

INVESTMENT IN EDUCATION: INNOVATIVE APPROACH IN PUBLIC FINANCE IN FEDERAL CONTEXT OF NEPAL



**NCE
NEPAL**

National Campaign for Education Nepal (NCE Nepal)
Kathmandu

INVESTMENT IN EDUCATION: INNOVATIVE APPROACH IN PUBLIC FINANCE IN FEDERAL CONTEXT OF NEPAL

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PREFACE

National Campaign for Education Nepal (NCE Nepal) is a national level network working towards ensuring the right to education and lifelong learning of children and adults in Nepal through advocacy, lobby and campaign activities. Established in 2003 as a Nepal Chapter of Global Campaign for Education (GCE), NCE Nepal also holds the status of UN ECOSOC organization. Along with capacity enhancement of civil society organizations, advocacy through research and evidence is one of the priority works of NCE Nepal. NCE advocates that education should be an uncompromised agenda of the state and that Nepal government should allocate at least 20% of the total budget and at least 6% of the GDP to the education sector as committed in the international forums.

As per the constitution, providing the free and compulsory basic education and free secondary education is the duty of the state. With the restructuring of government into federal, province and local level, investment in education falls under specific categories for these three levels of government. It is necessary to track their proportion of education budget, its sources and allocation at various local levels and sub-sectors in education. It is evident that education quality depends on the investment made in education and that the country needs strong and progressive taxation policies and focus on preventing the tax evasion as well for increasing the education fund. Evidence-based constructive suggestions provided by NCE Nepal to the government on various agendas related to education have been well appreciated and acknowledged. Hence, this research work also aims to add value in generating evidence on how the educational funds are made available by the three levels of government, what innovative financing programs and initiatives have been added in public education and how the education funds are being expended into the school context.

I would like to acknowledge the contribution of Dr. Binaya Kusiyat for this research work. I also sincerely thank Asia South Pacific Association for Basic and Adult Education (ASPBAE) for their financial support provided in carrying out this research work along with our valued partners like Global Campaign for Education (GCE) and Education Out Loud (EOL) who have been continuously supporting our advocacy and research works. NCE Nepal is always thankful to its advisors, board members and all the member organizations for suggesting and guiding in the research and analysis works initiated by NCE Nepal. Also, I would like to thank the entire secretariat team of NCE Nepal for the coordination in this research work.

Regards,

Dilli Ram Subedi

President

CHAPTER: I

INTRODUCTION

1. Context

Education is not a free good. There are many costs involved in it. Education requires resources. The term resources and financing are often used synonymously in practice. Resources can be categorized as human, physical, financial, information and so on. There are also other ways to categorize or group these resources. The common way used to measure the resources in education is financial or monetary resource. Despite the importance of different types of resources in education, the amount of money or equivalent is frequently cited in discussion. The use of money or equivalent used in education is discussed under the heading of financing in education. But resources and financing are not the same and do not carry the same meaning to the readers, often make difficult to understand. Because the term resources is used in economics and carry different meaning than the term financing which deals with the gathering, allocation and expenditure of money or its equivalent.

Like in financing, it is not easy to calculate the amount of other resources used in education. At school level, one can map out the number of teachers, buildings, furniture, annual budget, equipment and machines, physical materials such as books, education materials, sport materials etc. These assets could be in different number or amount than another school. Therefore, it is extremely difficult to compare the assets of two or more schools. If we convert all these assets into monetary term or monetary values, these can be compared with each other. Therefore, the term 'financing' is more relevant to discuss in education and school. The money used in school or education at present do not only demonstrate the status of existing business or situation, they can also provide some indication for the future. Therefore, the financing of education is for both, at present and for future, as it is taken as investment in education.

As in other countries, Education in Nepal is financed through public and private source. The former includes the fund made available to education by the government(s) through different entities. Similarly, private sources include the contribution of parents and actors other than government. In a country like Nepal, the donor funding can also be taken as a source of funding to education. Generally, donor funding to education is being made available either through government system or through non-government system. In such cases, these can be blended into the public and private sources respectively. Hence, public and private sources cover the entire funding to education from different /varied sources. Likewise, the funding to education can also be looked and analyzed from the perspectives of internal and external sources as well as consumption and investment.

Around the globe, the funding to education is circled in three major concerns which can be named as; adequacy, efficiency and equity. In simple term, they denote the questions like how much money is enough or adequate to education or any institution? What are the best measures to utilize the available

funding? Who should get benefit from the available money? Whose opportunities should be expanded? Because of ongoing debate in these three dimensions, the terminologies like alternative financing, innovative financing, and sustainable financing are being discussed in recent days.

As mentioned earlier, how much money is being made available to education is side of the story. In the mean-time, we should also equally think about which items are being covered in the education budget and how the allocated budget is being used or utilized. The former indicates the questions of equity and the term efficiency is debated under the notion of "how". In order to assess the utilization of available fund to education, an assessment is required in compliance and nature of the expenditure items.

The public financing also depends upon the types of governance system used in the country. Governance system allocates the education responsibilities to different level of government. It may vary from country to another. It means financing to education follows the education responsibilities of the government, and the financial burden is proportionately distributed to the respective governments depending upon the responsibility they are assigned and the share of revenues they collect. The utilization of available fund to education is even becoming more important because funding to education in recent days are made by the federal, provincial and local governments as they might have different priorities and interest. From the expenditure point of view, it is equally important to analyze on how the funds are utilized by the school.

In addition, there is also a need to explore the innovative approaches used by both the governments while allocating funds to school and while spending the fund at the school level. In such context, there is a need to assess the financing in education by the governments at different levels and expenditure patterns at the school level. In other word, health of education financing needs to be assessed through various lens. The need for innovative financing for education has been illustrated first time globally in 2010. But it has still needed on how to mobilize innovative financing for education and what concrete mechanisms are currently available. Although Nepal does not have practice this type of mechanism even we have problem of availability of education finance.

2. Objective of the Study

- To explore the amount of funds made available to education by the Federal, Provincial and Local Government (selected cases) and assess these budgets from investment perspectives
- To analyze the expenditure pattern of some selected public school
- To assess the innovative financing to public education by federal, provincial and local level
- To study the tax avoidance and exemption to the big corporation and industry through specific legal provision

3. Methods Used To Prepare A Report

This study used the secondary financial data collected from different documents. Analyses are being made by comparing the available data, it means this is a descriptive study with some sort of linear analysis. Most of the financial data are collected from published government documents and some of data are captured from the records of provincial and local government. The discussions are also carried out to explore some data from schools. Document study, meta-analysis and case study were other tools to explore the data for the study.

4. Overall Study Design

In order to capture or explore the data from the documents and from the field, the study team identified and employed the following study design.

- The secondary data were collected/compiled from the red books and other documents published by the government agencies at federal, provincial and local level. Such analyses are carried out at three levels; federal, provincial and local. Some financial data are carried out from all the provinces. But the study team received the data from few local governments. Only published documents are used to collect data, or formal decisions can also be used to get the required data.
- The data used in the study from the local government are as per the availability of data. In some Provinces, the more local governments are analyzed whereas in some cases there are few local government budget.

5. Delimitation Of The Study

This is a qualitative study with simple analysis of the available budget. It did not include any structured survey. The data from Provincial and Local Governments are analyzed in the report subject to the availability of the data from NCE team. The study team does not employ any cross verification of data which are made available by the NCE team.

CHAPTER: II

REVIEW OF THE RELATED LITERATURE

Financing of education has been a matter of great concern and major policy challenge across all the countries. The situation of resource mobilization for education is critical in Nepal. While the government has not been able to adequately manage the resources through the budget, the parents are also not in a position to increase their resources in education resource management. In this context there are lots of issues in education finance in recent days. As mentioned earlier, adequacy, equity and efficiency are three major concerns of education financing (*Lamsal, 2014*). These are also considered as the key challenges of education financing.

Adequacy is based on the principle that government should provide enough funding with a view to ensure that all students to be able to meet academic expectations. The notion of equity in school funding focuses on strategies for closing the gap between local government's abilities to raise revenues for their schools so that economic and ecological circumstances do not become a major obstacle. Since local funds are commonly based at least in part on property taxes, less wealthy local units are not able to raise as much money for schools as wealthier local units, leaving their children at a considerable disadvantage (<http://www.edweek.org/ew/issues/school-finance>).

