



EDUCATION FINANCING BRIEF 2018

THE CONTEXT

The constitution of Nepal envisions for free and compulsory education at basic level and free education at the secondary level. Adequate financing is required to deliver equitable, inclusive and quality free education for all as envisioned in the constitution. With this notion, the Incheon Declaration also proclaims commitment from different countries across the globe including Nepal for allocating at least 15-20% of the national budget and 4-6 % of the Gross Domestic Product (GDP) to the education sector. The Global Education Monitoring (GEM) Report of 2017/18 estimates that reaching universal pre-primary, primary and secondary education - of good quality - in low - and lower - middle - income countries will require a total of US\$340 billion per year.

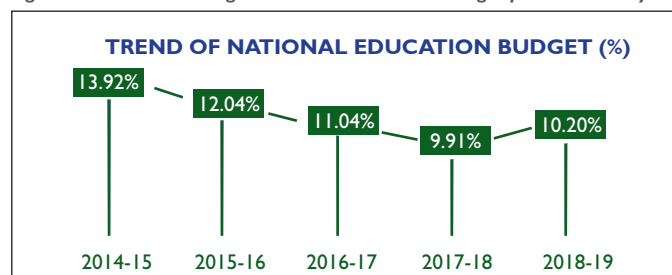
Despite of the commitment of government nationally and internationally to allocate the sufficient funding in education, the national funds for the education have also been in the decreasing trend have moved down from 17.1 % to the 10.20 % in the last seven years. On one hand, the allocation of the budget to the education sector is very low resulting to the use of funds only in the current expenditures, whereas on the other hand, there remains the problems of leakage, mis-utilization or the freezing problems of the allocated fund. After the three years of the implementation of the Sustainable Development Goals (SDGs) and School Sector Development Plan (SSDP) of Nepal, much more progress in the educational indicators is expected to be obtained till 2030. However, the resources and funds supplementing the overall economy of the nation do not collide with the attainment of these ambitious goals.

Hence, this brief provides an overview of the education financing from the Government of Nepal. This study report has focus on the financial provisions and investment in the education sector. It has been prepared based on the review of the secondary data of the government as well as the research documents published over the time by NCE Nepal.

EDUCATION SPENDING TRENDS

Public Spending in the Education has decreased drastically over the years and this rate is more decreased when factoring in the changing price levels. In nominal terms, the total spending of the education sector equaled to 134.18 billion, which is 10.20% of the total national budget, this is lower as compared to that of the last five fiscal years. When adjusting for inflation, the spending is further much lower. The budget for the fiscal year 2018/19 also indicates of being Gender Responsive. Hence, out of the total education budget, 74.56% (i.e. 100.2956 billion) is allocated to be directly supported for addressing gender issues in education and 25.19% (i.e. 33.8766 billion) is allocated to be indirectly supportive. The remaining 0.25% (i.e. 0.3365 billion) is under neutral category.

Figure 1: Trend showcasing the national education budget portion over 5 years



Source: NCE Nepal (2018), Analysis of National Budget 2018/19

A part from this, the percentage of budget allocated by the provincial government for the education sector shows very disappointing scenario. The table below provides the figure of budget allocated in education sector by provinces.

Table 1: Allocation of budget in Education in seven provinces

Rs. (in billion)

Headings	Provinces						
	One	Two	Three	Gandaki (Four)	Five	Karnali (Six)	Seven
Total Budget	35.936	29.787	35.616	24.023	28.09	27.283	25.065
Education budget	N/A	N/A	N/A	0.5515	N/A	1.347	1.656
% of education budget	N/A	N/A	N/A	2.30	N/A	4.94	6.61

Source: Provincial Governments' Red Book FY 2018/19

The maximum percentage of budget allocated for the development of education sector is 6.6% by Province number Seven whereas the lowest is allocated by Province number Four with only 2.30% contribution to the educational development. The education budget for other Provinces does not seem to be clear neither in the red book nor in the budget speech. Hence, viewing into the educational scenario in all the provinces, the current allocation of the funds does not seem sufficient to meet the commitments made by the government to achieve the target and indicators as set by SDG 4 and SSDP.

