

## KEY POINTS

- Fiscal devolution in Nepal in 2018 gave local governments greater discretion to finance education from multiple sources. Yet, the use of discretionary budgets for education is relatively limited among local governments. The federal conditional grant for education is currently the main source for financing basic and secondary education.
- Analysis of the federal conditional grant for education raises some concerns. Distribution of the grant appears to be inequitable for local governments, in that it does not reflect their fiscal capacities and different costs of delivering educational services that are determined by location, population density, and other factors.
- Recommendations to address challenges in the country's education financing include (i) redesigning the federal conditional grant for education; (ii) using appropriate student–teacher ratios in schools; and (ii) using equalization grants, other special grants, and/or own revenue for education. These measures will also be relevant for postpandemic education delivery in Nepal.

## An Assessment of Nepal's School Education Financing in a Federal System

**Smita Gyawali**  
Senior Project Officer (Education)  
Nepal Resident Mission  
South Asia Department  
Asian Development Bank (ADB)

**Subas Risal**  
Data Analyst  
ADB Consultant

**Jens Claussen**  
Public Financial Management Specialist  
ADB Consultant

## INTRODUCTION

Nepal's transition to a federal government system has wide-ranging implications for the education sector. Not only has this transition fundamentally changed the way basic and secondary education is managed and financed, it has also impacted the School Sector Development Plan 2016–2021, which is supported by multiple development partners through a joint financing arrangement.<sup>1</sup> The School Sector Development Plan is aligned with Nepal's commitment to the Sustainable Development Goals (SDGs) in general and specifically to SDG 4, which sets out to “ensure inclusive and equitable quality education and lifelong learning opportunities for all” by 2030.

The School Sector Development Plan was designed before operationalization of the federal system of government in 2018. At that time, public or community basic schools (grades 1–8) and secondary schools (grades 9–12) were managed and financed by

Note: This brief was peer-reviewed by Ryotaro Hayashi, Social Sector Economist, Human and Social Development Division, South Asia Department, Asian Development Bank (ADB), and Farrukh Moriani, Freelance Governance Specialist. The authors are grateful for review and inputs from the peer reviewers. The authors are also grateful for shared data from the Ministry of Education, Science and Technology and the Financial Comptroller General Office. They also acknowledge inspiring discussions with development partners; the Ministry of Education, Science and Technology; and the National Natural Resources and Fiscal Commission.

<sup>1</sup> The signatories to the agreement are the governments of Finland, Nepal, and Norway; the European Union; Asian Development Bank; Global Partnership for Education; Japan International Cooperation Agency; United Nations Children's Fund; United States Agency for International Development; and the World Bank. See ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Technical Assistance Grant to Nepal for the Supporting School Sector Development Plan*. Manila.

the Ministry of Education, Science and Technology through budgetary allocations transferred through 77 district education offices across the country. The offices released funding to schools to pay for 17 recurrent and capital expenditure items according to central government prescribed thresholds. The number of teachers and students determined most of these grant elements, though some were provided to schools as a lump sum to cover operational expenditures independent of school size. This shift from a centrally managed system to a devolved one, with local governments now responsible for managing and funding basic and secondary education, requires both a revision of funding instruments (e.g., the federal conditional grant for education), as well as changes in procedures and modalities for use of and reporting on the funds.

The challenges of adequate financing for education are heightened in a federal system of government. The spirit of federalism calls for all tiers of government to respect the powers, autonomy, and mandates assigned under the 2015 Constitution, and for robust mechanisms to be developed for coordination and cooperation among different tiers. The latter principle is typically embedded in intergovernmental mechanisms, including for

fiscal intergovernmental relations. Countries in nascent phases of systemic, political, and institutional transition—like Nepal—typically experience myriad conflicts and inconsistencies during implementation, with a constant need to review, recalibrate, and rationalize intergovernmental relations and fiscal arrangements.<sup>2</sup> Lessons from other federal states, such as Ethiopia (see Box), point to the need for dynamic collection and analysis of evidence to ensure that financing of education is equitable and leads to desired outcomes.<sup>3</sup>

This brief aims to assess the current financing of basic and secondary education in Nepal within the context of the federal structure of government, and recommends designs for future financing instruments, modalities, operational conditions, and practices that better reflect this new federal system.

The assessment was undertaken in February–September 2020. Local government budget allocation and expenditure data was made available by the Financial Comptroller General Office after compiling budget and expenditure data for all local governments.<sup>4</sup> The data was collected through the Sub-national Treasury Regulatory

### Box: Education Financing at the Subnational Level in Ethiopia

The Ethiopian federation has nine member states and two autonomous city administrations. Its five-tiered administrative setup comprises federal, regional, zonal, district (*woreda*), and village (*kebele*) governments. The education system is based on 2 years of preschool education, followed by 8 years of compulsory primary education. Secondary school is divided into two cycles—first cycle secondary (grades 9 and 10) and second cycle secondary (grades 11 and 12).