In education, adequacy talks about sufficiency of fund in different activities of education. In other words, adequacy “bases funding on the expenses for facilities, staffing, materials, equipment, and strategies necessary to meet specific academic goals ” (*Norman, 2002*). Determining adequate levels of funding requires the establishment of “standards of sufficiency,” which may be “quite unrelated to the standard of equity” (*Swanson & King, 1997*). In the context of Nepal, the education facilities provided by state seem inadequate for the overall development of education sector. Similarly, the contribution of foreign aid is also in decreasing order. In 2005, the contribution of foreign aid in education sector was 30.11 percent but in 2016/2017, the contribution of foreign aid was 8.88 percent. The government allocated about 17 percent of national budget in education sector in 2010/2011 but it is only 9.91 in 2017/2018. This indicates the budget in education is decreasing which leads for inadequate fund in education (*Kushiyait, 2018*).

Equity in education finance has been the subject of myriad research in the last decade. In terms of education finance it is important to know the differences between equity and equality. Equality is an ethical value that influences school finance policy and can be defined as the state, ideal, or quality of being equal in areas such as social, political, and economic rights (*King, Swanson, & Sweetland, 2005*). Equity refers to the distribution of income, wealth, position and power in society. Public policies are an important determinant of that distribution it is because they define the condition and rules of

interpersonal completion. Policies in education sector are particularly relevant for equity because they affect the access to the schooling. Equity in education mainly related on: differences in access to specific level of education, distribution of benefit among people with different education and assessing who pays for and who benefit from education (*Tan, J. P & Mingat, nd*). According to *Lamsal (2014)*, due to the lack of sufficient investment in education it has adverse effect in the development of nation. There are estimation that the high amount of budget goes to the basic level education but the 70 percent of that budget is used for the salary and allowance of teachers and staffs. This shows that, there is low investment to enhance the quality of education.

Efficiency in education describes the relationship between inputs and outputs. In this regards, outputs mainly concern to broad societal goals like: better health, lower mortality rate and the production of educated manpower for the labor market. The analysis on efficiency in education focuses on: the economic returns for investing in education in general, the allocation of spending across levels and types of education and so on. Moreover, efficiency analyses about dropout rate, retention rate, students achievement and so on (*Tan, J. P & Mingat, nd*).

In low-income countries where domestic revenue sources are often insufficient and inconsistent, or in crisis or post-crisis contexts where state capacity is restricted, public resources for education are limited. These systems often rely on additional funding sources such as international donors or the private sector. Public sources of funding are generated by domestic revenue that is often raised through taxation. Public expenditure refers to resources allocated to and spent on public education by various levels of national governments – central, provincial and local. Public financing can include both direct spending on education, as well as indirect spending, most often in the form of subsidies to households such as: tax reductions, scholarships, loans, living allowances, etc (*World Bank, 2013*).

Under the resource allocation and distribution the most common mechanism used for this is funding or allocation formulas (*ibid...2013*). Allocation formulas often use criteria such as: student enrollment rates, student-teacher ratios, cost-per-child, or, more rarely, socio-economic characteristics of students, communities, or regions. While some allocation formulas have been deemed more ‘equitable’ than others and there has been mixed success in implementation (*UNESCO, 2015*), allocation formulas do represent an articulation of the values and priorities of governments and ministries of education for the development of human capital. Many allocation formulas are based on the principles of *horizontal equity* (equal amounts of money per child), *vertical equity* (different amounts of money per child), or *equal opportunity* (funding based on the principle that there should be no relation between certain socio-economic characteristics and schooling outcomes) (*The International Commission on Financing Global Education Opportunity, 2016.*)

Additionally, teacher salaries and teacher distribution are major factors regarding resource allocation. Teacher salaries often make up the largest share of education budgets, leaving few resources for other

recurrent or capital costs (UNESCO, 2015). This spending pattern routinely forces schools to require an increase in household expenditures on education costs. UNESCO has estimated that the total annual cost of ensuring that every child and adolescent accesses quality education will increase from \$149 billion to \$340 billion over the next 15 years, leaving an annual financing gap of \$39 billion (UNESCO, 2016).

Under the context of education for all, great reform in education finance is expected. The challenge added that the government should invest heavily in education in order to increase the access of quality education for the poor, backward communities, areas, and children especially girls. The current state of education has seen an urgent need to mobilize resources for education globally and nationally. In this regard, how to achieve the fourth Sustainable Development Goals and how to mobilize the resources needed to do so, focus on mobilizing alternative financial sources of investment in education. The global financial crisis has placed further pressure on aid budgets as donor countries struggle to reduce deficits in their own budgets. In this regard, on March 30, 2010 the Education Support Program of the Open Society Institute convened a meeting in New York to discuss innovative financing for education. Millennium Development Goals related to education concern universal access for basic education for all boys and girls. Within this concern, education can be considered as a global public good and therefore should be dealt with as such phenomenon. Achieving universal access to education means reaching every boy and girl still out-of-school and placing a greater emphasis on fighting inequities to encourage them go to school. Undeniably, during severe economic crisis, it is crucial to ensure that resources mobilized by innovative financing will focus on equity by promoting underfunded areas in the sector and by targeting the most vulnerable groups (*Education Task-force, Leading group, 2012*). Nine innovative mechanisms for financing education are presented by report of the Education Task-Force. The Task Force has decided to put forward in this report four mechanisms which are most likely to efficiently raise money for education but which also are deemed ready to be implemented and best suited to overcoming inequalities in education. These tools are: the Education Venture Fund, the Debt Conversion Development Bonds, the Diaspora Bonds and a Travelers' Savings Fund for Development. The Task Force also wants to address the other mechanisms studied which track finance education while recognizing that they must be further developed before successful implementation: the Public Private Partnerships at the national level, a private fundraising exercise for education and micro donations from individuals (*ibid..2012*).

The MDG of universal primary education hence requires a response from innovative financing, for a number of reasons. First, in the majority of the least developed countries, mobilization of public resources for basic education has already reached a ceiling (estimated at 2% of GDP); second, at donor level, official development assistance for basic education is fluctuating significantly; third, financing requirements concern mostly recurrent expenditures (notably teachers' wages) and calling for predictable and stable aid flows; lastly, with a view to gradually and fully bearing the cost of education at national level, international financing constitutes immediate investment in basic education, with a

major subsequent impact on growth (*Education Task-force, Leading group, 2012*).

Innovative finance means using existing funds in an innovative manner to improve results and to make the funds go further and raise additional funds from new sources that require new financing mechanisms (*Bellinger, Terway & Burnett, 2016*).

Concerns regarding the quality of education have raised in recent days. This challenge has triggered mobilization of resource in concerned countries as well as at the national and international level. Education can benefit from the positive performances of the private sector and the technological innovations that made its success. Public Private Partnership (PPP) is all the more necessary in that it could reinvigorate the public sector of education, currently faced with numerous structural, financial and managerial constraints, exacerbated by the uncertainties arising from the radical transformation of the global environment which forces us to question ourselves on what is the purpose of education. Education is an area that has attracted the attention of larger corporations and multinationals as sponsors. Corporate Social Responsibility (CSR) strategies and related charity portfolios of multinationals underpin these investments. Many multinationals are keen to identify themselves as supporters and partners to education and perceive that branding themselves is an added-value in the competitive market place (*Education Task-force, Leading group, 2012*).

Most sponsorship of education by business relates to local, regional and national initiatives of companies. These initiatives can be seen in the countries of origin of businesses, as well as in other countries in which they operate. The rationale behind investments and the underlying motivations of corporate contributions to education is more obvious and understandable in the national context in the countries where the companies are working. A rationale for businesses donating at a global level to education is still to be explored and developed. Three options are recommended for a global private fundraising for education. Option first is business-driven and based on successful cause-related marketing of businesses. It generates additional revenues for educational development with low transaction costs. It raises awareness for the cause of education through branded products and event-based performances with celebrity support. Option second suggests a Business Fund for Education which aims to motivate interested multinationals to adjust their charity portfolios for the benefit of a global “Business Fund for Education”. Last option suggests the creation of a Multi Stakeholders Partnership (MSP-Fund for Education). The model has a more ambitious scope and adjusts to some extent on the one hand, the scale of expectations of businesses regarding their revenue raising potential and on the other the challenges of the scheme. The New MSP-Fund for Education would function independently from any international institution and would rely on its independent legal status (*ibid..., 2012*).

Developing country governments typically spend 4 percent of GDP of their own resources on education. Securing improvements in the use of this financing and identifying additional source of domestic funds to supplement tax income will be just as important as increasing external aid. For many countries, one

such source of domestic financing, largely untapped, is pension funds, which are estimated to total over \$1 trillion globally in developing countries. Innovative approaches to financing should include innovation in delivery as well as innovation in mobilizing resources. In nine major European countries alone, some 220 million people participate in national lotteries; when interviewed in 2006, some 70 percent indicated their willingness to participate in a “humanitarian levy” and this idea has been advanced particularly with regard to helping finance food needs in developing countries from a specific global lottery to amalgamating existing national lotteries (*Education Task-force, Leading group, 2012*).

