Liberating Nepali Enterprises

BETTER EDUCATION OUTCOMES THROUGH EDUCATION ENTREPRENEURS

Vol II: Cost of complying with applicable regulations

Arpita Nepal
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The paper in a glance...

In response to the 'mushrooming' of private schools, especially in the urban areas of Nepal, the government came up with 'Institutional School Criteria and Operation Directives' in 2013. It came with the noble intention of the government to ensure quality education at affordable prices for parents. Most unfortunately, the directive equates quality education with infrastructural standards and in the process sets the stage for some regressive implications, many of which are foreseeable unintended consequences. The directive lays down a set of infrastructural (and other institutional) compliances that all private schools that come into operation after the endorsement of the directive, or were already existing but are willing to relocate themselves to a new place, have to compulsorily follow.

The simple objective of this paper was to analyze the policy not based on its intentions, but implications. On one hand, complying with these regulations means that the cost of opening up a new private school is going to go up. On the other hand, pre-existing regulations that guide the education sector of Nepal have set a ceiling on the maximum fee any school can charge to its students. Author's back-of-the-envelope calculations show that the fees set by the Kathmandu District Education Office (DEO) will not even cover the set up costs for schools that will be established in Kathmandu, let alone covering their cost of operation. In such case, how will the private schools respond and what does it mean for the parents? The answers we found during the study fit into simple framework of economist Frederic Bastiat's 'What is seen and what is not seen' based on his popular essay of the same name.

What is Seen?

- The Government of Nepal is interested and serious about improving the quality of education being provided to the children of Nepal.
- The Ministry of Education has deliberated in detail and would like to define all aspects of development of a child in private education.
- Parents are able to make more informed selection of schools since private schools will have similar standards and a defined way of functioning as set by the directive.
- A school that does not follow the standards set is subject to punishment thereby creating an incentive system to ensure that standards of safety and a good learning environment (as defined by the directive) are met by private schools.

What is Not Seen?

- As our calculations presented in the study clearly show, it is next to impossible to operate a school following all the standards set out by the directive and charge the government-mandated fee.
- The private education providers are thus forced to perform in the 'grey area' of the economy owing to cost implications forcing them to charge higher than the mandated fees.
- Parents face a gamut of 'surcharges' in addition to the mandated 'fees' for tuition. Parents end up even more confused and possibly frustrated about the value they are receiving for the money they spend. Higher information asymmetries are created.

What is Seen?	What is Not Seen?
• The 'fee structure' of the school is clear and parents are not charged 'extra' than what is mandated by the law.	• An effective 'barrier to entry' is created for low cost private schools. 'Big players' in the current market benefit from this are now in a better position to create a cartel within the private education sector. • Chances of children from low-income households attending a private school are significantly diminished.

While studies from Africa, the Middle East and the South Asia themselves are revealing the increasing effectiveness of low-cost private schools in terms of delivering quality education to children, having such a regressive regulation in Nepal can effectively shut down the possibility of children of low-income parents to attend a private school and have a better chance at improving their lives.

Introduction

Education in Nepal had been limited to home schooling and Gurukuls[1] for centuries. The first formal school, Durbar High School, was established in 1892 but was open only to the ruling elites. The establishment of Nepalese democracy in 1951, after a century of autocratic Rana rule, then opened the classrooms to a more diverse population. After a slight stint with democracy, Nepal fell under yet another autocratic rule of the Panchayat system – led by the late King Mahendra, in 1960.

The establishment of private schools paralleled the arrival of democracy in 1951. However, even as the private sector tried to maintain a steady niche market, all efforts were rendered futile when the Panchayat government, under the Education Act, 1971, and under the technical and financial assistance of the United States Agency for International Development (USAID) under the New Education System Plan (NSEP), nationalized all private and institutional schools throughout 1970s (Bhattarai, 2009). Eventually though, the Government realized that private sector involvement would be required to enhance the quality of education. Hence, in 1980, the doors were opened once again for the private sector (Bhattarai, 2009).

The abolishment of the Panchayat System and establishment of multi-party democracy in 1990 kick-started a steady presence and growth of the private sector in providing primary and secondary education in Nepal, especially in urban areas. Although the enrollment of students in schools across the country was increasing rapidly, more and more people were dissatisfied with the quality of public education and the demand for private schools was growing. As public and private schools proliferated over the years, the number of schools rose from 300 schools enrolling 10,000 students (literacy rate of 5%) in 1951 to 49000 schools with an adult literacy rate of 60.3% by 2010 (Das & Parajuli, 2013).

