



## NEPAL FACTSHEET

May 2022

# Financing the future: delivering SDG 4 in Nepal

## Progress on meeting SDG 4

### Are all girls and boys completing free, equitable and quality primary and secondary education in Nepal?

- The country has near universal enrolment in primary school and lower secondary school, and 80% children enrol at upper level. Gross enrolment in early childhood education and pre-primary school is 87%.<sup>1</sup> 81% of pupils complete primary education, 72% complete lower secondary school, and only 28% complete upper secondary education.<sup>2</sup>
- Quality needs to improve: at the end of primary only 68% of students achieve the minimum proficiency in mathematics, and 80% in reading.<sup>3</sup>
- Household expenditure in education is increasing, representing 3.2% of the GDP.
- Underfunding of public education is leading to lower levels of quality and an increased in private school enrolment, which is creating and furthering social inequalities.
- 103,384 children are estimated to be out of school. The Consolidated Equity Index, equity-focused strategy formulation and resource allocation aims to reduce this number. The necessary funding to make public education equitable, gender responsive and inclusive would be available through progressive taxation reforms.

### Nepal has made good strides to address gender inequalities but some students, especially those from poor, remote, low caste families, continue to be at a disadvantage.<sup>4</sup>

- More girls than boys are now completing primary and lower-secondary school, but girls continue to be at a disadvantage at upper secondary level.<sup>5</sup>

- The government has identified 22 ethnic groups who are marginalised in education, with children from the Chepang ethnic group identified as the most severely marginalised, with only 50% enrolment in primary school.<sup>6</sup>
- Wealth is an important determinant in Nepal. Only 73% of poorest children complete primary education, versus 95% of the wealthiest; 59% of the poorest children complete lower secondary, versus 90% of wealthiest; and, 9% of the poorest complete upper secondary compared to 60% of the richest.<sup>7</sup>
- Disadvantages overlap leading to low education prospects; for instance, girls from the lowest quintile and from Madhesi and Muslim communities are the most under-represented in secondary education.<sup>8</sup>
- Children with a disability are likely to be highly excluded; UNICEF estimated that 30% of children with disabilities ages 5 to 12 do not attend school.<sup>9</sup>

### Education is becoming more segregated because of the increasing enrolment in private schools.

- Enrolment in private schools has been increasing rapidly, with 17% of primary school children enrolled in private schools, and 24% at lower secondary levels.<sup>10</sup> This amounts to more than 1 million of primary school children and 24% at lower secondary levels.<sup>11</sup> Overall, there are 2.5 million students in approximately 6,500 private schools.<sup>12</sup> This has been shown to be entrenching social inequalities,<sup>13</sup> creating a segregated education landscape that drives inequality in and through education.
- The government is developing a Consolidated Equity Index that seeks to promote equity in access, meaningful participation and improved learning outcomes. The data is used by education planners and policy-makers to rank districts according to their composite index score to inform resource allocation

1. Figures are taken from the UNESCO Institute of Statistics (UIS) data (latest available year, enrolment data is for 2019, completion for 2020).

2. Figures are taken from the UNESCO Global Education Monitoring Report 2021/22.

3. Figures are taken from the UNESCO Global Education Monitoring Report 2021/22.

4. National Institute For Research and Training and American Institute of Research (2017). Nepal education sector analysis.

5. At primary level, 82% of girls and 78% of boys complete school: at lower secondary this is 73% of young women and 69% of young men. Rates, however, are very low for both young men and women at upper secondary level, at 11% and 5%, respectively in 2020. UNESCO Institute of Statistics (UIS) (2020, latest available year).

6. National Institute For Research and Training and American Institute of Research (2017). Nepal education sector analysis.

7. This is based on UNESCO Institute of Statistics (UIS) data (2019).

8. Nepal education sector analysis (2017). National Institute For Research And Training (NIRT), and American Institute Of Research (AIR)

9. UNICEF (2020). Budget Brief. See: <https://www.unicef.org/nepal/media/13271/file/Education%20-%20Budget%20Brief.pdf>. Based on 2016 data.

