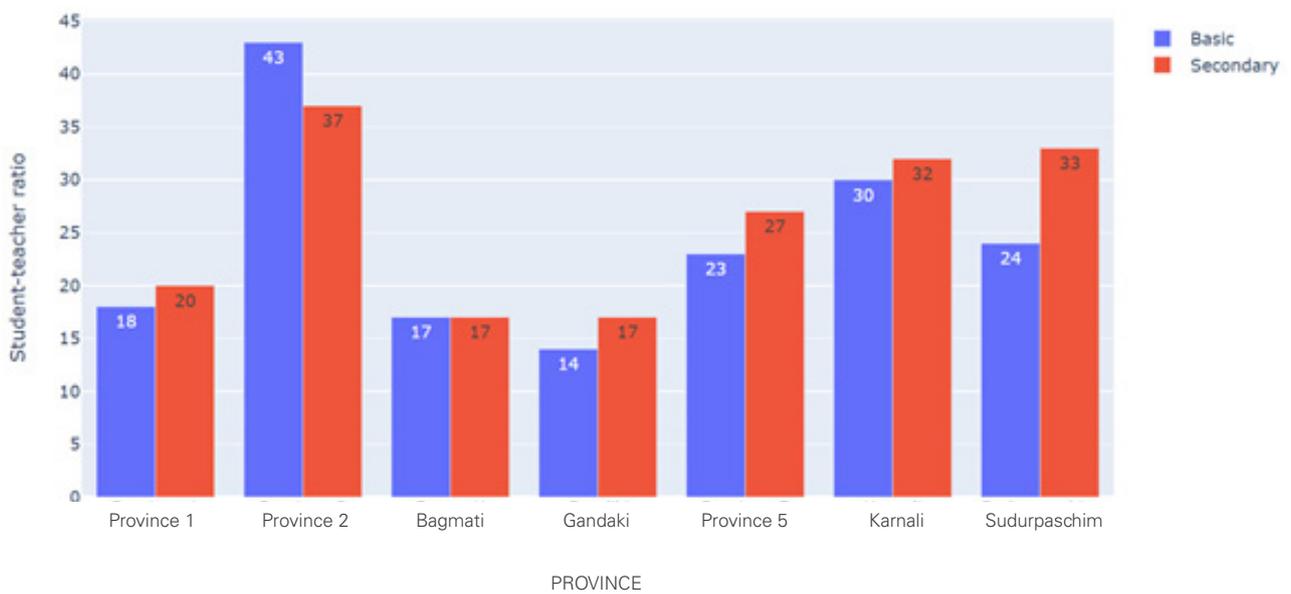
Table 2 Teachers in different types of schools (2014-2018)

TEACHERS	2014	2015	2016	2017	2018	% CHANGE
BASIC G1-G8	237,941	243,511	252,426	259,420	252,522	6.1%
Males	145,835	148,290	149,692	151,952	144,231	-1.1%
Females	92,106	95,221	102,734	107,468	108,291	17.6%
Percent Female	38.7%	39.1%	40.7%	41.4%	42.9%	
% in institutional schools	26.4%	26.4%	26.3%	25.5%	26.2%	
Lower Basic G1-G5	185,578	190,214	197,797	201,075	198,451	6.9%
Males	107,911	109,844	110,861	111,403	105,888	-1.9%
Females	77,667	80,370	86,936	89,672	92,563	19.2%
Percent Female	41.9%	42.3%	44.0%	44.6%	46.6%	
% in institutional schools	25.4%	25.4%	25.2%	25.0%	25.0%	
Upper Basic G6-G8	52,363	53,297	54,629	58,345	54,071	3.3%
Males	37,924	38,446	38,831	40,549	38,343	1.1%
Females	14,439	14,851	15,798	17,796	15,728	8.9%
Percent Female	27.6%	27.9%	28.9%	30.5%	29.1%	
% in institutional schools	29.6%	30.3%	30.2%	27.2%	30.7%	
SECONDARY G9-G12	57,997	59,250	60,234	64,375	72,950	25.8%
Males	48,219	49,113	49,595	52,240	59,334	23.1%
Females	9,778	10,137	10,639	12,135	13,616	39.3%
Percent Female	16.9%	17.1%	17.7%	18.9%	18.7%	
% in institutional schools	32.3%	33.0%	32.8%	31.1%	33.4%	
Lower Secondary G9-G10	38,841	39,691	40,219	42,933	50,920	31.1%
Males	32,068	32,667	32,871	34,602	41,402	29.1%
Females	6,773	7,024	7,348	8,331	9,518	40.5%
Percent Female	17.4%	17.7%	18.3%	19.4%	18.7%	
% in institutional schools	37.8%	38.6%	38.4%	35.7%	37.0%	
Upper Secondary G11-G12	19,156	19,559	20,015	21,442	22,030	15.0%
Males	16,151	16,446	16,724	17,638	17,932	11.0%
Females	3,005	3,113	3,291	3,804	4,098	36.4%
Percent Female	15.7%	15.9%	16.4%	17.7%	18.6%	
% in institutional schools	21.0%	21.8%	21.5%	21.8%	25.1%	
TOTAL TEACHERS	295,938	302,761	312,660	323,795	325,472	10.0%

⁹ Ibid.

Differences in the trend of student enrolment and teachers across the provinces is evident, leading to a variation in student-teacher ratios (STRs). Figure 1 plots the estimated student-teacher ratios in basic and secondary education for the provinces during 2018/19 school year from the Consolidated Flash Report.¹⁰ In most provinces, the STR for secondary education exceeds that of basic education. Province 2 (not all provinces in Nepal have been named) has significantly higher STRs for both basic and secondary schools. This is of concern because irrespective of the quality of the teachers large crowded classrooms are unlikely to achieve optimal outcomes.

Figure 1 Teacher-Student Ratios in basic and secondary education across the provinces (2018)



¹⁰ Ibid.

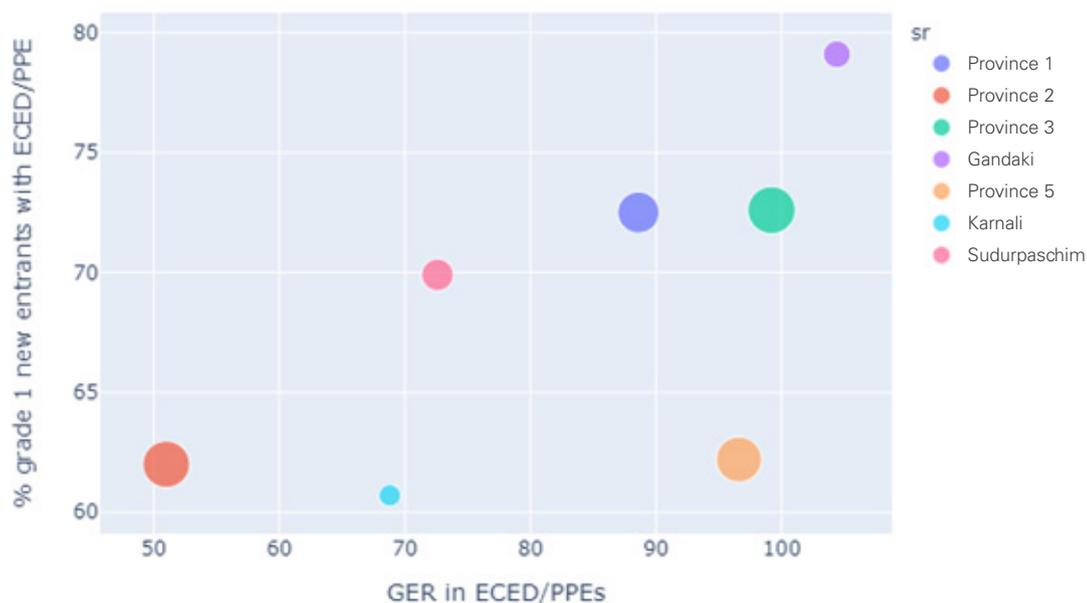
1.5 BASIC EDUCATION (ECED/PPE)

ECED/PPE centers are growing by 4.12 per cent per year (2014-2018), and most recent (2018) estimates suggest that there are nearly 36,000 ECED/PPEs distributed among the seven provinces in Nepal.¹¹ An overwhelming majority of them, more than 80 per cent, continue to be community-based or community school-based and provide 1 year of ECED/PPE services.¹² This expansion in the number of ECED/PPEs has enabled gross enrolment GER to rise from an estimated 77.3 per cent in 2014 to 84.7 per cent in 2018 (estimated at 86.2 per cent for 2019). It has also increased the percentage of Grade 1 entrants with prior ECED/PPE experience from 52.9 per cent in 2014 to 66.9 per cent by 2018. Total enrolment in ECED/PPEs has, however, fallen by nearly 4 per cent when comparing 2014 with 2018. Janajati and Dalit enrolment in ECED/PPEs has also been decreasing. The percentage of teachers with at least one month's training has made very little progress and might impact quality.

Despite progress on some fronts, some indicators have failed to meet their three-year targets (2018-2019). For instance, as noted, GER increased from 81 per cent in 2015 to 84.7 per cent in 2018 – an increase of almost 4 percentage points in three years, but below the three-year target of 86 per cent. To meet the five-year target of 89.5 per cent, GER must rise by 5 percentage points within the next two years.

These aggregate figures mask considerable variations between the provinces. For instance, GER in Province 2 is substantially below other provinces (see Figure 2).¹³ This translates into the lowest share of new entrants to Grade 1 with prior ECED/PPE experience.

Figure 2 Gross Enrolment Rates in ECED/PPEs versus per cent of new entrants to Grade 1 with prior ECED/PPE



11 This section relies exclusively on data from the Consolidated Flash Report (Ibid.).

12 Note that institutional ECED/PPEs, constituting around 20 per cent of all ECED/PPEs, provide anywhere between one and four years of ECED/PPE services through Montessori, Playgroups, Kindergarten, etc.

13 The size of each bubble reflects total population. This allows three dimensions of data to be displayed on a two dimensional axis.

1.6 BASIC EDUCATION (GRADES 1-8)

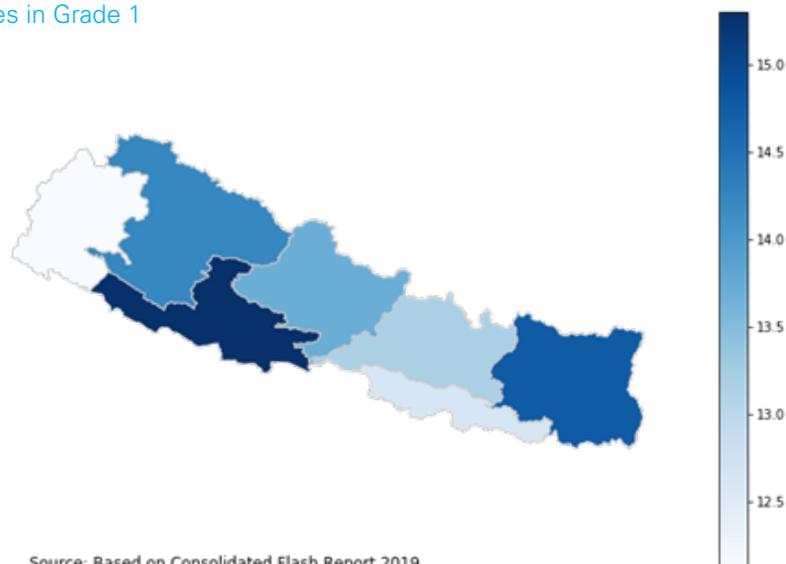
The number of children enrolled in basic education declined in 2018 to an estimated 5.5 million compared with 6.2 million children enrolled in 2014 – a fall of nearly 11 per cent. This fall in total enrolment reflects a decline in enrolment at community schools. The percentage of children enrolled in institutional basic schools has risen rapidly.

There have been improvements in terms of access and participation in basic education. The net enrolment rate (NER) for Grades 1-5 was estimated to be 96.6 per cent in 2018, while the NER for Grades 1-8 grew from 89.4 per cent in 2015 to 92.4 per cent in 2018. The net intake rate (NIR) at Grade 1 grew from 93.9 per cent in 2015 to 96.3 per cent in 2018. This increase met the three-year and five-year targets but remains below the final target of 100 per cent. The data suggest that gender parity in basic education has been achieved but, as reported in the MTR, girls continue to face barriers in education (e.g. access to sanitation and hygiene). In addition, there has been progress in reducing the percentage of out-of-school children aged 5-12, declining from 11 per cent in 2015 to 7.3 per cent in 2018, nearly matching the target.

The most recent Consolidated Flash Report (Ibid.) identified challenges related to internal efficiency and quality of learning:

- More than 1 in 10 children repeat Grade 1, suggesting that many students have difficulty early in their education cycle. There is considerable variation between the provinces (Figure 3). Sudurpaschim Province and Province 2 have the lowest repetition rates (12 to 13 per cent), while in Province 5, 15.5 per cent of children repeat Grade 1.
- The survival rate to Grade 8, despite progressing from 76.6 per cent in 2015 to 77.9 per cent in 2018, is well below the three-year, five-year and seven-year targets. Completion rates for basic education grew from 69.6 per cent in 2015 to 71.3 per cent in 2019 – an increase of 0.7 percentage points, which is still significantly below the targets. These indicators suggest that a high proportion of children will drop out before completing Grade 8 or not be able to complete their education after they reach Grade 8. The reasons for the slow growth in these indicators are extremely complex and rooted in a variety of social, economic and other factors. One explanation suggests that quality of education may be insufficient to enable students to progress to Grade 8 and then pass. It may also indicate that schools have not been able to adjust to the needs of children who are enrolling in basic education from vastly diverse contexts (e.g. returning to school after being out or a child with disability) who have the right to progress through the school system.
- Reading proficiency has increased marginally in Grade 3, but levels are low overall. Progress against this indicator has been challenging, and it is unlikely that the target for this indicator will be met. Similar concerns emerge regarding students learning achievements in Grade 5 (Nepali, English, Math) and Grade 8 (Nepali, Math, Science) where recent data suggest very little improvement if not reversals compared to baseline values observed in 2015. Furthermore, the outcomes are sharply splintered by ethnicity with Brahmin/Chettri children performing significantly better than their Dalit or Janajati counterparts.

