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Educational Financing in Nepal: Challenges, Opportunities, and Policy Implications

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Article Info

Abstract

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Education is the foundation of a nation's progress since it shapes its economy and society. Sufficient financing in education is inevitable for overall development of national economy because all sectors' skilled and expert manpower are produced from educational institutions. Proper financing makes the educational institutions and their programs more efficient to provide quality education. This study aims to explore the sources of educational financing in Nepal and examine the distribution of educational financing across different levels and types of institutions. This study employed desk review approach to bring rigorous and useful information of study issues. Desk review research method was taken as an appropriate because it allows for the synthesis of existing evidences, policy documents, and research findings. This study found that the main sources of educational financing are government, external donors, private institutions, and community contributions. Findings show that the significant portion of educational funding goes to school level, while higher education receives a smaller portion. Government funding in education in Nepal remains about 11% of total national budget and 3-4% of GDP but government itself committed to spend 20% of total budget to fulfil SDG goal 4 and (United Nations Educational Scientific and Cultural organization (UNESCO) recommended 4-6% of GDP. These budget inequalities have a significant impact on learning outcomes and educational equity because insufficient financing can restrict student support services, infrastructure development, and instructional quality. This study recommends to increase in government funding in education, strong oversight, equitable private sector regulation, and more stable funding for critical program to achieve constitutional and SDG goals.

Keywords: Desk review, educational financing, sources, allocation

Education plays the vital role for national development by producing sufficient human resources within country and worldwide. It fosters the skilled and capable human resources not only to increase the productivity but also for economic transformation, improved-living standards, infrastructural development, social, cultural, and political prosperity of country. Education is the cornerstone of a nation's progress since it shapes its economy and society (Nwokike & Nwadike, 2023; Swargiary, 2024; Zhang et al., 2024). Only those countries that have acquired the necessary knowledge and abilities can benefit from the opportunities and difficulties brought about by globalization. A prosperous and educated people are fostered by pertinent, high-quality education and training, which is common in the new environment and offers possibilities to socially and economically disadvantaged segments of society (Hanushek & Woessmann, 2023). Sufficient financing in education is inevitable for overall development of national economy because all sectors' skilled and expert manpower are produced from educational institutions.

Educational financing is inevitable to make quality education. Proper financing makes the

educational institutional and their programs more efficient to provide quality education (Maruhawa, 2023). Though, there is crucial role of financing in education is difficult to maintain essential fund for educational institutions from government and private sides. In order to manage education successfully and efficiently through education financing management, funding for education must be provided within the framework of decentralization and educational autonomy. Education financing opens up a diverse types of employment opportunities which improve people's living standards and country's economic prosperity and sustainable development. Financing in education performs as a substance for making country's youth properly for the social, cultural, and economic development of the nation (Zumeta et al., 2021). Countries with high investing in education sector make returns for longtime and durable way.

In Nepal's education sector financing, before the arrival of modern democracy (early period of 1951) financing of education sector was heavily dependent in community-based funding. In that period, mainly local communities, religious institutions, and societies rich and humble peoples provided the expenses for local level schools. Government role in that time was only granted permission to open schools rather than funding them. After the political change in 1951, Nepal's government started to provide grants to schools to maintain the teacher's salary. In Nepal, National Education System Plan (NESP) of 1971 was the first education policy which initiated the financing to education sectors through government by considering education as public goods. Though, government was facing financial challenges to funding education due to financial constraints in that period. When multiparty system was established in 1990, government started more liberal and market-oriented approaches in education policies. Government initiated cost-sharing policy in education by allowing to open private schools and collect fees from students. Government also encouraged to communities and individuals to take financial responsibility in higher education specifically.

The constitution of Nepal-2015 made a significant change the unitary government role to three tier government system i.e., federal government, provincial government and local government to govern the educational institutions. The governance and management of basic and secondary level education fall under the jurisdiction of the local level and university level education system fall under federal government. The university level education is government by federal government. From early childhood education to higher education, educational opportunities are part of a national system of provision according to the 2015 Education Act 8th Amendment (Government of Nepal [GoN], 2015). In recent period, international donors and organizations like world bank and United Nations International Children's Emergency Fund (UNICEF) have become significant sources of educational financing in Nepal, specifically to improve education quality, access, and equity.