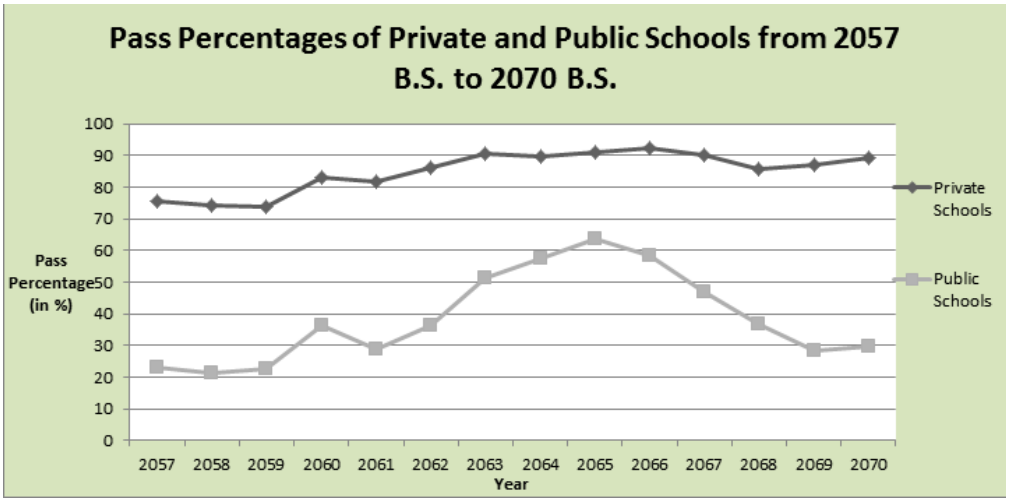
If School Leaving Certificate (SLC) results are taken as an educational output indicator depicting an educational institution's quality, there is no doubt that private schools fare much better than public schools every year. The following table is bearns an evidence to it and shows the contribution of private and public schools in the total SLC passed students in Nepal between 2057 BS[2] to 2070 BS:

If School Leaving Certificate (SLC) results are taken as an educational output indicator, private schools fare much better than public schools every year.

1 It is a type of school found in the Indian Subcontinent region, which is residential in nature, with pupils (shishya) living near the teacher (guru), often within the same house.

2 The Nepalese calendar is 57 years ahead of the Gregorian calendar. Therefore, year 2057 BS = year 2000 AD

If the quality provided by these schools is producing outcomes we desire then the question is how can we reduce the cost of supplying this kind of quality such that poor parents are able to afford quality education for their children?



Source: : Data compiled from 'School Leaving Certificate (SLC) Examination Statistics', an annual publication of the Office of the Controller of Examinations, Ministry of Education, Government of Nepal (Ministry of Education, 2057 to 2070).

While the Government run public schools are overburdened by number of students, (74 percent of the examinees in 2014 were from public schools), the private schools demonstrate a much better outcome (93.12 percent of the examinees from private school passed while only 28.17 percent of examinees from public schools managed to pass SLC in 2014) (Sharma, 2014). With better educational outcomes, we can clearly see a role for private schools in Nepal. If the quality provided by these schools is producing outcomes we desire then the question is how can we reduce the cost of supplying this kind of quality such that poor parents are able to afford quality education for their children?

The rest of the paper looks into the cost of one particular regulation pertaining to education in Nepal and how this impacts the cost of providing education in Nepal for private service providers.

Private School Regulation

Private schooling, once considered to be meant only for the elite few, is now something everyone desires as it has become an almost affordable investment for the middle class as well as the lower middle class.[3] The Education statistics published by the Ministry of Education in 2014 shows that there are already around 5298 private schools in the country, competing with 29630 government-funded schools (MoE, 2014). That popularity is especially visible in the Kathmandu Valley, where there are more than 1581 private schools against 632 public schools (MoE, 2014). According to the Private and Boarding Schools' Association Nepal, around two million of a total of seven million school-level students are enrolled in private institutions, which have also created jobs for over 150,000 teachers and other staff (Ghimire, 2014).

After the establishment of multi- party democracy in 1990, the different Governments formed under the ruling political parties have since tried to bring private education under the same regulatory framework that governs the public school system (Poudel, 2015). This attempt, however, has not been entirely successful due to the establishment and the growing role of private school unions and umbrella organizations like Private And Boarding Schools' Organization, Nepal (PABSON) and National PABSON that demand separate laws and regulatory frameworks.

In May 2002, the Ministry of Education unsuccessfully introduced a mandate demanding private schools to be registered either as a private company or a trust. As the tax levied to private companies by the Ministry of Finance was high for private schools to operate efficiently, schools registered as companies did not agree to pay these taxes and the mandate was hence, not enforced (Poudyal, 2014).

With the motive of monitoring the irregularities in private schools, such as frequent fee hikes, entrance examination charges, sale of books and uniforms within the school premises, the Government of Nepal brought yet another policy to regulate private and boarding schools of the country. The Ministry of Education's Department of Education drafted The Private and Boarding Schools Guidelines 2013. The regulation was then brought into implementation with the name "Institutional School Criteria and Operation Directives, 2013".

The salient features of the 'Institutional School Criteria and Operation Directives, 2013' are as follows (details of the salient features attached as Annex B):

- The directive requires all private

With the motive of monitoring irregularities in private schools, the Government of Nepal brought yet another policy to regulate private and boarding schools of the country.

3 'C' grade primary school fee cannot be more than Rs.1100 per month (as per the District Education Office in Kathmandu).

schools to have a minimum of 22 students in a single grade, and a minimum of 115 students for a primary school, 165 for a lower secondary and 220 for secondary schools.