Figure 3 Repetition rates in Grade 1

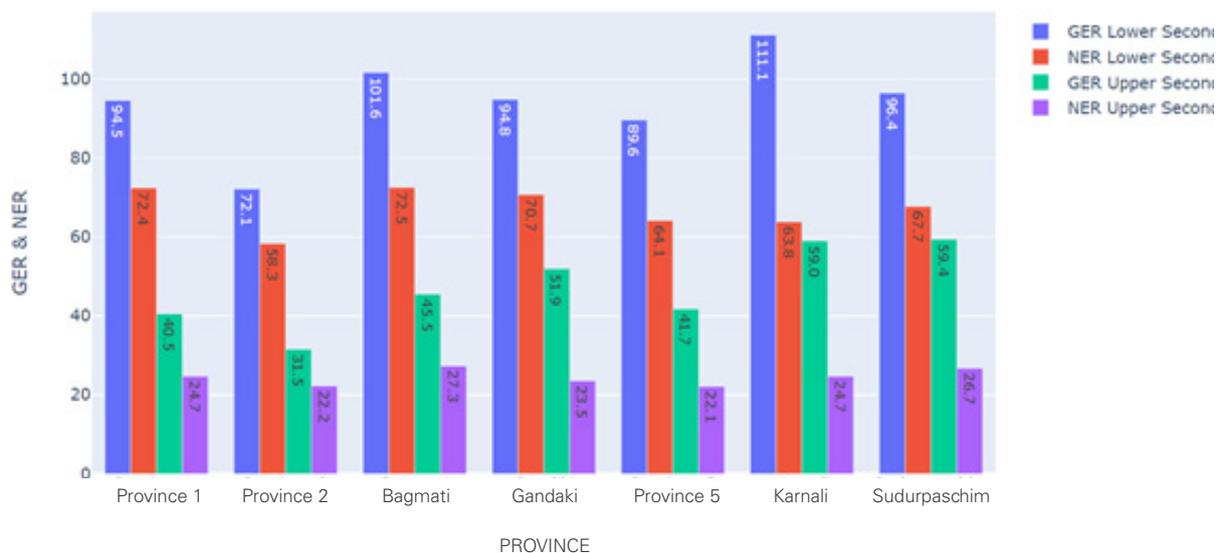


1.7 SECONDARY EDUCATION (GRADES 9-12)

Total enrolment in secondary education grew by 25 per cent between 2014 and 2018, rising from about 1.3 million to 1.7 million students. Almost 25 per cent of students in secondary education study in institutional schools – a situation virtually unchanged since 2014. The secondary school sector made significant gains in enrolling and retaining students. The NER in 2018/29 was estimated to be 46.4 per cent – higher than the three-year target. Provincial variations are shown in Figure 4. In 2018/19, survival rates to Grades 10 and 12, estimated to be 58.5 per cent and 22.2 per cent respectively, have exceeded targets and appear to be on course to achieve the long-term targets. Drop-out rates in Grades 9 and 10 halved in 2018 compared to 2014, from 5.3 per cent to 2.6 per cent.

The enrolment of Dalit children in lower secondary education is showing positive trends. As a share of total enrolment in Grades 9-10, Dalit children comprised 10.7 per cent of students in 2014. By 2018, nearly 12 per cent of students in lower secondary schools were Dalit children. The portion of Janajati children as a percent of the total, however, dropped from 38.3 per cent in 2014 to 36.3 per cent in 2018. For Grades 10-12, the decline in the share of Janajati enrolment was sharper, from 29.5 per cent in 2014 to 19 per cent in 2018.

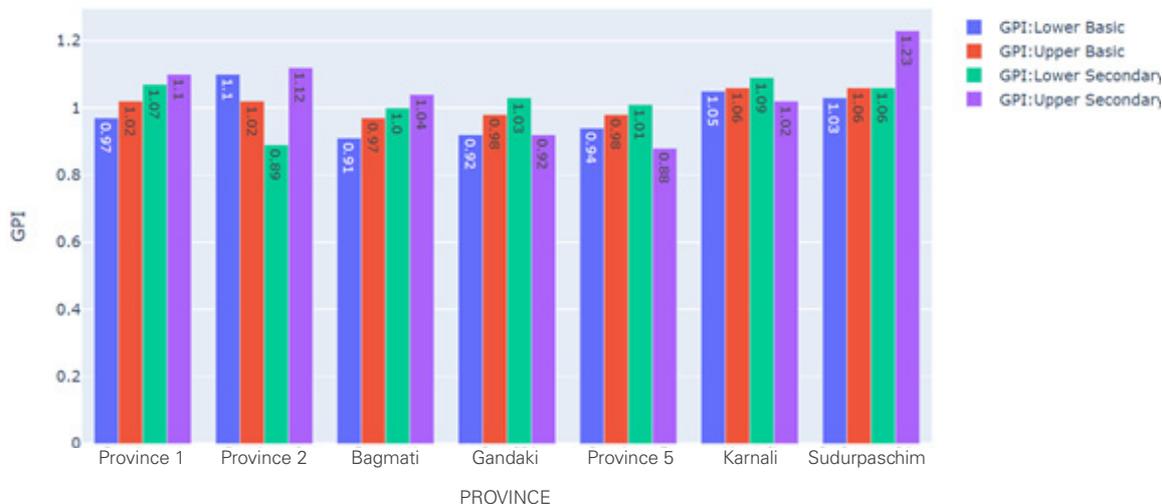
Figure 4 GER & NER in secondary schools by type and province



Even though only a minority of children can access secondary schools in Nepal, the increasing participation of girls in secondary education has been well documented. The achievement of gender parity in secondary education is a strong and positive development, but girls continue to face barriers to education, such as early marriage, distance to school, lack of access to sanitation/hygiene and lack of adequate female role models as teachers. Even when gender gaps are closed at an aggregate level, they may still exist at different levels of disaggregation (e.g. by wealth quintile).

Some provincial disparities are observed when lower and upper secondary level data are disaggregated. Province 2 is the only province with a significant gender gap remaining in lower secondary education (Figure 5). Province 5 and Gandaki Province, on the other hand, show a significant gender gap, even in upper secondary education. In Sudurpaschim Province, a reverse gender gap is observed, with nearly 20 per cent more girls than boys enrolled in upper secondary education.

Figure 5 Gender Parity Index at different levels of school



As mentioned in the National Assessment of Student Achievement reports for several years, there are opportunities for improvement in school achievement. The Consolidated Flash Report (Ibid., Table 6.23) noted scores (on average) being low and perhaps declining between 2016/17 to 2017/18 for many subjects and Grades.¹ It also reports attendance decreasing in lower secondary school (based on the number of days attending school), and this decrease if unchecked may have a bearing on the efficiency of lower secondary education. On the other hand, attendance increased in upper secondary schools.

1.8 OUT-OF-SCHOOL CHILDREN

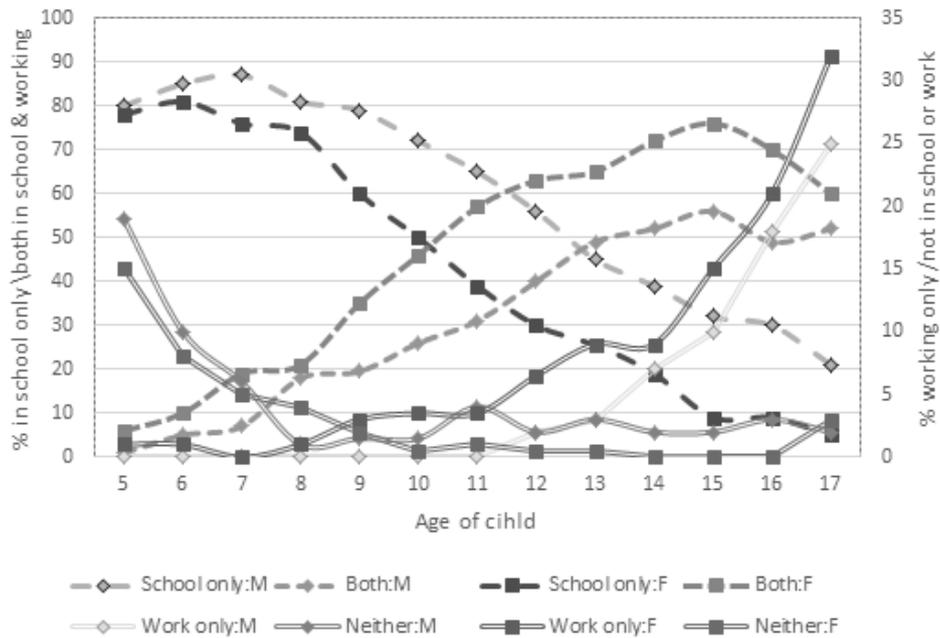
Inclusive education remains a challenge in Nepal, especially past basic education. Numerous data sources suggest that many school-aged children do not attend school. This is not a new development. The most recent Nepal Demographic and Health Survey (Ibid.) found that almost 16 per cent of adults between ages 20-24 had less than four years of schooling (many had dropped out before completing basic education). More recently, data for the situation at the end of academic year 2018/19 (reported in Flash 2 Reports) show a rapid rise in the number of out-of-school children around the time they enter secondary school at age 12-13 (MoEST-CEHRD 2019b). A study by CEHRD (then DoE) in 2018¹⁴ estimated that 30 per cent of out-of-school children were affected by at least one of several disabilities.

These results are corroborated by the most recent 2017/18 National Labour Force Survey (Ibid.), which found that as school-aged children grow older the proportion who are exclusively studying decreases, while the proportion who both work and study rises. Figure 6 (depicting data from NLFS 2017/18) shows the situation of children in 2017/18 and classifies them as to 1) whether they were only working (right axis), 2) only attending school (left axis), 3) both working and attending school (left axis), or 4) neither working nor attending school (right axis). The data are disaggregated by gender. Around the time children enter secondary school at age 14-15, the proportion giving up school for work rises. It is critical to note that these findings suggest that some children (typically boys) are neither working nor in school.

The NLFS 2017/18 demonstrates a sharp gender disparity with respect to the division of time between school and work. By age 15, 75 per cent of girls were engaged in both school and work, more than 15 per cent had left school for full-time work, and only 10 per cent were exclusively studying. On the other hand, about 58 per cent of boys 15 years of age were both working and studying, 10 per cent had left school for full-time work, and 3.5 per cent were neither working nor in school.

¹⁴ MoEST-CEHRD. Disability focused inclusive education handbook. Kathmandu, Nepal. 2018.

Figure 6 School attendance and working status of children (NLFS 2019)



Reasons for being out of school are complex, but when household data suggest that a significant share of children are eschewing education for work or attempting to balance both work and education, outcomes are likely to be affected, and many children will probably be unable to reach their education potential. Disability status along with ethnicity are some of the prime drivers for leaving school. The imperative to find work and earn income does, however, exist. To better understand this issue, as well as the complexities associated with school-work transitions, it is recommended that focus group discussions and awareness be raised in those districts identified as having the worst problem. This situation suggests that the IEMIS system should be expanded to diagnose/detect school attendance and document children who are working prior to reaching the legal working age, so that corrective and legal measures can be taken.

1.9 EQUITY AND DISPARITIES IN EDUCATION

The government has placed considerable emphasis on equity within the school education sector. Acknowledging the need to take a holistic approach to education, the government has developed a Consolidated Equity Index that seeks to promote equity in access, meaningful participation and improved learning outcomes. The Index – based on the Human Opportunity Index and developed by the World Bank – is a composite tool covering access to education, internal efficiency and learning. The major components of the Index are summarized in Table 3.

Table 3 Education Equity Index: main components (MoEST-CEHRD 2019c)

AREAS	ACCESS	PARTICIPATION	LEARNING
Outcomes (coverage)	Enrolment ratio (ages 6-16)	Survival rate (Grades 1-8)	Grade 8 exam pass percentage
Circumstances (dimensions)	Gender, location, Ethnicity: Dalit/non-Dalit, disability, Wealth, parent’s education	Gender, location, Dalit/non-Dalit, disability	Gender
Source of data	National Population and Housing Census 2011 (CBS 2012)	EMIS	EMIS

As noted in the Flash Reports, there are significant disparities in access, participation and learning associated with gender, ethnicity, location, wealth and a range of personal, parental and other socio-economic factors. Significant differences also emerge between community and private schools.

Factors leading to disparities are confirmed by different household surveys. What is emerging from an examination of household data is a very interesting situation where it is not always the poorest wealth quintiles that have the worst outcomes. Furthermore, the drivers of disparities themselves are not independent. Critically, it is important to note that even when gender gaps appear to have been met at an aggregated level it may not be the case at some levels of disaggregation.