However, despite a perceived lack of clarity regarding procedures for decentralized budgetary and governance frameworks for education, there is a perception of education stakeholder that, even though federalization is still in its transitional stage, policy and practical planning is not prioritized choices pertaining to education. Even though politically policy stakeholders have discussed the value of education in Nepal's recent democratic transition, informal patronage politics still have an impact on the local education system. This could be seen as officials' unwillingness to leave the big cities to serve in municipalities or as teachers' apparent relocation to more advantageous locations in reaction to local social and political power dynamics (Daly et al., 2020). The purpose of this study is to gain an in-depth understanding of the educational financing system in Nepal. Specifically, it aims to explore the sources of educational financing in Nepal and to examine the distribution of educational financing across different levels and types of institutions.

Methods and Materials

This study employed desk review approach to bring rigorous and useful information of study issues. In this study, desk review research method was taken as a suitable because it allows for the synthesis of existing evidences, policy documents, and research findings without conducting primary fieldwork. Researcher first identified the relevant documents from government repositories, international organizations, academic databases, and published research articles. After finding the sources, they were screened based on the appropriateness to this research objectives, credibility of the publishing body and coverage of educational financing issues in Nepal. Finally, the screened sources were reviewed to extract key information regarding funding sources, distribution patterns, challenges, and policy implications.

This study included government reports and official statistics from the Ministry of Education, Science and Technology (MoEST), National Planning Commission, and Ministry of Finance. Besides governmental documents, researcher also reviewed the donor agencies reports i.e. World Bank, UNICEF, UNESCO, and Asian Development Bank (ADB). For more exploration and evidence, researcher reviewed the academic literatures, including peer-reviewed journal articles, conference proceeding, and thesis related to educational financing. Policy documents and frameworks, such as national education plans, sector-wide approaches, and international commitments related to education financing.

A structured search strategy was applied using academic databases i.e., Google Scholar, JSTOR, ERIC and institutional websites i.e. MoEST, World Bank, UNICEF, UNESCO, and ADB. Keywords i.e. “educational financing in Nepal”, “sources of education fundings”, “education budget allocation”, “public and private education finance”, and “challenges of educational financing in Nepal” were used. By systematically synthesizing evidence from these diverse sources this study analyzed the results and provided the comprehensive overview regarding the given issue. Analysis of this study was conducted in thematic way by using the data analysis software Atlas.ti.

Findings

Findings of the study present in thematically by dividing the whole issue into three dimensions: sources of educational financing, allocation, and distribution of fundings.

Sources of Educational Financing

Educational financing is contributed by different sources in Nepal. Government documents and literatures provided the evidence of main funding by government itself for education. External donors, community peoples and fees of private educational institutions also play significant role in educational financing. While the Constitution of Nepal-2015 (GoN, 2015) was promulgated, it declared education as a fundamental right and ensured free and compulsory basic education to be a responsibility of the nation. This dedication to the Constitution illustrates Nepal’s adherence to global education objectives, particularly the United Nations Sustainable Development Goal 4 (SDG4), which emphasizes inclusive and equitable quality education for everyone. Nepal’s government allocated around 11% budget in education from total National budget over fifteen years span. In FY 2025/26 the Ministry of Education, Science and Technology allocated 10.75% budget in education sector from total budget though, Nepal government made commitments to allocate 20% budget in education to meet sustainable development goal 4.

Government Funding

The significant funding in education is managed by the federal government. Among the funding in education, local level receiving highest portion than provincial and federal government. In FY 2024/25, Ministry of Education has allocated 69.41% budget to local government, 28.33% for federal, and only 2.26% for province level (Ministry of Finance, 2024). The highest portion of received budget is expending in teachers’ salaries of communities by local government. For example, 78.21% of received budget by local government expenses in teacher’s remunerations. Government fundings in education is only sufficient for salaries, infrastructures, free textbooks and subsidies to local level institutions. Conditional grants received by province and local governments helps in decentralization of education budget in context-specific needs. Due to the variation in capability of local level governments, funding to local level government carries issues of accountability and efficiency.

