Report of the Provisional Independent Technical Advisory Panel[1]
Final
[January 16, 2022]

GPE 2025 Operating Model
Review of Enabling Factors
Federal Democratic Republic of Nepal

Background

In line with the pilot of the GPE 2025 operating model, government and country partners in Nepal have analyzed country progress in four enabling factor areas for the GPE system transformation grant. The Country Requirement Analysis completed by the Nepalese local education group and supporting documentation were shared with the provisional Independent Technical Advisory Panel (ITAP), which is tasked by the GPE Board with providing an independent assessment of country status vis-à-vis the operating model enabling factor areas.

The ITAP assessment seeks to contribute to country policy dialogue in each of the four enabling factor areas. The ITAP also considers the extent to which challenges in enabling factor areas act as bottlenecks to country system transformation goals, and based on this assessment, classifies each area as having a low, medium, or high priority for action. A designation of 'high' priority indicates that identified challenges may act as significant bottlenecks to country education system transformation priorities.

This final report has now been prepared by the ITAP after taking into account comments received from the local education group.

[1] The ITAP operates as an independent advisory body to the GPE Board. ITAP country panel members for this report: Amit Kaushik (Chair), Florence Malinga, Sara Poehlman, Susy Ndaruhutse, and Richard Sack. The views expressed in this report are solely those of the ITAP country panel.

Part A: Main Panel Conclusions

1. Data and Evidence – Low Priority

Nepal has built strong systems and processes to make use of data and evidence for formulating policies and plans and monitoring their implementation at national level, with the especially impressive accomplishment of a web-based education management information system (IEMIS). While the process of federalization shows potential to strengthen accountability, an identified lack of capacity at local levels has been a concern and risks exacerbating education inequities. The next education sector plan faces the challenge of sustaining and improving data and evidence systems to inform decentralized decisions and enable timely, localized solutions that lead to real improvements for students. Proposed adjustments to assessment and examination systems aimed at improving use and capacity at local level are therefore crucial to prevent further educational inequities and to translate data and recommendations into feasible, prioritized actions at the level of local governments. The ITAP notes that despite targeted interventions, the numbers of out-of-school primary students have increased since 2016 and learning outcomes have stagnated since 2012. Considering the shifting structural and political environment that will re-situate data and evidence needs at different levels, the strong IEMIS and improvements planned to address poor learning outcomes provide strong foundations to build the next education sector plan. Given the systems already in place, and the strong track record of using data and evidence for overall management of the education system, the ITAP concurs that this is an area of **Low Priority**.

2. Gender-Responsive Sector Planning, Policy and Monitoring – Medium Priority

The ITAP notes that while gender responsive planning has led to significant progress in achieving gender parity at early, basic, and secondary levels, targeted interventions will still be needed to address persisting social, economic, ethnicity, language, etc., barriers. Nepal's education sector plan is in the final stages of preparation and is in alignment with the new federal system of governance, but details of the new Federal Education Act have yet to be finalized. The ITAP notes that the sector plan has been developed with participation of the various stakeholders in the education sector as a gender responsive and all-inclusive plan. Any remaining gaps in gender-responsive planning, budgeting, policy, and monitoring are likely to be addressed based on the recently completed independent appraisal (which has been considered in the revised version of the sector plan) and the upcoming joint sector review. While current capabilities in this area have served the centralized system well, they are untested as Nepal moves into a federal system where capacity needs will be multiplied and fragmented and may even need to be tailor-made for some local governments. In light of this fact, and even as it notes there are strong planning and policy systems and process at the national level, the ITAP is of the view that additional support may be needed to devolve these planning practices to decentralized levels. For this reason, the ITAP classifies this enabling factor area as **Medium Priority**.

3. Sector Coordination Inclusive Sector Dialogue and Coordinated Action and Coordinated Financing and Funding – Medium priority

Nepal has had a history of implementing education-related programs through a consultative, participatory approach, having introduced a sector-wide approach (SWAp) mechanism as early as 2004. Mechanisms for extensive consultation at the national level are well established and high functioning, and the sector-wide approach has led to regular and periodic joint program and budget reviews that facilitate progress monitoring as well as consultation between the government, development partners, and other stakeholders. Financing and funding are well coordinated, with external support aligned with the national budgetary system and captured at various stages by the government's information systems which reflect them in the annual work plans and budgets. Actual expenditure of funds is also aligned with national treasury operations and guided by an appropriate framework. However, the ITAP notes that some concerns have been expressed about the alignment of local financial mechanisms and functional responsibilities as well as the availability of skilled human resources at the decentralized level. Recognizing the strong planning and sectoral coordination mechanisms that exist at the national level, the ITAP notes that translating these mechanisms and practices effectively to the new decentralized environment will require careful planning and time, particularly in reference to financing systems and capacity building in various areas. While the local education group has categorized this area in two parts, assigning low priority to sector planning and dialogue, etc., and medium priority to coordinated financing and funding, since the factors impacting the former are likely to be the same as those affecting the latter, the ITAP categorizes this enabling factor area as a whole as **Medium Priority**.