SOURCE OF BUDGET

The total budget of Nepal for the fiscal year 2018/19 is 1315.1617 billion rupees. The huge source of this budget is revenue mobilization. However, the portion of revenue mobilization and foreign grant has been decreased for this fiscal year resulting to the large portion of loan and borrowings to finance the budget. Out of total estimated source, Rs.831.32 billion (63.21%) will be financed through revenue mobilization, which was 83.18 % in the last fiscal year, whereas, the share of foreign grant has also been decreased to 58.82 billion (4.47 %). Moreover, total deficit amount due to decrease foreign grants and revenue mobilization will be arranged from foreign loan and domestic borrowing. In this regard, 253.03 billion (19.24%) will be arranged from foreign loan whereas, the net deficit of 172 billion (13.08%) will be financed through domestic borrowing.

Table 2: Sources of Total National Budget and its contribution

Rs. (in billion)

Year	2017/18	2018/19	Government Units	Total	Government	External Grant	Loan
Revenue Mobilization	83.18 %	63.21 %	Federal	1006.6745	719.7341	49.8366	237.1038
Foreign Grant	6.40 %	4.47 %	Provincial	113.4341	97.5568	3.5698	12.3075
Foreign Loan	10.42 %	19.24 %	Local	195.0531	186.0271	5.4091	3.6169
Domestic Borrowing	0	13.08 %	Total amount	1315.1617	1003.3180	58.8155	253.0282
			Percentage	100%	76.29%	4.47%	19.24%

Source: NCE Nepal (2018), Analysis of National Budget 2018/19
Red Book 2018/19

Majority of the share of total budget of this fiscal year i.e. 76.54% has been allocated for the federal government, whereas only 8.63% has been provided to the province government and 14.83% to the local government units. Out of the total national budget, 76.29% will be managed solely by the government via internal resource mobilization and domestic financing whereas 4.47% and 19.24% will be contributed by foreign grant and foreign loan respectively.

Funds will be transferred from the federal government to the provincial and the local government in the form of grants as per the Intergovernmental Fiscal Arrangements. The allocation of funds to the province and local level as per the different grants are given below (Table 3):

Table 3: Amounts provided as grants to province and local levels

Types of Grants	Amount allocated
Equalization Grant	135.51 billion to province and local
Conditional Grant	63.14 billion to Provincial 109.85 billion to Local
Complementary and Special Grant	20 billion to province and local

Source: NCE Nepal (2018), Analysis of National Budget 2018/19
Red Book 2018/19

If we observe the source of budget from the provincial perspectives, majority of the source of funds for every province is the grants provided by the federal government. Only three provinces out of the seven provinces have aimed for the collection of the funds from their own internal sources. Thus, this also shows the alarming situation of the funds available for the development of the nation. Still the provincial governments are hugely dependent on the grants from the federal government.

Table 4: Source of budget of all seven provinces

Rs. (in billion)

Headings	Provinces							Total
	One	Two	Three	Gandaki (Four)	Five	Karnali (Six)	Seven	
Total	35.936	29.389	35.616	24.023	28.090	27.283	25.066	205.043
% of budget in terms of sources								
Federal Government sharing	63.68		48.53	66.78	61.01	77.94	67.83	
Revenue collection	34.07		51.46	27.37	38.98	22.05	30.20	
Internal sources	2.24	-		5.84	-		1.96	

Source: Provincial Governments' Red Book FY 2018/19

SCHOOL SECTOR DEVELOPMENT PLAN AND ITS BUDGET

For the attainment of the SDG4, Nepal has prepared its national educational plan known as School Sector Development Plan (SSDP), which guides the education sector for the seven years i.e. till 2022. The plan includes three year, five year and the seven year program under it. The table below provides the overall cost estimate for SSDP.

Table 5: Resource envelope and cost estimates of SSDP for three different scenarios

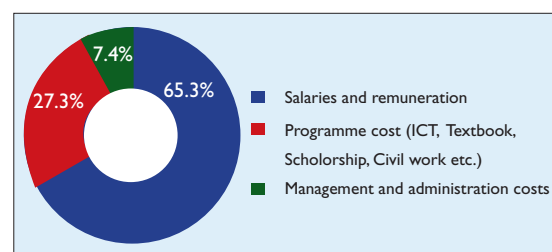
Items	Scenario	7-year program (2016-2022)		5-year program (2016-2021)		3-year program (2016-2018)	
		NPR billion	\$ billion	NPR billion	\$ billion	NPR billion	\$ billion
Education sector	Plausible	1378	13.1	840	8	430	4.1
	High	1630	15.5	912	8.7	440	4.2
	Low	896	8.5	577	5.5	322	3.1
SSDP envelope	Plausible	1119	10.655	682	6.498	350	3.33
	High	1324	12.61	740.36	7.05	357.69	3.43
	Low	728	6.93	468.75	4.46	261.53	2.49
SSDP expenditure ¹⁶		1110.58	10.58	678.36	6.46	349.53	3.33
Recurrent		1012.85	9.65	616.63	5.89	317.72	3.04
Capital costs		97.73	0.93	61.73	0.57	31.81	0.29
% capital costs		8.8		9.1		9.1	