CHAPTER III

PUBLIC FINANCING TO EDUCATION

This chapter includes the assessment of public financing to education from federal, province and local levels. The main concern of the study team was how much money was being made available to education and compare them in different government entities. The following analytical variables are used to present the public financing to education in Nepal.

A. Federal Level Expenditure And Allocation

1. National Public Expenditures By Sources

The table below (3.1) provides the composition of national public expenditure at federal level by sources of funding over the years.

Table: 3.1 Share of national expenditure by sources and years (%)

SN	Fiscal Year		Government	Grant	Loan	Total
1	2068/69	2010/11	100.76	58.19	37.37	88.12
2	2069/70	2011/12	93.81	74.97	46.33	88.59
3	2070/71	2012/13	92.78	60.70	41.18	84.11
4	2071/72	2013/14	94.44	52.17	51.72	86.00
5	2072/73	2014/15	86.09	35.65	34.99	73.34
6	2073/74	2015/16	98.81	38.19	30.16	79.82
7	2074/75	2016/17	96.27	54.48	43.09	85.01
8	2075/76	2018/19	95.70	38.93	50.31	84.43
9	2076/77	2019/20	na	na	na	na

Source: Data as per the request of Ministry of Finance, February 6, 2020

Above table (3.1) shows that the status of expenditure by sources of budget in different years. In every year, the expenditure of government source exceeded more than 90 percent of its allocation except in fiscal year 2073/74 whereas the proportion of expenditure from grant and loan sources varies lowest 30 percent to highest about 75 percent of their allocation. Such situation indicates that the allocated amounts under the foreign sources are not consumed in each year. Whatever reasons are behind such cases, it certainly points about the weak systemic capacity to utilize the available public resources.

2. National Public Expenditures By Cost Categories

The table below provides the composition of national public expenditure at federal level by cost categories over the years.

Table: 3.2 Share of expenditure by cost categories and years (%)

SN	Fiscal Year		Recurrent	Capital	Financing	Total
1	2068/69	2010/11	91.32	70.78	97.02	88.12
2	2069/70	2011/12	88.69	82.56	94.81	88.59
3	2070/71	2012/13	85.88	78.37	82.35	84.11
4	2071/72	2013/14	85.08	76.09	100.89	86.00
5	2072/73	2014/15	76.67	59.01	84.28	73.34
6	2073/74	2015/16	84.03	66.92	91.71	79.82
7	2074/75	2016/17	86.73	80.77	85.29	85.01
8	2075/76	2018/19	84.74	76.93	97.88	84.43
9	2076/77	2019/20	na	na	na	na

Source: Data as per the request of Ministry of Finance, February 6, 2020

Above table (3.2) shows that the status of expenditure by cost categories over the years. It shows the share of recurrent expenditure patterns are above the capital expenditure. Capital expenditure for the capital formation therefore the system should utilized the available capital budget effectively and efficiently. This table does not spell out about the status of allocation in capital budget. However, it speaks about the expenditure patterns which are not encouraging over the years.

3. Public Expenditure In Education By Sources And Years

The table below provides the trends of public expenditure in education at federal level by sources over the years.

Table: 3.3 Share of education expenditure by sources of budget (%)

SN	Fiscal Year		Government	Grant	Loan	Total
1	2068/69	2010/11	101.18	85.91	56.29	97.08
2	2069/70	2011/12	99.60	93.44	-	98.42
3	2070/71	2012/13	102.62	73.62	62.50	96.13
4	2071/72	2013/14	94.74	79.29	100.54	92.80
5	2072/73	2014/15	92.75	86.55	93.69	91.94
6	2073/74	2015/16	94.52	82.98	88.33	93.75
7	2074/75	2016/17	70.57	70.09	61.17	69.58
8	2075/76	2018/19	83.71	20.91	52.58	78.33
9	2076/77	2019/20	-	1.23	24.61	31.43

Source: Data as per the request of Ministry of Finance, February 6, 2020

The Table (3.3) above shows that the status of expenditure in education by sources. The expenditure of government source exceeded more than 90 percent of its allocation except in fiscal year 2074/75 (2017/2018) whereas the proportion of expenditure in grant and loan sources varies lowest 21 percent to highest about 100 percent of their allocation. The figure did not support to predict any trend of expenditure in education.

4. Public Expenditure In Education By Cost Categories And Years

The table below provides the composition of national public expenditure in education at federal level by cost categories over the years.

Table: 3.4 Share of education expenditure by nature of budget (%)

SN	Fiscal Year		Recurrent	Capital	Financing	Total
1	2068/69	2010/11	97.31	47.62	-	97.08
2	2069/70	2011/12	98.49	76.14	-	98.42
3	2070/71	2012/13	96.23	59.35	-	96.13
4	2071/72	2013/14	92.88	55.23	-	92.80
5	2072/73	2014/15	91.86	138.17	-	91.94
6	2073/74	2015/16	93.73	104.75	-	93.75
7	2074/75	2016/17	69.64	59.76	-	69.58
8	2075/76	2018/19	78.35	75.70	-	78.33
9	2076/77	2019/20	31.68	4.75	-	31.43

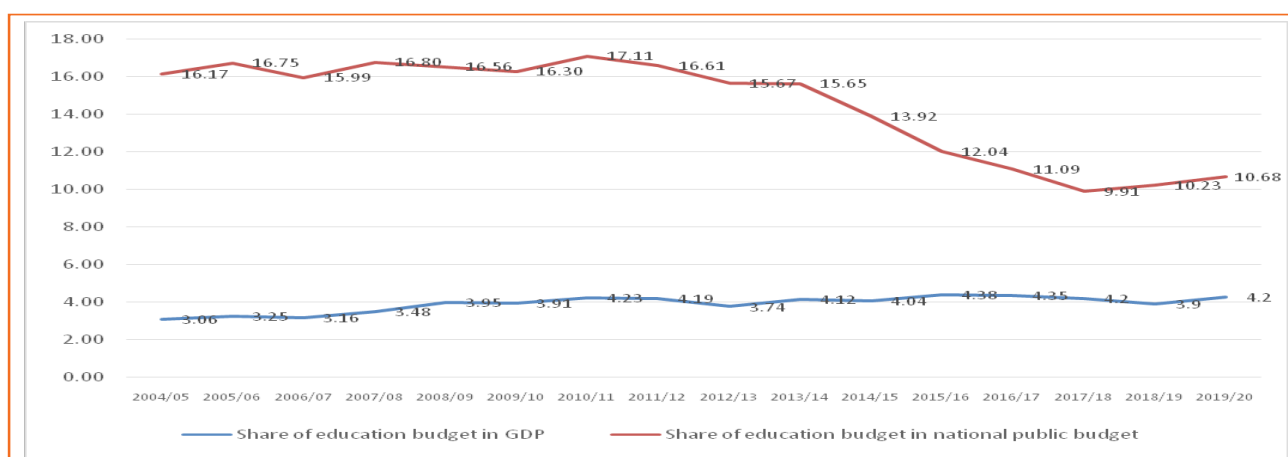
Source: Data as per the request of Ministry of Finance, February 6, 2020

The Table (3.4) above shows that the status of public expenditure in education by cost categories over the years. The expenditure figures do not help to predict the expenditure trend in education.

5. Share Of Public Budget To Education Over The Years

The chart below includes the share of education budget in terms of GDP and national budget over the years. It shows the allocation trends of sixteen years at federal level.