4. Volume, Equity, and Efficiency of Domestic Public Expenditure on Education – Medium Priority

The ITAP welcomes the commitment by government to increase the volume of public education financing in Nepal but is concerned about its feasibility since government spending appears to be increasingly financed by public debt. Ensuring that public finances flow in an equitable way to different layers under the new federal system will be important to ensure that poorer households do not end up withdrawing their children from education due to high costs and low levels of learning. The ITAP notes the steady but sustained progress that the country has made in reducing inefficiencies and inequalities in public spending but also notes that two areas need particular attention: (i) continuing to review and rationalize the deployment of teachers to increase equity, and (ii) eliminating "hidden" repetition in Grade 1. These will need to be coupled with a continued focus on targeted interventions for the most marginalized as well as on improving the quality of teaching and learning in order to improve survival rates. In light of these factors, the ITAP concurs with the assessment of the local education group that this enabling factor area be considered **Medium Priority**.

Part B: Assessment of Enabling Factors

1. Data and Evidence

Nepal has built strong systems and processes to make use of data and evidence for formulating policies and plans and monitoring their implementation at national level. The Integrated Educational Management Information System (IEMIS) is an impressive accomplishment, especially in light of the transition to federalism, and has served as an important tool to leverage strong gains in education access and survival[2]. The ITAP commends the development and use of the Equity Index to target resources to disadvantaged children and provinces, as well as the recent transfer of the IEMIS database to a web portal accessible at school level. Regular use of evidence is clearly extensive with government reports such as annual consolidated reports based on EMIS flash reports and school sector development plan (SSDP)/education sector plan status reports used to make timely adjustments to implementation and planning; in addition, nine studies, although conducted through donors without building state capacity, informed the most recent education sector analysis.

The ITAP notes, however, that despite progress in targeted interventions to get out of school children back to the classroom and a period of improvement, the share and number of out-of-school students in Grades 1-5 increased from 1.66 percent (30,866 primary-aged children) in 2016 to 3.7 percent (103,384 primary-aged children) in 2018-19, although out-of-school numbers for lower and basic secondary school have improved significantly during the same period accompanied by improvements in equity[3]. Learning outcomes have also been stagnant in Nepal s schools since 2012, with inequities well reflected in flash reports and generally known to policymakers and teachers. Federalization poses an additional potential challenge to meeting national goals to reverse poor trends in learning, especially in addressing teacher management and deployment. The SSDP mid-term review found that most schools were ill-equipped to correct these large disparities in learning outcomes. While data and evidence use at the national level is strong, it remains to be seen whether the capacities of the 753 local governments are equally well developed.

National learning assessments begin at Grade 3, when disparities are already pronounced, and interventions are less likely to have a catch-up effect versus during the early years from early childhood education (ECED)/pre-primary education (PPE) stage. The results from the three national assessments have not translated into robust quality improvements, nor has continuous learning assessment been implemented or implemented effectively in combination with other quality improvements needed to boost learning outcomes. For example, despite the prioritization of early childhood education, there is no early learning or school readiness assessment that can target equity initiatives and resources at the time in the

[2] IEMIS allows disaggregation of school data by province and local government, with unique IDs provided to each unit to enable utilisation of the data for planning and budgeting. Capacity to use this information is, however, acknowledged to be inconsistent.

[3] In their response to the draft ITAP report, the local education group mentioned that the proportion of out of school children in basic education had reduced from 10.6 per cent in 2015-16 to 5.4 per cent in 2020-21. The impact of Covid-19 is however, not known at this time.

education cycle when they can have the greatest impact, especially in reducing inequities. Developing and administering continuous assessment tests or aligning with the national curriculum framework in the classroom appears to be a struggle for most teachers. Moreover, teachers may be reluctant to admit low progress in their students' learning outcomes because they may perceive evaluations of teaching and learning as part of top-down control and supervision rather than a continuous quality improvement-oriented process to improve results.

Although there is potential for accountability to be strengthened through devolution, lack of capacity at local level has been a concern and risks exacerbating education inequities. The IEMIS enables complex and multidimensional data analysis, including interacting elements like gender, income, geography, and disability status from national to local level, but the education sector analysis does not yet reflect how these significant and important data sets translate to practical use and reforms by local-level stakeholders who may or may not have experience in education or the use of data in complex decision-making.