**Education financing.** Funding for the education sector consists of non earmarked and nonsector-specific block grants transferred from the federal to regional governments, which then transfer the block grants to *woreda* governments. *Woredas* have full authority to allocate these grants, which are merged with their own income, to various sectors, as well as within sectors.

**Allocation mechanisms.** Most transfers from the federal government to regions takes place as block grants, and the formula used to determine the allocation has gone through several changes. In fiscal year (FY) 2004, the federal government replaced the single formula for allocating resources with a two-step approach aimed at ensuring equitable allocation of funds across regions. This change was necessitated by evidence showing that the single formula tended to disfavor regions with increasing recurrent costs and expanding

numbers of public facilities. The two-step allocation enables each region to obtain the same recurrent allocation as in FY2003—this would be a minimum allocation—and additional funding through a “three-parameter” block grant allocation formula. The formula factors in three variables with different weights: (i) population size (65%), (ii) poverty and development level (25%), and (iii) an index of revenue effort and performance of the sectors in each region (10%).

**Fiscal equalization approach.** The three-parameter approach aimed to address vertical imbalances in revenue versus expenditure assignments between the federal and regional administrations. Because of serious issues in implementation (poor data quality and availability and an inverse relationship between population and per capita transfers), the federal government moved to a “fiscal equalization” approach. This needs-based approach (fully implemented since FY2011) allows a higher allocation of recurrent funding to regions with greater demand for public services. For example, regions with higher enrollments receive higher per capita recurrent allocations. Further, capital funding is equity-oriented in that lagging regions, in terms of public service provision, are favored in the allocations. Implementation has been gradual, with weight given to the “fiscal equalization” approach rising successively from 25% in FY2008 to 50% in FY2009, to 75% in FY2010, and then to 100% in FY2011.

Source: Adapted from World Bank. 2015. *Education in Federal States: Lessons from Selected Countries*. Washington, DC.

<sup>2</sup> United Nations Development Programme. 2019. *Fiscal Transfers in Asia: Challenges and Opportunities for Financing Sustainable Development at the Local Level*. New York.

<sup>3</sup> A. G. Moges. 2008. An Economic Analysis of Fiscal Federalism in Ethiopia. *Northeast African Studies*. 10 (2). pp. 111–140.

<sup>4</sup> Government of Nepal, Office of the Auditor General. Various years. *Consolidated Financial Statements for Local Governments*. Kathmandu; and Government of Nepal, Office of the Auditor General. Various years. *School Sector Development Program—Audited Financial Statements*. Kathmandu.

Application,<sup>5</sup> because most local governments used it for budgeting, accounting, and financial reporting.<sup>6</sup> For those local governments not using the application, data was collected from hard copies of financial statements but at a more aggregate level.<sup>7</sup> The data collected included general revenue and expenditure data in total for each local government, as well as detailed budget and expenditure data for education. In addition, the Education Management Information System (School Statistics Information Form Flash I and School Statistics Information Form Flash II)<sup>8</sup> database of the Ministry of Education, Science and Technology was used for detailed information on each school, and summary data for different types and levels of schools within each local government. Data on population and households for each local government was collected from the Central Bureau of Statistics.<sup>9</sup> The data was used to understand heterogeneity by local government socioeconomic conditions, such as geographical location, population density, and poverty level.

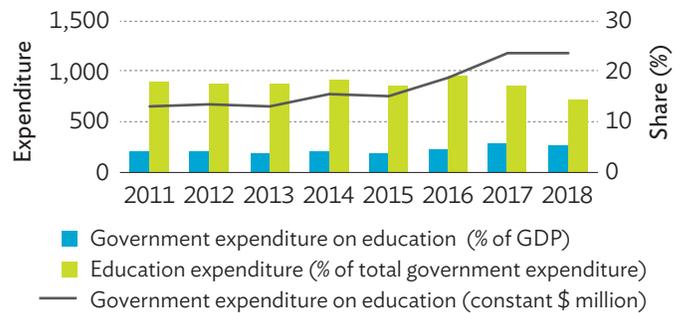
The diverse data were consolidated into a single database of general and education-specific data for each local government and combined with aggregate overall and education sector-specific budget and expenditure data. After consolidation, extensive data validations were conducted, and obvious errors were removed from the dataset.<sup>10</sup> About 25–30 local governments had data entry errors (3%–4% of the total number of local governments). All financial data are for the fiscal year (FY) 2019, while the Education Management Information System data are for the school year (SY) 2019.<sup>11</sup> The demographic and household data for local governments are for calendar year 2019. The study has thus used data prior to the coronavirus disease (COVID-19) pandemic, meaning the impact of COVID-19 is not reflected in this study. However, the findings and recommendations are highly relevant for financing of education in a federal context for postpandemic education delivery.