10. Figures are taken from the UNESCO Institute of Statistics (UIS) data (latest available year, 2019). This has grown from 15% at lower secondary level since 2015, and from 13% at primary level, since 2010.

11. Figures are taken from the UNESCO Institute of Statistics (UIS) data (latest available year, 2019). This has grown from 15% at lower secondary level since 2015, and from 13% at primary level, since 2010.

12. Taken from: <https://www.ei-ie.org/en/item/23444:nepal-union-works-to-halt-teacher-dismissals-resume-salary-payments-and-ensure-safety-of-students-and-teachers>

13. Nepal Economic Forum (2020). The World Of Private School Cartels

and equity-focused strategy formulation. Through identified interventions, the government was able to enrol 24,090 new children (22% of the total out-of-school children in these five districts).<sup>15</sup> The government needs to adequately finance public education to improve access and quality, to comply with human rights obligations.

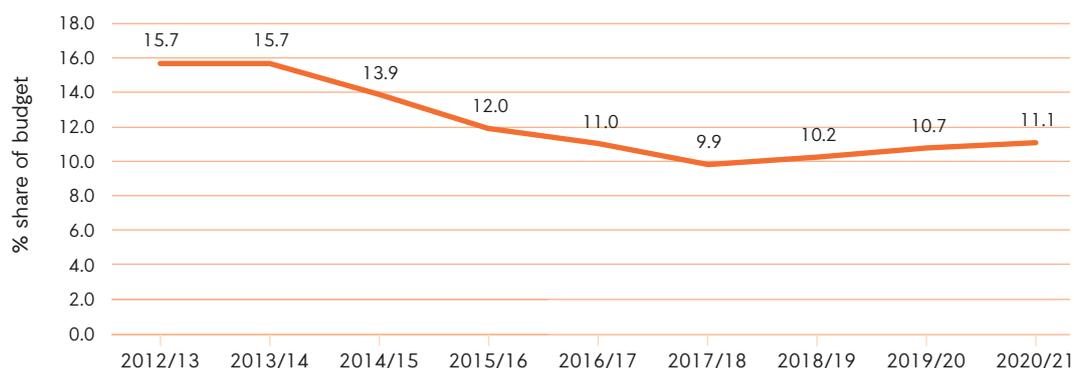
**SDG target 4.c commits to substantially increasing the supply of qualified teachers, to improve quality, as “teachers are a fundamental condition for guaranteeing quality education”.**<sup>16</sup> In Nepal, there is a pupil-teacher ratio of 20:1 at primary school, and 28:1 at lower secondary. This has improved significantly in recent years and is markedly better than many of its neighbours in South Asia.<sup>17</sup> However, there are significant regional disparities, especially in lower secondary schools: these range from a ratio of 30 pupils per teacher in Western region to 52 pupils per teacher in the Mid-Western region.<sup>18</sup>

The government employs 40,000 contract teachers (or rahat teachers), with the current policy, states that they will not receive benefits or be made permanent. Most of them are female and their salary is much lower than the minimum pay scale of 15,000 as in ILO in Nepal stated.

