

Education Budget: FY2021/22



Abstract

This note provides a summary of recent education expenditures proposed in the most recent budget, examines trends through time, examines budget allocations to different levels of governments, looks at the major expenditure headings in the budget, examines the functioning allocation of the budget and finally examines the gender responsiveness of the education budget. The data are primarily from Redbooks (Ministry of Finance, various years)

¹ This product has been financed by the European Union

Contents

Highlights	1
1 Overview of trends	2
1.1 Federalism & allocations	2
1.2 Major expenditure headings	3
1.3 Financing the education budget	3
1.4 Functional allocation of the budget	4
1.5 Gender and the education budget	5
2 Issues	5
Acknowledgments	6

Highlights

- Historic low rates of growth of the education budget even as children in Nepal continue to suffer serious education setbacks due to Covid-19 pandemic closures. The proposed education budget for FY 2021/22 (11% of the total) falls short of the Government of Nepal (GoN) target of 15% of consolidated expenditures. The ratio of the education budget to the total has remained constrained between 10 – 12% for several years and around 4% of Gross Domestic Product (GDP). Assuming 7.5 million school aged children, the per student spending works out to approximately 200 United States Dollars (USD) in FY 2021/22¹.
- The allocation of the consolidated budget among the different levels of government exhibits a similar trend over recent years with the central government (CG) being allocated 33%, Provincial Governments (PGs) are allocated 3% and the remaining 64% is allocated to Local Governments (LGs) in FY 2021/22.

¹ Derived by dividing total consolidated expenditures (NPR 180 Billion) by estimated student population of 7.5 million.

- The central governments (CG) biggest line-item headings for budgeted expenditures relate to teachers pensions and the University Grants Commission – both of which are on an increasing trend over the past three years and accounts for 60% of the central government’s budget. Another 17% of the CG budget is allocated for conditional capital grants to government agencies, committees and departments. Approximately 2% is allocated towards the Ministry of Education Science & Technology (MoEST) while 7% is allocated for the Vocational Education and Enhancement Project (VET 2) which also saw a significant rise in the budget compared to earlier years.
- Foreign loan financing plays a significant role in financing the CG education budget. Over the years for which data are available, GoN financing (including domestic loans) rose from Nepalese Rupee (NPR) 49 billion in FY 2011/12 (76% of the CG) to NPR 106 billion in FY 2016/17 (91% of the CG). Since the implementation of the federal structure – the GoN financing has reduced significantly, amounting to NPR 44 billion in FY 2021/22 (74% of the CG). On the other hand loans which were not significant at all increased from NPR 1 billion in FY 2011/12 (2% of the CG) to over NPR 11 billion in FY 2021/22 (19% of the CG). Grant financing has also seen a decrease from NPR 14 billion (22% of the CG) to NPR 4 billion (7% of the CG).
- Loan financing is sought primarily for VET 2 (100% of programme), conditional capital grants (65% of programme), the UGC (5% of the program) and Higher Education Reform Project (9% of the programme). Foreign grants are expected to primarily finance activities under the MoEST (34% of the MoEST budget at CG), Food for Education Program (83% of programme), Education for All (100% of the programme), School Sector Development Program (CG – 15% of the programme),

conditional capital grants (11% of the programme), the UGC (5% of the programme) and the Council for Technical and Vocational Education, including special programmes (61% of programme).