## TRENDS IN EDUCATION SECTOR SPENDING

Nepal's total public expenditure has increased over the years and faster than gross domestic product (GDP) growth. Government expenditure on education has increased an average of 11.4% per year during 2011–2018 (Figure 1), equivalent to an increase in the education sector's share of GDP from 3.8% in 2011 to 5.2% in 2018. However, government spending on education as a share of total government expenditure declined from 18% to 14% during the same period, as total public expenditure increased faster for other sectors than for education.

<sup>5</sup> Government of Nepal, Financial Comptroller Generals Office. 2019. *Sub-National Treasury Regulatory Application – SuTRA*. Kathmandu.  
<sup>6</sup> The Sub-national Treasury Regulatory Application is a planning, budgeting, and accounting software for local governments. For fiscal year (FY) 2019, the total number of local governments with budget and expenditure data recorded in SuTRA was 642 out of 753 in total.  
<sup>7</sup> Data in the Sub-national Treasury Regulatory Application are recorded at detailed economic code levels (5-digit level) while the hard copy of financial statements contained data at the 2-digit level.  
<sup>8</sup> Government of Nepal, Ministry of Education, Science and Technology. Various years. *School Statistics Information Form (Flash I)*. Kathmandu; and Government of Nepal, Ministry of Education, Science and Technology. Various years. *School Statistics Information Form (Flash II)*. Kathmandu.  
<sup>9</sup> For example, the Annual Household Survey and Nepal Multiple Indicator Cluster Survey was used for analysis. See Government of Nepal, National Planning Commission. 2014. *National Population and Housing Census 2011 (Population Projection 2011–2031)*. Kathmandu: Central Bureau of Statistics.  
<sup>10</sup> For example, some schools were recorded with 1–5 students only. In some cases, detailed budget figures do not add up to the recorded totals.  
<sup>11</sup> In Nepal, the government fiscal year starts in mid-July and the school year runs from mid-April.  
<sup>12</sup> Ministry of Finance. Consolidated Statement of Accounts (2011–2018). Kathmandu; and National Planning Commission. Annual Household and Living Standard Surveys (2011–2018). Kathmandu: Central Bureau of Statistics.

**Figure 1: Trend in Government Expenditure on Education, 2011–2018**



GDP = gross domestic product.

Source: Government of Nepal, Ministry of Finance.

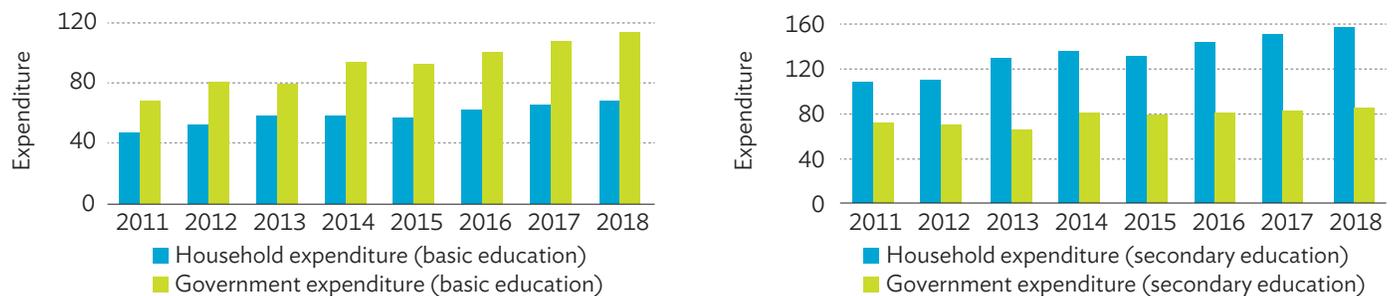
Government spending on basic and secondary education covers grants for community (public) schools, while institutional (private) schools do not receive public funding. Government expenditure per student enrolled in public schools has increased, with a 66% increase in spending per basic level student from 2011 to 2018 (Figure 2). However, the increase in government expenditure per basic level student is primarily due to a decline in the school-age population at the basic level, without a commensurate decline in the number of basic level teachers (Figure 3).

During the same period, household expenditure per student increased, most prominently for secondary education. Household expenditure per secondary education student increased 53%, while government expenditure increased 16% during the same period.<sup>12</sup>

The increase in household expenditure can be attributed to the increase in enrollment in private secondary schools (institutional schools). Of the total expenditure on secondary education in 2019, households spent approximately 66% while the government covered the rest. Government spending on secondary education has also increased, but at a lower rate than growth in enrollment.