Figures 7 and 8 demonstrate data for ECED/PPE attendance rates using the 2014 Multiple Indicator Cluster Survey (MICS 2014)¹⁵ data for children aged 3-4. Figure 6 highlights how ECED/PPE attendance varies by some known vectors of disparities, such as gender, location, region and wealth status. At the aggregate level, a noticeable gender gap in ECED/PPE attendance as reported in the MICS 2014 is absent. In fact, the biggest difference is between the middle and richest wealth quintiles. Figure 7 demonstrates that the factors of exclusion are not necessarily independent for ECED/PPE and need to be examined at a disaggregated level. For children belonging to the middle wealth quintiles and facing the highest attendance risks a gender gap is clearly visible. On the other hand, the rural/urban gap is more significant for girls and boys living in households belonging to upper wealth quintiles.

Figure 7 Disparities in ECED/PPE attendance (MICS 2014)

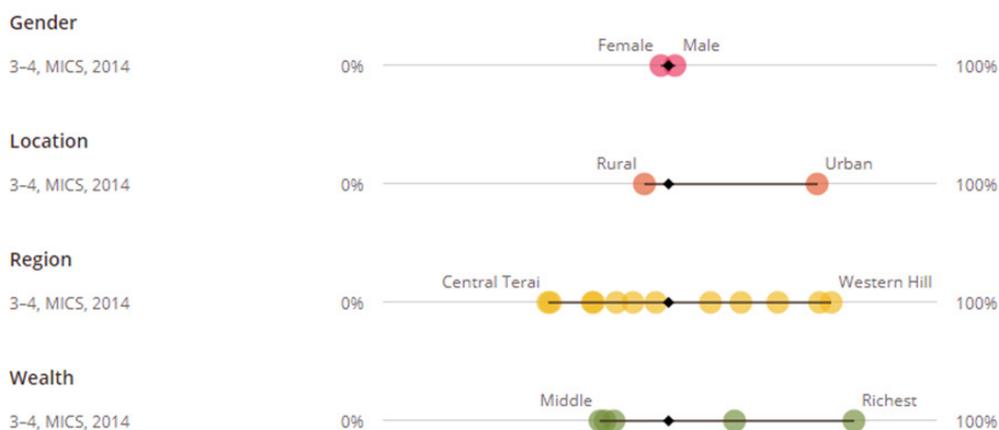
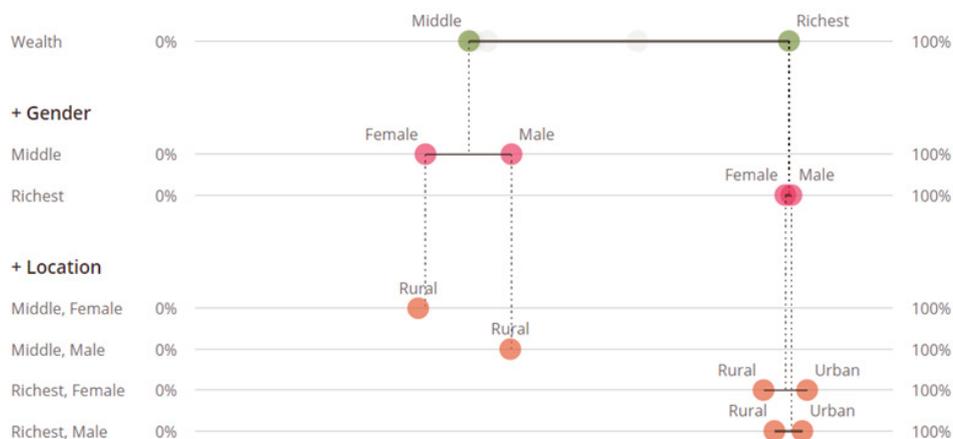


Figure 8 Unpacking wealth and other drivers of disparities in ECED/PPE attendance (MICS 2014)



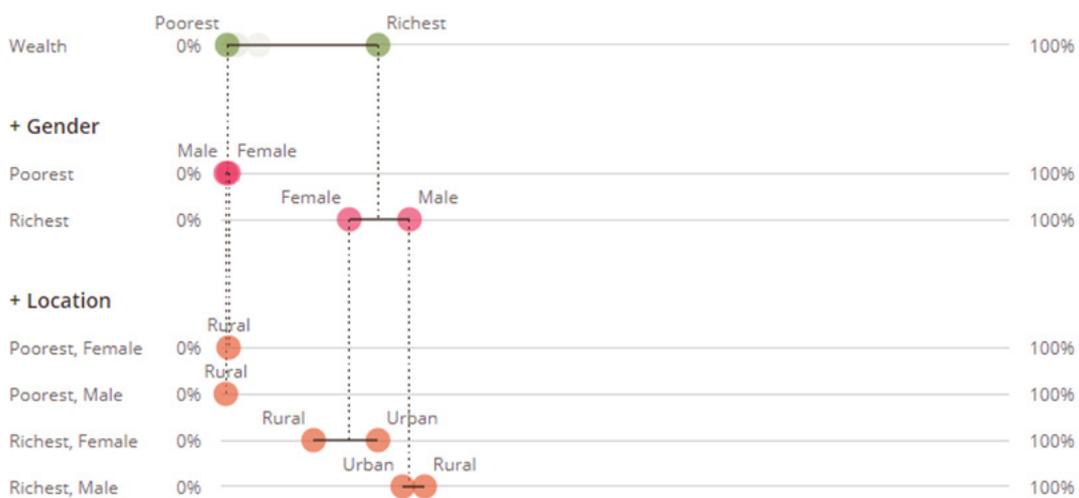
A similar situation is observed with respect to primary (old definition) completion rates. The middle and richest wealth quintiles have the highest observed spread. Figure 9, generated from the 2016 Demographic and Health Survey (Ibid.) for primary completion rates, demonstrates the different drivers of disparities and observed spread. Girls from the highest wealth quintiles living in urban households have the highest probability of completing primary school even though overall there is not much difference observed in the data between boys and girls in primary completion rates.

Figure 9 Unpacking wealth and other drivers of disparities in Primary Completion Rates (DHS 2016)



The disparities in secondary schooling are similar. Digging deeper into these disparities and examining the impact of wealth, gender and location simultaneously, some interesting observations can be made. Figure 10 demonstrates some observed disparities. It appears that the gender gap is strongest in the upper wealth quintiles and explains the aggregate gender gap observed. Girls belonging to the wealthiest quintiles and living in urban areas have a higher completion rate than counterparts living in rural areas. For children belonging to the poorest wealth quintile, gender as well as locational gaps are not evident. This is probably due to the extremely low rate to begin with.

Figure 10 Unpacking wealth and other drivers of disparities in upper secondary completion rates (DHS 2016)



In summary, there are wide differences in educational outcomes arising from intersecting factors, such as wealth, education of parents, mother-tongue, caste/ethnicity, location and other contextual factors (e.g. timely availability of textbooks, attendance rates, innate ability, teacher absenteeism and qualifications, and classroom size, among others).

1.10 CHILDREN WITH DISABILITIES

There are three modalities of educational provision for children with disabilities (CWDs) in Nepal: special schools, integrated schools and inclusive schools (with a resource class to support students). Nepal has signed and ratified the United Nations Convention on the Rights of Persons with Disabilities and enacted a Disability Rights Act in 2017, which should be crucial in furthering inclusive education in Nepal.

Enrolment of children with disabilities was reported in the Consolidated Flash Report (Ibid.) for different levels of schooling over the years 2014-2018 (see Table 4). The report shows a sharply rising trend of children with disabilities enrolled in school, with the number enrolled crossing 145,000 in 2016. Since 2017, total enrollment of children with disabilities has fallen sharply. In 2018, enrollment of children with disabilities was nearly at the same level it was in 2014. Noticeably, enrolment of children with disabilities in upper secondary level has been on an upward trend. The data suggest that 1.10 per cent of enrolled students at basic (1.18 per cent) and secondary schools (0.86 per cent) have a disability. The MTR (Ibid.) notes that these numbers are well below global estimates of the proportion of enrolled students who have one or more disabilities. This figure lies in the range of 10-15 per cent. It is very likely that a significant majority of disabled children are not enrolling in the education system. According to recent Flash Reports, more than 50 per cent of children with disabilities who are enrolling in basic and secondary education face physical (mobility) and intellectual challenges – serious challenges in terms of inclusive education. The Government of Nepal has proposed building ‘special schools’ for children with disabilities, which is not totally consistent with the concept of ‘inclusive education’ developed by CEHRD (MoEST-CEHRD 2018) in 2018 nor the ongoing SSDP.

Table 4 Enrolment of CWDs in basic and secondary education (2014-2018, MoEST-CEHRD 2019c)

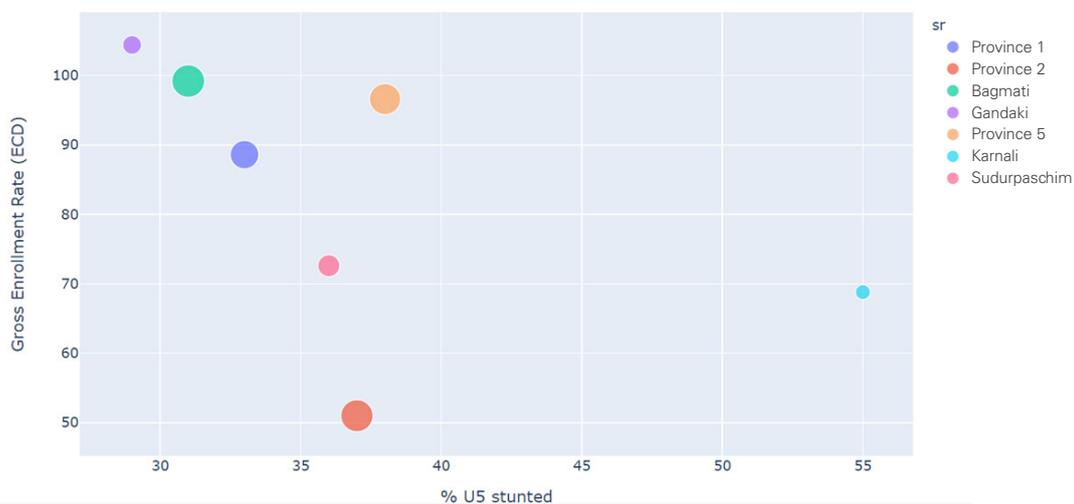
SCHOOL TYPE	2014	2015	2016	2017	2018
Basic	68,949	112,351	129,057	69,918	65,492
Lower Basic	52,904	84,568	98,953	52,096	48,225
Upper Basic	16,045	27,783	30,104	17,822	17,267
Secondary	8,031	14,542	16,097	11,370	14,214
Lower Secondary	6,238	11,516	12,172	7,987	8,433
Upper Secondary	1,793	3,026	3,925	3,383	5,781
Total	76,980	126,893	145,154	81,288	79,706

Data on children with disabilities and their learning experiences as well as the overall environment needs to be strengthened through expanding IEMIS as well as incorporating disability modules in household surveys. As recommended in the MTR (op. cit) identification of out of school children with disabilities and appropriate support for their engagement and contribution to education needs renewed effort.

1.11 TAKEAWAYS

- There is an urgent need to strengthen education sector databases and integrate other sources of qualitative/quantitative data and information on education. In particular, the following areas should merit attention:
 - » Net enrolment trends in ECED/PPEs, basic and secondary education. Existing ratios and rates hinge on National Population and Housing Census 2011 (CBS 2012) data and projections. The forthcoming census – considering demographic shifts related to fertility, mortality and migration – may reflect a different population structure than what is projected. At present, it is expected that every school headmaster enter data into the IEMIS. This situation may be problematic and require statistical cross-verification using a randomized sampling approach sustained over time. There is a crucial need to track the numerator (numbers enrolling from IEMIS) and the denominator (age-specific population estimated from the 2011 National Population and Housing Census) and clarify what protocols were observed to ensure uniformity in reporting and auditing of responses. Furthermore, IEMIS data need to be made available for public scrutiny and use, just as other sector databases are (e.g. in health, HMIS). This process will contribute greatly to enhance the quality and credibility of data being used by the government and donors to make budget allocation decisions.
 - » Personal, background and environmental factors that affect school outcomes related to access, participation and efficiency, and achievement. This is critical as currently government administrative data sources do not have enough information on many characteristics that are known to affect school outcomes. For example, stunting has been globally known to affect school outcomes. It also has a negative impact in Nepal. Figure 11, constructed from consolidated Flash Reports and DHS 2016, confirms this for most provinces. Neither the MTR nor the Flash Reports – because of data limitation – can explore in greater depth (e.g. through a regression framework) what the major drivers of inequity are, what their relative significance is, and what their interactions at the household level are. Absent this information, it becomes difficult to make evidence-informed programmatic interventions.

Figure 11 Stunting and enrolment in ECED/PPE (DHS 2016 & MoEST-CEHRD 2019c)



- » Data on the quality of teachers, turnover, absenteeism, educational attainment are critical in explaining outcomes. These data can provide crucial information on the push factors to employment in basic and secondary education schools for both private and community schools. A better understanding of female participation in teaching (especially in secondary schools) is needed, including their role in improving educational outcomes when seen against the context of their rapid engagement in other services in the private sector (such as sales and marketing).

With the changeover to a federal system of governance, front line service provision has been shifted to 753 local governments, and matters related to coordination, cooperation and oversight of the school education system are still being clarified. This situation has the potential to seriously affect service delivery. A 'transition plan' is in effect to provide temporary measures for SSDP implementation while institutional arrangements are still evolving (MoEST 2018). The MTR of the SSDP shows that progress is taking place on several fronts, and many indicators are either on track or have exceeded expectation, even amidst the challenges imposed by the new federal context. The MTR, however, also notes that inclusive education is an evolving challenge in Nepal. Progress towards fiscal targets as well as progress on some achievement and efficiency related indicators for both basic and secondary schools have been onerous.