Chart: 3.1 Share of Education budget against GDP and National Budget



Source: Ministry of Finance, Red Book 2004/05 to 2019/20

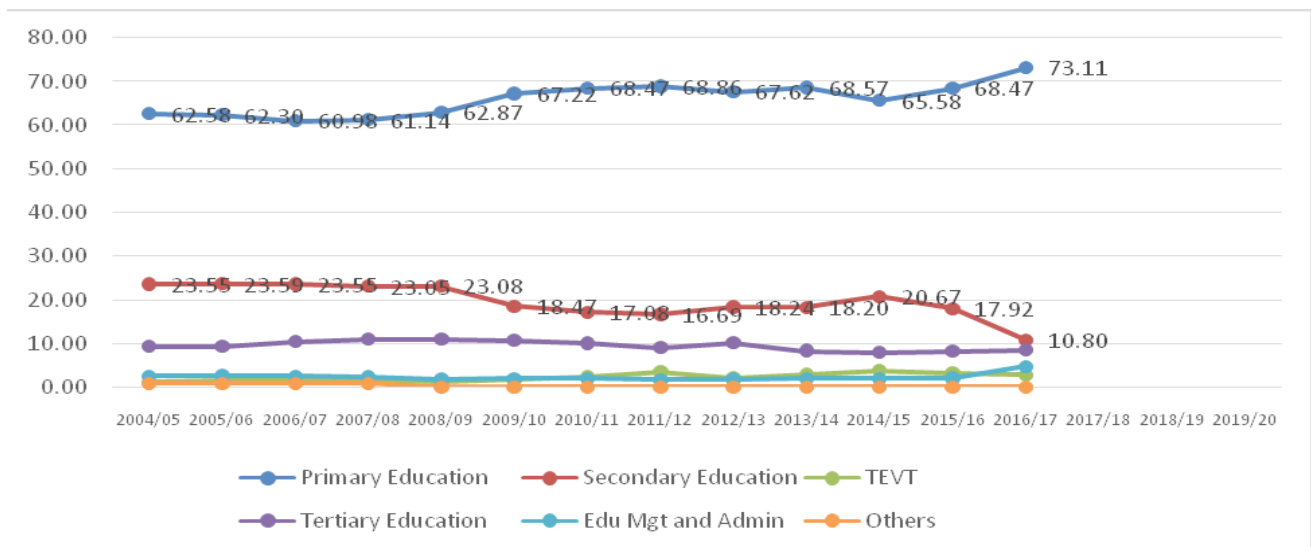
The chart (3.1) above shows the share of education budget allocation against GDP and national budget for more than fifteen year period ranging from 2004/05 to 2019/20. The trend is not consistent, fluctuating time and again. The share of education budget allocation remained at peak in 2010/11 and lowest in 2017/18 which is 9.91 percent. Similarly, variations are also observed in allocation of education budget

against GDP. It seems that the allocation of budget to education in Nepal is far from the international commitment of SDGs, i.e. the State should allocate at least 4 to 6 percent of GDP and 20 percent of national budget to education. Although there are claims that the budget allocated to education is a sort of investment for the future, the figures of the chart above indicate that Nepal has a trend of low investment in education as committed in international forum.

6. Share Of Education Budget To Sub-Sectors Of Education Over The Years

The chart below includes the distribution patterns of education budget to different sub-sectors of education over the years at federal level.

Chart 3.2. Allocation of budget to different sub-sector of Education



Source: Ministry of Finance, Red Book 2004/05 to 2019/20

The chart (3.2) above shows the share of budget allocation to sub-sectors of education by years. It only covers fiscal year 2004/05 to 2016/17 whereas the last fiscal year figures are missing. After fiscal year 2017/18, the governance of Nepal entered into federal structure which allowed federal, provincial and local governments to carry out their budget and program. The above calculation is on the basis of federal level red book which is annually published by the Ministry of Finance. The federal level red book does not include the figures which by sectors and sub-sectors, therefore it is difficult to capture such budget figures. The share of budget allocation to different sub-sectors of education has also been fluctuating, difficult to predict or forecast any trend in the allocation.

B. Provincial Level Allocation

1. Share Of Education Budget At Provincial Level

The table below provides the information on Provincial Education Budget and their comparison among different Provinces for a year.

Table: 3.5 The total budget and their allocation in education by Provinces

Provinces	Total Budget(In billion)	Education Budget(in billion)	% of Ed budget
1	42.2004	0.9147	2.17
2	38.7257	0.1154	0.30
3	47.6079	0.5927	1.24
4	32.1348	1.0300	3.21
5	36.4168	0.5704	1.57
6	34.3535	1.0633	3.10
7	28.1621	2.4216	8.60

(Source: data collected from Provincial Government Documents, field data)

The table (3.5) above shows that amount of total public budget and their share in education. From the table it shows that Sudur Paschim (Province Number seven) has allocated the highest share (8.60%) whereas the Province Number Two has the lowest share (0.30%) to education from their budget. The budget allocated to education from the provinces are far low as compared to national level share and international commitment.

Case of Province Two

Investment in Education and Province Two

Province 2 is considered to be the most backward of the seven provinces in terms of various indicators of education. In terms of enrollment of students, the net enrollment rate (NER) at the basic level (Class 1-8) and secondary level (Class 9-12) of Province No. 2 is 79.2 and 37.9 percent respectively. In Nepal, primary, basic and secondary education is more inefficient. This situation is even direr in Province No.2. More than 7 percent of the children in the primary education of Province No. 2 are out of school, of which Siraha, Dhanusha, Mahottari and Bara districts have the highest number of such problems. At the secondary level (grades 9-10) the net enrollment rate (NER) is very low (56.3%) and the dropout rate (3.8%) is also included. More than 60 percent of such children are out of school (DOE, 2017). The average learning achievement in various subjects in this province is the lowest of all the provinces. Similarly, only 40 percent of the people aged 16 and above (women, 26 and men 54 %) are literate.

This province also lags far behind from other province in terms of investment in education. The province, out of the total budget of Rs 38.53 billion, Rs 0.115 billion or 0.30 percent has been only invested in education. On the one hand, the province is lagging behind in the field of education and on the other hand, the province own investment in education is very low, so there is a need for additional or innovative resource mobilization of resources in education. There is no clear policy or arrangement in the state to mobilize investment and resources in education. In order to increase investment in education, the provincial government should adopt a policy of arranging a certain percentage of education tax on the flow of goods and services.

C. Local Level Allocation

The allocation of budget to education at the local level are grouped by seven provinces.

Table: 3.6 Allocation of budget to Education at local level for FY 2075/66 (2018/19)

S.N	Name of Local Govt	District	Total Budget	Education Budget	Percentage
Province One					
1	Arthrai Tribeni Rural Municipality	Taplejung	299,159,284	98,392,000	32.89
2	Yankwarak Rural Municipality	Taplejung	321,426,490	7,751,700	2.35
3	Phalgunanda Rural Municipality	Panchthar	291,719,590	89,301,000	30.60
4	Illam Municipality	Illam	798,000,000	198,894,000	24.90
5	Mai Municipality	Illam	358,864,000	20,001,100	5.60
6	Phalaphokum Rural Municipality	Ilam	308,364,890	3,500,000	1.14
7	Maijomai Rural Municipality	Illam	325,511,000	37,788,000	11.60
8	Damak Municipality	Jhapa	1,229,689,115	182,889,000	14.87
9	Kamal Rural Municipality	Jhapa	567,612,000	19,046,000	3.35
10	Bahradashi Rural municipality	Jhapa	310,159,180	10,000,000	3.22
11	Jhapa Rural Municipality	Jhapa	364,730,000	10,780,000	2.95
12	Haldi Bari Municipality	Jhapa	444,885,000	17,100,000	3.84
13	Belbari Rural Municipality	Morang	800,214,000	152,915,000	19.10
14	Katahari Rural Municipality	Morang	317,319,000	83,322,000	26.25
15	Milkajung	Morang	355,039,450	18,618,290	5.24
16	Solududhkunda Municipality	Solukhumbu	509,447,000	36,000,000	7.10
17	Harinagara Rural Municipality	Sunsari	251,104,000	105,772,000	23.44
18	Siddhicharan Municipality	Okhaldunga	511,534,123	25,973,523	5.07
Province Two					
1	Saptakoshi Rural Municipality	Saptari	270,864,874	1,500,000	0.55
2	Agnisair Krishnasawaran Rural Municipality	Saptari	375,016,000	50,000,000	13.33
3	Janakpur Submetropolitan city	Dhanusha	22,647,461,000	340,000,000	1.50
4	Paterwa Sugauli	Parsa	325,176,000	19,510,000	6.00
Bagmati Province					
1	Phikkal Rural Municipality	Sindhuli	274,164,039	109,733,000	40.0
2	Sunkoshi Rural Municipality	Sindhuli	191,186,000	30,450,000	15.9
3	Hariharpurgadhi	Sindhuli	418,597,000	82,194,000	19.6
4	Ramechaap Municipality	Ramechaap	574,576,000	155,742,000	27.1
5	Gokulganga Municipality	Ramechaap	342,460,000	10,800,000	3.2
6	Sunapati Rural Municipality	Ramechaap	329,263,000	25,000,000	7.6
7	Jiri Municipality	Dolakha	395,386,000	1,385,000	0.4
9	Bhumeshwor Municipality	Dolakha	757,059,000	206,005,000	27.2
10	Kathmandu Metropolitan city	Kathmandu	12,041,157,000	1,106,313,000	9.2
Gandaki Province					
1	Mysardi Rural Municipality	Lamjung	388,171,334	8,700,000	2.24
2	Nesyang Rural Municipality	Manag	207,759,307	415,000	0.20
3	Beni Municipality	Myagdi	538,913,000	8,100,000	1.50
4	Modi Rural Municipality	Parbat	263,550,000	50,200,000	13.80
5	Baglung Municipality	Baglung	1,039,552,517	8,000,000	0.76