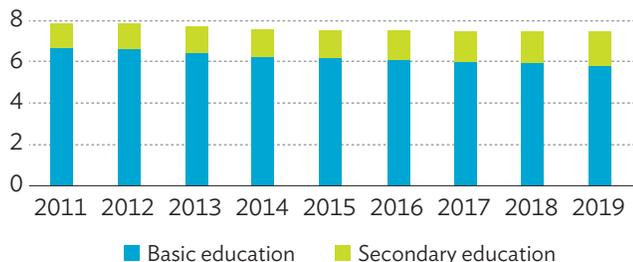
Spending per student in Nepal remains lower than in other neighboring countries (Figure 4). Government spending on education in Nepal is significantly lower than in Bhutan and

**Figure 2: Nepal—Government and Household Annual Expenditure per Basic Student and per Secondary Student, 2011–2018 (constant \$)**



Source: Government of Nepal, Ministry of Finance and Central Bureau of Statistics.

**Figure 3: Students Enrolled in Basic and Secondary Education, 2011–2019 (million)**



Sources: Government of Nepal, Ministry of Education, Science and Technology. 2011–2019. *School Statistics Information Form (Flash I)*. Kathmandu; and Government of Nepal, Ministry of Education, Science and Technology. 2011–2019. *School Statistics Information Form (Flash II)*. Kathmandu.

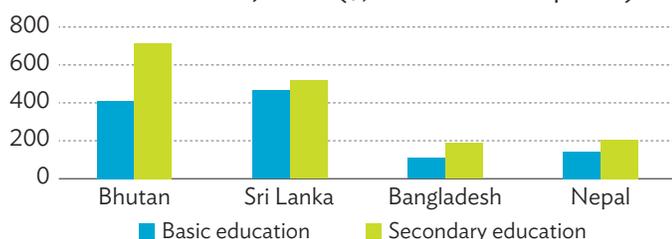
Sri Lanka, but similar to that in Bangladesh. Bangladesh, however, has a much higher population density and larger schools, with economies of scale reducing cost per student, and with more uniform student-teacher ratios in schools. Nepal evidently requires more resources given its diverse communities, which likely increases the average cost per student compared to countries such as Bangladesh.

## LOCAL GOVERNMENT FINANCING FOR EDUCATION

**Fiscal Decentralization.** Local governments currently have access to four broad categories of revenue: local taxes and fees; a share of federal tax revenues; federal conditional grants tied to spending areas or sectors, like the federal conditional grant for education;<sup>13</sup> and a fiscal equalization grant.<sup>14</sup> In addition, the Constitution (Article 60 paras. 4–6) provides for federal matching grants and special purpose grants. Local governments raise their own revenue through different types of taxes and fees such as house rent, real estate registration fees, and land tax.<sup>15</sup> They also collect fees from services such as tourism, collection of waste, water supply, etc.

The major source of income for local governments to finance education are federal grants; fiscal equalization grants, which include revenue sharing of 15% of the income generated from value-added tax and excise duties on domestic products; and the federal conditional grant for education. Four indicators are considered for the distribution of the fiscal equalization grants with different weights: fiscal gap (60%),<sup>16</sup> human poverty index (15%), social and economic discrimination (15%),<sup>17</sup> and infrastructure availability (10%).

**Figure 4: Government Spending per Student Enrolled in Public Schools, 2019 (\$, constant 2015 prices)**



Source: United Nations Educational, Scientific and Cultural Organization. UNESCO Institute for Statistics Databank. <http://data.uis.unesco.org/> (accessed 15 April 2020).

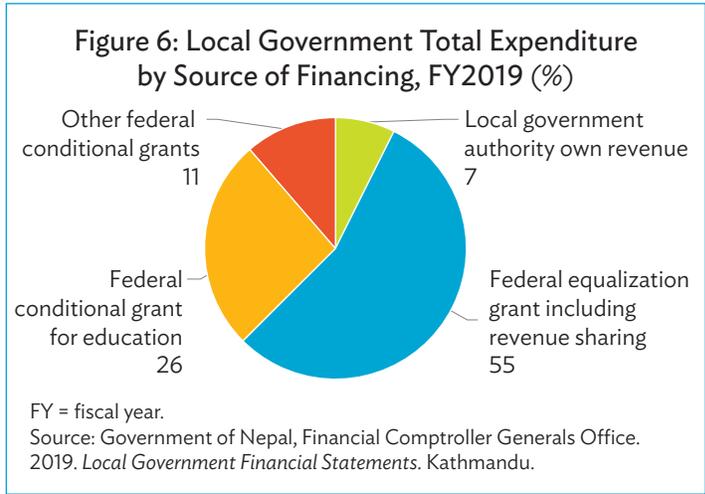
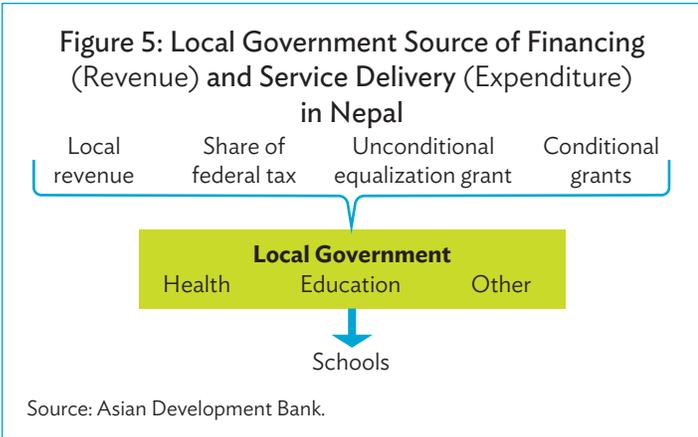
<sup>13</sup> Government of Nepal, National Natural Resources and Fiscal Commission. 2020. *An Assessment of Education Funding at Local Level*. Kathmandu. Federalism in Ethiopia. *Northeast African Studies*. 10 (2). pp. 111–140.