- A school must have badminton and volley ball courts in its premise.
- An institutional school must own its own building or must lease it for at least five years.
- There must be enough separate rooms for the compulsory and optional classes.
- A school must have separate rooms as needed for a principal, teachers/staff, administration, accounts, a library, a hall and labs for experimental subjects.
- Each room must have a minimum of 1.1 meter wide door and 3 x 4 feet air circulating window; for safety reasons each room in a newly built school building must have two doors.
- The ratio of number of classes to number of teachers must not be higher than 1:1.4.
- A minimum of 1000 and 1500 books are required for students of primary and secondary levels respectively in its library.
- Students have to fill an application if they are to be selected by competition and on the merit of written exams. The application form and exam fees cannot cost more than Rs. 25 and Rs. 100 respectively.
- Institutional schools must provide a full and a half scholarship to two students that score the highest and second highest marks in exams respectively.

Cost estimation of operating a school under the "Private and Boarding Schools Guidelines 2013"

In order to estimate the costs of following the directive, research was done on the market value of goods and services required to construct a classroom and build furniture based on the specifications stipulated in the directive. The calculation has thus taken into consideration the cost associated with complying with two of the many standards. In order to specify the costs, regulation for Grade 'C' schools were taken into consideration, which has relatively low requirements compared to A and B grades.

Classroom construction costs are considered because even though schools are allowed to lease 'school space' (which should be for a minimum of five years), finding a ready made building that meets all the criteria on the directive is quite rare. Hence, the entrepreneur is compelled to resort to building the infrastructure.

After some degree of primary and secondary research, the following table has been prepared to show the increase in cost per student in 'C' grade schools[4]. A primary school in Nepal consists of Grades I to V:

Initial Investment	Budgeted cost per student per month to redeem the initial investment	Fees permissible as per the government regulations*
NPR. 6.4 million**	Rs. 1770***	Rs. 1100

**The fee structure was acquired from the District Education Office (DEO), Kathmandu.The DEO further publishes these official figures in the national daily Gorkhapatra every year.*
***Refer to annex for the details of the estimate and the sectorial experts consulted during the process.*
****Based on author's back-of-the-envelope calculations. Time value of money concept is applied here. See Annex A for detailed mathematical calculations for all figures in this column.*

Assuming that the school wants to redeem only its initial investment (and not cover the teacher salaries, profit margins, or other operational expenses) of Rs. 6.4 million over a period of ten years, the investment becomes a figure Rs. 15.290 million, adjusted for an inflation rate of 9.1% per year, based on the average inflation in Nepal from 2010-2014, as per the World Bank data[5].

The per student fee for a month has been obtained by using the Present Value Interest Factor Annuity principle. Therefore, the monthly fee per student uses 0.76% monthly interest rate and 120 periods, based on 9.1% annual inflation and 10 year cut-off period for redeeming the initial investment. Thus,

Initial Investment (I)	= Rs. 6.4 million
Future value of the present investment (FV)	= I X FVIF(9.1%,10 yr) = Rs. 6.4 million X 2.39 = Rs. 15.29 million
Monthly fee (A)	= FV/PVIFA(0.75%, 120 periods) = Rs. 15.29 million/78.55 = Rs. 194653
Monthly Fee per student in a primary school(Grade I-V) (F)	= A/number of students = Rs. 194653/110 = Rs. 1770

4 The budget can be found in Annex A reflects the criteria for a 'C' grade school. The criteria can be found from Education Rules 2059, Government of Nepal Ministry of Education. #169. Retrieved from: http://lawcommission.gov.np/index.php?option=com_remository&Itemid=19&func=startdown&id=758&lang=ne

5 Data gathered from World Bank data repository available at: http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries/NP?display=graph

The annual revenue earned by the schools does not even come close to the minimum setup costs required to establish the school.

To redeem this initial investment from a primary school with 22 students per classroom, a minimum charge of Rs. 1770 is required. Additional charges on operating costs and a margin for profit are ignored here.

As can be seen from this table, the annual revenue earned by the schools does not even come close to the minimum setup costs of classrooms and furniture required to establish the school. These figures hence, point out that the entrepreneur(s) who open the school will have a very hard time even redeeming the initial investment, let alone earning a profit, due to the District Education Office (DoE) 'fees' enforced upon all private schools. The setup cost per student in itself is above the DoE mandated fee. These calculations have not even taken into account the operating costs (which is steadily increasing, with an inflation rate of 7.4% in the economy) or any return on investment that investors will seek.

The question here is whether it is feasible to run a school following all the mandatory provisions of the directive and charge the fee stipulated by the DoE. Our calculations clearly demonstrate that this is an impossible feat.