Widespread accessibility of the web-based IEMIS would provide a powerful tool to link key performance indicators (KPIs) from school to local government and up to national level and ensure supportive interventions wherever gaps are observed. Given that bringing dropouts back into school is more difficult and costlier than early intervention and prevention, annual data analysis, such as the consolidated flash reports, may need to shift to a more regular exercise that provides information proactively to prevent drop-out, so that the local government can intervene in time through incentives such as provision of scholarships. The ITAP notes that the risk of drop-out, especially for girls, is likely to increase due to the impact of COVID-19. While reports show that students exposed to violence and discrimination are at higher risk of dropping out, which for girls translates into the risk of being trafficked, indicators and mechanisms to address violence against students have not yet been integrated into education analysis and plans, which would be important information to find localized solutions that address the varied risks to girls and boys.

It is hoped that the imminent federal education act will offer defined monitoring and reporting structures and mutual accountability through devolved decision-making. The challenge is to sustain and improve data and evidence systems built at the national level to inform decentralized decisions and ensure they are utilized to enable greater responsiveness and timely, localized solutions that lead to improvements in gender equality, early childhood education, and quality teaching. This requires a significant shift in how data is used and produced at different levels, which is a concern in terms of the capacity of local government to absorb these new responsibilities.

The ITAP concurs with the strategies outlined in the local education group analysis report to improve data systems to address the three sector priorities. Centrally produced flash reports offer comprehensive data and complex recommendations, which may be difficult to translate into feasible, prioritized actions at the level of local government without additional tools and support. Analysis and plans moving forward indicate that the shift in focus from data production to its use at the various points of action or responsibility has been acknowledged

to some extent. The ITAP concurs with the recommendations to use EMIS to produce school reports for use of parents and local governments and commends plans to link IEMIS with classroom-based learning assessments in efforts to improve quality teaching.

The SSDP has a dedicated objective to develop a strong, harmonized accreditation and examination system nationwide with detailed implementation plans that need to be transferred over into a federalist structure. With proposed changes to curricula and teacher training, and the increased levels of planning and managerial responsibilities at local levels, proposed adjustments to assessment and examination systems aimed at improving use and capacity at local level are crucial to prevent further educational inequities. To overcome a decade of stagnant learning outcomes, capacity-building, especially for low-performing provincial and local governments, will need to go beyond training and sharing of guidelines to some kind of hands-on mechanism to transfer data and evidence into effective action and outcomes.

A 2012 comparison of student performance in Grades 1- 3 found great benefits of participation in ECED/PPE, including better promotion rates from one year to another, decreased drop-outs, and better school attendance. Students studying in the right age for their grade also perform better than under and over-age students in later years. The local education group may wish to take these findings into account along with the equity analysis that indicates the most disadvantaged children are excluded from ECED/PPE to identify technical and financial resources needed to support the lowest-performing students in the early grades and the districts with the lowest level of achievement, including Achham, Bardiya, Jumla, Khotang, Mahottari, Rolpa, Saptari and Udayapur. The ITAP concurs with the need to monitor non-formal and alternative education as part of learning continuity during crisis and reemphasizes the need to develop clear mechanisms to prevent, map, and monitor out-of-school children as an essential part of the national agenda to promote greater equity and improve education outcomes.

The ITAP concurs with the need to clarify responsibilities and build capacity at local and teacher level in order to improve learning outcomes. Improving student's performance requires addressing both school and non-school factors. Students with greater home support, and those spending less time using mobile phones and tablets perform better. With quality programs and learning materials, students can also perform better irrespective of their SES or home language. The evidence also indicates that teacher practices need to be addressed not only to improve learning opportunities, but also to prevent bullying and violence in the school community.

Conclusion:

The ITAP recognizes the shifting structural and political environment that will re-situate the data and evidence needs at different levels of the education system. While the capacity of local government in education data and evidence remains an area of concern, the strong IEMIS and improvements laid out to address poor learning outcomes provide strong foundations to build the next education sector plan. The challenges of building local government capacity to support national education priorities and sustain data and learning assessment systems, while

not insignificant, are known and are being addressed. Based on the systems in place and the strong track record of using data and evidence for the overall management of the education system, the ITAP concurs that this is an area of **Low Priority**.

2. Gender-Responsive Sector Planning, Policy and Monitoring

The ITAP notes that the *Independent Appraisal of the Education Sector Plan of the Federal Democratic Republic of Nepal*, dated September 2021, provides a thorough and in-depth assessment of the most current Nepal School Sector Education Plan 2021-2030 (ESP 2030). This independent appraisal has considered the several (6) comments from the local education group, and the response from the ministry of education, science and technology (MoEST) notes that it will take the appraisal's comments into account for the final version of the ESP. The ITAP has learned that the ESP has been modified as a result of the appraisal but needs to be translated into English before sharing with the local education group. This will occur subsequent to the forthcoming joint sector review, which may also provide elements for additional revisions to the ESP. As pointed out by the appraisal, in order to promote heightened national ownership of the ESP, the English-first approach of previous plans has given way to a Nepali-first approach for the current ESP, with subsequent translation into English. This may also account for the somewhat unfinished, incomplete nature of the ESP.