Source: SSDP, 2073/74 - 2079/80 p112

It is estimated that under plausible to be available SSDP budget \$3.3 billion, \$6.5 billion and \$10.66 billion during the three, five and seven years respectively. The share of capital cost is 9.1 % for the three year and five-year program and 8.8 % for the seven-year program which means that the huge portion of the funds will be spent for the recurrent expenditure.

The figure 2, here explains that 65.3% of the SSDP cost will be for the salaries and remuneration, followed by 27.3% programme cost and 7.4% for the management and administration cost.

Figure 2: SSDP expenditure framework by Cost Categories (2016/17-2020/21)



Source: SSDP, 2073/74 - 2079/80 p116

COMPOSITION OF EDUCATION SPENDING

Prior to the restructure of the nation, Ministry of Education (MoE) used to receive all the educational budget and was responsible for all the recurrent spending. With the formation of new governing structures in the nation, the federal government plans for the collaboration, coordination and partnership with the provincial and local governments so as to achieve the overall objectives and implement the priorities of the budget.

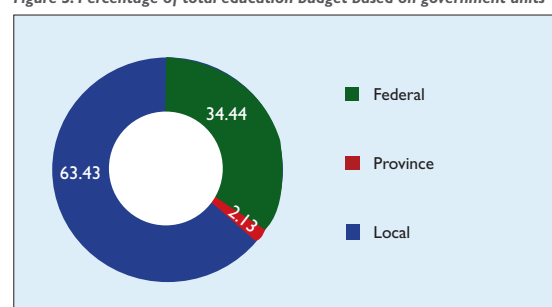
Table 6: Share of National Education Budget as per Education Category

Rs. (in billion)

Heading		Total	Federal	Province	Local
Education	amt	134.1875	46.2152	2.8573	85.115
	%	100%	34.44%	2.13%	63.43%
Pre-primary and primary education	amt	60.2412	0.04	0.4895	59.7117
	%	44.89	0.06	0.81	99.12
Education not definable by level	amt	37.3738	10.0145	1.9846	25.3747
	%	27.85	26.80	5.31	67.89
Subsidiary services to education	amt	33.855	33.5793	0.2757	0
	%	25.23	99.19	0.81	0
Research Education	amt	0.0153	0.0153	0	0
	%	0.011	100	0	0
Education n.e.c.	amt	2.7022	2.5661	0.1075	0.286
	%	2.01	94.96	3.98	10.58

Source: NCE Nepal (2018), Analysis of National Budget 2018/19

Figure 3: Percentage of total education budget based on government units



Source: NCE Nepal (2018), Analysis of National Budget 2018/19

Despite of the large share of the recurrent education budget, improving the quality of education was not prioritized in the previous years and not in this year too. The per student investment by education level is over the different years is shown in the table below (Table 7):

Table 7: Per Student Investment by Level of Education

Rs. (in billion)

Items	2012/13	2013/14	2014/15	2015/16	2016/17
Education budget in NRs 000	63,431,397	80,958,000	86,030,000	98,643,000	116,361,000
% of Basic education budget	67.62	68.57	65.58	68.47	73.11
% of Secondary education budget	18.24	18.20	20.67	17.92	10.80
Amount of budget in Basic education in NRs 000	42,890,609	55,510,573	56,420,362	67,535,991	85,074,570
Amount of budget in Sec education in NRs 000	11,572,372	14,732,847	17,782,103	17,679,161	12,562,930
Students studying in Community Basic schools	5,422,616	5,268,701	5,209,898	5,173,042	4,990,095
Students studying in Community Secondary schools	1,024,479	1,024,411	1,025,015	1,077,895	1,116,262
Per child allocation in Basic level(NRs)	7,910	10,536	10,829	13,055	17,049
Per child allocation in Secondary level (NRs)	11,296	14,382	17,348	16,402	11,254

Calculation is based on the basis of red book allocation and students from consolidated report of DOE 2016/17