Considering the fact that the demand for private schools is increasing owing to the unreliable quality of public schools (refer to Graph 1 as simply one indicator of educational outcome), this directive on standards as well as a cap on what private schools can charge, render it impossible to operate a school in this environment. This could have two implications in the case of private schools – either the private schools are unable to function and shut down or that they figure out other ways to 'charge' parents for the extra cost. The standards if followed also imply that low cost schools cannot legally exist in Nepal (for example, if someone does not follow all the standards of the directive but operates a school at a low cost to cater to low income parents then it would be illegal to do so). While we are talking about the quality of education and creating two classes of citizens (as most Educationists complain about), should we not be talking about making private education affordable while working on improving the quality of education in public schools? How is this possible with a regulatory regime that seems to be in conflict within itself? The cost estimation for following the directive clearly indicates that at a time when private schools need to be more accessible for a more educated Nepal, this directive hinders their growth and makes private schools out of reach of low income families.

Regulatory malfunction?

The directive specifies the dimensions of individual class rooms and laboratories, size of the class, obligatory availability of play grounds, and other organizational policies which set a very high standard in the context of Nepal. As a result, up and coming educationists who wish to establish small private educational institutions are deterred from starting their ventures because of the huge initial investment. The directive enforces that only big schools with ample sized playgrounds, library facilities and laboratories are to be established and small schools (which can equally do the job well) are hence, ruled out. It has created a barrier to entry in the market for private schools. This also implies that private school by default (owing to legal obligations) will have to be expensive and therefore, out of reach for most low-income parents.

This directive is also very ironical considering the substandard condition of our public schools, in and out of the Kathmandu valley. Cramped classrooms (limited space but a surging demand for education at a primary level), teacher absenteeism (due to job permanency after a couple of years of service), very unsafe buildings (a lot of them collapsed after the recent earthquake) and lack of accountability are only some of the problems associated with public education (Giri, 2014). The entrepreneurs and educationists who perhaps will conform to the guidelines and establish a school will have to transfer these huge initial set up costs as school fee to the students later on. A private school, like any other privately owned business, is always motivated by profit. Similarly, owing to demand and supply logic, if a village requires only a small school in its locality, why would an entrepreneur want to invest an enormous amount of capital building all sorts of playgrounds and laboratories, and also spend on marketing to fill the 22 pupils per class requirement, which eventually does not even cover the entrepreneur's set up cost?

While the Ministry of Education (MoE) seems to want all children to learn in a comfortable environment expressed through these directives, the mandated fees do not even cover the cost of set up, let alone operation. If the MoE intends this goodwill upon all children of Nepal without segregating them on the basis of the school that they attend then how many public schools in Nepal would be able to meet with the standards set in the directive? This is of course, an issue for further research. However, if we go by the popular claims that public schools are not doing well[6] then the intention of MoE does not seem so clear with this directive. Does the MoE want to produce two different types of education system in Nepal? Or

6 Refer http://www.myrepublica.com/portal/index.php?action=news_details&news_id=77275 and http://www.ekantipur.com/the-kathmandu-post/2015/03/22/interview/very-little-teaching-learning-goes-on-in-public-schools/274519.html for some issues facing public education in Nepal.

The directive enforces that only big schools with ample sized playgrounds, library facilities and laboratories are to be established and small schools (which can equally do the job well) are hence, ruled out.

Or does it want to shut down private schools altogether with one directive driving up the cost while another directive mandating a price at which the service of that quality cannot be provided?

does it want the private education to be so expensive that it is out of reach for most low-income parents? Or does it want to shut down private schools altogether with one directive driving up the cost while another directive mandating a price at which the service of that quality cannot be provided? All these questions point out to the fact that the Education policy of Nepal needs clarity in its treatment of private education and how it views access to quality education for all Nepali children.

Our cost estimation clearly points out to a regulatory malfunction in education. This not only affects the current generation but also the future generations of Nepalese living and working in Nepal.

International experience

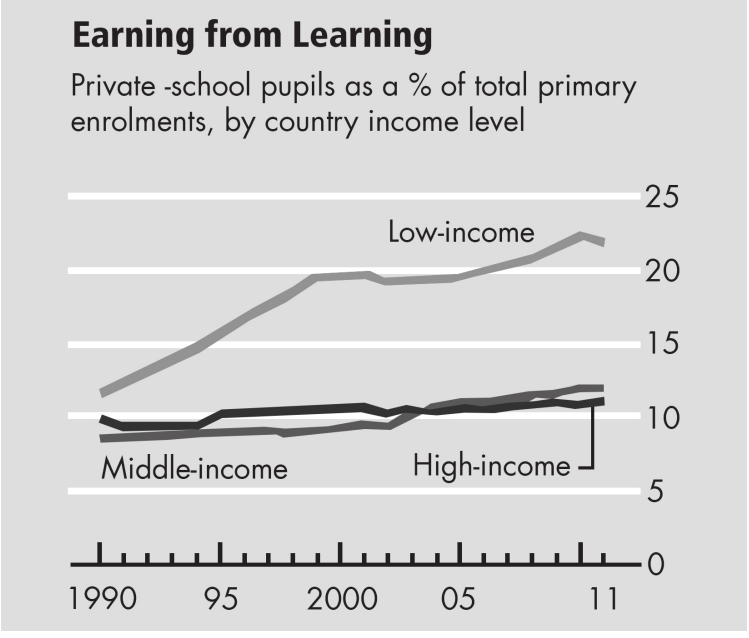
"ACROSS the highway from the lawns of Nairobi's Muthaiga Country Club is Mathare, a slum that stretches as far as the eye can see. Although Mathare has virtually no services like paved streets or sanitation, it has a sizeable and growing number of classrooms. Not because of the state—the slum's half-million people have just four public schools—but because the private sector has moved in. Mathare boasts 120 private schools."(The Economist, 2015a)