### Financing SDG 4 requires allocating a SHARE of 20% of the budget and 6% of GDP

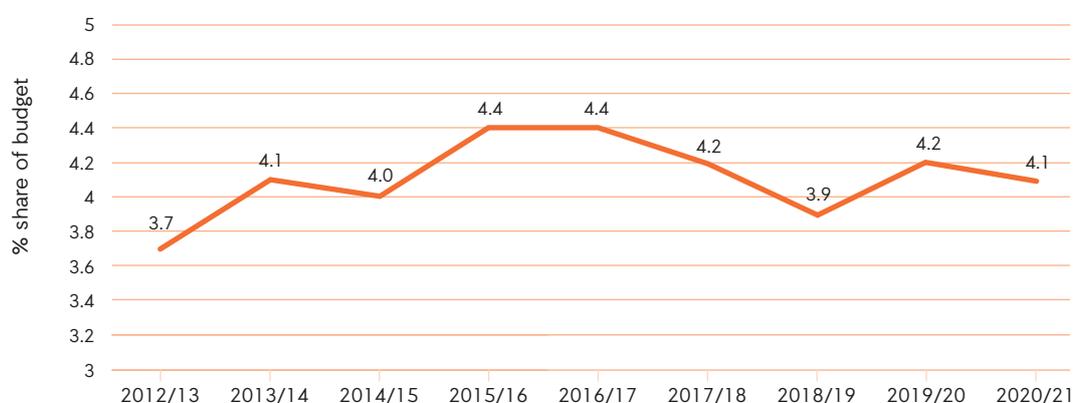
To finance SDG 4, the UN recommends that at least 15-20% of the budget, or 4-6% of GDP, be allocated to education. In countries such as Nepal with a young and growing population and a way to go to meet targets by 2030, the UN estimates that the upper end of this is required.<sup>19</sup> Unfortunately, not only is Nepal far from this, it is also moving away from them (see **Figure 1 and 2** for historical data over time). **In 2021, this stood at just 11% of the budget and 4% of GDP.**<sup>20</sup>

**Figure 1: Nepal share of the budget on education, 2012-2021**



Source: UNICEF calculations, based on Government of Nepal Red Book budget documents

**Figure 2: Nepal share of GDP to education, 2012-2021**



Source: UNICEF calculations, based on Government of Nepal Red Book budget document

14. UNESCO (2016). National Education Accounts In Nepal Expenditure for education 2009-2015 <http://uis.unesco.org/sites/default/files/nepal-nea-report.pdf>

15. <https://www.globalpartnership.org/blog/nepals-equity-index-innovations-financing-reach-children-most-need>

16. <https://sdg4education2030.org/the-goal>

17. Headcount basis. This is based on UNESCO Institute of Statistics (UIS) data (2019 for primary and 2020 for lower secondary).

18. National Institute For Research and Training and American Institute of Research (2017). Nepal education sector analysis.

19. See background paper for the SDG 4 costing model, Global Education Monitoring report (2015). Reaching education targets in low and lower middle income countries: Costs and finance gaps to 2030 for pre-primary, primary, lower- and upper secondary schooling. Available: <https://en.unesco.org/gem-report/node/819>

20. Data from 2012-2020 taken from: <https://www.unicef.org/nepal/media/13271/file/Education%20-%20Budget%20Brief.pdf> Data from 2021, taken from: <https://www.unicef.org/nepal/media/14421/file/Budget%20Brief%20-%202021-22%20-%20Education.pdf>

## Spending must be SENSITIVE to achieve SDG 4 targets on quality and equity

### Is the spending fair or equitable?

- Poor families are picking up the bill from a lack of public funding in Nepal. Household expenditure in education is 3.2% of the GDP.<sup>21</sup> Households fund half of all education expenditure in Nepal – with households compensating for a lack of government spending and declining external financing. This rises to 71% at upper secondary level. When financing comes from the pockets of the poorest it eats into more of their meagre household budgets - a regressive way of funding education – and if the burden on family finances is too high, problems arise with education access and equity.<sup>22</sup>
- More children are being educated in private schools in Nepal, 26% student enrolment in primary to higher secondary,<sup>23</sup> and the amount spent on this is increasing, especially compared to government spending – as this has decreased.<sup>24</sup>
- Nepal has attempted to ensure that the education budget is gender equitable. A Gender Responsive Budget Committee located within the Ministry of Finance identifies the level in each year's education budget allocations that directly or indirectly promote gender equity.<sup>25</sup>