Getting out-of-school children into their age appropriate classes continues to present formidable challenges, especially for children with disabilities, such as those facing intellectual or physical disabilities. The imperative to find work and difficulties in keeping up with school, coupled with a web of social, economic and psychological factors, result in many children eschewing their right to education. Education losses start early with 1 in 10 children not completing Grade 1. The NLFS 2017/18 data show that 75 per cent of girls 15 years of age have to balance both work and school compared to only 58 per cent of boys of the same age. A recent study by MoEST-CEHRD (MoEST-CEHRD 2018) found a significant share of children with disabilities to be out-of-school because the school system had failed to address functional barriers to education. A much deeper understanding of these issues is urgently required using multiple quantitative and qualitative data sources.

2 BUDGET ALLOCATION TRENDS

2.1 SIZE OF ALLOCATION AND CHANGES OVER TIME

The budget allocated to the MoEST has risen more than two and a half times over the last nine years, from NPR 63.91 billion in fiscal year 2012/13 to NPR 163.76 billion in fiscal year 2019/20 (Table 5). This represents an average annual increase of 13 per cent over the period. Over the same period, inflation averaged 7.5 per cent. Hence, the real growth rate of the allocated education budget has been close to 5.5 per cent per year between 2011/12 and 2019/20.

Table 5 Nepal's education budget (2011/12-2019/20)

Year	Total Budget	Education Budget	Federal Education Budget	Province Education Budget	Local Education Budget	GDP	Education Budget as per cent GDP	Education Budget as per cent Total Budget	Total Budget as per cent of GDP
2019/20	1532.97	163.76	65.28	4.25	94.22	3880.04	4.22%	10.68%	39.51%
2018/19	1315.16	134.19	46.22	2.86	85.12	3464.32	3.87%	10.20%	37.96%
2017/18	1278.99	126.78	65.14	61.64	0.00	3031.03	4.18%	9.91%	42.20%
2016/17	1048.92	116.36	0.00	0.00	0.00	2674.49	4.35%	11.09%	39.22%
2015/16	819.47	98.64	0.00	0.00	0.00	2253.16	4.38%	12.04%	36.37%
2014/15	618.10	86.03	0.00	0.00	0.00	2130.15	4.04%	13.92%	29.02%
2013/14	517.24	80.96	0.00	0.00	0.00	1964.54	4.12%	15.65%	26.33%
2012/13	404.82	63.43	0.00	0.00	0.00	1695.01	3.74%	15.67%	23.88%
2011/12	384.90	63.91	0.00	0.00	0.00	1527.34	4.18%	16.60%	25.20%

Note: Data are in NPR Billion.

Source: Compiled from Red Books (MoF) & CBS (2019) estimates of GDP.

In line with constitutional division of functional assignments under the new federal structure, LGs were allotted sizeable shares of the education budget in fiscal years 2018/19 and 2019/20.

- In 2018/19, the shares of the education budget allocated to local, provincial and central governments stood at 63 per cent, 2 per cent and 34 per cent respectively.
- In 2019/20, a slight shift occurred at the local and central levels, with shares of the education budget allocated to local and central governments standing at 58 per cent (down 5 percentage points) and 40 per cent (up 6 percentage points) respectively.

The share of the education budget in the overall national budget is often used as a proxy for 'priority'. The overall national budget has risen faster than the education budget. The share of the education budget declined from 16.6 per cent in 2011/12 to less than 10 per cent in 2017/18 before increasing in the last two fiscal years to 10.7 per cent in 2019/20. The share of the national budget allocated for education started declining more significantly during the roll-out of federalism.

The current education budget allocations as a share of the consolidated budget are among the lowest in the last nine years and is well below the international average of more than 15 per cent of budgets going for education, as well as the 20 per cent recommended by Education for All. The allocation falls short of the Government of Nepal's (specifically, the Ministry of Finance and MoEST) commitment to meet the 15 per cent target in funding agreements with development partners, including with the Global Partnership for Education and the education sector-wide approach partners – joint

partners that were promised by the Government of Nepal an increase in expenditures for educational purposes.

The ratio of the education budget to gross domestic product (GDP) has been around 4 per cent since 2011/12. This is because the declining allocation to education in the overall budget has been matched by an increase in the ratio of the overall budget to GDP, causing the education budget ratio to be virtually constant and close to the global average of 4.5 per cent.

2.2 PROJECTED SCHOOL EDUCATION SECTOR ALLOCATIONS

A projection of the cost and expected resourcing of the Nepal school education sector was undertaken as part of the May 2019 SSDP mid-term evaluation review. The estimates presented in this subchapter have been extracted from the SSDP mid-term evaluation report (SOFRECO 2020, pages 117-121) and endorsed by MoEST and the SSDP Joint Financing Partners (JFPs). The resource envelope, expenditure and financing gap in the school education sector was projected based on school enrolment and actual budget figures up to academic/fiscal year 2017/2018. Budget figures and medium-term expenditure frameworks were projected for years 2018/2019 to 2020/2021. The school education sector financing scenario is based on assumptions on economic growth and education budget levels. The education sector budget results directly from GDP projections using the ratio of the education budget over GDP. The potential school education budget was then projected as a percentage of the education budget. Results for the projected budget envelope are shown in Table 6.

Table 6 Revised budget envelope for SSDP activities (NPR Million)

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Initial SSDP								
GDP	2,248.7	2,541.0	2,845.9	3,194.3	3,593.4	4,052.1	4,580.8	5,192.5
GoN total expenditure	701.2	1,048.9	1,174.8	1,318.6	1,483.3	1,672.7	1,891.0	2,143.4
Education Sector exp.	98.6	116.4	148.0	166.1	186.9	222.9	251.9	285.6
as % of GDP	4.4%	4.6%	5.2%	5.2%	5.2%	5.5%	5.5%	5.5%
as % of Budget	14.1%	11.1%	12.6%	12.6%	12.6%	13.3%	13.3%	13.3%
Updated MTR costing								
	Actual	Actual	Actual	Budget	MTEF	MTEF	Projection	Projection
GDP	2,253.2	2,645.0	3,007.2	3,361.0	3,803.0	4,222.0	4,662.0	5,165.0
GoN total expenditure	601.0	837.2	1,077.8	1,315.2	1,577.7	1,864.6	2,058.9	2,281.1
Education sector exp.	98.6	109.4	115.7	129.0	140.5	152.3	168.2	186.3
as % of GDP	4.4%	4.1%	3.8%	3.8%	3.7%	3.6%	3.6%	3.6%
as % of Budget	16.4%	13.1%	10.7%	9.8%	8.9%	8.2%	8.2%	8.2%

The SSDP mid-term review estimates the financing gap for the SSDP to be between an annual USD 55 million in 2019/20 and USD 81 million in 2020/2021. This financing gap, approximately 3-6 per cent of the SSDP projected costs, would be the result of the low level anticipated for the education sector budget within the current medium-term expenditure framework (MTEF) and already includes the expected external budget support for these years in the estimated resource envelope. Renewed and innovative resource mobilization efforts are required to fill this financing gap.

2.3 TAKEAWAYS

- Strong attention needs to be given to understanding and unpacking budgetary data within the context of Nepal's transition to a federal system. In particular, disaggregated data on the allocations at subnational levels need to be garnered and curated for further analyses.
- Nepal's education budget has increased from NPR 63.9 billion in 2012/13 to an estimated NPR 163.75 billion in 2019/20. Given inflation trends, the mean real growth rate of the education budget has been close to 5.5 per cent over this period.
- A decreasing proportion of the overall budget has been allocated for education between 2011/12 and 2017/18. It should be noted that this trend was reversed in fiscal year 2019/20, with the percentage of the national budget allocated to education increasing. In 2019/20, 10.7 per cent of the budget was allocated for education in Nepal's national budget, well below the international average of 15 per cent and the Education for All's recommended 20 per cent.
- The decrease in the school-aged population over the coming years will (to an extent) increase the per student funding available in the basic and secondary education sector budget, assuming the education sector resource envelope will at least continue to annually increase in real terms. It will, however, begin to raise costs in tertiary education.
- The ceilings provided in the MTEF are expected to cause a financing gap between 3-6 per cent of the education budget, even when taking the projected external budget support into account. As such, an increase is needed in the conditional grants allocated to PGs and LGs, or alternatively through considerable efforts from local governments through an allocation of resources from the revenue-sharing mechanism, the equalization grant received from the federal budget, matching grants, special grants, royalty sharing or local resources. Tax revenues to GDP ratios have been rising rapidly in Nepal even as the education to GDP ratio has remained constant. Domestic as well as other innovative sources of revenues could be used to partially fund this financing gap.
- Since 2017/18, subnational governments have been allocated large shares of the education budget. It is important, therefore, to ensure that the capacity, governance and accountability of these subnational governmental entities matches their new responsibilities.

3

COMPOSITION OF BUDGET ALLOCATION

This section examines the composition of spending by the central level agencies and programmes of MoEST, breaking down the budget into recurrent and capital expenditures, examining the functional composition of spending and presenting estimates of underspending.

3.1 ALLOCATION BY AGENCIES AND PROGRAMMES

As elaborated earlier, a significant share of the total education budget in the last two years has been allotted to subnational governments. Data on disaggregated allocation by agencies and programs at subnational levels are not yet in the public domain. This section, therefore, only examines federal (central) level allocations by agencies and programs.

Between 2014/15 and 2017/18, there were 31 (sometimes 32) central level agencies and programmes listed in the Red Book under MoEST. The reorganization to a federal system of governance induced changes in the Red Book coding system, reduced the number of agencies/programmes to 23 in 2018/19, and further reduced the number of agencies/programmes to nine in 2019/20. These changes stemmed from shifting functional responsibilities to subnational governmental entities, as well from institutional rearrangements within the Ministry.

In 2014/15 (prior to the federal structure), the following three programs and two agencies accounted for 90 per cent of allocations from the central Education Ministry's budget (then MoE) with the remaining 10 per cent being allotted to the other 28 agencies.

- Three programs collectively accounted for 73 per cent of the education budget: The Education for All programme (primary education, 34 per cent), the School Sector Reform Programme (21 per cent), and the secondary and lower secondary school programmes (18 per cent).
- Two agencies accounted for 15 per cent of the education budget: Teachers' pensions (7 per cent) and the University Grants Commission (UGC) (8 per cent).

In 2017/18 (at the start of the transition to a federal system), the federal/central government was receiving nearly half of the total consolidated education budget, with regions receiving the other half. Of the central government allocation, the following three budget headings accounted for 69 per cent of the education budget:

- The government's major school education programme (SSDP) was allocated 34 per cent of the budget.
- The proportion allocated to teacher's pensions more than doubled to 19.5 per cent of the budget, and allocations to the UGC rose to 15 per cent of the budget.
- Allocations to the Education for All and secondary/lower secondary school programmes declined to 8 per cent and 7 per cent of the budget respectively – probably reflecting the fact that some spending items were included under SSDP's budget.

By 2018/19, the federal budget began to reflect the new federal structure of governance with the provision of basic and secondary education becoming the responsibility of local governments. Thus, spending was not reflected in the federal/central budget, which accounted for about 34 per cent of total education allocations. Three budget headings consumed 83 per cent of the federal education budget: Teacher's pensions (38 per cent), SSDP-Central (16 per cent) and the University Grants Commission (29 per cent).

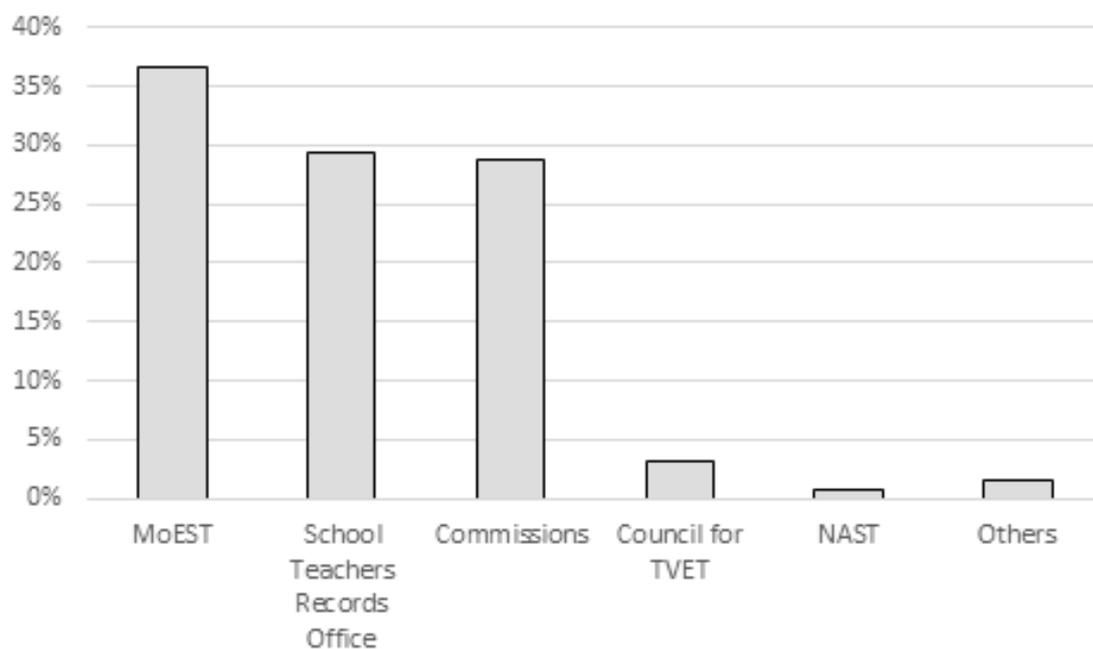
In 2019/20 the MoEST employed new codes and budget classifications with only nine major budget headings (compared to 32 in 2014/15) for the federal level education budget. In this calendar year, most of the federal education budget was allocated to the MoEST, followed by teachers' pensions and the University Grants Commission (Figure 12). Allocations were as follows:

- The MoEST budget code received 37 per cent, which subsumed some of the agencies and line items that were separate in previous years (e.g. Libraries, Food for Education, Education for All – Primary, Martyr's benefits,

overseeing SSDP, etc.)