Similarly,

"THE Ken Ade Private School is not much to look at. Its classrooms are corrugated tin shacks scattered through the stinking streets of Makoko, Lagos's best-known slum, two grades to a room. The windows are glassless; the light sockets without bulbs. The ceiling fans are still. But by mid-morning deafening chants rise above the mess, as teachers lead gingham-clad pupils in educational games and dance. Chalk-boards spell out the A-B-Cs for the day. A smart, two-storey government school looms over its ramshackle private neighbour. Its children sit twiddling their thumbs. The teachers have not shown up."(The Economist, 2015b)

Both of the above are reports from two stories on low cost education covered by The Economist Magazine (The Economist, 2015a and 2015b).

This pattern can be seen across Africa, the Middle East and South Asia. In the absence of quality education through public school system, the low-income countries around the world have experienced an increase in private school education as demonstrated by the following chart:



Source: The Economist, 2015a

In the absence of quality education through public school system, the low-income countries around the world have experienced an increase in private school education

Private schools are usually better value for money than the ones run by the State.

As the chart above shows, according to the World Bank, across the developing world a fifth of primary-school pupils are enrolled in private schools, twice as many as 20 years ago. So many private schools are unregistered that the real figure is likely to be much higher. Across Nigeria 26% of primary-age children were in private schools in 2010, up from 18% in 2004. In India in 2013, 29% were, up from 19% in 2006. In Liberia and Sierra Leone around 60% and 50% respectively of secondary-school enrolments are private (The Economist, 2015a). Recent estimates put the number of low-cost private schools in Lagos, Nigeria's commercial capital, as high as 18,000. Hundreds more open each year. Fees average around 7,000 naira ($35) per term, and can be as low as 3,000 naira. In comparison, in 2010-11 the city had just 1,600 government schools. Some districts, including the "floating" half of Makoko, where wooden shacks stand above the water, comprise not a single one (The Economist, 2015b).

Private schools are usually better value for money than the ones run by the State. Measuring this is a challenge, since the children who go to private schools tend to be better off, and therefore likely to perform better. But a rigorous four-year study of 6,000 pupils in Andhra Pradesh, in southern India, suggested that private pupils performed better in English and Hindi than public-school pupils, and at a similar level in Mathematics and Telugu, the local language. The private schools have achieved these results at a third of the cost of the public schools (Muralidharan et all, 2013).

However, in countries where Governments intimidate private schools and see them as a profit making machine, like in Nepal, regulation is often an excuse to harass them. Research in numerous countries has shown that the regulatory frameworks used, such as quality of facilities and buildings, have next to no bearing on a school's effectiveness in producing a more learned child (Glewwe & Kremer, 2006; Fowler and Walberg, 1991; Goldhaber & Brewer, 2000). For example, many poor countries like Kenya, Pakistan and Mali have employed comparatively unqualified teachers on temporary contracts in recent years, paying them a lot less than the permanent ones. However, students seem to have learnt at least as much as those taught by permanent teachers (The Economist, 2015b).

India has made a lot of strides towards economic growth in the past few decades and its progress is attributed to private sector and multinational business boom. Private schools in India have also made a lot of progress during these years but face similar challenges from the Government as well. Although only consisting of 25% of all schools in India, private schools enroll 40% of the total school going population.

However, the Government seems not to have recognized their importance and contribution towards the progress of the country and still regulates private schools in a detrimental way. For example, from a regulatory perspective in particular, schools are only allowed to be set up either by the central/ state/ local government or the private sector by establishing a trust/ society. There are strict norms around infrastructure and other facilities, process of application, registration as a society/ trust to obtain the land, procurement of numerous licenses and certificates to establish a school. To be a recognized school, it has to be affiliated to a Board. However, there are multiple Boards who regulate and recognize schools with inconsistency in norms across States and affiliating bodies (FICCI, 2014).

As our calculation clearly indicates, it is next to impossible to operate a school following all the standards set out by the directive and charge the government-mandated fee.

Cost of Regulation and policy implications – what is seen versus what is not seen?

In 1850, French political economist, Frederic Bastiat provided the world with a new way to look at policy decisions through his essay, 'What is Seen, What is not Seen'[7]. This section uses Bastiat's framework to analyze the implication of the Institutional and Operational Directive issued by the Ministry of Education for the operations of a private school in Nepal.

What is Seen?