- The GoN also publishes allocations of the consolidated budget based on the classifications of the functions of Governments (COFOG)². As per this classification, which adheres to international norms, allocations for pre-primary and primary education are about 34% of the consolidated budget – nearly all of which is allotted to LGs. Secondary education allocations are 9% - only to LGs. The provision of subsidiary services to education (transport, food, medical and lodging services to students) is allocated 28% - only to the central government. Allocations for education levels not defined in the budget elsewhere including non-formal education was 26% - spread among all levels of government but concentrated heavily on LGs. Finally, education expenditure not elsewhere classified (N.E.C) which is a residual category but also includes formulation of guidelines, regulations and policies is allocated 3% - to the central government. Comparing the last two fiscal years (FY s) there is evidence of an increased allocation towards subsidiary services for education (increased from 22% in FY 2020/21 to 28% in FY 2021/22) and a corresponding decline in allocation for education not defined by level which reduced from 31% to 26% over the last two years.
- Analysis of the gender responsiveness of the budget suggests that over the last several years, a significant share of the budget is allocated for activities that directly improve gender equity (68% in FY 2021/22 – on a slightly increasing trend when compared to 65% for FY 2014/15). Around 32% of the budget is allotted for activities that indirectly promote gender equity in FY 2021/22 – down from 35% in FY 2014/15. When compared to the overall budget, gender responsiveness is much higher in the education budget. The consolidated budget has 39% allocated for activities that are directly responsive to gender equity and 34% to activities indirectly responsive. 27% are for activities that do not benefit gender equity (neutral).

1. Overview of trends

Since the global pandemic began – it would be fair to say that education expenditures in Nepal have not risen as rapidly compared to the pre-pandemic years. This is in contrast to health – where there is a strong surge in allocations since the pandemic began. At a time when children globally, including in Nepal, have suffered devastating education losses from school closures, it is all the more critical to ensure adequacy or sufficiency of the education budget in addition to other concerns such as efficiency and equity. In this regard, it is in-

²IMF, 2001. Classifications of the Functions of Governments.

teresting to note that current spending on education continues to remain below the government’s own target of 15% of the total budget even as recent data show households clamoring for education assistance for their children³.

Over the last eleven years for which data are available, education expenditures have risen from NPR 64 billion in FY 2011/12 to NPR 180 billion in FY 2021/22 (Figure 1). This translates into an average growth rate (of the nominal education budget) of 11 per cent per year, although there are significant year-on-year (yoy) fluctuations. Growth rates since FY 2020/21 – when the pandemic hit Nepal, have been at a historic low of about 5%. Depending on the level of inflation, this may very well translate to reduced real expenditures for the last two fiscal years. In terms of ratio to the consolidated budget (i.e, share of consolidated budget) – the observed values for education over the last ten years show a declining trend from a high of 17% in FY 2011/12 to about 11% in FY 2021/22. In particular, over the last eight years the share of education in the total budget has remained within a narrow band of 10 – 12% of total consolidated budgetary expenditures. In terms of ratio to Gross Domestic Product (GDP) – the ratio has remained constant at approximately 4% of GDP. These expenditure levels are well below the Government’s own target of 15% of the total consolidated budget or around 6% of GDP. In 2020/21, there was a contraction of the consolidated budget and hence a small spike in the education share of the total budget (Figure 2).

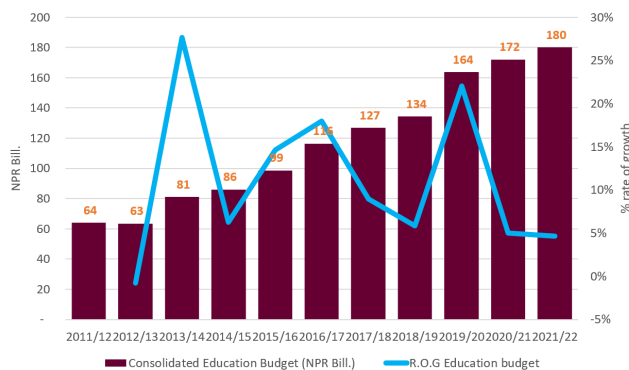


Figure 1. Consolidated Education Budget (Left axis) & its rate of growth (Right axis)

1.1 Federalism & allocations

For the years for which data are available, local governments are allocated more than 6 out of every 10 NPR allocated for education – with the exception of FY 2019/20 (Figure 3). The central government retains about 1/3rd of the total education budget for centralized programmes and grants. Provincial governments are allocated around 3% of the education budget. In absolute terms, it appears that increases in the education budget are being diverted to the CG and LGs.

³ Various rounds of UNICEF’s Child & Family Tracker (UNICEF, NPL CO) show a growing and urgent need for education assistance among caretakers of children.