- The School Teachers Record Office was allocated 29 per cent of the budget of which 99 per cent went to pensions.
- The education commissions received 29 per cent with the University Grants Commission allocated 82 per cent of this amount (23 per cent of the total), and the Higher Education Improvement Commission took in 13 per cent of the 29 per cent.
- Four headings/entities (CEHRD, Curriculum Development Office, Education Quality Assurance and Boards) were allocated less than 2.5 per cent of the budget.

Figure 12 Allocation of federal education budget by department/agency code (2019/20) ¹⁶



3.2 FUNCTIONAL CLASSIFICATION OF THE EDUCATION BUDGET

A functional classification of the education budget allows international comparability and highlights the purposes and objectives of the budget. Data in the government's Red Books from 2014/15 to 2019/20 are in conformity with the 1999 International Classification of Functions of Government (COFOG) for education. Table 7 shows the classification based on the Government Finance Statistics Handbook (IMF 2001)

¹⁶ Created from Red Book data

Table 7 COFOG Codes & Classification of Education Expenditures

CODE, CATEGORY & SUB-CATEGORY	BRIEF EXPLANATION
7091 PRE-PRIMARY & PRIMARY 70911 PRE-PRIMARY (IS) (ISCED LEVEL 0) 70912 PRIMARY (IS) (ISCED LEVEL 1)	Provision of education at specified levels and their administration, operation, inspection
7092 SECONDARY EDUCATION 70921 LOWER SECONDARY (IS) (ISCED LEVEL 2) 70922 UPPER SECONDARY (IS) (ISCED LEVEL 3)	Provision of education at specified levels and their administration, operation, inspection, Scholarships, Grants & Loans to students
7093 POST SECONDARY NON-TERTIARY EDUCATION (IS) 70930 POST SECONDARY NON-TERTIARY EDUCATION (IS) (ISCED LEVEL 4)	Provision of education at specified levels and their administration, operation, inspection. Scholarships, Grants, Allowances & Loans to students
7094 TERTIARY EDUCATION 70941 FIRST STAGE OF TERTIARY EDUCATION (IS) (ISCED LEVEL 5) 70942 SECOND STAGE OF TERTIARY EDUCATION (IS) (ISCED LEVEL 6)	Provision of education at specified levels and their administration, operation, inspection. Scholarships, Grants, Allowances & Loans to students
7095 EDUCATION NOT DEFINABLE BY LEVEL 70950 EDUCATION NOT DEFINABLE BY LEVEL (IS) (ISCED LEVEL 7)	Provision of education not definable by levels and their administration, operation, inspection, Scholarships, Grants, Allowances & Loans to students
7096 SUBSIDIARY SERVICES TO EDUCATION 70960 SUBSIDIARY SERVICES TO EDUCATION (IS)	Support in relation to transport, medical, food and lodging services for students regardless of grade
7097 R&D EDUCATION 70970 R&D EDUCATION (CS)	Definitions of R&D specified. Does not include basic research. Administration and operation of public agencies involved in R&D. Scholarships, Grants, Allowances & Loans for researchers
7098 EDUCATION NEC	Overall formulation of guidelines, standards, policy, legislative framework. Residual category so incorporates expenditures not classified under 7091-7097

Source: Created from Government Finance Statistics Manual, IMF 2001

Government allocations for education include allocations on services provided to individual pupils and students and expenditures on services provided on a collective basis. Budgets for individual services (see Table 7) are allocated to groups 7091 to 7096; expenditures on collective services are assigned to groups 7097 and 7098. Collective educational services are concerned with matters such as formulation and administration of government policy; setting and enforcement of standards; regulation, licensing and supervision of education establishments; and applied research and experimental development into education affairs and services. Overhead expenses connected with administration or functioning of a group (e.g. schools, colleges, etc.) are considered to be individual expenditures and are classified into groups 7091 through 7096 as appropriate. The breakdown of education is based upon the level of categories of the 1997 International Standard Classification of Education (ISCED-97) of the United Nations Educational, Scientific and Cultural Organization (UNESCO). This division includes military schools and colleges where curricula resemble those of civilian institutions, police colleges offering general education in addition to police training, and the provision of education by radio or television broadcasting. Expenditures so incurred are classified to groups 7091 to 7095 as appropriate and specified in Government Finance Statistics Manual (IMF 2001).

In the 2014/15 to 2019/20 period the average allocation of the education budget was skewed heavily in favour of allocations for individual services, with 36 per cent for 'pre-primary and primary education' (7091-IS); 28 per cent for 'education not definable by level' (7095-IS); 23 per cent for 'subsidiary services to education' (which increased year by year from 2014/15) (7096-IS); 10 per cent for 'secondary education' (7092-IS); 3 per cent for 'education not elsewhere classified' (7098-CS); and 0 per cent for 'research and development (7097-CS).

Note that post-secondary non-tertiary education and tertiary education (7093 and 7094) allocations are not explicitly separated out and could be subsumed under category 7095 – education not definable by level.

Table 8 Allocation of the Education Budget as per COFOG classification (2014/15-2019/20)

Functional Classification	2014/15	2015/16	2016/17	2018/19	2019/20 (est)
Pre-Primary and Primary Education	0.34	0.32	0.41	0.45 C=0.09 P=0.17 L=0.70	0.30 C=0.01 P=0.00 L=0.52
Secondary Education	0.18	0.15	0.11	0.00	0.08 C=0.00 P=0.00 L=0.14
Education Not Definable by Level	0.28	0.32	0.25	0.28 C=0.22 P=0.69 L=0.30	0.26 C=0.10 P=1.00 L=0.33
Subsidiary Services to Education	0.18	0.19	0.21	0.25 C=0.73 P=0.10 L=0.00	0.33 C=0.82 P=0.00 L=0.00
Education NEC	0.02	0.02	0.01	0.02	0.03 C=0.07 P=0.00 L=0.00
Total budget (NPR Billion)	86.03	98.64	116.36	134.50 C=46.20 P=28.57 L=85.11	163.75 C=65.28 P=42.53 L=94.22
Source: Budget Red Books, 2014/15–2019/20					
Note: C=Central (MoE & MoEST), P=Provincial, L=Local					

Table 8 was created from data in the Red Books for the calendar years 2014/15 to 2019/20. It examines the proportional allocation of the budget since 2014/15 and shows the assignment of COFOG functions to subnational governments for the years 2018/19 and 2019/20. Over the years, budget allocations for pre-primary and primary education, not definable by level, and subsidiary services to education are given priority. Over the last two fiscal years, the provinces allocated a significant share of their budget to education not definable by level. Central government allocations were biased in favour of providing subsidiary services to education, while local government allocations were heaviest towards pre-primary and primary education, and education not definable by level.

3.3 CREDIBILITY OF THE EDUCATION BUDGET

One measure commonly used to assess credibility is the variance between proposed budget expenditures and actual expenditures. Credibility of the education budget can be considered 'high'. As per the Red Books,¹⁷ in 2014/15, the executed budget was 93 per cent of the proposed budget for education, rising to 94 per cent by 2016/17. For later years, Red Book data are still not yet publicly available, especially at subnational levels. SSDP reports suggest that credibility has risen in recent years to over 95%. The challenges are to understand the reasons for underspending to further enhance the credibility of the budget. There may have been efficiency gains that allowed a cheaper delivery of services than anticipated, or there may be flow-of-fund bottlenecks PFM issues, causing utilization risks that warrant further inspection.

From 2017/18, much of the education budget was devolved to local and provincial governments. Data on their level of spending of these budgets are not yet available. The limited compliance by these sub-national governments on submitting their plans and proposed and executed budgets to the federal government has led to this information not being available for 2017/18 and 2018/19.¹⁸ This suggests the need for performance-based criteria to be introduced to align budget allocations with budget absorption capacity.

3.4 RECURRENT AND CAPITAL ALLOCATION

More than 99 per cent of all allocations from the education budget has been for recurrent expenditure since 2011/12, with capital expenditure accounting for less than half of 1 per cent of budget allocations between 2011/12 and 2019/20 (Table 9).

The budget allocation for capital expenditure fell from NPR 0.29 billion in 2011/12 to NPR 0.17 billion in 2015/16 and then increased to NPR 0.23 billion in 2016/17, NPR 0.41 billion in 2017/18 and NPR 0.6 billion in 2019/20. As per the Red Book data, much of this budget went for constructing buildings (36 per cent), plant and machinery (28 per cent), and capital formation (12 per cent).

Allocations for recurrent expenditures from the national education budget have risen annually from NPR 63.62 billion in 2011/12 to NPR 163.15 in 2019/20 – an increase of 156 per cent over the period. In 2014/15, 78 per cent of the education budget was allocated for conditional grants (73 per cent) and unconditional grants (5 per cent) and another 6 per cent on pensions, disability and retirement benefits. In 2019/20, a similar pattern was observed with these conditional and unconditional grants dominating recurrent expenditure allocations along with a significant rise in retirement benefits, which accounted for 20 per cent of recurrent expenditure allocations.

Growth rates of capital and recurrent expenditure allocations fluctuated over the years (Table 9). Capital expenditure/allocations increased from 2016/17 as the rebuilding of schools became a priority in the period after the 2015 earthquakes. The average annual growth rate of capital expenditure/allocations has been 17 per cent since 2011/12, although the figure is heavily influenced by the 80 per cent growth observed in 2017/18 and 2019/20 (accounting for inflation, these represent real average growth rates of 10.5 per cent for capital and 6.5 per cent for recurrent expenditure allocations).

¹⁷ MOF various years

¹⁸ The Draft SSDP Status Report (MoEST 2019) discusses some of these reporting challenges along and other institutional issues in detail. The section on Federalism discusses the challenges of coordination, cooperation and coexistence between the three levels of government.

Table 9 Recurrent and capital expenditure allocations in Nepal's education budget (NPR billion, 2011/12–2019/20)

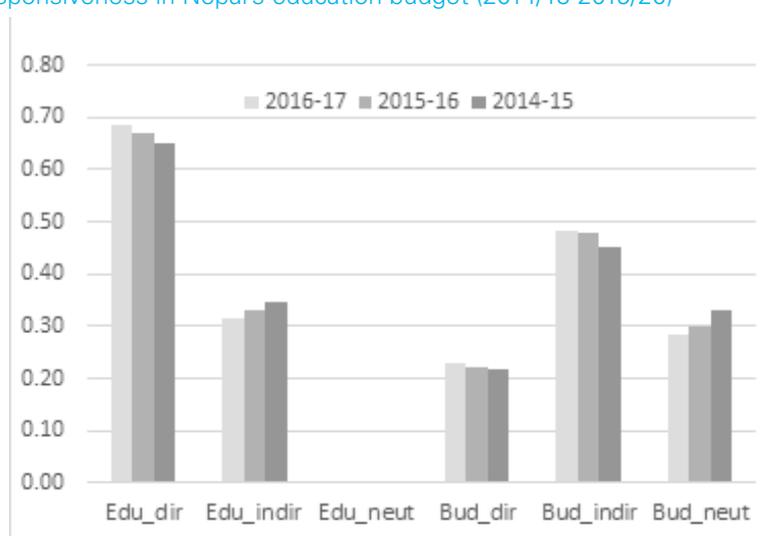
Year	Capital Exp. Allocations		Recurrent Exp. Allocations		Total Expenditure	Per cent Exp Capital	Per cent Exp Recurrent
	Expenditure	Growth Rate	Expenditure	Growth Rate			
2011/12	0.29		63.62		63.91	0.46	99.54
2012/13	0.18	-0.37	63.25	-0.01	63.43	0.29	99.71
2013/14	0.21	0.17	80.75	0.28	80.96	0.26	99.74
2014/15	0.17	-0.18	85.86	0.06	86.03	0.20	99.80
2015/16	0.17	-0.03	98.47	0.15	98.64	0.17	99.83
2016/17	0.23	0.34	116.13	0.18	116.36	0.19	99.81
2017/18	0.41	0.80	126.37	0.09	126.78	0.32	99.68
2018/19	0.33	-0.19	134.18	0.06	134.51	0.25	99.75
2019/20	0.60	0.83	163.15	0.22	163.76	0.37	99.63

Source: MOF, Budget Red Books for 2011/12 to 2019/20.

3.5 GENDER AND THE EDUCATION BUDGET

A Gender Responsive Budget Committee located within MoF identifies the level in each year's education budget allocations that directly and indirectly promotes gender equity and that is neutral in terms of promoting gender equality. The criteria are in line with international gender budgeting norms. These data are included in each year's Red Book. Data from 2014/15 to 2016/17 are used to highlight trends. It should be noted that since 2018/19, more than a half of the education budget has been allocated to local governments and no information is available on how gender responsive these budgets have been.

The three-year trends show a small increase in the proportion of the education budget that directly promotes gender equity against a small decrease in the proportion that indirectly promotes it (Figure 14). In contrast, the overall budget shows a small decrease for direct gender promotion, a small decrease for indirect gender promotion and an increase in gender neutral budget allocations.