- The Government of Nepal is interested and serious about improving the quality of education provided to the children of Nepal. This is stated in the Preamble of the directive.
- Private schools will have similar standards and a defined way of functioning. This leaves less space for ambiguities and helps parents make an informed choice about the school that they want to educate their children in.
- The Ministry of Education has deliberated in detail and would like to define all aspects of development of a child in private education.
- A school that does not follow the standards set is subject to punishment thereby creating an incentive system to ensure that standards of safety and a good learning environment (as defined by the directive) are met by private schools.
- The 'fee structure' of the school is clear and parents are not charged 'extra' than what is mandated by the law.

What is Not Seen?

- As our calculation clearly indicates, it is next to impossible to operate a school following all the standards set out by the directive and charge the government-mandated fee. The fee structure barely covers the set up cost of the private school, let alone the operating cost of one. Even if economies of scale argument is introduced in this conversation, we end up with a higher cost owing to the operational aspects of the directive such as maintaining a particular student-teacher ratio and a certain class size.
- The private education providers are forced to perform in the 'grey area' of the economy owing to cost implications. If the standards are followed then they need to charge higher than the mandated fees. In order for this to happen:

  a. The private schools have to maintain two books of accounts – one to show the government and the other that actually represents the school fees.

7 The essay is available at: http://fee.org/files/doclib/bastiat0601.pdf

b. Parents will now face a gamut of 'surcharges' in addition to the mandated 'fees' for tuition. Owing to this parents end up even more confused as to the value they are receiving for the money they spend. It creates higher information asymmetries and helps increase the frustration of parents.

- The directive immediately acts as a 'barrier to entry' for low cost private schools (like the ones we have highlighted in the international experience section – the private schools that cater to low income parents). No one wanting to operate a legal low cost private school can enter into the education market because the standards they have to follow does not now allow for cost cutting measures.
- The directive therefore, implicitly, supports the current 'big players' of the private education market and helps them create a cartel within the private education sector. It does this by discouraging new entrants (owing to high set up costs and 'fees' that don't cover costs). To the benefit of the private schools operating before the directive came into force, they are not subject to the terms and conditions as laid down in the directive.
- Overall, the directive effectively shuts down the possibility of children of low-income parents to attend a private school and have a better chance at improving his/her life standard.

The directive immediately acts as a 'barrier to entry' for low cost private schools.

Futile attempts at price controls only create 'grey areas' of the economy which are difficult to monitor but foster an uncertain and unstable business environment that are also susceptible to malpractices.

What can be done? Towards 'better education' for all

Nepal's public education system is facing the challenging task of educating a burgeoning but a relatively low-income population. Any system facing a daunting task as such would be a victim of inefficiencies especially when the public education system is not incentivized to perform better. Therefore, Nepal requires a variety of solutions to educate its population. In order to experiment with the various solutions that could cater to the educational needs of the Nepalese population, Nepal needs to have an education regulatory regime that is open and flexible to changing dynamics of the education market.

The task ahead for Nepal's educators and policy makers on education is to develop a robust system that provides various options including public and private 'quality education' to all. In order to do this following reform measures are necessary:

- Remove regulatory barriers such as the 'Institutional School Criteria and Operational Directives, 2069' that increase the cost of doing business for edupreneurs and prevent low-income parents from accessing private education through low cost private schools.
- Focus on developing 'pedagogy standards' that help reinforce the 'quality of education' that children receive across public, private or community schools. These standards (not necessarily enforced through directives) could be enforced through 'standard examinations' administered for all students based on a similar concept of SLC (but a standard that is more effective than SLC to measure educational outcomes).
- Focus on reforming the public education system through a better-incentivized system in terms of both teacher performance measures as well as ownership structures of public education.
- Rethink the price controls in place for private education. The unfortunate fact about markets is that 'demand and supply' regulate the prices. Therefore, futile attempts at price controls only create 'grey areas' of the economy which are difficult to monitor but foster an uncertain and unstable business environment that are also susceptible to malpractices. Due to these 'grey matters' the Government loses it's ability to focus and punish the actual 'wrong doers'. While price controls such as fee ceiling for private education might be populist measures, they defy the basics of economics and therefore, cannot really be enforced, especially in a country like Nepal that has a problem with maintaining 'rule of law'. Price controls also invite other kind of charges in education as evinced by the private education market of Nepal today. This further brews confusion and discontent amongst parents.

This paper is an attempt towards explaining the unintended consequences of policy actions. The 'Institutional School Criteria and Operational Directive 2069' may have been a very well intended policy document. However, its implications create more complications in the education market and have the unfortunate unintended consequence of barring children of low-income parents from private education. This in the long run is even more harmful for the country as a whole owing to systemic discrimination based on 'class'. Isn't that a recipe for social conflict? Education policy with the goal of 'better education' for all needs to take into account both implications – that which is seen and that which is not seen.

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Annex - A

Budgeting for constructing a Primary School (classroom and furniture only)

The study considers the cost of construction on a leased land rather than land purchased. In the latter case, the cost would go up exponentially. The calculation is for the construction of a concrete classroom. While it is possible that alternative materials (such as wood, mud) etc. could be used as primary materials, which might lower costs, majority buildings in the Kathmandu (for which the calculations have been done) are concrete and there is general preference for it so far. Prices are based on a market survey conducted amongst architects, construction companies and individual contractors.