Given this situation, the ITAP is of the view that much of the evidence available to it for examination in this enabling factor area has already been reviewed by the independent appraisal. The following sub-sections highlight the ITAP's view of the most salient points that emerge from the appraisal as well as from other available documentation.

Strategic planning frameworks and practices

The ESP is clearly anchored in a human rights framework that is derived from the constitution which guarantees fundamental rights of access to basic education for all citizens, as well as more recent legislative acts that specify education-related rights and priorities. Evidence for this includes moves to improve access and retention, and expansion of the use of mother tongues for teaching.

A major potential bottleneck to implementation is related to the shift to federalism. The ESP does include detailed activities and results for each tier of governance (federal, provincial, local). However, even though progress was made in 2018 on detailing the functions to be carried out by each tier of government, the federal education act has yet to be finalized, which means that the precise roles, functions, and responsibilities at the three tiers of governance and management remain ambiguous. The importance of the institutional challenges related to federalism is recognized in MoEST's annual strategic implementation plan (ASIP)/annual work plan and budget (AWPB) documents. A "Capacity and Institutional Assessment (CIA) for Implementation of the SSDP" was completed in January 2020 and followed-up by a capacity and institutional development plan. There is also the "Capacity Needs Assessment for the Transition to Federalism" (July 2019) that is government-wide, provides good depth, but does not address the specifics of the education sector. Given the capital importance of implementation effectiveness for efficient program execution, the ITAP suggests that the CIA's findings and recommendations be seen as a first step towards the development of more detailed capacity development strategies and plans, especially for the local levels.

Available information indicates that about 25 percent of students in basic education are enrolled in private schools where grade 10 learning outcomes in math, science, Nepali, and English far outstrip those in the public schools. The ITAP notes, however, that the ESP is silent on this aspect of the education sector which does not enter into its objectives and strategies, and therefore does not consider how the private sector could work collaboratively with the three tiers of government. The ITAP believes that this area may well deserve attention, should the local education group decide to consider it.

Operational planning instruments and practices

MoEST's response to the independent appraisal makes clear that its intention was for the ESP to focus on strategy rather than detailed operational planning which, it points out, "will be carried out during implementation within the framework of overall programmatic objectives, targets and norms." This has been the practice during the SSDP (2016-2023) with the production of annual sector implementation plans, work plans and budgets (ASIP/AWPB) which review implementation performance, and outline the strategies, work plans, and budgets for the coming year. Nonetheless, the ESP outlines the arrangements and responsibilities for implementation at the federal, provincial, and local levels, albeit without a detailed action plan. In this context, it should be noted that education sector plans have apparently been elaborated at the local levels (but were not available to the ITAP).

The major current challenges that emerge concern the details of roles and functions at the three levels, the capacities required to carry them out, and how capacities—especially at the local levels—will be strengthened to meet the as yet not fully defined challenges. This is particularly important since, in all probability, organizational strengths and weaknesses at all three levels will determine the success of implementation. Indeed, the independent appraisal finds that "local management capacity is considered by most stakeholders as the most significant factor for successful implementation of the ESP."

Budget programming and monitoring

The financial simulation model covers the standard demographic and enrolment projections up to 2030 and projected costs for the first five years of the ESP (till 2025/26). Although reasonably comprehensive, the model does not include calculations of financing gaps. The model lists about 200 ESP activities, most of which are costed, with the notable exception of activities related to teachers. The independent appraisal notes that although the model is generally aligned to the ESP, there are a few consistency issues between ESP targets and the model's parameters for some activities.

The annual ASIP/AWPB documents provide budget information for each activity of the SSDP. For example, the ASIP/AWPB for 2021/22 provides the capital and recurrent budgets for about 340 specific activities to be implemented at the federal, provincial, and local levels. Budget execution is tracked; data for 2019/20 finds that execution rates are 73.7 percent at the federal level, 88.5 percent at the provincial level, and 86.5 percent at the local level. Overall execution rate for the SSDP budget was 84.3 percent.

Sector monitoring mechanisms and practices

The ITAP notes that unlike in the ESSDP where most of the monitoring functions were centralized, the ESP has to design an M&E framework that fits into the federal system of governance. It would be useful to clarify whether the SWAp mechanism in education planning and implementation would continue after federalism although it is given as one of the opportunities for the ESP as it has been in existence since 1994. Evidence from the joint sector review report of 2020 on the SSDP notes that there has been impressive progress on almost all KPIs and the few that are lagging behind are to be carried forward to 2020/21.

While EMIS data will be available for monitoring purposes of the ESP, the indicators will need to be all inclusive with reference to the Sustainable Development Goal 4 (SDG4) indicators. The draft ESP needs to be specific on the expected M&E arrangement, and the roles, responsibilities, and expected results at each level of governance. The development of a robust EMIS will safeguard the institutional capacity for monitoring and needs based planning as emphasized in the ASIP/AWPB report.