Figure 13 Gender responsiveness in Nepal's education budget (2014/15–2019/20)¹⁹

¹⁹ Created from Red Books, MoF, 2014/15 to 2016/17

3.6 TAKEAWAYS

- The reorganization of the education sector under the new federal structure has significantly devolved fiscal responsibilities and resources to subnational governments, but data on subnational government budgets is sparse. This makes it exceedingly difficult to compare (for now) pre- and post- federal expenditure allocations.
- It is important to note that there has been a large increase in the budget allocated for teachers' pensions (as well as the UGC) over the period 2014/15 to 2017/18. Since 2018/19, budget codes have changed, and it is not possible to separate out pension expenditures or isolate the extent of increase.
- Budget credibility has been consistently high. Estimates of the variance between actual spending and budget suggest that budget credibility for education is high (less than 5-6 per cent deviation). For the years for which official and reliable disaggregated Red Book data are available, underspending of the education budget ranged from 6-8 per cent during 2014/15 to 2016/17. This figure is low in comparison to countries such as India (14 per cent, MoF, Gol 2018). The major challenge is to understand the reasons behind underspending as it may have multiple causes (e.g. efficiency gains resulting in cheaper service delivery, among others), or it could signal some PFM issues. Critically, it underscores an opportunity to link performance and results to plans and budgets – especially at subnational levels.
- Recurrent expenditure allocations made up more than 99 per cent of education expenditure allocations between 2011/12 and 2019/20. A large share of recurrent expenditure allocations (more than 75 per cent) was allocated for conditional and unconditional grants, and recently (2019/20), 20 per cent went to retirement benefits for teachers.
- The gender responsiveness of the education budget improved in the years 2014/15 to 2016/17 (the years for which most recent data are available) in contrast to the consolidated national budget, which saw a decrease in allocations favouring direct and indirect gender equity, along with an increase in gender neutral budget allocations.

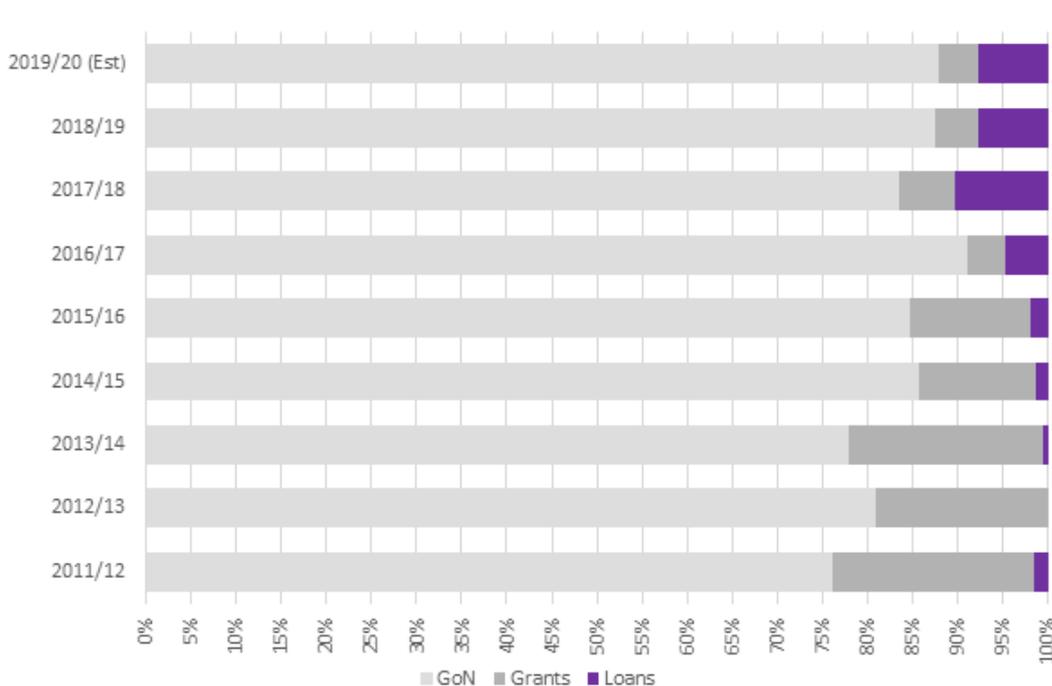
4 FINANCING EDUCATION SPENDING

This section examines the sources of financing for the education budget by analysing the main sources of funding for the education sector and the risks and opportunities for sustaining these investments.

4.1 PUBLIC FINANCING TRENDS

Between 2011/12 to 2018/19 the government financed more than 75 per cent (an average of 85 per cent) of its education budget from domestic revenues (Figure 14). Marked trends over this period were the declining share of grants and increasing share of loans to finance education from external development partners. An average of 12 per cent of the education budget was financed from such grants during the aforementioned period. But the proportion dropped sharply from 22 per cent in 2011/12 to an estimated 5 per cent in 2019/20. Budget financing via external loans increased from 2016/17 forward. These loans accounted for only 2 per cent of the budget in 2011/12, rising to an estimated 8 per cent in 2019/20. Over this period, loan financing was about 4 per cent of revenues, but has been about twice this in the last three years.

Figure 14 The sources of finance of Nepal's education budget, 2011/12 to 2019/20²⁰



Increased loan financing coupled with decreased grant financing for education in Nepal increased the national debt. More than 10 per cent of the overall education budget is currently spent on repaying debt. The accrual of additional debt could squeeze the budget available for education. Critically, how the government chooses to finance new debt will have major equity implications (e.g. inflation). Finally, increased loan financing seems counter intuitive in light of the small underspending of the education budget.

20 Created from Red Book data, MoF

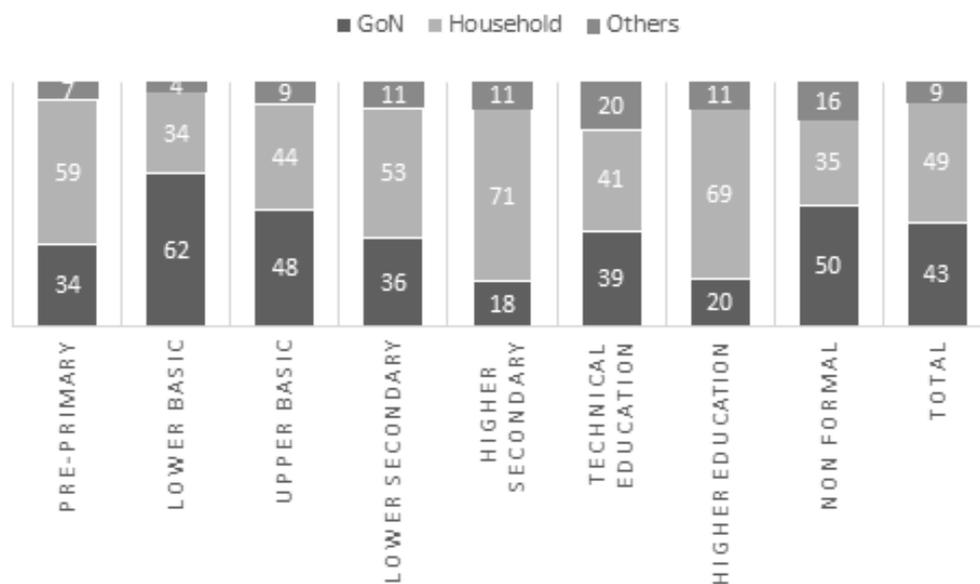
Governments in the region have found innovative ways to increase financing, such as innovative and progressive taxation, blended financing (where financing and management are shared between private and public stakeholders), vertical financing (where financing and management is driven top down but with lower level stakeholder management) and the tightening of efficiency.

4.2 PRIVATE SPENDING ON EDUCATION

The National Education Accounts (NEAs) in Nepal for the years 2009 to 2015 conveniently disaggregated total education sector spending into government spending, private household spending, and external development partner spending, allowing an examination of household spending in relation to overall health spending and permitting the analysis of the dynamics between these three components. One noticeable fact is that over the years 2009 to 2015, households contributed between 47-49 per cent of total education spending in Nepal.²¹ Declining external spending over this period has pressured private households and GoN to sustain expenditure levels.

The most recent data from the NEAs pertain to the calendar year 2014/15 and permits a disaggregation of the contribution of private household expenditure to total education expenditure. The data in Figure 15 were created from NEA data in the report (UNESCO and IIEP-UIS 2016).

Figure 15 Household Share of Total Expenditure on Education in Nepal (2014/15)



Data for 2014/15 suggest that households contributed significantly to education spending across all levels of education. With the exceptions of non-formal education, upper basic education and lower basic education, other sectors saw dominant shares of private spending on education. Higher secondary and higher education sectors had significant shares of private spending. Although more recent data are not yet available, it can be inferred from enrolment data that this pattern of high private-sector spending in the education sector is likely to continue given Nepal's growing per capita income levels.

This situation poses known challenges in terms of equity in outcomes and access (for instance, between private school and community school students). Any sector with nearly half its spending borne by the private sector is bound to see disparities in outcomes based on private household factors, such as wealth, among others. At the same time, this situation also creates opportunities for GoN to forge new partnerships and dialogues with households, external development partners and the private sector – focusing on achieving robust and sustainable financing for the education sector.

21 UNESCO and IIEP-UIS. National Education Accounts in Nepal: Expenditure for Education 2009-2015. July 2016

4.3 TAKEAWAYS

The main trends in the sources of the education budget have been the increasing proportion funded from domestic revenues and the replacement of grant financing with loan financing. The increase in loan financing set alongside the 6–8 per cent of unspent funds must be better understood as there are explicit and implicit costs associated with borrowing while there are unspent allocations. In general, there is an opportunity to examine the fiscal space for the education sector and to look at introducing innovative financing, including progressive taxation, and harnessing private-sector spending in equitable and sustainable ways. The production of long- and medium-term costed sector plans under alternative scenarios plays a critical role in planning Nepal's education sector and sustainable financing. More children are being educated in private school, and the amount spent on this is increasing. More than 1 million children are studying in private schools at basic level (17 per cent of all basic level students). Private school students have significantly better learning outcomes than public school students, which creates a polarized education landscape.

5

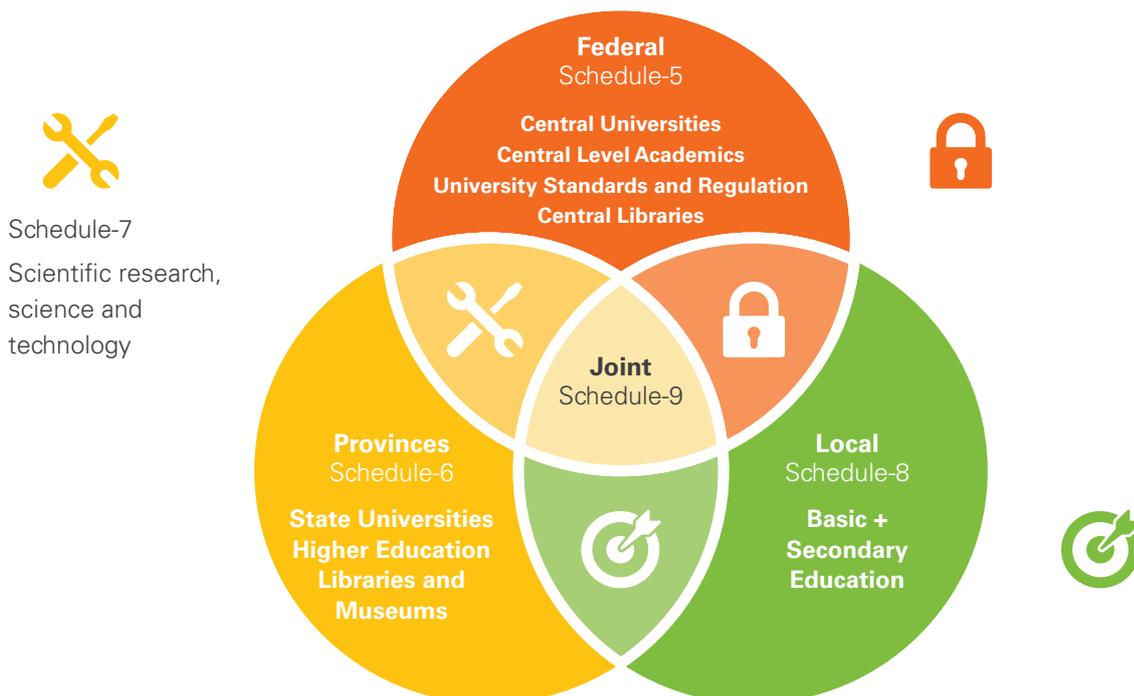
FEDERALISM AND EDUCATION

This section explores education spending within the nascent federal structure of governance and the changing institutional dynamics between various levels of government. The balance underlying Nepal's federal structure, as per the Constitution of Nepal, is purportedly rooted in a joint willingness of the three tiers of government to cooperate, coordinate and coexist. Differences in the ability of governmental entities to design participatory, needs based, inclusive policies and programmes coupled with differences in their ability to execute budgets and raise resources can challenge the balance of federalism. At the macro level, fiscal, social and political risks arising from vertical and horizontal imbalances or inequities need to be managed carefully in the education sector even as changing institutional structures have made it onerous to collect comparable data and information.