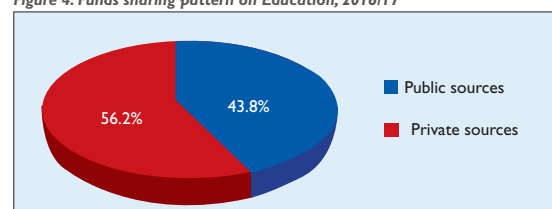
Source: NCE Nepal (2018), Research on Education Financing GAP analysis

FUNDING OF EDUCATION

A study carried out by the Ministry of Education, UNESCO Montreal and IIEP revealed that the funding sharing patterns on education is as mentioned below in table 8 (MOE and UNESCO, 2016):

The chart here (figure 4) and table below (table 8) give overall picture on how expenditures are distributed in different actors or categories. One of the most remarkable aspects of the study is that public authorities are funding 43.8 % of education expenditure whereas more than 56.2 % are being covered by the private sources including household contribution.

Figure 4: Funds sharing pattern on Education, 2016/17



Source: Ministry of Education and UNESCO/IIEP, 2016

Table 8: Funds sharing pattern on Education 2016/17 Rs. (in billion)

Funding Sharing Source	Final (NRs)	Percent
Ministry of Education	70.3	35.9
Other Ministries	1.2	0.6
DDCs/VDCs	2.3	1.2
Households/parents	96.7	48.4
International NGOs	0.7	1.1
Local NGOs	3.5	1.1
External Loans	0.5	0.2
Grants on Budget	8.9	4.8
Technical assistance	2.0	1.0
Internally generated	11.1	5.6
Total	197.2	100.0
Public sources	85.2	43.8
Private Sources	111.9	56.2
Government of Nepal	83.2	42.8
External financing	23.1	12.8

Source: NCE Nepal (2018), Research on Education Financing GAP analysis
Ministry of Education and UNESCO/IIIEP, 2016

FINANCING GAP FOR EDUCATION

A research done by NCE Nepal in 2018 has calculated NRS. 197.85 million of financing is required per year to achieve the basic educational goal, given 71.89 billion already spent by national government in the last fiscal year 2017/18. Given the current investment in education, it leaves a huge financial gap of 125.96 billion. The table below includes the summary of the existing allocation in different items, total requirements based on certain assumptions and norms and gaps at present to cover the requirements.

Table 9: Estimation of required school budget, 2018

Items	Existing allocation	Total requirements	Gap at present
Teacher salary	Amount (NRs)	Amount (NRs)	Amount (NRs)
Primary	41,064,822,066	50,447,786,826	9,382,964,760
Lower secondary	10,311,395,258	16,474,552,258	6,163,157,000
Secondary	8,523,289,678	18,030,566,678	9,507,277,000
Sub-total	59,899,507,002	84,952,905,762	25,053,398,760
Textbooks	24,61,046,000	2,966,289,900	505,243,900
Scholarship	2,181,119,000	3,465,299,400	1,284,180,400
ECD	2,032,545,000	15,199,641,600	13,167,096,600
School staffs (Karmachari)	2,290,604,000	13,666,121,430	11,375,517,430
Mid day meal	1,176,235,000	28,546,637,000	27,370,402,000
Insurance	0	11,927,310,600	11,927,310,600
Stationary	0	16,333,923,000	16,333,923,000
Uniform	0	17,326,497,000	17,326,497,000
SIP grants (Non-salary)	1,852,298,000	3,465,299,400	1,613,001,400
Sub-total	11,993,847,000	112,897,019,330	100,903,172,330
Total	71,893,354,002	197,849,925,092	125,956,571,090

Source: NCE Nepal (2018), Research on Education Financing GAP analysis

WAY FORWARD

1. Efficient Utilization of the available fund and implementation of strategies to reduce the inefficient educational cost.
2. Reallocation of the educational funds available and reengineering of the educational system and the educational plans as per the current federal structure of the nation.
3. Fair Taxation policies and its effective implementation.
4. Proper Management of the Natural Resources for revenue generation.
5. Creation of the "Educational Fund" by levying certain percent tax in all the tax levied by the local government (such as in house rent tax, assets tax, tax on luxurious goods etc) and utilization of this fund for the public education strengthening of that local government.
6. Exploration of different alternative Financing options.
7. Policies to utilize the donor funds only for the development budget.
8. Calculation of the per student cost and efficient allocation of the funds as per it. Prioritization of the disadvantaged and vulnerable groups in the educational programs and the funds allocation.

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