The independent appraisal notes that the results framework is comprehensive and ensures that all indicators are aligned with their activities, structure, and content of the plan. Some key performance indicators have been identified in some sub-sectors as opposed to the disbursement-linked indicators (DLI) used in the SSDP. Given the adoption of federalism, with 753 local governments and seven provinces, it may not be possible to continue with the DLI indicators as many functions that have previously been at the center will have been devolved to the local governments. The ITAP recommends that there is need to develop, in greater detail, the precise monitoring and evaluation, and reporting processes at each level and the linkages between them, prioritizing the utilization of the data collected and analyzed through the EMIS. The targets proposed will need to be aligned to the costing model for them to be realistic. Consideration should also be given to the development of an EMIS for each province or, at least, a sufficiently disaggregated national EMIS that allows for reasonably granular analyses at the provincial and local levels. The ITAP notes the need to strengthen the IEMIS and make it fully automated with the ability to track necessary indicators based on the plan's key result indicators and results framework while taking into consideration specific local indicators.

Capacity-building for local government officers in gender-responsive planning, budgeting, M&E, and reporting will be essential to ensure education units are fully operational. Data collection and coverage for EMIS will probably improve as each local government focuses on their catchment area.

The ITAP agrees with the local education group that to ensure evidence-based gender-responsive and inclusive planning, all EMIS data, including that related to administration and learning outcomes should be gender-disaggregated, as well as disaggregated by indicators to allow monitoring of educational attainment of vulnerable groups.

Gender mainstreaming across the policy continuum

The ITAP notes the significant progress made in ensuring that gender parity is achieved and maintained at basic and secondary levels. Nepal has strong gender equity and social inclusion

policy frameworks in place both at national and at the school level. According to available reports, Nepal has achieved gender parity in basic and secondary level enrolments. Even at early childhood development and education (ECDE), the ratio of girls to boys is 0.90. The ITAP notes that despite that achievement, the following barriers still exist – gender, socio economic status, ethnicity, caste, language, geographical location, and rural/urban differences. Disparities continue to exist in student enrolment, participation, and achievement among children in vulnerable situations (including situations of child marriage where Nepal had one of the highest rates in Asia), and children with disabilities. The ITAP therefore agrees with recommendations that there is a need for targeted packages to address identified inequalities through specific grants, guidelines, special programs for remote areas, and re-enrolment for marginalized children, among others.

Adapting and adjusting to the new requirements of federalism would appear to be the major challenge; this is recognized by the ESP and emphasized by the independent appraisal. This will not be a simple task as it implies: effective implementation will require spelling out in reasonable detail the roles and functions of all actors at the three tiers of governance; ensuring effective communication between them; and, most importantly, ensuring adequate capacities at all levels where "capacity" is seen as the interactions between human (skills), organizational/managerial, analytical, legal, and financial capabilities and resources.

Conclusion:

Nepal's ESP is in the final stages of preparation and is in alignment with the new federal system of governance, whose details, however, have yet to be finalized. The ESP has been developed with the participation of the various stakeholders in the education sector as a gender-responsive and all-inclusive plan. With the independent appraisal completed, plus the upcoming joint sector review, the MOEST will be able to fill in the gaps as far as gender-responsive planning, budgeting, policy, and monitoring are concerned. The current capabilities have served the centralized system well but are untested as Nepal moves into a federal system where capacity needs will be multiplied and fragmented and may even need to be tailor-made for some local governments. For this reason, the ITAP categorizes this enabling factor area **Medium Priority**.

3. Sector Coordination: Inclusive Sector Dialogue and Coordinated Action and Coordinated Financing and Funding

Nepal has long had a practice of implementing education-related programs through a consultative, participatory approach, even if occasional challenges have been encountered within that process. Since 2004, a sector-wide approach (SWAp) has been used as the primary implementation model for the sector, beginning with the Education for All program commenced in that year. The Nepal School Sector Education Plan 2021-2030 (ESP 2030) presently under finalization continues that tradition, building on the costed 2016-2021 School Sector Development Plan (ESDP) that ended in July 2021[4].

Each of these plans has followed an increasingly sophisticated process of consultation and coordination, encouraging multi-stakeholder dialogue and ownership. The development of ESP 2030 commenced in March 2020 but unhappily coincided with the start of the Covid-19 pandemic, which had an inevitable impact on the planning process. As the EU's independent appraisal report notes, many of the planned consultation and collaboration activities had to be carried out remotely or online which may potentially have limited the quality of stakeholder participation. Unlike the past however, a broader, wider consultative approach was adopted, with the plan originally developed in Nepali to make it accessible to more stakeholders, instead of being first developed in English and then translated.