<sup>14</sup> The National Natural Resources and Fiscal Commission recommended a composite formula for fiscal equalization grant for local and provincial governments entailing (i) service deliver cost of the province; (ii) human poverty index of the local level; (iii) socioeconomic disparity index; (iv) infrastructure index; and (v) minimum revenue received.

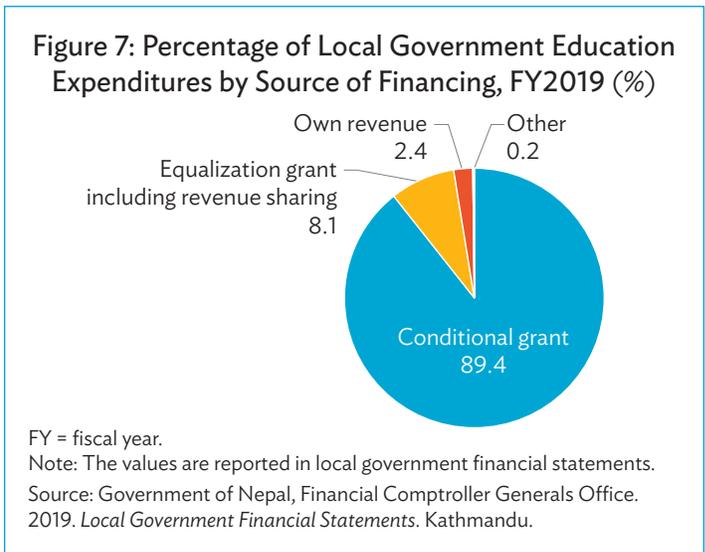
<sup>15</sup> Government of Nepal. 2019. *Nepal's Constitution of 2015*. Kathmandu.

<sup>16</sup> The need for local expenditure is assessed by estimating the cost for undertaking various responsibilities (prescribed in schedule 8 and 9 of the Constitution). Revenue capacity is ascertained based on internal revenue generated by local governments in the previous year. Revenue can be generated according to the provisions of schedule 8 of the Constitution.

<sup>17</sup> Intensity of socioeconomic discrimination in provinces.



**Source of Local Government Financing for Education.** Under the federal system of government, decision-making powers on allocation (how much) and purpose (what spending items) are vested in local governments, providing them with significant discretion over spending. As Figure 6 illustrates, in FY2019, the fiscal equalization grant, including the local government share of the federal tax (value-added tax and excise duty), were the main sources for total local government spending (55%); conditional (earmarked) grants accounted for 37%; and the balance of 7% was sourced from own revenue. Of the total revenue, 63% was thus from unconditional sources—an important consideration for enabling local governments to spend on education at their discretion.



While local governments have discretionary authority in allocation of own revenue and fiscal equalization grants (including revenue sharing), most local governments tend to limit their education sector spending to the amount received as a federal conditional grant for education. As Figure 7 illustrates, on average, the federal conditional grant for education constitutes 89.4% of local government financing for education. The local governments add just 10.5% to education from their discretionary sources of funding (i.e., own revenue is 2.4% and fiscal equalization grant including revenue sharing is 8.1%). “Other revenue” is predominantly special purpose grants for rehabilitation and direct external assistance to basic and/or secondary education projects from international nongovernmental organizations and/or official development partners. This other revenue constitutes a very small share of total revenue (0.2%).

It is noteworthy how much revenue spent on education varies among local governments. About 52% of the local governments finance more than 90% of their education expenditure from the federal conditional grant for education; at the other end of the spectrum, just 3% of local governments use 30% or more from other sources for education (see Table).