### Box 1. Does recurrent and capital spending allow for equity and quality?

To achieve SDG4, budgets need to expand to pay for one-off capital projects, such as school construction, and increase recurrent (or operating) costs, which include teacher-related payments and therefore constitute the largest budget component. A UN SDG 4 costing<sup>26</sup> breakdown noted that to achieve quality and equity, 84% should be spent on recurrent/operating costs - with 75% of that going to wages and salaries - and 14% on capital/development projects. In Nepal, the budget breakdown is around 98% spent on recurrent and 2% on capital.<sup>27</sup>

However, with the government already struggling to pay salaries and recruit additional trained teachers due to recurrent budget constraints, more efforts will be required to boost vital investments into necessary developments, and paying for more teachers.

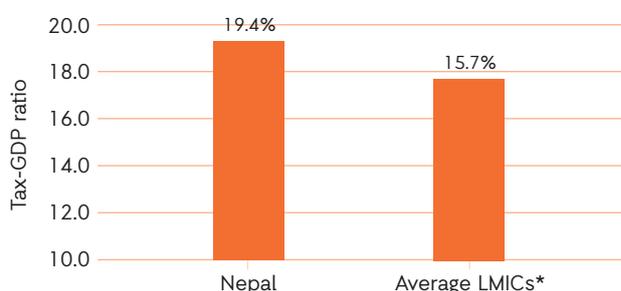
## To achieve SDG4 governments must increase the SIZE of their overall budgets

Nepal requires new public funds to meet the sustained costs required to meet SDG 4, over the long term. In a time of increasing fiscal pressures on the budget this will become ever more difficult. **This is increasingly important given that debt servicing is draining precious revenues.** In the 2020 budget, debt servicing constitutes around one quarter of government revenues (24%) – this is expected to rise to 28% in 2022. In fact, the government allocated a higher amount of resources to pay its creditors (6.3% of GDP) than education (4.2% of GDP) in 2019.<sup>28</sup> This will place further downward pressure on expenditures on education.

### Nepal needs to find new ways to urgently reverse the decline in their public spending capacity, through increasing their tax revenues in a progressive way.

Nepal's tax-to-GDP ratio is above the average (at 19.4%) of lower-middle income countries in 2019 (15.7%) as shown in **Figure 3**. This has been rising consistently over the last decade, and in 2020 stood at 21.9% (see **Figure 4**). But more can be done.

**Figure 3: Tax-GDP ratios in Nepal compared to LMICs average (2019 latest comparable years)**



\* ICTD/UNU-WIDER Government Revenue Dataset

21. Global education Monitoring Report 2020/21 p. 408.

22. UNESCO and IIEP-UIS. National Education Accounts in Nepal: Expenditure for Education 2009-2015. July 2016 <http://uis.unesco.org/sites/default/files/nepal-nea-report.pdf>

23. UNESCO PEER education profile <https://education-profiles.org/central-and-southern-asia/nepal/~non-state-actors-in-education#Non-state%20education%20provision>

24. Nepal Economic Forum (2020). The World Of Private School Cartels. The poorest quintile spends around 67% of their household income on food and 2.3% on education, while the richest spend 32% and 5.8%.

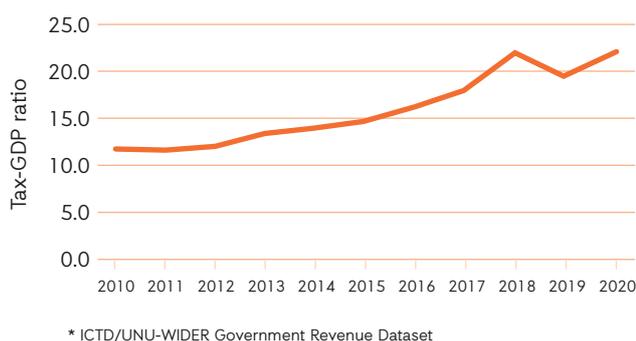
25. UNICEF (2020). Budget Brief. See: <https://www.unicef.org/nepal/media/13271/file/Education%20-%20Budget%20Brief.pdf>. Based on 2016 data

26. See background paper for the SDG 4 costing model, Global Education Monitoring report (2015). Reaching education targets in low and lower middle income countries: Costs and finance gaps to 2030 for pre-primary, primary, lower- and upper secondary schooling.