Mechanisms for extensive consultation at the national level appear to be well established and high functioning. The SWAp structure in place has put in place regular and periodic joint program and budget reviews that serve as forums for progress monitoring as well as consultation between the government and education development partners. The *de facto* status of SWAp members as a functional local education group was further institutionalized *de jure* through the instrument of a memorandum of understanding (MOU) in 2017, formally setting out various roles and responsibilities for implementation of the SSDP.

The ITAP notes that despite the many programs implemented since 2004, learning outcomes remain low, while the number of out-of-school children at the primary stage has increased since 2016; this situation has undoubtedly been further affected by the Covid-19 pandemic and associated school disruptions. The transfer of responsibilities for basic and secondary education to local governments as envisaged by the 2015 constitution has also had an understandable impact on the delivery of school education as implementation arrangements have had to be re-examined and adapted.

The devolution of responsibilities to local governments has posed significant challenges in the availability of technical skill and manpower at various levels, as well as in adequate dissemination of information to the new structures. While acknowledging that Nepal has in place strong sector coordination mechanisms that fulfil the GPE criteria, the ITAP also notes that transition to decentralized governance may pose some challenge to smooth inter-sectoral and institutional coordination at devolved levels while also requiring adequate time

[4] Originally planned to cover the period 2016-2023, the SSDP was revised to a five-year plan in light of changed circumstances after a mid-term review in 2019.

for establishment of robust delivery mechanisms at these levels. To this process must be added the inevitable impact of delays and difficulties caused by the pandemic.

Well established mechanisms of sector coordination that have been successful at the central level may need time to be replicated at the local government levels, where "local non-formal power dynamics and discriminatory norms" can exert influence on decision-making and impact the degree of coordination. The ITAP is therefore of the view that pending this replication, there is a risk of setbacks to pre-existing challenges of reaching targeted completion rates for basic education and desired learning achievement levels.

Over the last decade, increasing government resources[5] have been supplemented by the joint funding partners to the extent of US$1.4 billion. The joint funding agreement in place for the SSDP mandates consultation and reporting on various aspects at different points in the implementation process. The process is well aligned with the national budgetary system, with pooled funding allocations being captured at various stages by the government's information systems and reflected in its annual work plans and budgets. Systems for drawing and utilizing these funds are fully aligned with the government's treasury operations and guided by an appropriate framework.

With the transition to federalism however, several areas need further clarity, particularly in respect of local financial mechanisms and the manner in which functional responsibilities align with financial ones. Concerns have been expressed around availability of human resources, capacities and preparedness of local governments, and the high degree of dependence on federal fiscal grants along with its implications for their autonomy. Education has been noted to be a low priority area for many local governments by the government's own education sector analysis, and the absence of federal legislation providing a common, unifying framework leaves unclear the distribution of responsibilities between various levels, thus increasing the risk of distortions in education delivery.

Local governments receive an average of 89 percent of their financing for education in the form of conditional grants from the federal government and supplement that with part of their own resources. However, there appear to be wide disparities between local governments in the degree to which they can mobilize such supplementary funding. Questions have also been raised about equity in deployment of teachers and other resources across various local government jurisdictions and the funding mechanisms used for calculating funding requirements.

Given the fact that the process of federalization is not yet complete and that several measures may need to be taken to fully empower local governments including mitigating the worst impact of Covid-19, the ITAP is of the view that further time will probably be required to institute robust mechanisms at the local government level to fully coordinate and align the various available financial resources.

[5] Domestic financing increased from 3.8 percent of GDP in 2011 to 5.2 percent in 2018 before showing a recent decline; at US$1.47 billion for FY 2020-21, the share of education in the overall government budget was 12 percent. There is now a firm commitment from the government to increase it to 16 percent by 2025.

Conclusion:

Nepal has had strong sector coordination mechanisms at a national level that have served well during a time when educational programs were designed and implemented from that level. The ITAP recognizes the strong planning and sectoral coordination mechanisms that exist at the national level, but also notes that translating these mechanisms and practices effectively to the new decentralized environment will require careful planning and time, particularly in reference to financing systems and capacity building in various areas. While the local education group has categorized this area in two parts, assigning Low priority to sector planning and dialogue, etc., and Medium to coordinated financing and funding, since the factors impacting the former are likely to be the same as those affecting the latter, the ITAP categorizes this enabling factor area as a whole as **Medium Priority.**

4. Volume, Equity, and Efficiency of Domestic Public Expenditure on Education

Volume of public education financing

For more than a decade, Nepal has consistently dedicated around 4 percent of GDP to education though the percentage of national expenditure on education has declined over the same period from a high of over 19 percent to around 12 percent. This reflects a time of rapid GDP growth in the country which has inflated the denominator against which the percentage spent on education is calculated and puts the proportional decrease in national expenditure in wider context. The education budget is presently the largest sectoral budget in terms of volume, demonstrating the government's commitment to prioritizing education. The ITAP commends the further commitment by government to increase the share of the national budget allocated to education to 16.1 percent and the share of spending as a percentage of GDP to 4.7 percent by 2025 and include this as a key performance indicator in the ESP 2030.