S.N	Name of Local Govt	District	Total Budget	Education Budget	Percentage
Province Five					
1	Buddhabhumi Rural Municipality	Kapilvastu	736,378,000	168,293,000	22.85
2	Bijaynagar Rural Municipality	Kapilvatu	595,999,000	126,287,000	21.18
3	Tilottama Municipality	Rupandehi	1,353,251,000	281,983,000	20.83
4	Kanchan Rural Municipality	Rupandehi	397,545,000	121,303,000	30.51
5	Nepalgunj Submetro politan city	Banke	240,750,000	400,000	1.66
6	Kohalpur Municipality	Banke	679,908,606	16,336,000	2.40
7	Narainpur Rural Municipality	Banke	400,431,000	10,600,000	2.64
Karnali Province					
1	Bagchaur rural Municipality	Salyan	444,832,000	15,399,000	3.46
2	Barekot Rural Municipality	Jajarkot	147,107,000	5,960,000	4.05
3	Kaike Rural Municipality	Dolpal	152,394,785	27,796,000	18.23
Sudur Paschim					
1	Swami Kartik Rural Municipality	Bajura	317,058,000	3,700,000	1.16
2	Himali Rural Municipality	Bajura	237,487,500	8,000,000	3.36
1	Swami Kartik Rural Municipality	Bajura	317,058,000	3,700,000	1.16

Source: Data collected Office record of the Local Governments

The table above shows that allocation of public budget to education in selected local governments by provinces. The number of local governments are based on the availability of the budget from local government which are collected by the NCE staff. The share of education budget of local government vary from less than one percent to about 33 percent which is grate variation.

Case of Janakpur sub metropolitan

Resource mobilization in Education for Janakpur sub metropolitan

Janakpur is a sub- metropolitan city in Dhanusha district of province No. 2 of Nepal. The city is a centre for religious and cultural tourism. It has developed temporary capital for province 2. The city was founded in the early 18th century. The city is located about 225 KM south-east of Kathmandu valley. As of 2015, the city had population of 173,924 making it the largest sub- metropolitan city of Nepal. This sub- metropolitan has located at 91.97 sq. km. There are 61 community schools and 13 institutional schools out of a total of 74 schools in the sub-metropolitan municipality

The Janakpur sub-metropolitan, out of the total budget of Rs 22, 647.461,000 (Rs 22.65 billions) Rs 340,000,000 (Rs 0.34 billions) or 1.51 percent has been only invested in education. There is no clear arrangement in the state to mobilize resources in education. In order to increase investment in education, the local government should adopt a policy of arranging an education tax on the flow of goods and services.

CHAPTER - IV

TAXATION AND ITS AVOIDANCE

Laws Related To Taxation In Nepal

Public budget is comprised of revenue, foreign aid and borrowing. This can also be categorized into internal and external sources. Internal source includes revenues and internal borrowing where revenues is made cap with tax and non -tax. The composition of tax and non-tax in revenue is 90:10 ratio. The total taxes are being made through direct tax (30% of the total tax) and indirect tax (70% of the total tax amount), VAT is one of the major components of indirect tax in Nepal which is imposed in selling price of goods or services. Direct tax is imposed to the income. Some of the laws related to the taxation in Nepal are as follows:

- VAT Tax Act 2052 - VAT was introduced in 2054.
- Income Tax Act 2058
- Excise Duty Act 2058-Tax imposed in internal production with in the country.
- Custom Act 2064- for indirect tax.
- Economic Act, 2077
- Revenue Justice Act, 2031
- Income Tax Regulation, 2059
- Drug Act, 2031
- VAT Regulation, 2059
- Excise Duty Regulation, 2059
- Drug Regulation, 2033
- Excise Duty Directives, 2068
- VAT Directives 2069

The Constitution of Nepal 2015 distributes the taxation authority to different level of governments as below.

- Federal Government - VAT, Custom fees, Exercise and duties, Income tax, Revenues tax, Passport fees, Visa fees, Tourism royalty, Service charge, Penalties and Fines.
- Provincial Government - Agriculture income tax, Registration fees of home and land, Vehicle tax, Entertainment tax, Advertisement tax, Tourism royalty, Service charge, Penalties and Fines.
- Local Government - House rent tax, property tax, Registration fees of house and land, Vehicle tax, Service charge, Tourism royalty, Advertisement tax, Business tax, Land revenue, Penalties and Fees, Entertainment tax.

4.1 Some Information On Taxation

The Financial Act, 2014 sets the Government of Nepal's jurisdiction to increase, decrease the tax rates or give partial or complete relief on taxes as provisioned by the. At present the government provides tax incentives in the form of tax exemption, tax rebate and holidays, depreciation allowance, income repatriation and reduced rates on income and dividends.

- **Tax exemption:** Tax exemption is provided to farm income except registered farm business or companies related to organized farming; to agro based co-operatives, saving and credit organization located in rural areas and to dividends distributed by savings and credit organizations.
- **Depreciation allowance:** It is given as accelerated depreciation on manufacturing industries and infrastructure and utility projects. Similarly, production oriented industry is entitled to claim 50% depreciation in the same income year on the capital amount that has been capitalized as an asset to generate power required for its own use.
- **Reduced Rate:** Following are the areas where tax rate is reduced.
 - ✓ Reduced rate on dividends
 - ✓ 20 percent income tax rate for special industries (manufacturing industries except tobacco and liquor related industries)
 - ✓ 20 percent income tax limit is set for road, bridge, tunnel, ropeway and sky bridge projects. The same rate applies for trolleybus and tram development.
 - ✓ 20 percent income tax limit is applicable for power development and transmission
 - ✓ 20 percent tax rate is applicable for export income
- **Tax rebate and holiday:** Tax rebate is given to particular sector of manufacturing and businesses to promote their competitiveness and growth. The following are the tax rebates provided in the Tax directives:
 - ✓ 10 percent rebate on special manufacturing industries providing direct employment to 300 and more Nepali citizens throughout the year
 - ✓ 20 percent rebate on special manufacturing industries providing direct employment to 1200 and more Nepali citizens throughout the year.
 - ✓ CIT, dividend tax exemption for 5 years from the commencement of the business and 50 percent tax rebate thereafter for next three years
 - ✓ 50 percent income tax concession for foreign invested companies in SEZ (Special Economic Zone)
 - ✓ 50 percent tax rebate on income for software processing, cyber café and digital mapping located in technology parks and biotech parks.

- ✓ 70-90 percent rebate on income tax for 10 years for special manufacturing industries in far underdeveloped, underdeveloped and least developed areas.
 - ✓ Full income tax holiday for the first five years and 50 percent tax rebate for next years from the date of commencing business to special manufacturing industries with capital investment of more than 1 billion and providing direct employment to more than 500 people throughout the year.
 - ✓ Full income tax holiday for first five years and 50 percent tax rebate for next three years for tourism related industry or an airplane company operating international flights with more than 2 million capital investment.
 - ✓ 25 percent tax rebate on royalty income from the export of intellectual property right.
 - ✓ 7 -10 years of full income tax holiday and 50 percent rebate for the next 3-5 years for energy projects.
- **VAT exemption:** VAT threshold has been set at two million Nepali Rupees. The small vendors that operate with the scale of funds less than two million are exempted from the tax. The agencies registered under social welfare council, mostly non-governmental agencies involved in development sector are also exempted from the VAT. VAT refund is provided in inputs for regular export items from the country. There is no VAT applicable for hydropower projects, and also for the machinery imports.
 - **Other tax incentives:** Custom duty is charged at only one percent on to technology and machinery imports. There is also duty draw back facility for importing raw materials and ancillary goods

The amount of revenue, tax incentives and proportion are as follows;

Table: 4.3 Total revenue, tax incentives and proportion

Year	Total tax revenue (NPR)	Tax Incentives (NPR)	% of incentive / tax revenue
FY 2014/15	362920	38270	10.5
FY 2015/16	413930	49010	11.8
FY 2016/17	498920	51308	10.3

Source: 54th report of the Auditor General, 2017

Evidently, there are three tax reduction techniques: (a) tax evasion, (b) tax avoidance and (c) tax planning. The former two techniques are the evils of the tax system. Out of the three techniques of tax reduction stated above, the tax evasion is illegal entire in the world; the tax avoidance is illegal in some countries and legal in others. In the context of Nepal, only tax planning is legal to minimize the tax liability as provided by tax law. Fundamentally, these activities significantly differ from each other in theory and practice.