27. UNICEF (2020). Budget Brief. See: <https://www.unicef.org/nepal/media/13271/file/Education%20-%20Budget%20Brief.pdf>

28. See: [https://www.eurodad.org/nepal\\_covid19\\_and\\_debt](https://www.eurodad.org/nepal_covid19_and_debt)

**Figure 4: Tax % GDP in Nepal 2010-20**



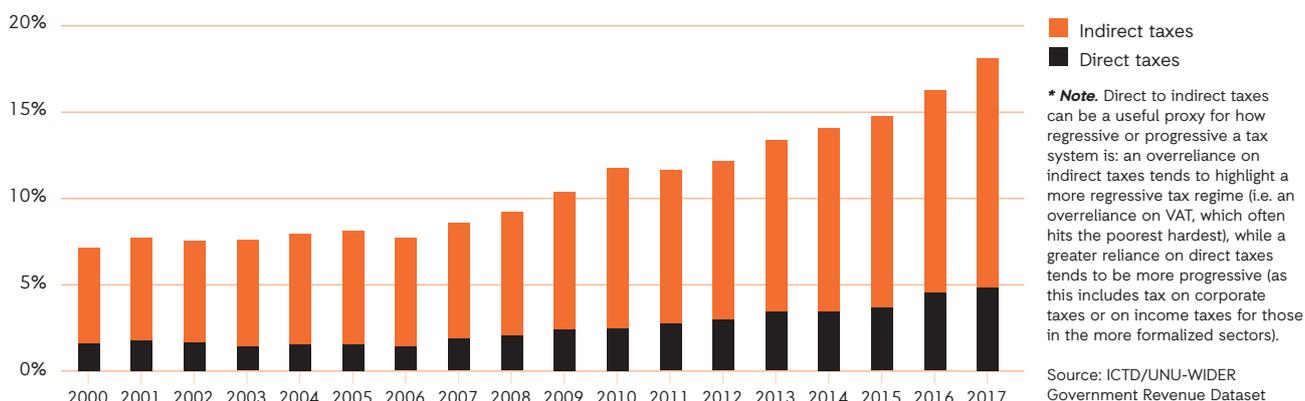
**Nepal should focus on increasing tax-to-GDP ratios by five percentage points from the present levels.**

International studies suggest that for many countries a goal of increasing their tax-to-GDP ratios by five percentage points in the medium term (3-5 years)

is ambitious, but reasonable.<sup>29</sup> In 2019, ActionAid estimated that if Nepal did this it could lead to new revenues of US\$4.4 bn annually by 2023.<sup>30</sup> If the government then allocated 20% of the new revenues generated to education, as per international benchmarks, this could increase the education budget by US\$898.6 million. By way of comparison, the Nepalese School Sector Development Plan (SSDP) mid-term review estimated an annual financing gap of US\$81 million in 2020/21 – in other words, the extra revenue would be **ten times the predicted financing gap in the education sector plan.**<sup>31</sup>

However, this must be done progressively, with attention to additional tax burdens falling on the richest, especially as Nepal already tends to rely heavily on indirect taxes which makes their system less progressive than many. Over the period 2000-2017, there has been a large domination of indirect taxes versus direct taxes in the total revenues raised (see **Figure 5**).