	2018	2019	2020	2021	2022	2023	2024
Education as percentage of GDP	3.8%	4.1%	4.4%	3.5%	4.1%	4.4%	4.6%
Education as percentage of government expenditure (excluding debt service)	13.7%	15.5%	13.7%	11.6%	12.1%	12.0%	

Table 1: Share of education expenditure in GDP and in total government expenditure (Computed from (i) Education Sector Analysis for 2018 to 2020, and (ii) Domestic Financing Requirements Matrix for 2021 to 2024 completed by the country)

Budget execution rates for education in recent years have ranged between 80 percent and 95 per cent. As recommended in the education sector analysis and noted elsewhere in this report, there is a need to strengthen the use of EMIS to link the budget with policy priorities to improve execution rates, particularly at local level.

Government spending has exceeded government tax and non-tax revenues in recent years, resulting in increased borrowing to fund a gap equivalent to 10.7 percent of GDP, which may have worsened due to Covid-19. This raises concerns within the ITAP about the sustainability of projected increases in the education budget given the ongoing reliance on debt financing. Most taxes are collected at the central level and redistributed as revenues to sub-national levels through four types of federal grants: fiscal equalization grants, conditional grants, complementary grants, and special grants. The Natural Resource and Fiscal Commission has developed a formula based on a variety of parameters including incidence of poverty,

population size, revenue generation ability, cost of service delivery, and geographic area, in order to distribute tax revenue to the three layers of government (federal, provincial, and local). However, there is not yet full clarity about how education grants will be allocated at provincial and local government levels or to schools, although an equity index has been developed (see more detail below in equity section).

The ITAP recognizes that the transition to federalism will relocate domestic spending needs to different levels of the education system. The ITAP welcomes the fact that the medium-term expenditure framework (MTEF) for 2019 to 2021 was realigned with the federal structure and was being prepared as a central, provincial, and local level MTEF, which is an encouraging sign for the financing of ESP 2030. Local governments receive an average of 89.4 percent of their education budget in the form of federal conditional grants and then supplement the difference with their own resources. However, there is wide variation between local governments in the extent to which they can mobilize supplementary funding and the education sector analysis noted that education is a low priority area for many local governments risking widening inequities in the allocation of resources. Ensuring equitable financial allocations to the different levels of the system will need to be a priority for the government going forward[6].

There is a high level of household spending on education in Nepal, estimated at about 49 percent of the cost of sending children to school. This is heavily financed by remittances sent from workers abroad (equivalent to around a quarter of GDP in 2019). Many families choose to pay for private education for their children (especially their sons) where English is the medium of instruction and where it is perceived that the education is a higher quality. However, this creates challenges of equity where poorer households may not be able to afford payment for this perceived higher quality education. The Covid-19 pandemic has caused some uncertainty about the sustainability of such high levels of remittances which poses a risk to household financing of education in Nepal. Estimates of the impact of Covid-19 on the Nepali economy suggest that potentially as many as a third of the Nepali population could have been pushed back into poverty. In addition, it may also result in a lack of income for private schools resulting in their closure – it has been suggested that this could result in 20 percent of students from private schools re-enrolling in government schools. The ITAP notes that the overall high burden on households is an area that could be addressed in the ESP 2030 and encourages the local education group to consider giving it due priority.

Equity of public spending

Caste, ethnicity, and geography: Nepal is a country characterized by cultural, ethnic, and religious diversity. Significant and sizeable disparities exist in access and learning based on caste and ethnicity, with children in remote hill and mountain zones being particularly disadvantaged. Of the seven provinces, Province 2 is lagging behind most in terms of access to education. Children in particular provinces and population groups (e.g., Dalit and Janajati)

[6] The ITAP notes the local education group's statement that MOEST has no control over utilisation of fiscal equalisation grants by local government, which becomes dependent on the priorities of elected members. It also notes that data so far suggests that around 7 per cent of such funds are actually allocated to education at the local level.

are also most likely to repeat a grade or drop out. Children who are non-dominant language speakers are also particularly marginalized in learning. Nonetheless, the ITAP notes that the government has been explicitly targeting equity of access for children from marginalized groups as one of the five priorities of the SSDP, through various scholarship programs that have helped increase access for many.

Gender: The ITAP celebrates that Nepal had achieved gender parity nationally in basic education prior to the start of the SSDP, although there remain some disparities at provincial level particularly in Province 2, Karnali and Sudarashchim.

Out-of-school children: The ITAP commends the government on the progress it has made in reducing the overall percentage of children who were out of school in basic education, including a reduction of almost 60 percent within the 10 districts that had the highest disparities measured through the Equity Index, even though there has been some increase in these numbers at the primary stage. Retaining these children will need to be a priority of the ESP 2030.