5.1 EDUCATION UNDER THE NEW FEDERAL STRUCTURE

The Constitution of Nepal specifies the roles and responsibilities of the three tiers of government and their joint responsibilities (Figure 16). The responsibilities of the federal/central tier of government are specified in Schedule 5 of the Constitution. The responsibilities of provincial governments are given in Schedule 6 and include provincial universities, higher education, state libraries and museums. The responsibilities of local governments are listed in Schedule 8 and include the provision of basic and secondary education services. Schedule 9 lists the joint responsibilities of the three tiers of government and is the only schedule that connects the responsibilities of local and federal governments, although the Constitution only gives limited details on this. Schedule 9 lists responsibilities that pertain to universities, libraries, regulations, standards and other education-related issues. The intersection between provinces and local governments is specified in Schedule 7, which lists scientific research, science and technology as joint responsibilities of these two tiers of government. Matters not listed in these schedules ('residual matters') are assumed to be the responsibility of the federal/central government.

Figure 16 The responsibilities of the three layers of federal government in Nepal

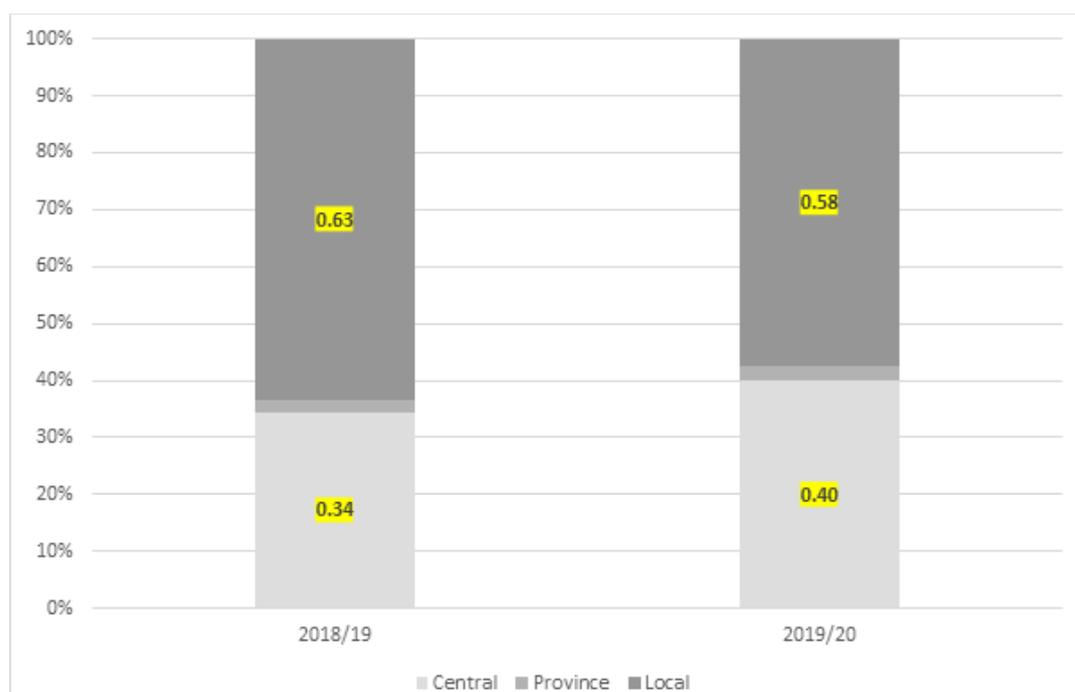


It is notable that there is no direct connection between local governments and the federal/central government in terms of responsibilities for education except through the three-tiered joint intersection. But the federal/central government transfers budgetary resources (grants) to local governments in the shape of conditional grants. This implies that 'outcomes' have fundamentally become 'outputs' from the point of view of M&E. The Constitution anticipated that institutional arrangements at the previous district level (such as the Education Development Coordination Units) would temporarily provide this interaction. This layered structure of responsibilities is new and is still being unpacked in terms of horizontal/vertical hierarchical relationships and coordination mechanisms. The responsibilities for human resource management, assessments and the curriculum are still being worked out. While the new federal structure will probably offer rich rewards in terms of localizing development, three matters are of concern:

1. The innate differences in the willingness and ability of governments within each tier and between the different tiers to implement their respective mandate and collaborate with other governments, which could result in inequitable outcomes for many school children.
2. The fragmentation of local governance in Nepal into 753 different entities could lead to high unit costs of governance and the fragmentation of programmes.
3. The level of coordination and cooperation that is required between the different government tiers with the new federal structure (with a central government, seven provincial governments and 753 local governments) will likely take time to achieve, particularly in a developing country that is going through multiple political and economic transitions.

Local governments have been allocated the largest proportion of the education budget in the two years that the federal system has operated (Figure 17). The proportion going to local governments, however, declined from 63 per cent in 2018/19 to 58 per cent in 2019/20, with a concomitant increase in the share going to the federal government. Governance of the education budget at the local level is a major concern as there are likely to be variations in outcomes among and between local governments and provinces. In addition, the linkage between budgets and outcomes needs to be further strengthened.

Figure 17 Allocation of the education budget to the three tiers of government²²



22 Created from Red Book data

5.2 PROVINCIAL REVENUES AND EXPENDITURE PRIORITIES

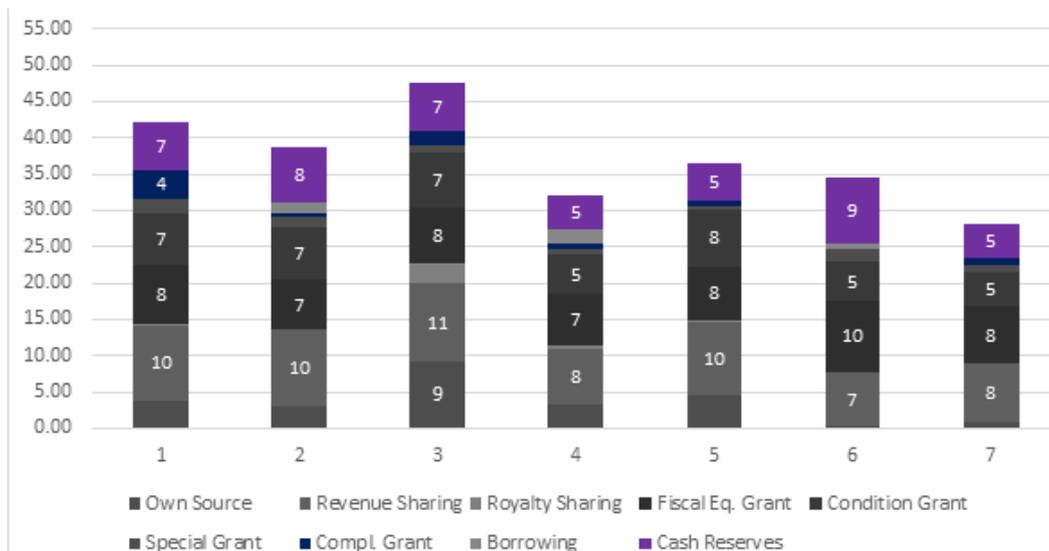
Provincial budgets comprised 7 per cent of the country's overall budget in 2019/20, but only 2 per cent of the education budget in 2018/19 and 2.5 per cent in 2019/20. Education is not a priority in provincial budgets compared to general-public services, fuel, transport and agriculture, and forestry and fishery development, which account for nearly 75 per cent of provincial budgets in most provinces.

There were large variations in the proportion allocated by provinces for education in their 2019/20 budgets, with Province 7 allocating 9 per cent to education and Province 2 allocating only 0.3 per cent. Given the impending demographic shift – with fewer young children, more persons over aged 16, and the associated heightened demand for higher education arising from this – it would be useful to reconsider the education-related responsibilities of provincial/local governments and realign expenditure/revenue accordingly. In addition, the assigned responsibilities urgently need reassessing to avoid duplication and overlap.²³

The revenues of provincial governments come from their own sources, such as taxes, revenue sharing, royalty sharing, various types of grants from the federal government, and borrowing (Figure 18).

The planned proportion of provinces' revenues from their own sources to fund their 2019/20 budgets range from 9 per cent in Province 3 (NPR 9.2 billion) to negligible amounts in Provinces 6 and 7. Across the seven provinces, the most important planned sources of revenue are revenue shares, grants, and cash reserves (unspent reserves). Planned revenue sharing transfers vary between NPR 7 billion in Province 6 to NPR 11 billion in Province 3. All provinces are due to receive NPR 7-8 billion of fiscal equalization grants, except for Province 6 which is due NPR 10 billion. Conditional grants are the next most important source of financing for provinces, with Province 5 set to receive NPR 8 billion of these grants and the other six provinces planning to receive NPR 5-7 billion. Although conditional grants are meant to be performance-based, they are often perceived as a means of the federal government managing provincial governments. All seven provinces have unspent cash reserves, ranging from NPR 9-5 billion. And Provinces 2, 4 and 6 plan to borrow despite having cash reserves. These patterns need to be understood considering that the education sector is increasingly being financed by loans while unspent reserves persist.

Figure 18 Planned sources of overall provincial budgets (NPR billion, 2019/20)²⁴



23 Provincial governments are often able to influence the basic level of school education through channels that bypass local governments. For instance, the 'Beti Bachao Beti Padoo' program being rolled out in Province 2 is an example of a Provincial level program that aims to increase female school attendance at secondary level in municipalities.

24 Created from Red Book data

It is important to note that the flow of grants across the provinces varies less than their socioeconomic situation. The fiscal equalization grants, conditional grants and revenue sharing flows are the same for Provinces 1, 2, 3, 4 and 6, but different for Provinces 5 and 7. Hence, differences in finances stem from differences in own source revenues, cash reserves and borrowing.

5.3 FEDERALISM AND EQUITY

The way revenues are raised and debt is financed has a direct bearing on equity and outcomes in school education. Equity concerns also arise in terms of the distribution of revenues to local governments. In FY 2019/20, 7 per cent of the national budget was allocated to the seven provinces and 15 per cent to the 753 local governments. The provinces depend to a large extent on fiscal transfers from the federal government. Royalty sharing only accrues to Province 3. In FY2019/20, conditional and special grants combined ranged from NPR 9.5 billion for Province 7 to NPR 14.78 billion for Province 2. In this period, Province 3 received the second highest share of different types of grants as it has its own substantial revenues to leverage such grants.

There are two equity concerns with respect to the distribution of revenues and functional assignments (expenditures):

- **Vertical imbalances** are imbalances in the assignment of functions between the three tiers of government. These imbalances exist in relation to the capacity to carry out mandated functions, to execute allocated budgets and to deploy systems-based transparent governance structures. They exist when the resources transferred vertically downwards are insufficient to finance the functions that local governments are supposed to carry out and/or where these governments are unable to execute their responsibilities.
- **Horizontal imbalances** refer to the inequities that exist between different units of the same tier of government (provincial or local). Typically, countries attempt to resolve geographic imbalances through fiscal equalization transfers. There has been, however, mixed success with this for a number of reasons, including divergent incentives, different political agendas and different abilities.

Provincial governments received only 2.5 per cent of government funding for education in 2019/20. Provincial education budgets are spent mostly on tertiary education. The analysis of the distribution of the provincial budgets for 2019/20 against education-related indicators indicates horizontal imbalances (Table 10). Data on provinces in Table 7 are taken from a number of sources, including Red Books and the secondary analyses on the 2016 Demographic Household Survey data (Ibid.). Each row is colour coded, with deeper shades denoting the 'worst' situation and lighter shades the 'best'. Data for the whole country are presented in the last right-hand column:

As shown in the data, there is considerable diversity in planned per capita and per student spending:

- Province 3 has the highest budget, but Province 7 has given the highest priority to education in its budget (8.6 per cent of the total) despite having the smallest budget.
- Province 2 gives the lowest priority to education, accounting for only 0.3 per cent of its planned expenditure despite underachieving on many education indicators.
- Province 6, which contains less than 4 per cent of the population, has the highest planned per capita overall expenditure of NPR 34,400, while most other provinces have budgeted per capita expenditures in the range of NPR 6,000 to NPR 9,000.
- Province 7 has the highest per capita education expenditure (education budget divided by population) of NPR 1,066 set against only NPR 19.4 per capita in Province 2.
- Province 7 has the highest per student expenditure at NPR 2,844, arising from the high priority given to education in the provincial budget and its relatively low student population base. Province 2 also has the lowest per student expenditure of NPR 94.7.