**Figure 5: Direct to indirect taxes in total taxes over time, 2000-2017, (2017, latest available year)**



**Progressive and regressive taxes in Nepal**

Over the period 2000-2017, Nepal has improved their tax-to GDP ratio – especially in the last decade – in fact it has doubled this since 2000. But at the same time they have also done too little to reduce the overreliance on indirect taxes (i.e. 13% in 2017), versus direct taxes (i.e. 5% in 2017) suggesting the tax system is not

progressive enough, with this increase in a large part due to the introduction of a regressive VAT system.<sup>32</sup>

One way to raise new funds progressively is by reducing the incentives offered to corporates. In 2016, Nepal’s tax administration estimated that tax incentives offered to investors could amount to as much as 5% of its

29. It is important to note this calculation does not look at the mechanisms for achieving the 5% increase (i.e. which tax reforms are pursued). For ActionAid any future revenue generation should be done with a focus on progressive and gender-responsive tax reforms, so that any new taxes do not hurt the poorest and most vulnerable, but rather fall to those most able to pay. Our analysis above shows that there are ways to achieve this 5% increase progressively.  
 30. ActionAid (2020). *Who Cares? Paying for care work through transforming the financing of gender responsive public services*. See footnote 363. The calculation was carried out by ActionAid for this report, using data from IMF, World Bank and the ICTD/UNU-WIDER Government Revenue Dataset. Of course, these predictions were made before the COVID-19 pandemic hit, which would have hit GDP growth predictions. As such, this is likely to be less than previously estimated. But this does give a good sense of the overall stretch that could be made in terms of raising revenues from a five percentage point boost. We have also compared this to estimated gaps in the education budget for 2020 (against predictions for 2023 growth) i.e. not a direct comparison but also a good indication of the stretch and possible new budget that could be generated.  
 31. The estimated financing gap taken from: UNICEF (2020). *Education Budget Brief, Nepal* based on the SSDP mid-term review estimates This gap was predicted before the economic fall out of COVID and may now be and underestimate.  
 32. As well as “modernising” the tax administration – which refers to changes in the administrative functions and new procedures. USAID. *Domestic Resource Mobilization. Case Study of Nepal, 1997-2016*.

GDP (i.e. the estimated annual revenue foregone from tax incentives).<sup>33</sup> ActionAid has calculated what 5% of GDP in 2020 (around US\$ 1.68 billion) could have

paid for if 20% of these forgone revenues (around US\$336.6 million) were allocated to education (as per international recommendations)?<sup>34</sup>



33. Taken from ActionAid (2020). *Who Cares? Paying for care work through transforming the financing of gender responsive public services*. Original source is: USAID. Domestic Resource Mobilization. Case Study of Nepal, 1997-2016. [www.usaid.gov/sites/default/files/documents/1865/Nepal\\_DRM\\_case\\_study\\_briefing\\_note\\_FINAL.pdf](http://www.usaid.gov/sites/default/files/documents/1865/Nepal_DRM_case_study_briefing_note_FINAL.pdf).

34. Converted using World Bank WDI data average for 2020. Clearly this is not a direct comparison as the original 5% GDP estimate was taken from a 2016 published report, looking retrospectively at lost revenues. However it is a useful estimate of lost revenues to demonstrate the scale of the issue.

35. In fact the total calculations here come to around US\$200million, leaving more than \$100 million

36. There are 103,384 children out of primary school and 46,598 of lower secondary school (2019 latest years). UIS data per pupil spending at primary school is US\$349.68 (Constant PPPs 2015, latest year available) and US\$267.75 for lower secondary (Constant PPPs 2015, latest year available). All based on UIS data.

37. Average monthly wage in Nepal for primary school teachers (NRs) 37990 (converted to US\$ 319.41). Average monthly wage in Nepal for lower secondary school teachers NRs 39880 (converted to US\$ 319.41). <https://loksewajob.com/salary-scale-of-government-school-teacher-in-nepal/>

38. Students receive a daily meal with an estimated cost of USD 0.18 per day during 200 days of the school year. In 2017, the program benefited 600,000 children. We estimated the total cost for this. <https://education-profiles.org/central-and-southern-asia/nepal/-financing-for-equity>