S.N	Materials	Unit Price	Unit of measurement	Quantity	Total Cost in (NRs)
1	Brick	12	Pcs	6146	73,758
2	Sand	7500	Trip	7	52,500
3	Stone chips	8000	Trip	2	16000
4	Metal Rod	85	Kgs	360	34,000
5	Cement	750	Sack	55	41,250
6	Distemper Paint	15000	Per Room	1	15,000
7	Wiring and Lights		Per Room		10,000
8	Window	500	Sq Feet	24	24000
9	Door	500	Sq Feet	48	24,000
10	Labour Fees	280	Sq Feet	355	84,000
11	**Total cost of building one classroom**				**374,508**
	Total cost for building five classrooms				**1872540**
	Details for extra rooms				
	Principal's Office				235150
	Staff Room				235150
	Speech Hall				550614
	Labarotary				235150
	Library				235150
	Bathroom				190000
	Water Supply and Drainage				27000
	Pipes and Plumbing				24000
	Total Cost for extra rooms				**1732214**
	***Cost of leasing land**				**1440000**
	Initial cost excluding furniture				**5044754**
Cost of Furniture for the school as per the directives					
	White Board	3500		5	17500
	Student Bench	5200		55	286000
	Teacher Desk	9620		5	48100
	Office Desk	9620		7	67340
	Library and Office Shelf	6020		8	48160
	Office Cupboard	97200		2	194400
	Staff and Teacher Chair	4200		22	92400
	Total furniture cost				753900
	Total cost of land, building and furniture				5798654
	Contingency expenses (10%)				579865
	Grand Total				**6378519**

** The cost of leasing land is derived from the assumption that the school operator leases 8214 sq. feet (24 annas) of land for* five years at a cost of Rs. 120000 per month. It is further assumed that the operator pays one year worth of the lease fee in the beginning.

Annex - B

Regulations pertaining to the infrastructure as per Institutional School Criteria and Operational Directive, 2013

Article 3

Provisions Relating to Physical Infrastructure

3. To open up a new school or add classes, physical infrastructure mentioned below have to be completed.

3.1. Land and Playing fields

3.1.1. The land in which an institutional school is operated must be owned by the school or must be legally rented by the school.

3.1.2. Excluding the building for classes, a school must have enough area for all the students to stand at the same time.

3.1.3. A school must have badminton and volley ball courts in its premise.

3.1.4. The school premise must be safe/secure, clean and green.

3.2. School Building

3.2.1. An institutional school must own its own building or must lease it for at least five years.

3.2.2. There must be enough separate rooms for the compulsory and optional classes.

3.2.3. A school must have separate rooms as needed for a principal, teachers/staff, administration, accounts, a library, a hall and labs for experimental subjects.

3.2.4. New classes to be built must have an area of 1 meter square per student for primary level and 1.5 meter square per student for secondary level.

3.2.5. Classrooms and all other rooms must receive enough sunlight and must have adequate ventilation system.

3.2.6. Each room must have a minimum of 1.1 meter wide door and 3 x 4 feet air circulating window, for safety reasons each room in a newly built school building must have two doors.

3.2.7. Each room must be able to accommodate at least 33 students.

3.2.8. Classrooms must have a minimum height of 8 feet in the Himalayan region, 9 feet in the Hilly region and valley areas and 10 feet in the Terai.

3.2.9. Classroom walls must have the capacity to hold charts relating to subject matter and educational information.

3.2.10. New school buildings or the building being relocated to must have design permit and must be earthquake proofed.

3.2.11. The rooms must be soundproofed not to let the sound of one classroom travel to another.

3.2.12. Electric wiring must be safe and secure in classes with electrical supply.

3.2.13. School buildings must be children friendly and inclusive.

3.3. Lavatory:

3.3.1. There must be enough separate lavatories for boys and girls.

3.3.2. Provisions must be made for a sanitary box and a changing room for girls of grade 6 and higher.

3.3.3. Provisions must be made to keep the lavatories clean and maintain enough supply of water.

3.3.4. There must be a provision of minimum one toilet and urinal for each 50 students.

3.6. Furniture

3.6.1. Provision for climate appropriate carpets must be made if students in the primary level are made to attend classes sitting down on the floor.

3.6.2. A maximum of four students can sit on a single bench.

3.6.3. Chairs/Desks and benches/desks must be appropriate to students' age.

3.6.4. The furniture available in classrooms must be able to rearranged as needed and be suitable to carry out group works.

3.6.5. Generally, desks and benches should be 16" and 22" respectively in the primary levels and 22"and 26" high in the secondary levels.