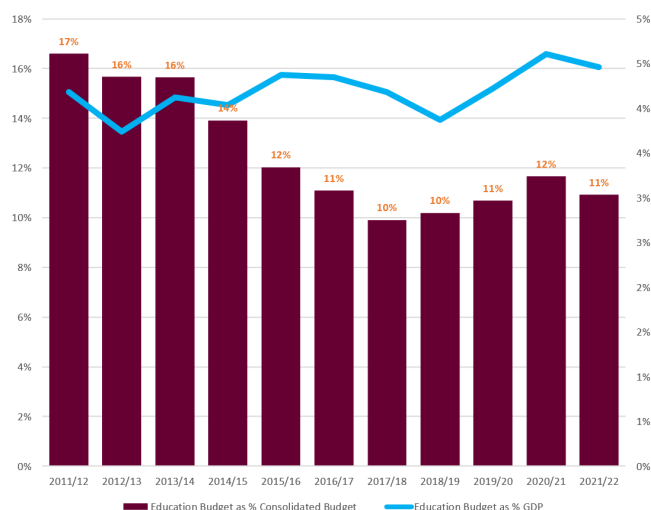


Figure 2. Education budget as % total budget (Left axis) & as % GDP (Right axis)

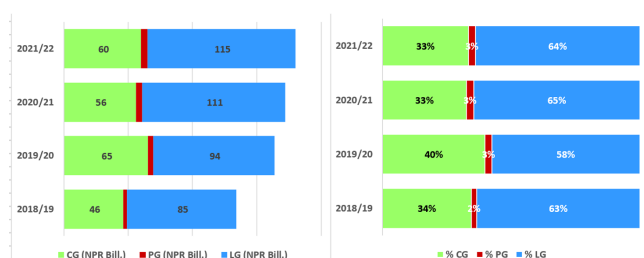


Figure 3. Federalism and allocation of the education budget

In terms of fiscal federalism, the critical issue is whether functional responsibilities are aligned with financial responsibilities. Despite the large share going to LGs – the question of autonomy in decision making, policy and programme formulation remains an issue as most of the funding comes in the form of conditional grants. Nevertheless, setting up a regulatory, financial and legal framework within which 753 LGs can operate autonomously, is a challenging task. In terms of efficiency and equity of this division, the major concerns identified recently in wards and municipalities relate to the diversity as well as gaps in human resources, logistical issues, supply shortages, no clear agreement on responsibilities as well as capacity and willingness in LGs⁴. These risks are worrisome as LGs are responsible for primary and secondary education as per the constitution of Nepal (2015). In addition, the provision of universities and higher educations falls within the remit of PGs: there may be scope to examine the funding requirements of higher education, especially within the context of the ongoing demographic transition in Nepal where a large numbers of adolescents, youth and college aged boys and girls are expected to become a demographically strong group.

⁴CFT Special Edition: Survey of Ward Mayors, Sept 2021.

1.2 Major expenditure headings

Detailed heading-wise expenditures in the education budget are only available at the Central level from the Redbooks available thus far (Table 1). As mentioned, these expenditure headings in total absorb 33% of the total education budget (i.e. the central government allocation). Data are available for the last three fiscal years. The most extensive allocations for the last few years have been for teachers pensions and the university grants commission which together absorbed more than 60% of the central government allocations in FY 2021/22. This is a significant reduction from 80% in FY 2019/20. Although due to the increase seen in the CG budget, the absolute amounts are higher and these are on a rising trend. There seems to be a near offsetting increase in conditional capital grants. In FY 2021/22, conditional capital grants were expected to absorb another NPR 10 billion; 17% of the budget - a new allocation in FY 2020/21. All other headings (remaining 18) are allocated 23% of the remaining budget – the most significant of which is for the Vocational Education and Training Enhancement 2 (VET2) Project which has seen a doubling of the allocation compared to the previous FY. The School Sector Development Programme (SSDP) was allocated a significantly higher share in FY 2020/20 compared to FY 2019/20 - rising to 5.16% of total CG allocations before declining to 3.24%. A similar pattern was observed for the Education and Human Resources Development Council (EHRDC) which rose to 3.99% of the allocation before declining to 2.25%. The Higher Education Reform Project saw a rapid decline from 5.83% to 1.06%.