4.2 Organizational Structure For Identification Of Tax Evasion And Avoidance

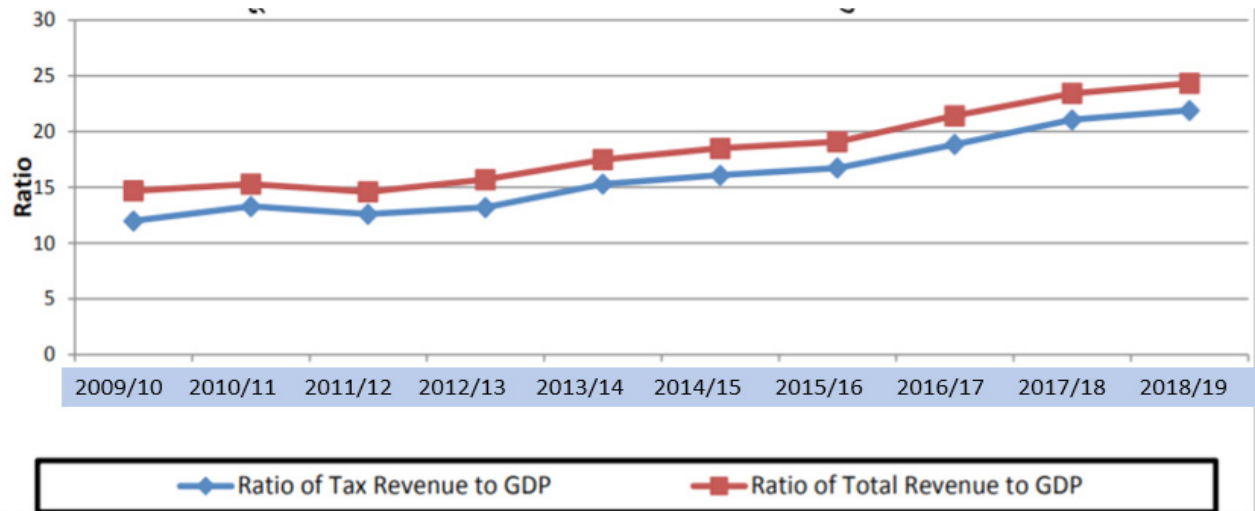
There are several departments under the Ministry of Finance and also several department under the different line ministries that are responsible for the collection of the tax revenue. However, there lacks the synchronization in the institutional structure of the Nepal government in terms of the revenue generation as well as identification of the tax avoidance. There lacks a consolidated mechanism to trace out the total tax avoidance or tax evasion made in the nation for any fiscal year. However, each department presents their annual report about the tax avoidance and evasion.

Some of the examples of departments for review of tax avoidance and evasion are as follows:

- 1. Inland Revenue Department (IRD):** The IRD is currently responsible for the enforcement of Tax Laws and administration of the following taxes: Income Tax, Value Added Tax, Excise Duty and duties like Entertainment fee (Film Development Fee). IRD carries out the function of tax administration, tax policy enforcement, registration and revenue collection, tax audit, tax investigation, tax refund, advance ruling, tax treaty and international taxation, excise and liquor administration.

The IRD is located in Kathmandu however, it works for the Taxpayer's Service, Audit and Collection through its field office located in 49 different districts of Nepal.
- 2. Custom Department:** The main objective of the customs department in Nepal is to make customs administration more transparent, well managed and accountable as well as to facilitate the international trade and make it secured. The custom department also traces out the custom evasion and avoidance every year.
- 3. Office of Auditor General:** The another strong agency for tracing out the revenue loss and tax evasion is the Office of Auditor General (OAG). It performs revenue audit every year to identify the real revenue generation and tax gaps. Revenue Audit is an independent and important domain of public auditing. All kinds of government receipts including tax, duty, fee, levies, interest, dividend, income from sale of assets, investment, and services, leasing of government property, etc. are known as Revenue. The revenue receipts are subject to OAG audit to ensure the legality of levy of various taxes and effectiveness of collection. The Constitution has given the responsibility to Auditor General to audit all receipts of the government credited to Consolidated Fund. This report from OAG also provides information about the tax evasion and avoidance.
- 4. Department of Revenue Investigation:** Overall, controlling and investigation of revenue leakages, investigation and control of economic crimes and investigation are the clear mandate of DRI given by the Government of Nepal.
- 5. Several Departmental audits:** There are several departments under the Office of Prime Minister and Council of Ministers, Ministry of Finance, Custom Departments, Excise Departments and also every line ministry that conducts audit of the revenue generation and losses. These departments also trace out the avoidance and evasion of the taxes.

6. **Others:** A part from this, there are also several other mechanisms such as Debt Recovery Tribunal, Department of Money Laundering Investigation, Tax Settlement Commission etc. A part from this, the central bank of Nepal i.e., Nepal Rastra Bank (NRB) also performs banking audit to identify the tax evasion and avoidance from the banking and financial institutions.



Source: IRD Annual Report, 2018

As per the data from Inland Revenue Department (IRD) 2018, the composition of revenues (in NRs billions) are as follows;

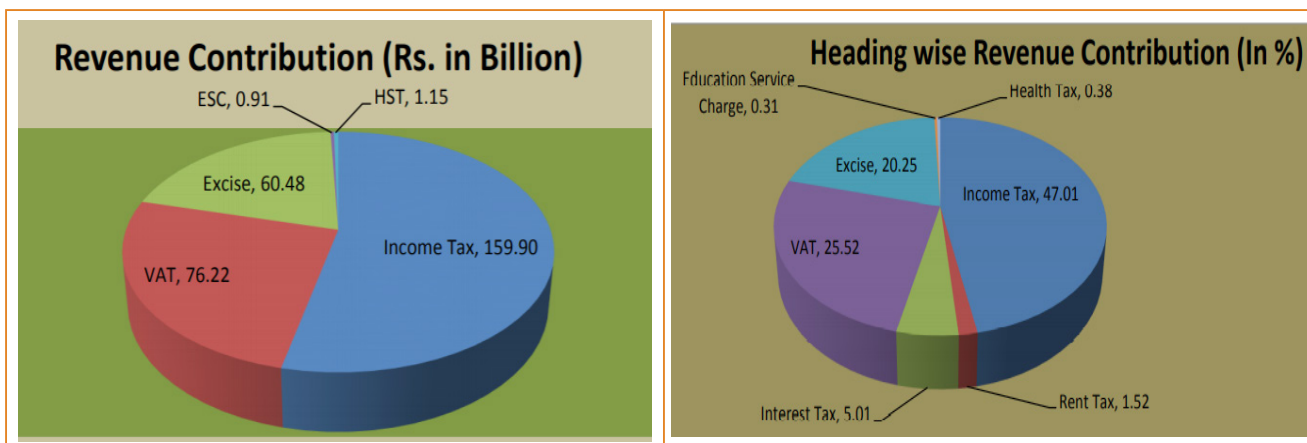
- ✓ Total - 732.23
- ✓ Tax revenues - 659.49
- ✓ Non-tax revenues - 72.74

The source items of revenues are as follows;

Table: 4.1 Source items of revenues

Heading	(Rs billions)
Custom Duty	137.78
Vat	206.79
Excise	102.58
Income Tax	159.9
Health Service Tax	1.15
Education Service Fee	0.91
Other Tax (Registration fee, Vehicle Tax and Other Tax)	50.37
Non tax Revenue	72.74

Source: IRD Annual Report, 2018



The figure above provides information about the institutional structure of the revenue collection in which the share of income tax, VAT, custom Duty, Excise, interest tax, rental tax, health service tax and education tax is 47.01%, 25.52%, 20.25%, 1.52%, 5.01%, 0.38% and 0.31% respectively.

4.4 Tax Gap In Nepal

According to the Income Tax Act of Nepal, tax evasion is punishable by charging a penalty equal to the difference between the accrued amount and the actual amount. However, in spite of the penalty, tax evasion is increasing in trend in Nepal. The major compliance issues of Nepal are: (a) low registration in both income tax and VAT, (b) low return of filing (high percent of non-filers), (c) under invoicing and a huge percent of non-invoicing, (d) existence of large percent of the mismatch (difference in reporting among the transacted parties), (e) tax fraud (a large percentage exist in VAT with fake bill), (f) a huge amount of tax dues of many firm, (g) huge pending cases with Revenue Tribunal, and (h) negative attitude of politicians to make the good tax compliance environment.

The World Bank (2016) reported that Nepal ranks at 107 on the doing business comparison report in 2017, it ranked 99 in 2016. The report claims, “The main reasons behind the drop are a decline in Nepal’s business, regulatory environment and data revisions”. The Kathmandu Post (2017) and Trading Economics (2017) reported that, as per the corruption perception index of Transparency International, Nepal ranked 131 corrupted out of 175 countries in 2016.

The major reasons of Tax Gap are due to Evasion, unreported economy, avoidance, contested taxes, non-payment and others (Nalishebo and Halwampa, 2014).