Disability: Children with disabilities have the lowest level of access to, and participation in, education in Nepal and the worst learning outcomes. This highlights the need for a better understanding of how domestic finances can provide greater support to these children.

Socio-economic status: While the data is old, the 2012 Public Expenditure Tracking Survey using Nepal Living Standards Survey data from 2010 found that the poorest quintile was receiving the largest share of public spending on primary education showing that at primary education, government spending was pro-poor. However, at higher levels of education, it is the richer quintiles that benefit. As mentioned above, given that around half the costs of education fall on the shoulders of households, this is a particular challenge for the poorest quintiles.

Deployment of teachers: The number of positions of different types of teachers has been kept constant in the central budget with the expectation that local governments or schools pay for any additional teachers needed from their own resources. However, not all local governments and schools have the capacity to do this, which leads to disparities in the deployment of teachers. In addition, there are higher numbers of teachers relative to students in basic grades 1-5 than in other grades as a result of the declining school-age population. The federal government is in the process of rationalizing and redeploying teachers under local governments. However, this will need to be coupled with (i) ensuring teachers have the right skills (and where necessary, receive additional training) when they are redeployed; and, (ii) the provision of new (additional) teachers as the system expands at the higher grades. Funding will need to cover <u>all</u> teachers to ensure a more equitable deployment based on average class sizes and the pedagogical needs of different students and schools.

The ITAP commends the government for the development and use of the equity index for education resource allocation. This is a composite index of access to education, internal efficiency, and learning that ranks all of the 753 local governments (supplementing the previous formulation by district) and targets financial resources for interventions that support disadvantaged children to have more equitable access, participation, and learning outcomes. However, the ITAP notes that due to some constraints in relation to examination data, this

ranking of local governments was calculated only on the parameters of access and participation.

Learning: Learning outcomes have stagnated in Nepal and at some grades slightly worsened over time. The SSDP mid-term review reported that learning outcomes were low in rural districts and among disadvantaged students, with the majority of schools not being equipped to address these large disparities in learning outcomes. This suggests that fiscal equalization grants, without a focus on developing the capability of teachers (including in teaching in local languages), are unlikely to be able to address rebalance inequities.

Efficiency of public spending

The ITAP notes the progress that Nepal has made since 2012/13 in internal efficiency in basic education with an overall decrease in repetition and dropout rates and an increase in the survival rate – 83 percent of students starting Grade 1 now complete Grade 5, 60 percent complete Grade 10 and around 24 percent complete Grade 12 (the end of secondary school). This reflects real progress on efficiency, one of the five focal areas of the SSDP. Despite this progress however, repetition rates peak in Grade 1 due to the persistent challenge of the problem of "hidden" repetition. This occurs when under-age children are enrolled in Grade 1 with the expectation that they will repeat the grade the following year and not technically be counted in the statistics. Dropout rates peak at Grade 1 and then again at Grade 8, when this is largely due to the need to help with household chores, find work, or engage in migration. In addition, poor quality teaching means that many students are not adequately prepared to pass their Grade 8 exams. Inefficiencies remain with average learning-adjusted expected years of school (LAYS) only being 7 years even though children have been in school for 12 years. This would seem to indicate a need to address issues of quality as a means of improving efficiency.

The closure of some small schools in communities that are scattered and consolidating/merging them into larger schools to improve quality and efficiency may have inadvertently worsened equity, as these schools are now further away resulting in challenges for some children in accessing these schools. This is also likely to result in an increase in student-teacher ratios which are already higher in more remote areas compared to the capital and the Midhills areas of the country. The ITAP recommends that the local education group consider undertaking further research on the optimum size of school and number of teachers for small rural schools to ensure a focus on equity as well as efficiency.

With the ongoing federal transition that has devolved responsibility for delivery of basic and secondary education to local governments, there is potential for inefficiencies due to unclear mandates, so this may also be an area that needs further monitoring by the local education group.

Conclusion:

The ITAP concurs with the local education group's assessment of this enabling factor area as **Medium Priority**. While the country has made significant progress in reducing inefficiencies and inequities in public spending through targeted interventions for marginalized and

disadvantaged groups, there is still some room for further progress especially in (i) ensuring early entry to primary school is not used as a substitute for pre-primary education, and (ii) further rationalizing the deployment of teachers. The ITAP notes that improving the quality of teaching and learning is likely to continue to improve survival rates, including for the most marginalized and disadvantaged. While the ITAP commends the government's commitment to increasing the share of domestic resources spent on education over the next five years, there are concerns that this may not be feasible in light of increasing public debt.

Part C: High-Level Summary of Enabling Factors Assessed as High Priority

Enabling Factor	Rationale for High Priority	Country Response[7]
NIL		

[7] To be completed by the local education group in their response to the final ITAP Report