Table 1. Expenditure headings (% allocated)

Agency/Programme	2019/20	2020/21	2021/22
MoEST	1.12	1.24	2.09
VET-2	2.52	3.46	6.61
SSDP - Central Level	0.73	5.16	3.24
Conditional Capital Grants			16.64
Edu & Human Resource Dev. Council	0.21	3.99	2.25
Teacher Pension Facilities	42.73	40.45	29.95
University Grant Commission	38.61	35.78	30.52
Higher Education Reform Project	5.83	2.10	1.06
Others	8.26	7.82	7.63
Total	100.00	100.00	100.00
Budget (NPR Mill.)	39.48	43.22	60.11

1.3 Financing the education budget

Redbook data provide information on financing and revenue sources for the central government from FY 2011/12 – FY 2021/22. Interesting changes are observed with respect to financing trends (Figure xx). From FY 2011/12 to FY 2016/17 there is a gradual increase in the share of financing borne by GoN and a strong concomitant decline in the share of grant financing. Loan financing was negligible by comparison. From FY 2017/18 there is a change in this trend. The GoN share (including domestic borrowing) starts to decline along with the share of grants. Loans begin to play an important

role in financing the education budget (central level). For the ongoing FY, it is envisaged that foreign loans for the education sector would be used to finance programmes such as VET2, conditional capital grants, and to a lesser extent, the higher education reform programme. Since the Covid-19 pandemic, with a contraction of the domestic economy as well as the budget (in FY 2020/21), foreign loans and to some extent grants are expected to finance more than 1/4th of the most recent education budget. In tandem, the GoN share declines – though still providing close to 3/4th the total financing.

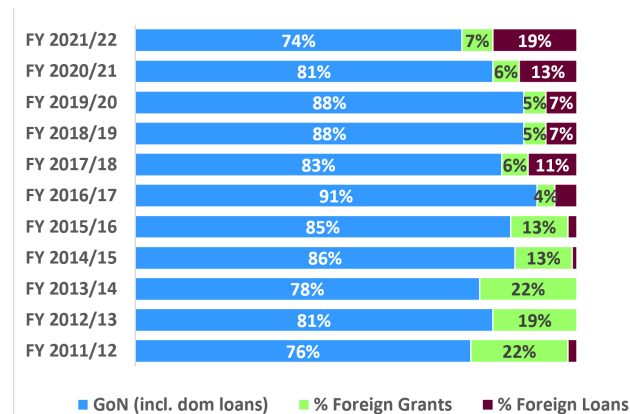


Figure 4. Financing the education budget (CG)

In terms of nominal NPR, in FY 2011/12 – the central government (there was no federal structure prior to 2015/16) budget for education was NPR 64 billion. The GoN (including domestic loans) financing was NPR 49 billion (76%), while foreign grants contributed NPR 14 billion (22%) while loans financed NPR 1 billion (2%). By FY 2021/22, the central government budget was NPR 60 – lower than it was in FY 2011/12 as two-thirds of the education budget is allocated for PGs and mainly LGs. GoN financing, including domestic loans, contributed NPR 44 billion (74%), while foreign grants reduced to NPR 4 billion (7%) and foreign loans surged to NPR 11 billion (19%).

To the extent that these grants and loans are not on target, the central government component of the education sector could be under-financed significantly. There is also an opportunity to seek out greater grant financing. Though investment in education is known to have the highest returns in a wide variety of global contexts, Nepal's current annual debt obligations (non-votable expenditures) are almost the same size as the health budget⁵. Hence it also becomes imperative to consider how the GoN would repay these loans as some of these could have adverse implications on the poor (e.g., inflation to reduce the real value of debt). Finally, since LGs are absorbing nearly 2/3rds of the education budget, it is crucial to obtain financing sources for their projects.

⁵PF4C - Budget Update Vol1:Expenditures, FY 2021/22, UNICEF, CO.