39. Scholarships are provided for vulnerable groups. The popular scholarship programs include a variety of grants, including the Dalit scholarship, the 100% Girls' Scholarship Program (GSP), poor and talented scholarship, disability scholarship, scholarship for marginalized or endangered, pro-poor targeted scholarship (PPTS), conflict affected scholarship, scholarship to the children of Martyrs, marginalized scholarship, institutional school scholarship, and others. The Dalit and girls grant scheme consists of an amount starting from NRP 450 to NRP 600 (US\$ 3.61 to 4.94) per student per year. Nearly 80,000 students at primary and secondary level received the scholarship in the school year 2016

40. See UNICEF (2020). *Nepal Education Budget Brief 2020/21*

## Financing the future: The 4Rs of Tax Justice

### Tax systems reprogrammed to prioritise the needs of all members of society can deliver:

**Revenue**, generating sustainable funds for education and other public services



**Redistribution**, to curb vertical and horizontal inequalities (those between individuals and those between groups)



**Repricing**, to limit public "bads" such as tobacco consumption or carbon emissions



**Representation**, to build healthier democratic processes, recognising that higher reliance of government spending on tax revenues is strongly linked to higher quality of governance and political representation



Tax Justice 101 Series - [click to view film](#)

## A Call to Action:

ActionAid calls on the government of Nepal to take the following measures needed to fully finance quality, inclusive public education and achieve SDG 4:

1. Increasing the **SHARE** of the budget allocated to education from the current 11.1% of the government budget (4.1% of GDP), by meeting (or exceeding) the UNESCO's benchmarks of 20% of national budget and/or 6% of GDP.
2. Increasing the **SIZE** of the overall budget, maximizing the availability of resources for investment in public education by:
  - Mitigating the effect of macro-economic policies that limit the amounts available for public spending (e.g. by reducing debt and borrowing, seeking reductions on debt servicing and limiting austerity policies). Improve transparency and scrutiny, to allow for a better understanding of borrowings and loans, to ensure a better understanding of the appropriateness of these.
  - Setting targets to increase the current 19.4% tax-to-GDP ratio, including setting-out an urgent timetable to reach a tax-to-GDP ratio of at least 20% and preferably over 25%. The IMF has noted that countries should aim to meet an ambitious (but realistic target) to increase the tax-to-GDP ratio by 5% in the medium term (3-5 years). To do so, governments should focus on:
    - Ending harmful incentives;
    - Reviewing tax and royalty agreements in the natural resource / extractive sector, in particular;
    - Reviewing and cancelling double tax treaties
    - Closing loopholes which enable tax avoidance and evasion in the private sector;
    - Promoting and enforcing fair corporate tax;
    - Promoting and enforcing progressive taxes on personal income and wealth.
3. Increasing the **SENSITIVITY** of national education budgets by:
  - Focusing on equity in public expenditure to redress inequality and tackle discrimination (e.g. expanding access and quality of public education, stipends for children with disabilities; increased investments in incentives for teacher postings in poor rural areas).
  - Developing the Consolidated Equity Index to apply a nation-wide equity funding formulae which explicitly addresses disadvantage and inequality.
4. Enhancing the **SCRUTINY** of national education budgets by:
  - Actively encouraging scrutiny of education budgets and expenditure to promote transparency and accountability and improve efficiency through timely disbursement of funds and that funds are spent effectively (especially in disadvantaged areas) e.g. by enabling or formalizing community and civil society oversight.

## Financing the future: Domestic Financing for Education: The 4 Ss

### Share:

The *share* of the budget is the percentage of the country's total budget that is spent on education.



### Size:

The *size* of the budget is the total amount that the government has to spend. This depends on how much tax is collected and what economic policies are followed.



### Sensitivity:

*Sensitivity* of the budget relates to the extent to which budgets and spending address educational inequalities.



### Scrutiny:

*Scrutiny* of the budget helps to ensure that the money allocated for a service arrives where it is needed.