**Financing of Education by Type of Local Government.** The 753 local governments include metropolitan, municipal, and rural municipalities.<sup>18</sup> On average, federal conditional grants for

**Table: Nepal—Number of Local Governments by Share of Education Expenditure Financed from the Federal Conditional Grant for Education, FY2019**

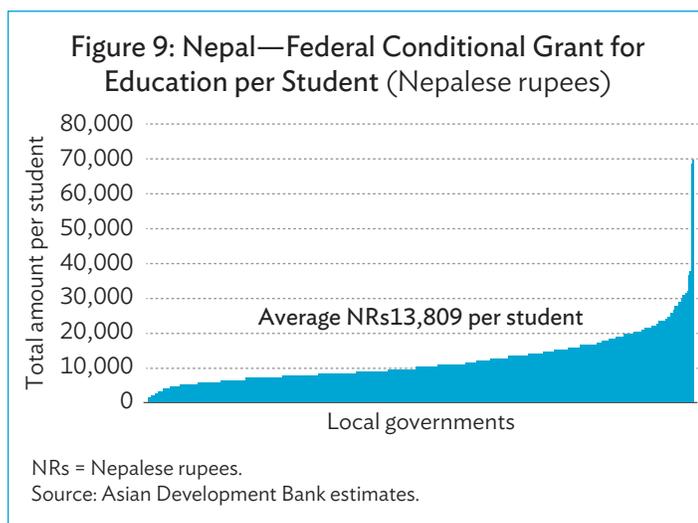
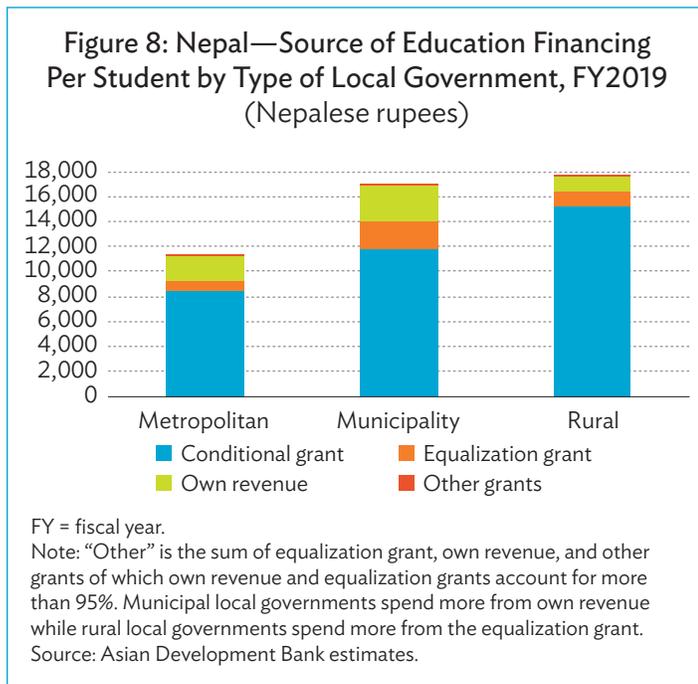
Share	Number	Share (%)
Between 90% and 100%	388	52
Between 80% and 90%	282	37
Between 70% and 80%	62	8
Less than 70%	21	3
Total	753	100

FY = fiscal year.  
Source: Asian Development Bank estimates.

<sup>18</sup> Nepal’s six metropolitan cities with the highest population density areas are Kathmandu, Janakpur, Biratnagar, Bharatpur, Pokhara, and Lalitpur. They are surrounded by 10 submetropolitan high-density local governments. In this analysis, they have been labeled “metropolitan”. There are 287 local governments classified as municipalities, which are municipal centers in rural areas. The rest of the local governments are rural communities with low population densities.

education finance 75% of education expenditure in metropolitan local governments, 70% for municipal local governments, and 87% for rural local governments (Figure 8).

**Allocation of the Federal Conditional Grant.** The federal conditional grant for education is the major source for local government expenditures on education (on average financing is 89% above of the local government total education budget). On average, local governments receive 13,809 Nepalese rupees (NRs) in conditional grant per student (Figure 9). However, this varies significantly across local governments.

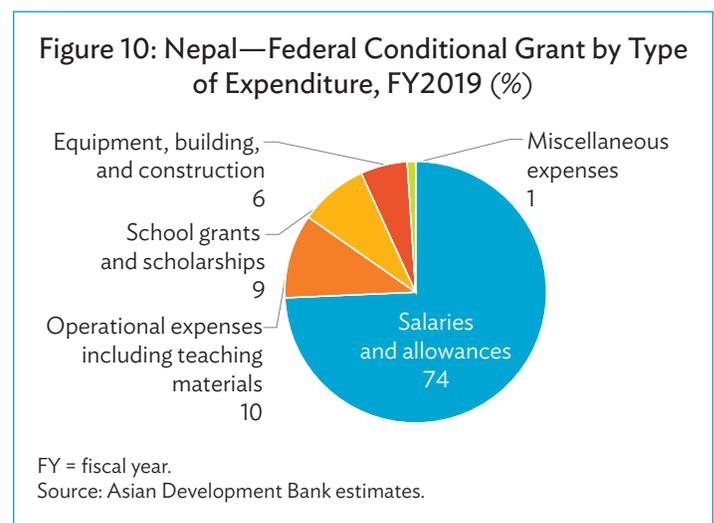


When the conditional grant allocation per student is examined by type of expenditure it constitutes and how it is distributed, it gives insight into why the allocation per student is so diverse among local governments. Not surprisingly, the major expenditure item is teacher salaries, at 74% of total expenditure (Figure 10). This means the main determinant for allocation of the federal conditional grant to each local government is linked to the number of teacher positions allocated to each local government.<sup>19</sup>

The analysis shows that in most local governments and schools, the teacher positions are not in tandem with the student-teacher ratio. That ratio nationally has been declining significantly for basic education, but less for secondary education (Figure 11). This is also reflected when the student and/or teacher positions are analyzed by local government (Figure 12). Basic level schools on average have similar student-teacher ratios for metropolitan, municipal, and rural local governments. However, at the secondary level, student-teacher ratios are lower in metropolitan areas than in municipal and rural areas presumably due to availability of other schooling options such as private schools.