1.4 Functional allocation of the budget

The functional allocation of the consolidated education budget as per the IMF Classification of the functions of governments (COFOG) classifications is reported in the Redbooks (Table 2 & Figure 5). This classification is useful, because it delineates functional assignments and budgets across the different levels of government. Further efforts are required to unpack non-secondary tertiary education and tertiary education categories as they are important given the demographic changes unfolding in Nepal and the necessity to develop quality human capital. The data for the last two years shows a largely unchanged pattern with an increase in subsidiary services to education in FY 2021/22 and offsetting decreases in education not defined by level or non-formal education and education not elsewhere classified (N.E.C).

Table 2. COFOG Classification: FY 2021/22 (NPR Bill.)

Category	Total	CG	PG	LG
EDUCATION	180.04	60.11	5.02	114.91
Pre-primary & Primary	60.44	0.57	0.00	59.88
Secondary	16.79	0.00	0.00	16.79
Not defined by level ⁶	46.82	3.55	5.02	38.24
Subsidiary Services	51.00	0.00	0.00	0.00
R&D	0.02	0.02	0.00	0.00
Education-NEC	4.97	4.97	0.00	0.00

NEC: Education note elsewhere classified

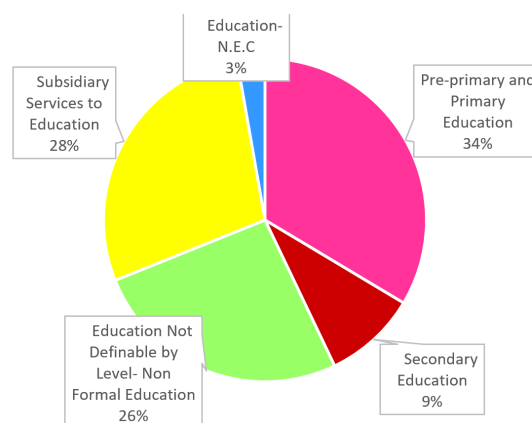


Figure 5. COFOG classification (% , FY 2021/22)

In FY 2021/22, pre-primary and primary education (provision of education at specific levels and their administration, operation and inspection) was allocated about 34% of the total budget (NPR 60.44 billion) – mainly to LGs. Allocations for subsidiary services to education – only to central governments (support in relation to transport, medical, food and lodging services for students) was about 28% (NPR 51 billion). These two categories absorbed 62% of the education budget. Education not defined by any level including non-formal education (provision of education not definable by any level and their administration, operation, inspection, scholarships, grants, allowances and loans to students) is allo-

cated 26% (NPR 46.82 billion) - spread among all the levels of government but concentrated significantly on LGs. Secondary education (provision of education at specified levels and their administration, operation, inspection, scholarships, grants & loans to students) as per the COFOG classification was allocated 9% (NPR 16.79) – only to LGs. The remaining 3% of the budget (NPR 4.97 billion) is allocated for education not elsewhere classified (overall formulation of guidelines, standards and policy, legislative framework and expenditures not classified elsewhere)⁷.

1.5 Gender and the education budget

A Gender Responsive Budget Committee located within MoF identifies the level in each year's education budget allocations that directly and indirectly promotes gender equity and that is neutral in terms of promoting gender equality. The criteria are in line with international gender budgeting norms. These data are included in each year's Redbook. Data from 2014/15, 2016/17 and 2021/22 are used to highlight trends. In line with international norms, activities that women benefit more than 50% are considered directly gender responsive, activities that women benefit 20 – 50% are considered in-directly gender responsive. Activities that women benefit less than 20% are considered gender neutral. Following these norms, the education budget for the last several years can be classified as 65 – 68% directly gender responsive, 31 – 32% indirectly gender responsive. Gender neutral activities absorb less than 1% of the education budget. There has been a slight upward drift in the direct gender responsiveness component of the budget and a concomitant offsetting decrease in the indirect gender responsiveness component (Figure 6).