Private Sector Fundings

Private sector’s contribution in education sector is high in Nepal. Private schools and colleges invested huge amount to establish and run the institutions (My Republica, 2023, April 14). Such type of institutions also collect income from fees of students, so, due to private education institutions contributed directly and indirectly in the nations’ educational development. Private sector funding in education is unequal by province, region, school/college type and levels. Besides the private institutions, many bighearted people contribute to education sector by providing land to build buildings, providing scholarship to students, purchasing infrastructures and pedagogical improvement purposes. However, the funding by private sector creates gap between have and have not group in attainment of quality education. It also creates pressure to poor people to send their children in private institutions though; their economic status can fulfil only for sustain (Education International, 2015, July 16). Government

regulated to private schools that they can collect fees from students through specific titles but follow up to institutions by government officials is weak and less transparent.

External Sources Fundings

Various external sources such as Asian Development Bank, EU, UNICEF, Norway and world Bank provide fund for Nepal's education sector development, for quality and inclusive education to all. Basically, in in school education, external funding sources play vital role (MoEST, 2023, May 31). The external source of school education funding contributed 27% in total fund and government contributed 73%. External fundings are provided in the form of building construction, infrastructures purchase, pedagogical and curricula improvement, scholarship and conditional grants. As our government cannot spend huge amount to construct building in less time period, external funding sources allow such sector (World Bank, 2023, August 23). Though, there is vital role of external sources of funding, sometime there may be different interest of donor than local needs.

Community Contribution for Funding

Individuals, local foundations, and NGOs play crucial role to develop education in local context. Local people provide grants and donation to maintenance the buildings, furnishing, and infrastructures support. Various NGOs and local foundations provide the financial support to books, notebooks, laboratory as well as teacher's salary. Community people as parents contribute huge amount of funding to education in the form of fees, uniform, extra-curricular activity, transport, and extra classes. Contribution by community in local schools and colleges boosts ownership and responsiveness of institutions to community requirements. This funding system can develop sustainability in education as local community expenses for schools and colleges. But the community contribution varies as region, have not group, marginalized communities may not contribute sufficient way. There exists irregular funding in education through communities so, there may be less reliable for government planning in financing of (Education International, 2015, July 16). Expectation from community people may impose burden to poor people in sometime when institutions demand more amount of investment.

Allocation and Distribution of Funding

This section provides the brief overview of the allocation and distribution of education funding through government and external donors. Mainly this section explores with three themes i.e., allocation of education funding across levels, distribution between public and private institutions, and allocation for specific programs.

Allocation of Education Funding Across Levels

Nepal government's recent budgetary practices clearly focus to funding significant portion of total education fund in school level financing. In the FY 2024/25 budget, Ministry of Education was allocated 69.41% budget to local government as conditional grants. Local government spent huge amount from received budget on teachers' remunerations. As we see the government financing in education, it remains modest relative to Gross Domestic Product (GDP) over the last decade. Nepal's government financing in education as a single digit percentage of GDP (3-4%) (World Bank, 2024). Higher education gets a less portion of total education funding with comparison to school education. Historically, the government financing in higher education of Nepal remains lower than school education. In current time, higher education is funding differently, universities and colleges get a mixture of central budge support through the University Grants Commission (UGC) and line-ministry transfer, internal income, donor support, and community base funds. Recent EMIS and UGC reporting shows growing demand for higher education but limited growth in per-student government funding (University Grants Commission, 2024). So, it shifted the financial burden of higher education on individual students, parents and private sectors.

Public vs Private Distribution

Whereas, government provide the funding mainly for teacher's remuneration in school education, obviously private funding plays vital role for country's education financing. Increasing numbers of private schools and colleges within country clearly shows the growing financing of private sector for national education development. In Nepalese context, government financing provides the basic requisites for educational institutions but private financing provides better facilities so, this dual financing system creating the inequalities between have and have hot group of people within nation (Action Aid Nepal, 2022,20 May). Government provides various scholarship schemes for school and university level

students, combined with donor-supported initiatives for technical and vocational education training (TVET) and skill training.