Table 10 Selected province level education statistics 2019/20²⁵

SELECT INDICATORS	1	2	3	4	5	6	7	NPL
Provincial Budget (2019/20, NPR Bill.)	42.2	38.7	47.6	32.1	36.4	34.4	28.2	259.6
Own source (NPR Bill.)	3.8	3.1	9.3	3.3	4.6	0.2	0.8	25.1
Revenue Sharing (NPR Bill.)	10.3	10.4	10.6	7.7	9.9	7.5	8.0	64.4
Fiscal Equalization Grants (NPR Bill.)	8.1	7.1	7.6	7.1	7.5	9.9	8.0	55.3
Conditional Grants (NPR Bill.)	7.0	7.1	7.5	5.4	7.8	5.3	4.6	44.7
Borrowing (NPR Bill.)	0.0	1.3	0.0	2.0	0.0	0.8	0.0	4.2
Unspent Cash Reserves (NPR Bill.)	6.6	7.7	6.8	4.8	5.0	8.9	4.8	44.7
% budget for education	2.20	0.30	1.20	3.10	1.60	3.10	8.60	2.5
Per Capital Exp (NPR)	8440.0	6450.0	6800.0	16050.0	6066.7	34400.0	9400.0	8653.3
Per Capita Edu Exp (NPR)	185.7	19.4	81.6	497.6	97.1	1066.4	808.4	216.3
Per Student Edu Exp (NPR)	8172	94.7	401.4	1454.0	4478	1803.9	2844.0	899.6
Per Capita Fiscal Equalization Grant (NPR)	1628.9	1180.4	1088.0	3547.1	1255.8	9872.8	2650.8	
Estimated Population in 2021 (Mill)	5.0	6.0	7.0	2.0	6.0	1.0	3.0	30.0
% of population	16.67	20.00	23.33	6.67	20.00	3.33	10.00	
% of budget	16.26	14.91	18.34	12.37	14.02	13.25	10.86	
No. of districts	14	8	13	11	12	10	9	77
Rural Municipalities/ Gaupalika	88	59	74	58	73	54	54	460
Municipalities	46	73	41	26	32	33	25	276
Metropolitan cities	1	1	3	1	0	0	0	6
Sub metropolitan cities	2	3	1	0	4	0	1	11
% Stunted	33	37	31	29	38	55	36	36
% Wasted	12	15	4	6	8	9	10	10
% Underweight	25	37	15	15	27	37	27	27
% Stunted, Underweight & Wasted	5	5	1	0	3	4	5	4
% mothers with no education	23	56	22	11	29	41	37	34
% fathers with no education	11	26	11	4	13	10	11	15
% mothers with lowbmi	36	44	29	36	41	44	45	39
% without health cards	64	77	63	64	59	56	55	68
% without birth registration	39	55	36	39	43	35	46	44
% without electricity	18	19	8	11	20	40	18	18
% delivered at home	36	54	29	30	39	63	32	41
U5MR	36	52	36	27	45	58	69	39
IMR	31	43	29	23	42	47	58	32
% without all basic vaccines	20	35	15	7	21	25	17	22
Multi dimensional Poverty Rate	19.70	47.90	12.20	14.20	29.90	51.20	33.60	28.6
HDI	0.55	0.42	0.54	0.51	0.47	0.43	0.43	0.57
Absolute Poverty Rate	12.40	19.80	15.30	15.50	18.20	28.90	33.90	18.7
Schools (Number)	6,742	4,042	6,911	4,311	5,698	3,190	4,161	35055
Students (Lacs)	11.36	12.27	14.23	6.84	13.01	5.91	8.53	72.15
GER in ECD/PPCs	88.60	51.00	99.20	104.40	96.60	68.80	72.60	84.70
Girls to Boys ratio at lower basic	0.97	1.10	0.91	0.92	0.94	1.05	1.03	0.99
Girls to Boys ratio at upper basic	1.02	1.02	0.97	0.98	0.98	1.06	1.06	1.01
% of students appearing for Grade 1 final exam	83.50	87.00	88.70	88.10	82.70	85.70	86.50	89.70
Teachers in basic education (1000s)	47.75	24.81	60.40	33.34	44.17	15.02	27.02	252.52
Teachers in secondary education (1000s)	14.09	5.89	20.77	11.30	11.02	4.00	5.88	72.95
Teachers per school	9.17	7.59	11.75	10.36	9.69	5.96	7.91	9.28
GPI (Teachers) at basic level	0.7	0.4	1.3	1.0	0.8	0.4	0.5	0.8
GPI (Teachers) secondary level	0.2	0.1	0.4	0.2	0.2	0.2	0.1	0.2
GER Secondary Level	63.4	50.5	69.2	70.8	63.4	82.3	76.4	67.7
Student-Teacher Ratio (basic)	18	43	17	14	23	30	24	22
Student-Teacher Ratio (secondary)	20	37	17	17	27	32	33	23
Repetition Rate (Grade 1)	13.40	12.20	11.90	13.40	14.70	13.40	11.20	12.30
Repetition Rate (Grade 9-10)	4.40	2.30	4.50	4.20	3.30	3.60	3.70	3.60

The data suggest that there is an urgent need to re-examine budget allocations based on outcomes. Province 2 has well below average status for nutrition, health and education, but its per capita allocations for education at province level are the lowest in Nepal and insufficient to change the trajectory of outcomes.

5.4 TAKEAWAYS

- In 2019/20, the budgets of provincial governments amounted to NPR 259.6 billion or about 7 per cent of the total national budget. Local governments received 15 per cent of the national budget while the federal government retained 78 per cent of the budget.
- The Constitution delineates responsibilities for education between the three tiers of government and the joint responsibilities of the federal and provincial governments, provincial and local governments and all three tiers. What is noticeably absent is the specification of joint responsibilities between the federal and local governments. LGs are now allocated the major share of the education budget as they are mandated with providing ECED/PPE, and basic and secondary education. Many issues related to human resource management, oversight and accountability remain unresolved between the tiers of government.
- In 2019/20, only Province 7 allocated a substantial proportion of its budget to education (8.6 per cent). The other provinces allocated much less at an average of only 2-2.5 per cent of their budgets. The responsibilities for education at the provincial level are mainly for higher education, the demand for which will increase with demographic shifts and income growth. Hence, there is a need to examine vertical imbalances between the federal government and provincial governments related to functional assignments and expenditure allocations.
- Provincial revenues are dominated by grants, revenue sharing arrangements and cash reserves. Provinces 2, 4 and 6 have begun to take loans to finance expenditure. This is an opportune time to examine the way grants and revenue sharing flows are implemented and introduce perspectives of equity as well as performance in fiscal arrangements between the three tiers of government.
- Vertical imbalances – with some local governments not having the capacity or willingness to execute the budget and others not having the budget to execute their functions – can disrupt the provision of education as coordination and cooperation mechanisms related to the education sector are not yet in place.
- Horizontal imbalances manifest themselves in the high variation in per capita spending and outcomes versus the low variation in grant and revenue sharing flows across local governments.

6

CONCLUSIONS

The present brief has provided an overview of the education sector spending trends, the composition of spending, financing sources and education in the context of federalism in Nepal.²⁶ This section presents the major takeaways from each chapter:²⁷

6.1 TAKEAWAYS FROM SECTOR PERFORMANCE

1. The education sector is facing challenges in implementation and execution associated with changing federal structures: front line service provision has been shifted to 753 local governments and matters related to coordination, cooperation and oversight are still being clarified.
2. There is need to verify the fidelity of EMIS data vis-à-vis the most recent census (2011) and other national data sources. Under-reporting, non-reporting or mis-reporting due to lack of incentives and disconnect with actual funding can undermine the usefulness and rigor of the database.
3. The STR at upper basic and upper secondary school levels has been high and stagnating. Due to a complex interplay of factors, such as school leaving and absenteeism, the de-facto STR is likely to be different.
4. Providing meaningful access and participation for out-of-school children continues to present a formidable challenge despite an improving trend. The imperative to find work and difficulty keeping up with school, coupled with a web of social, economic and psychological factors, are causing large numbers of children to eschew their right to education. Education losses start early. About 10 per cent of children in Nepal are unable to complete their first year of education (Grade 1). Nearly 20 per cent of children are not in school at the time they should be graduating – either because they have never enrolled, or because they have dropped out. The gender disparity is striking: at the age of 15, 75 per cent of girls must balance both work and school compared to 58 per cent for boys at that age.
5. The participation of female teachers in basic education has been increasing. The GPI for basic education has risen for all provinces except Province 2. In comparison, the GPI for upper basic education has also improved, though less impressively. A decline in the GPI for Province 3 in 2018 for upper basic education affected the overall average GPI for Nepal.
6. Recent and emerging data illustrate that education outcomes continue to be splintered by religion, ethnicity, caste, income, gender and region/location. The government's consolidated equity strategy needs to ensure more inclusive access, participation and learning outcomes.

²⁶ Two detailed presentations have been created: One based on this brief and the other on provincial level data maps and graphs for a variety of social, economic and fiscal indicators. These are available upon request from UNICEF Nepal Social Protection, Evaluation and Evidence section.

²⁷ A wide variety of national and international data sources were used in addition to literature and desk reviews. The data were parsed and analyzed using a combination of statistical tools including Python and R in addition to creating Excel based pivot tables from the budget Red Books.

6.2 TAKEAWAYS FROM SPENDING TRENDS

7. Nepal's spending on education has increased from NPR 63.9 billion in 2012/13 to NPR 163.75 billion in 2019/20. Given inflation trends, the mean real growth rate of the education budget was close to 5.5 per cent over this period. In terms of budget allocations, and as a ratio to GDP, education spending shows a mixed picture.
8. In terms of the proportion of the budget allocated for education, a decreasing trend is observed during 2011/12 to 2017/18. At present just over 10 per cent of the budget goes towards education in Nepal, well below the international average of 15 per cent and the 20 per cent recommendation proposed by Education for All.
9. There is scope to examine fiscal space and expenditure prioritization within the overall budget framework. Just three ministries/agencies absorb nearly 33 per cent of the budget (MoPIT, MoHA, NRA), reflecting the governments emphasis on infrastructure, reconstruction and security. Debt payments absorb another 11 per cent of expenditures. This means that less than 60 per cent of the budget is left over for all other ministries and agencies, some of whom are providing front line services to children in Nepal. It is interesting to note that while MoPIT and MoHA received significant shares of the budget in 2014/15, their allocation was lower than education (14 per cent). The situation has reversed itself over the years.
10. Sub-national governments are being allocated significant shares of the budget. There is a corresponding need to ensure that capacity, governance and accountability are increased at par with increasing resources made available at local levels (Flash Reports, 2019).
11. When examining international and regional data for long term averages of education spending to GDP, Nepal is at par with a long-term average of about 4.3 per cent. In terms of comparisons with other South Asian countries, Nepal is also at par, being higher than Bangladesh and Pakistan, but lower than the Maldives and Sri Lanka.

6.3 TAKEAWAYS FROM COMPOSITION OF SPENDING

12. There has been a rapid increase in the budget allocated to teacher pensions and the University Grants Commission over the last few years.
13. In terms of COFOG, there have been some minor year to year fluctuations. The highest allocation, when averaged over the last five years, was for functions related to pre-primary and primary education (36 per cent). The other two significant allocations were for education not definable by level (28 per cent average) and education not elsewhere classified (23 per cent average). These three functional responsibilities consume 87 per cent of the education budget.
14. Underspending estimates lie in the range of 6-8 per cent of the budget for the years 2014/15 to 2016/17, the years for which reliable and disaggregated data are available. The juxtaposition of underspending with grant and loan financing needs to be examined in greater detail. Underspending estimates are more than 50 per cent of the value of grants and loans. And underspending does not appear to affect budget allocations as the functions with the highest underspending continue to receive increased budgets.
15. Recurrent expenditures comprise more than 98 per cent of education expenditure. A large share of recurrent expenditures (more than 75 per cent) is allocated for conditional and unconditional grants, and recently 18 per cent to retirement benefits. Capital expenditures constitute less than 1 per cent of the education budget because many capital functions are executed by other agencies (e.g. the National Reconstruction Authority rebuilds earthquake damaged schools).
16. Current trends in underspending and budget allocations provide scope and opportunity to set up robust M&E frameworks, including expenditure tracking and auditing systems.

17. Gender responsiveness of the budget was on a positive and increasing trend during the years for which comparable data are available (2014/15 to 2016/17).

6.4 TAKEAWAYS FROM FINANCING TRENDS

18. Noticeable substitution of loan financing for grant financing in the education budget – in tandem with an increasing share of the education budget – is financed from domestic revenues.
19. Increased loan financing juxtaposed with unspent funds must be carefully monitored as there are explicit and implicit costs associated with borrowing. In general, there is an opportunity to examine fiscal space for the education sector and examine innovative financing, including progressive taxation as well as the role of the private sector (in finance, service delivery, systems). Preparing short, medium and long term costed sector plans under alternative scenarios can play a critical role in planning and sustainable financing.
20. Private sector spending on education has been growing. It is estimated that more than 1 million children are in basic education alone (some 17 per cent of all school children). The disparities in outcomes observed between private and public schools are significant and tend to create a polarized education landscape.

6.5 TAKEAWAYS FROM FEDERALISM AND EDUCATION

21. Provincial budgets sum to NPR 25.96 billion – about 7 per cent of the budget. Local governments get another 15 per cent of the budget. The federal government retains 78 per cent of the budget.
22. The Constitution delineates responsibilities for education between the three layers of government. It also delineates joint responsibilities between the federal and provincial governments, provincial and local governments, and all three levels. What is noticeably absent is the specification of joint responsibilities between federal and local governments. This is proving to be problematic. Local governments are being allocated a major share of the budget as they are now mandated with front-line provision of pre-primary, primary and secondary education services. Many pertinent issues related to human resource management, oversight and accountability remain unresolved between the various levels of government.
23. Except for Province 7, which allocates 8.6 per cent of its budget to education, provincial priorities are not focused on education. On average, provinces allocate 2-2.5 per cent of their budget to education. The functional responsibilities for education at the province level are concentrated on higher education – whose demand will increase with demographic shifts and income growth. There is, therefore, a need to examine vertical imbalances between functional assignments and expenditure allocations between the federal level and the provincial governments.
24. Provincial revenues are dominated by various kinds of grants, revenue sharing arrangements and cash reserves (unspent). Some provinces (2,4 and 6) have also begun to take loans to finance expenditures. This is an opportune moment to examine the way grants and revenue sharing flows are implemented and introduce perspectives of equity as well as performance in fiscal arrangements between various layers of government.
25. Vertical imbalances can disrupt services as many coordination and cooperation issues related to the education sector are yet to be finalized (some local level governments may not have the capacity or willingness to execute the budget, and others may not have the budget to execute their functions).
26. Horizontal imbalances manifest themselves in the high variation in per capita spending and outcomes versus the low variation in grant and revenue sharing flows.

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¹This was based on a sample of community schools.