3.6.6. The minimum width of desks and benches must be 15 inches.

3.6.7. Each classroom must have an appropriate sizes book shelf.

Annex - C

People consulted to derive market prices

Name	Occupation	Organisation	Professional Experience
Pawan Mandal	Construction work contractor	Independent	25 years
Adhiya Yadav	Furniture maker	Independent	33 years
Ashish Suwal	Architect	Vision Architects and Engineers	2 years
Dixit Shrestha	Retailer (hardware and construction materials)	Ramila Traders	6 years
Yatra Sharma	Architect	Dimensions Consultancy	7 years
Niranjan Mallik	Construction Work Contractor	Independent	35 years
Krishna Bahadur Shrestha	Construction Work Contractor	Krishna and Sons Nirman Sewa	40 years

What Is Seen and What Is Not Seen by Frédéric Bastiat

In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently; they are not seen; we are fortunate if we foresee them. There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen. Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil. The same thing, of course, is true of health and morals. Often, the sweeter the first fruit of a habit, the more bitter are its later fruits: for example, debauchery, sloth, prodigality. When a man is impressed by the effect that is seen and has not yet learned to discern the effects that are not seen, he indulges in deplorable habits, not only through natural inclination, but deliberately. This explains man's necessarily painful evolution. Ignorance surrounds him at his cradle; therefore, he regulates his acts according to their first consequences, the only ones that, in his infancy, he can see. It is only after a long time that he learns to take account of the others. Two very different masters teach him this lesson: experience and foresight. Experience teaches efficaciously but brutally. It instructs us in all the effects of an act by making us feel them, and we cannot fail to learn eventually, from having been burned ourselves, that fire burns. I should prefer, in so far as possible, to replace this rude teacher with one more gentle: foresight. For that reason I shall investigate the consequences of several economic phenomena, contrasting those that are seen with those that are not seen. The Broken Window Have you ever been witness to the fury of that solid citizen, James Goodfellow, when his incorrigible son has happened to break a pane of glass? If you have been present at this spectacle, certainly you must also have observed that the onlookers, even if there are as many as thirty of them, seem with one accord to offer the unfortunate owner the selfsame consolation: "It's an ill wind that blows nobody some good. Such accidents keep industry going. Everybody has to make a living. What would become of the glaziers if no one ever broke a window?" Now, this formula of condolence contains a whole theory that it is a good idea for us to expose, flagrante delicto, in this very simple case, since it is exactly the same as that which,

unfortunately, underlies most of our economic institutions. Suppose that it will cost six francs to repair the damage. If you mean that the accident gives six francs' worth of encouragement to the aforesaid industry, I agree. I do not contest it in any way; your reasoning is correct. The glazier will come, do his job, receive six francs, congratulate himself, and bless in his heart the careless child. That is what is seen. But if, by way of deduction, you conclude, as happens only too often, that it is good to break windows, that it helps to circulate money, that it results in encouraging industry in general, I am obliged to cry out: That will never do! Your theory stops at what is seen. It does not take account of what is not seen. It is not seen that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. It is not seen that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them. Let us next consider industry in general. The window having been broken, the glass industry gets six francs' worth of encouragement; that is what is seen. If the window had not been broken, the shoe industry (or some other) would have received six francs' worth of encouragement; that is what is not seen. And if we were to take into consideration what is not seen, because it is a negative factor, as well as what is seen, because it is a positive factor, we should understand that there is no benefit to industry in general or to national employment as a whole, whether windows are broken or not broken. Now let us consider James Goodfellow. On the first hypothesis, that of the broken window, he spends six francs and has, neither more nor less than before, the enjoyment of one window. On the second, that in which the accident did not happen, he would have spent six francs for new shoes and would have had the enjoyment of a pair of shoes as well as of a window. Now, if James Goodfellow is part of society, we must conclude that society, considering its labors and its enjoyments, has lost the value of the broken window. From which, by generalizing, we arrive at this unexpected conclusion: "Society loses the value of objects unnecessarily destroyed," and at this aphorism, which will make the hair of the protectionists stand on end: "To break, to destroy, to dissipate is not to encourage national employment," or more briefly: "Destruction is not profitable." What will the Moniteur industriel say to this, or the disciples of the estimable M. de Saint-Chamans, who has calculated with such precision what industry would gain from the burning of Paris, because of the houses that would have to be rebuilt? I am sorry to upset his ingenious calculations, especially since their spirit has passed into our legislation. But I beg him to begin them again, entering what is not seen in the ledger beside what is seen. The reader must apply himself to observe that there are not only two people, but three, in the little drama that I have presented. The one, James Goodfellow, represents the consumer, reduced by destruction to one enjoyment instead of two. The other, under the figure of the glazier, shows us the producer whose industry the accident encourages. The third is the shoemaker (or any other manufacturer) whose industry is correspondingly discouraged by the same cause. It is this third person who is always in the shadow, and who, personifying what is not seen, is an essential element of the problem. It is he who makes us understand how absurd it is to see a profit in destruction. It is he who will soon teach us that it is equally absurd to see a profit in trade restriction, which is, after all, nothing more nor less than partial destruction. So, if you get to the bottom of all the arguments advanced in favor of restrictionist measures, you will find only a paraphrase of that common cliché: "What would become of the glaziers if no one ever broke any windows?"

*This excerpt is from the first chapter of Selected Essays on Political Economy, translated by Seymour Cain and edited by George B. de Huszar, published by the Foundation for Economic Education. http://fee.org/files/doclib/*bastiat0601.pdf

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