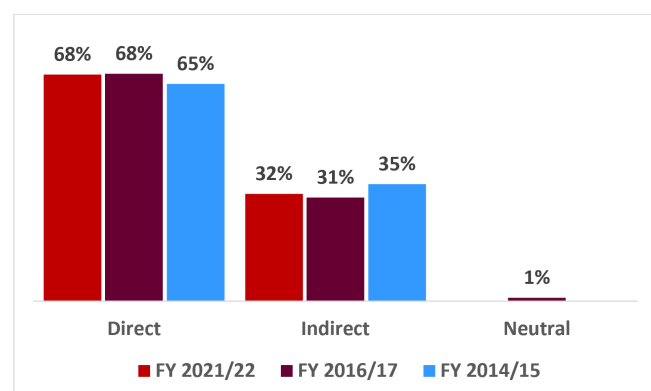


Figure 6. Gender and the education budget

2. Issues

- **Constrained growth in the education budget** seen recently even as children in Nepal have suffered from devastating education shocks over the last two years.

⁷Nepal does not report tertiary education or post secondary non-tertiary spending separately. They are subsumed under education not defined by level or in the education not classified elsewhere.

Education spending in Nepal still remains more than 25% below the GoN target of 15% of the budget. Given the need to invest heavily in the provision of inclusive alternative education modalities, especially in the most remote areas, there is a concern that the education allocation could fall short. This risk becomes all the more critical if donors grants and loans, financing increasingly significant shares of the education budget since the pandemic, fall short of expectations.

- **Over the last two FY s, LGs are being allocated between 63 – 65% of the education budget, mainly for pre-primary, primary and secondary education** as well as a portion for education level not defined elsewhere (incl. non-formal). There are concerns about whether functional assignments are in concordance with financial assignments in the LGs given the tremendous heterogeneity observed in terms of politics, capacity, HR, resources and willingness.
- **In the CG budget – which is 1/3rd the consolidated budget, the biggest allocations are for teacher's pensions (18% of CG allocations) and for the university grants commissions (18.3% of CG allocations).** The former category comprises pensions and disability allowances, gratuity, accumulated leave of retirees as well as medical expenses of retirees. The latter category comprises primarily of conditional recurrent and capital grants (some of which is financed by IDA and China) to government agencies, committees and boards.
- **34% of the consolidated budget is functionally assigned for pre-primary and primary education** – as per COFOG classifications – mainly for LGs. 9% of the overall budget is allocated for secondary education – exclusively to LGs. Subsidiary services for education absorb another 28% of the consolidated budget – allocated entirely to the central government. Finally, education not definable by any level including non-formal education is allocated 26% and divided among all levels of government, albeit concentrated most heavily on LGs.
- **Financing of the education budget and its sustainability** given the increasing reliance on loans is of concern. Data are available for central government financing for the last eleven fiscal years. In 2011/12 – there was no federal structure, and the consolidated GoN budget was NPR 64 billion of which the GoN financed NPR 49 billion (76%), foreign grants financed NPR 24 billion (22%) and foreign loans NPR 1 billion (2%). By 2021/22, the education budget had risen to NPR 180 billion of which the central government's share was NPR 60 billion – lower than the budget in FY 2011/12. Of this amount, the GoN is expected to finance NPR 44 billion, lower than its financing in FY 2011/12 in nominal terms and slightly lower in per cent terms (74%). Foreign grants reduced to NPR 4 billion (and dropped sharply from 22% to 7% in terms of share) while for-

eight loans surged to NPR 11 billion (rising from 2% to 19% in terms of share).

- **The gender responsiveness** of the education budget can be split up as 68% directly responsive to gender equity and 32% indirectly gender responsiveness. No activities financed in the education budget are gender neutral. In contrast, the overall consolidated budget shows a 39% allocation for activities directly responsive to gender equity, 34% indirectly responsive and 27% neutral.

Annex

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

Source: Created from Government Finance Statistics Manual, IMF 2001

Figure 7. COFOG Classification Definitions

Acknowledgments

This product acknowledges the financial support of the European Union. It was produced by UNICEF, Nepal CO, SPEE team.