Allocation or Specific Programs

Nepal government also financing for scholarships, vocational training and TVET but such financing frequently changing yearly and based on project cycle. This allocation covers few amounts with comparison to other titles (Aryal, 2020; Parajuli et al., 2020). So many capable students specially in higher level are unable to attain education due to financial constraints and in other hand labor market get fewer human resources than they require.

Discussion

The objectives of this study were to explore the sources of educational financing in Nepal, to examine the distribution of educational financing across different levels and types of institutions, and to explore the challenges related with the current educational financing in Nepal. The results are presents in thematic ways so, the discussion of this study also in such themes by adding critical appraisal.

Diverse Sources of Educational Financing

Results shows that the main sources of educational financing are government, external donors, private institutions, and community contributions. This finding is supported by the document of (Ministry of Education, Science and Technology [MoEST], 2023, May 31) that the Government of Nepal in its cooperation with development partners formalized a joint-financing arrangements of about US\$ 780 million in development assistance to support the School Education Sector Plan in 2023. Moreover, previous studies explored that the Nepal's government committed to free and compulsory basic education through Nepal constitution (2015), that focuses the heavily financing in education sector. Though, the reality is far from stated policy, and government financing has not always been sufficient (United Nations International Children's Emergency Fund [UNICEF], 2020).

Similarly, study findings explore the private sector' funding in education. Schools and colleges received the large amount of fund through fees from parents. My Republica (2023, April 14) reported as private investment in schools in Nepal has exceed Rs 500 billion for infrastructure and human resources. It clearly shows the private funding through fees and infrastructure investment is a major source of educational funding. Though, the studies also explored the issues regarding equity and regulation of private sector inclusion because these institutions run like profit motive marketing than academic institutions (Education International, 2015, July 16).

Community contributions are less well documented in national information system, but study finds significant contribution of community members and local NGOs in local level educational institutions for infrastructures support, volunteer Labour, uniforms, and books. However, the contribution of community in education financing found inconsistent among regions, and rural and urban context. This finding is aligned with the findings of Education International (2015, July 16).

While the government financing in education sectors remains around 11% of total national budget and increasing the funding of private institution's fees may create the gap in access and quality of education on the basis of geographical region and community wealth status. On the other hand, external donor's funding may not align with local level needs and the external funding come with some conditions (World Bank, 2023, August 23).

Allocation and Distribution of Funding

Findings show that the significant portion of educational funding goes to school level, while higher education receives a smaller portion. This situation creating the high burden of education funding to individuals and private institutions. Higher education is important to produce human resources but in the most of the developing country cases, the government financing seems to lower priorities including Nepal (UNESCO Institute for Statistics, 2024).

Government funding in Nepal as a share of GDP has been around 3-4% in recent decades, whether UNESCO recommended 4-6% of GDP for significant educational returns (United Nations Educational Scientific and Cultural organization, 2016). In federal government system, financing in education is heavily decentralized. The federal government provides much portion of total education funding to local government. However, studies explored the issues of local government's capability variation (Regmi, 2019).

Public Versus Private Distribution and Inequality

While government provide education funding only for sustain educational institutions and private funding provides more facilities for students it creates the inequality between community schools/ constituent campuses students and private schools/colleges students. This finding s similar to other previous studies findings. A study conducted by Bhatta and Pherali (2017) explores as the growth of private schools within nation is both the symbol and reason of inequality. Another study conducted by Khondoker et al. (2019) explored as private funding in education is high among urban, developed, richer, and educated group of people whether, back warded group of people only access of basic facilities in government owned schools.

Conclusion

Education financing of Nepal depends on the government allocation, external sources, private sector investment, and community contributions. There is significant gap between government's commitments and reality of educational funding practice in Nepal. Due to the insufficient financing from government side, the private funding is found continuously increasing and creating inequalities. Whether community contribution is crucial in education financing, it remains unequal distribution across areas and regions. Financing is much concentrated in school level education. But the provided fund for higher education seems insufficient. So, it affects to produce sufficient human resource, while decentralization in financing has created discrepancies due to differences in local government's capabilities. In sum-up, the financing in education system shows both opportunities and challenges, demanding more government financing, more equitable distribution, effective regulation of private inclusion, and better alignment of external donor support with local context priorities to attain an inclusion and sustainable education.

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