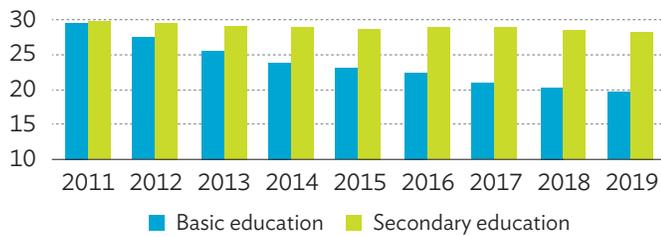
Further disaggregation of the basic and secondary levels into basic grades 1-5, basic grades 6-8, secondary grades 9-10, and secondary grades 11-12 varies in the average student-teacher ratios (Figure 13). This demonstrates that grades 1-5 at the basic level have many more teachers relative to students across all types of local governments. This clearly has not adjusted to the declining enrollment of students in grades 1-5 arising from declining school-age population.

In many cases, local governments with a high student-teacher ratio for basic education appear to have a high ratio for secondary education. However, the budget allocation for teacher salary through the federal conditional grant for education does not consider the student-teacher ratio of the schools in the local government. The current calculation



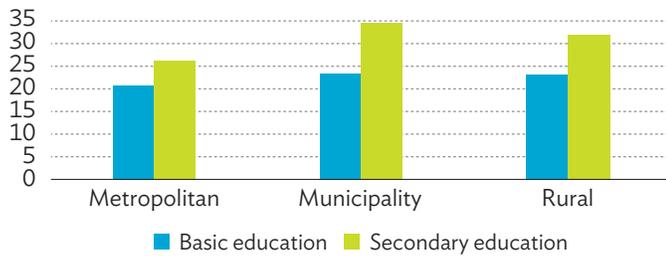
<sup>19</sup> The teacher positions mentioned here are mostly permanent teachers recruited by the federal government and deployed at the schools. The management of teachers continues to be done by the teachers. As such, their salaries and benefits allocation are made through the federal conditional grant for education. The payments are only made by the local governments.

**Figure 11: Student–Teacher Ratio in Basic and Secondary Education, 2011–2019**



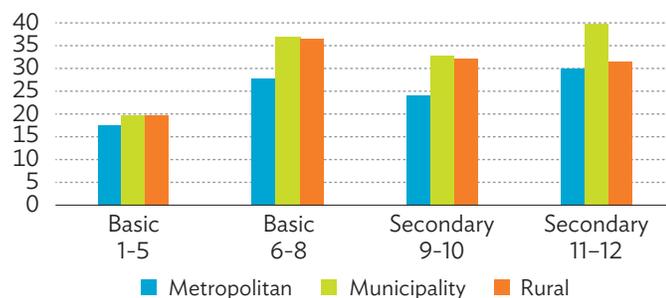
Sources: Government of Nepal, Ministry of Education, Science and Technology. 2011–2019. *School Statistics Information Form (Flash I)*. Kathmandu; and Government of Nepal, Ministry of Education, Science and Technology. 2011–2019. *School Statistics Information Form (Flash II)*. Kathmandu.

**Figure 12: Average Student–Teacher Ratio in Community Schools by Type of Local Government, 2019**



Sources: Government of Nepal, Ministry of Education, Science and Technology. 2019. *School Statistics Information Form (Flash I)*. Kathmandu; and Government of Nepal, Ministry of Education, Science and Technology. 2019. *School Statistics Information Form (Flash II)*. Kathmandu.

**Figure 13: Average Student–Teacher Ratio in Community Schools by Local Government and Grade, 2019**



Note: “Metropolitan” refers to cities with the highest population density areas, namely, Kathmandu, Janakpur, Biratnagar, Bharatpur, Pokhara, and Lalitpur. Sources: Government of Nepal, Ministry of Education, Science and Technology. 2019. *School Statistics Information Form (Flash I)*. Kathmandu; and Government of Nepal, Ministry of Education, Science and Technology. 2019. *School Statistics Information Form (Flash II)*. Kathmandu.

takes the total number of teacher positions across grades per local government. Although the federal government is rationalizing and redeploying teachers under local governments, the sustained effort in redeployment, reskilling primary teachers for upper grades, and creation of new positions at upper grades must continue to meet the need for teachers at upper grades. This will level out differences in resource effort per student among local governments. It will also create equality among local governments in resources for education, as measured by expenditure per student.