4.5 Tax/ Revenue Evasion Trend In Nepal

As discussed earlier, who pays cost of education is the prime concern at present. Ultimately taxpayers should pay to education through tax and other service charges. Whatever expenditure items are added in public budget, the burden ultimately shifted to the tax payers. Increasing taxes may not be justifiable always because its burden is higher to the low and middle level income family. Therefore, only increasing tax to fund education is not the sustainable solution. The areas where expenditure can be minimized or

saved should also be explored equally. And, such saving should be used to fund educational activities. Government every year offers tax waiving in certain items or provide subsidized to certain items. The concern is whether we offer tax waiving or do not offer in these identified items help to bring surplus to education. If we are able to do so, we do not provide burden to the taxpayers directly.

The phenomenon of tax evasion is probably as old as taxation itself. It is a pervasive disease in the economy of Nepal. Policymakers have been keeping their efforts perpetual to eradicate the disease of tax evasion. However, their efforts to keep it in check have been relatively unsuccessful so far. The major compliance issues in Nepal are:

- (a) Low registration in both income tax and VAT,
- (b) Low return of filing (high percent of non-filers),
- (c) Under invoicing and a huge percent of non-invoicing,
- (d) Existence of large percent of the mismatch (difference in reporting among the transacted parties),
- (e) Tax fraud (a large percentage exist in VAT with fake bill),
- f) Huge amount of tax dues of many firm
- (g) Huge pending cases with Revenue Tribunal, and
- (h) Negative attitude of politicians to make the good tax compliance environment.
- (i) Multinational corporations use a complex web of international tax laws to skirt paying taxes in low-income countries.

The cases of providing tax incentives, tax evasion and tax avoidance is increasing in case of Nepal.

A total of NRS. 51.3 billion tax incentives was provided in 2017 (IRD, 2017) to the different corporations. Revenue loss from tax incentives is as large as 5 percent of GDP.

The amount of tax incentives provided to different items are as follows;

Table: 4.2 Tax incentives provided in 2017(in lakhs)

Sector of incentive	Amount
Agriculture and livestock related, hatchery and tea industry	117724
Medicines, pesticides and raw materials for medicines	53618
Mill machinery	34324
Nepali army, police, government and other agencies	34181
LPG gas, salt, cotton	22036
SAFTA discount	16164
Generator, thresher, harrow, pump set and other agricultural equipment	12865
Chemical fertilizer	55178
Hospital and social organizations	21585

Raw materials for feed industry	41852
Electricity production equipment and parts	24065
Gold, silver	25230
Airplane and parts	10382
Solar battery and others	7995
Programs funded by foreign support	6539
Cotton sari, dhoti, sindoor, tika	6394
Electric and other vehicles, fire truck, ambulance,	5323
Raw material for oil mills	5111
Book and print material, new print paper and bank note	4493
Fiber for garment factory, manmade fiber, kashmiri yarn and cotton yarn	3313
Raw jute and spare parts for jute mill	3838
Export of items for hotel upgrading, export of items imported by cinema industry	210
PVC film, BOPP film, filler master batch	660
Total	513080

Source: 54th report of the Auditor General, 2017

A part from it, 23.68% of the tax payers did not paid a single penny of tax in F.Y 2018/19 (IRD, 2019). 44% of the VAT registered companies did not submitted details in that fiscal year meaning that the companies did not came into the tax bracket. A part from it, the report from Department of Revenue Investigation indicates that 1,219 cases were filed regarding the evasion (DRI, 2019). The amount of these filed cases are explicitly high in context of Nepal.

According to the report of OAG, 2018 lack of documents showing financial transactions, payments without receipts, issuing frequent advances, embezzlement of social security pay, and non-freezing of budget are some of the major irregularities in the operations of local governments across the country. A total of 278 local units have spent Rs 228.1 million in total without any bills (OAG, 2018). Similarly, according to the report of OAG, 2020 a total of NRS. 13.29 billion was reported as fraudulent transaction in the fiscal year 2019/20. A part from the cases of tax evasion, irregularities of operations was reported high in the local units. Flaws in the procurement process of government agencies, ineffective budget and expenditure management, misuse of grants at the local level, weak monitoring, reporting and verification, ineffective revenue administration and weak implementation of financial management policies, and the attitudes and mindsets of the relevant authorities are the major shortcomings for the recurrence of arrears in all three tiers of government.

Some of the examples of tax evasion cases filed are as follows:

S.N	Some Organizations	Tax & VAT evasion amount (NRS) in 2019
1	Bhatbhateni Supermarket and Departmental Store	724.04 million
2	Arun Intercontinental	24.83 million
3	AIT Pvt. Ltd	24.18 million
4	Shankar Oxygen Gas	13.97 million
5	Nepal Donghua Construction Engineering Company	131.31 million
6	Lumbini Pan Masala and Tobacco Products	13.25 million
7	Prabha Enterprises & PC Traders	8.67 million.
8	AS Enterprises	99.56 million
9	Huspy Care International and Shree Shyam Traders	111.98 million

Source: <https://kathmandupost.com/national/2019/11/16/revenue-investigation-department-files-cases-on-multi-billion-rupee-tax-evasion-scam> <https://myrepublica.nagariknetwork.com/news/dri-files-cases-against-50-tax-evaders/>

The information presented in the table are just the sample information based on the information from supreme court. There are many such cases prevalent in Nepal and the amount of tax evasion is increasing in comparison to the previous years. The cases of such evasion is found to be high in terms of large scale corporations. Taxes are the most important source of government revenues. That's why governments set up an extensive network and put in place mechanisms to calculate and collect taxes. Tax fraud cheats the government out of millions of rupees. That's why it is punishable by fines, penalties or jail terms. Nonetheless, those with unscrupulous mindsets tend to find loopholes to evade taxes, and when they find government officials in the system to work with them hand in a glove, it just becomes easier for them to make a dent in the government revenue. In a country like Nepal where pervasive corruption is a major challenge

Major Challenges

Some of the major challenges in terms of domestic revenue generation in case of Nepal are:

- Bringing informal economy into tax bracket.
- Cutting down compliance costs.
- Detecting tax fraud and action against it.
- Keeping up high morale of the tax personnel.
- Enhancing professionalism.
- Sustainability of e-tax, e-payment, ABBS system, and initiation of TIN,
- Taxpayer education to all taxpayers.
- Creating taxpayer-friendly treatment.
- Enhancing voluntary compliance of highly noncompliant behavior.
- Joint collaboration with other agencies (i.e. private sectors, other orgs, etc.)
- Taxing e-commerce

4.6 Methods To Meet Gaps In Domestic Resource Mobilization

In order to meet the gap in terms of the domestic revenue generation, the following methods can be applied:

1. Ensuring fiscal discipline by modernizing the existing accounting system with the use of the electronic transaction system in all government agencies.
2. Providing legal, technical and financial skill development training to all relevant staff and elected officials to handle the electronic transaction system by meeting all the requirements while handling finances and maintaining financial discipline.
3. Strengthening the monitoring, evaluation and verification system, and not allowing the same officials to perform different roles to avoid conflict of interest.
4. Building a strong collaborative and consensus-driven partnership for national development between bureaucrats, elected officials and the public. And if embezzlements should occur, all public office bearers should be made liable to punishment.
5. Converting the attitude, behavior, conscience and mindset of public officials through ethical and moral upliftment training to make them understand that development without arrears and embezzlement can help the country develop in a short span of time for the benefit of all Nepali including themselves. They should be made to understand that increasing arrears and embezzlement for their personal interest and development will keep the nation always poor, although a few people may become filthy rich, and that this can be achieved by practicing the essence of accountability, transparency, effectiveness and public legitimacy.
6. Implementing the Zero-tolerance policy against arrears and corruption. Government should not only keep proclaiming that there is zero-tolerance against arrears and corruption. It should act and demonstrate this in action by punishing those who have been found guilty of such crimes.

CHAPTER V

INNOVATIVE APPROACHES OF RESOURCE GENERATION AT LOCAL LEVEL

Despite several anomalies, some good practices are also observed in education sector in terms of resource generation. There are some of the activities (given below) which can be named as innovative approaches in education financing of Nepal are identified. Based on the review made earlier: the following activities can be named as innovative programs which are carried out by the governments (federal, provincial and local level governments).

1. Sanitary pad - Free sanitary pad to girls studying grade six and above.
2. Reservation quota for targeted groups in civil service, teaching positions, Bachelor level study in Medical and Health related subjects, school nurse program - deploying nurse in public schools. Province one and three governments have started school nurse program in selected schools. Province three governments have created school nurse position in one school of every local government. Similarly, province 1 government has also started this program in some selected schools.
3. Free and compulsory basic education
4. Free school health program
5. Free mid-day meal or school meal program
6. Skill development program
7. Improving quality of education by improving teachers' competencies through training and exposure
8. Equipping schools with ICT infrastructure, library, laboratory and e-learning materials
9. Strengthening teacher support system through monitoring, supervision, regular interaction with experts, resource center concepts
10. Free health checkup program to all students
11. Free sanitary pad in collaboration with family
12. School counselling program
13. Gender focal point provision and making stakeholder aware and sensitive about gender issues
14. Programs relating to strengthening public education and public school system
15. Recruiting quality graduates in teaching profession through competitive screening procedures
16. Recruiting competent and qualified graduates in head teacher position and provide adequate authority to them

17. Regular extra-curricular for activities in schools
18. Giving emphasis in Science, Technologies, Engineering and Mathematics
19. Manage subject wise teachers in secondary education
20. Give emphasis on pre-school and early childhood education program

Similarly, the safety net or social security programs which are running in Nepal are also considered as investment in education. These programs focus on mother's health checkup, vaccination to mother and child, and children's attendance in school which all are innovative programs and long term investment for a country. In order to run such program, there is a need to develop integrated framework in designing implementing and monitoring of the programs. At present, such integration is yet to happen in Nepal where different entities are responsible for this.

Province 2 Government has run “*Mukhyamantri Beti Padhau, Beti Bachau*” program which refers let send daughters to school and save them. Government (Province 2) has passed directives for this program which includes ‘daughter education’, ‘Insurance’, distribution of cycle; construction of girl's friendly toilets in public schools. It also includes the provisions of seat reservation (50% of the total seats) for girls/female in provincial civil service and provincial police service. Similarly, Karnali province has started a program to open a bank account for newly born girl child since 2076/77 fiscal year. In this program, the slogan of “Bank account for girls which secure them throughout their lives.” (Bank khata chhoriko, suraksha jibanvariko). The aim of such program to empower girls, especially in economic and social empowerment through targeted interventions. In the same manner, some other local governments are also initiated a program which is in favor of girls where local governments deposit certain amount of money after a birth.

The cost of educating child is increasing year by year. Such increases is because of increased cost in educational materials, use of technology in teaching learning, changes in life style and food habit, and expanding the duration of education level together with free and compulsory concept. Education is taken as fundament rights so as to make provisions obligatory to the State. In order to manage all these, funds are required to education.

State has obligations for several benefits to citizens, such as social security, child grants, and incentives to targeted groups which are also putting pressure in national treasury. Education, health and social security are the major areas where state has to increase cost every year. Then, the question is can a State afford all these cost without increasing taxes? Two options are here. The first one is increasing of tax in terms of amount and scope whereas the second is exploring innovative approaches in education financing which share burden among the actors. Therefore, there is growing pressure to explore the alternative sources of financing in education in addition to state funding.

Alternative sources are the sources of income other than state. Such sources may not be sustainable in

the long run. From the sustainability point of view, the funds from alternative sources could be used for one time activity, such as building construction, procuring books and equipment, increasing the capacity of human resources. The recurrent type activities should be covered from mainstream sources such as public budget, because these are the items where we need every year as a recurring items. Alternative sources of financing should not be taken as complementary sources with the mainstream sources. Both sources are required to collect more funds.

There are some cultural traditions too in case of Nepal at the local level for the resource generation. These are:

1. Establishment of *Akshya Kosh* for students in some local governments.
2. Insurance for girls in some local governments.
3. Establishment of Charity Funds via religious functions such as Vagwat, Pujas etc and collection of donations for the education infrastructures.
4. Community labor and ownership for school management: cases of teachers and parents voluntary contribution for school building and operation.
5. Local traditional approaches of teaching learning.

Though there are some innovative approaches at the local level, these are not sufficient to ensure equitable, inclusive, quality education for all. To provide more budget to education, national government should prioritize activities including review tax waiving schemes. All these scheme will allow government to collect/save some fund which can be transformed to education.

Another way to collect additional fund to education could be imposing taxes in luxurious goods/items, such as cigarette, liquors, cosmetics and fashionable goods. How much taxes should be imposed in such items are the further area of study. One can easily say that such scheme can also kept under the heading of innovative schemes. Let us take an example, if we charge one paisa per pulse in communication, huge amount of money can be collected. That money can be used for mid-day meal of primary school children. One paisa per pulse is not big money for the consumer. Similar schemes can be imposed in fuel consumption, or in other luxurious goods/items.

Tax exemptions to big companies or luxurious goods do not necessarily directly affect consumers, although it may affect indirectly. It allows companies or shareholders to save or make surplus in their transactions. Citizens may not be able to identify such exemption or tax waiving because these are not directly affecting their living costs or tax amount. In most of the tax exemption cases, only two parties (government and concern corporate house) will negotiate with each other. So, there is a need to discuss in public sphere about the issue of tax exemption. Citizens should also be aware about it. People's awareness may lead to develop strong voice and government may not provide such exemption to the corporate houses.

CHAPTER V

CONCLUSION

Education itself is considered as investment for a society and a nation because it creates benefits to the society and country as a whole. The money used and spent for education by an individual, family, government and state is recorded as investment. If we analyze the expenses by items of expenditure, some of the activities can be kept under the category of investment and some of them named as consumption. It means the expenses of education can be grouped under the headings of investment and consumption. Within the framework, education as an investment activity (expenses items) can be further grouped into two categories; the benefits they produce in right now or in the long run.

Government of Nepal has not allocated the budget to education as per the standard set in international forum of SDGs. The situation is more or less same in the case of provincial level. No Provincial Government allocated the budget more than 4% which is far behind the international commitment. In the case of Local Government, the allocation pattern varies significantly. From this situation, one can easily draw a conclusion that governments are not fulfilling their commitments to education in terms of funding. The continuation of existing funding patterns from government further demands increasing household financing to education. This will further perpetuate inequality in education by putting pressure to low-income families. In this way, the existing funding scenario hardly support the hard to reach and ultra-poor family. From this situation, the goal of free and compulsory education will be difficult to achieve in set time.

Because of unavailability of details of activities of the provincial and local level, it is difficult to assess the education budget from investment prospective. Although there are claims that the budget to education is taken as investment, it is difficult to generalize such statement. At present, the expenditure items can be grouped under the consumption and investment. The more amount of budget in investment items, there is chances of getting more benefits from such investment in the future. The investment can also reduce the burden to the authorities at least for some years. On the other hand, the consumption items are regular or recurrent in nature and ultimately create burden for next year until they are not revised. The revisions in recurrent items are not easily handed.

A part from it, strong financial discipline is not maintained in the use of public funds. There is a need of clear roles for the local, province and federal govt. in the resource generation. There is also a need of promotion of the progressive taxation policy at the local level and channelization of the education funds at the local level. There is also a need of strong policies and programs for the prevention of the tax evasion through the facilitation of the education programs. There is also a need of award and reward system to the donor of the education property and its recognition so that the individual donors and organizations become motivated to contribute for the educational funds. Mobilization of the educational charities at the local level is also important for resource generation at the local level.

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National Campaign for Education Nepal (NCE- Nepal)

National Campaign for Education Nepal (NCE- Nepal) in UN ECOSOC special consultative status is a civil society movement with mandates to lobby and advocacy for ensuring quality education for all. The history of NCE-Nepal traced back in April 2003, after obtaining membership from the international network, Global Campaign for Education (GCE). As GCE Nepal network decided to broaden its spectrum on advocacy, all coalition members felt a need of it legal identity. As a result, NCE-Nepal was formally established on 2010 as civil society movement to ensure the right to equitable, inclusive quality education for all.

NCE-Nepal is a campaign for undertaking collective efforts and coordinating among individuals/ organizations engaged in promoting the human rights to quality education in Nepal. It works as a watchdog to ensure everyone's rights to education and advocates for the same. It focuses on strategic interventions related to policy advocacy, networking, lobbying and campaigning at the district, regional, national and international levels. Currently, it has 409 member organizations including 48 General members and 361 affiliated members ranging from international and national non-government organizations, federation, education media organizations and teachers' community to grassroots institutions working in the field of education and child rights. Besides, it has district coalition in 30 districts covering 7 provinces of Nepal. NCE-Nepal is also a member of Asia South Pacific Association for Basic and Adult Education (ASPBAE) and Global Campaign for Education (GCE). In addition to this it has recently registered as a member of Inter Agency Network for Education in Emergencies (INEE). Being a member of GCE and ASPBAE, NCE-Nepal has access to engage to debates on education issues at local, regional and international forums. It is one of the recognized CSO network to contribute in the national policy making process for education in Nepal as acknowledged by the Government.

Vision

Equitable inclusive quality public education for all in Nepal.

Mission

Lead the creative campaigning to hold the government accountable and to ensure right to quality public education in Nepal with civil society organizations, social justice movements progressive academia and marginalized communities.

Goal

To ensure equitable, inclusive, free, compulsory and quality education for children, youth and adult as their fundamental right to education in Nepal.

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