## CONCLUSIONS AND RECOMMENDATIONS

Under the federal system in Nepal, local governments finance their budgets from multiple sources, as prescribed by the Constitution: own revenue, share of federal revenue and equalization grants, federal conditional grants, and special grants. The result of this analysis shows that the federal conditional grant for education is the main source local governments use in financing basic and secondary education, though some local governments also add funding from other discretionary revenue, such as own revenue and the fiscal equalization grant and/or share of federal revenue.

At present, distribution of the federal conditional grant for education to local governments does not appear to reflect the local governments’ fiscal capacities and differences in costs of delivering education services that are caused by location, population density, and other factors. The current approach in allocation of the federal conditional grant for education therefore does not appear to be promoting equity in education service delivery by local governments, as illustrated by the significant variation among local governments in expenditure per student, even among local governments with similar population density, fiscal capacity, and resource needs.

The major cost component of the federal conditional grant for education is teacher salaries for permanent teacher positions. The main factor explaining differences in allocation of the conditional grant for education is linked to allocation of teacher positions, which does not seem to be following a national student–teacher ratio norm. It is necessary to enable local governments to explore different options to efficiently manage teachers and equitably distribute teacher positions using the different resources available in local governments.

Given the imperatives of improving service delivery, ensuring equity, and achieving better access and quality at basic and secondary education levels, the following options could be considered to improve financing education at the local government level:

### (i) Enrollment Targets and Student–Teacher Norms

National enrollment targets and student–teacher norms for different grades should be established following these lines:

- (a) *Update the methodology for estimating the cost per student and for estimating the required amount to be allocated as the federal conditional grant.* The latter can be achieved by working with the National Natural Resources and Fiscal Commission.

- (b) *Use the student–teacher ratio norm as a basis for allocation of teacher positions among local governments.* This will lead to a more rationalized distribution of the federal conditional grant among local governments and reassign more teacher positions from basic to secondary levels. This is because the student–teacher ratio in basic education (grades 1–5) is low for many local governments while the ratio in secondary education is generally high.
- (c) *The federal government can introduce a standard “service agreement” for local governments to follow.* This will be in relation to deploying teachers and providing other inputs to schools to ensure that local governments comply with national standards and norms.
- (c) *Introduce an education capitation grant.* The education capitation grant could be designed as a performance grant in which the allocation is made based on achievements against planned targets. For example, the grant could include enrollment targets for out-of-school children and adult literacy efforts, in addition to the current “incentive grant” for “educational quality strengthening,” which is a component of the current federal conditional grant for education.
- (d) *Introduce an education capital grant to level differences in infrastructure capacity for schools among local governments.* The grant can be designed as a matching normative grant (“needs-based”) calculated on unit costs, such as cost of classrooms.

**(ii) Fiscal Equalization Grant**

The fiscal equalization grant is distributed by federal government using a formula that includes, but is not limited to, local government fiscal capacity, location, population density, and human poverty index. Since these factors also determine resource needs for local governments to deliver education services, the following are some options that could be taken going forward:

- (a) *Require local governments to commit to national service targets for education.* This can be effective through provisions in the proposed service agreements to be signed by local governments to access the federal conditional grant.
- (b) *Increase the equalization grant to a level that also accommodates the basic costs in meeting the local government need for education delivery.* Combined with grants covering special needs, this is an approach common in most countries with federal structures.

The above recommendations may help solve the challenges identified, particularly in allocation of federal conditional grants and equalization grants to local governments for financing basic and secondary education. This will enable government to leverage financing of education effectively for postpandemic education delivery. However, reforming the allocation element of financing is only part of the challenge. More analysis is crucial to address issues on the use of available funding by local governments and understanding the causes—including political economy and institutional capacities—that shape and influence allocative behavior and trends. This deeper analysis is beyond the scope of this brief but could be considered for future analysis.

**About the Asian Development Bank**

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB Briefs are based on papers or notes prepared by ADB staff and their resource persons. The series is designed to provide concise, nontechnical accounts of policy issues of topical interest, with a view to facilitating informed debate. The Department of Communications administers the series.

Note:  
In this publication, “\$” refers to United States dollars.

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of ADB or its Board of Governors or the governments they represent. ADB encourages printing or copying information exclusively for personal and noncommercial use with proper acknowledgment of ADB. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the express, written consent of ADB.

Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 8632 4444  
Fax +63 2 8636 2444

[www.adb.org/publications/series/adb-briefs](http://www.adb.org/publications/series/adb-briefs)



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2021 ADB. The CC license does not apply to non-ADB copyright materials in this publication.

<https://www.adb.org/terms-use#openaccess> <http://www.adb.org/publications/corrigenda> [pubsmarketing@adb.org](mailto:pubsmarketing@adb.org)