



Samriddhi, The Prosperity Foundation

# DISCUSSION PAPER

POSSIBILITY OF  
EDUCATION VOUCHERS IN NEPAL

**MAY, 2015**

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## Possibility of Education Vouchers in Nepal

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## ACRONYMS

DoE:	Department of Education
EFA:	Education For All
GDP:	Gross Domestic Product
GoN:	Government of Nepal
ICETEX:	Colombian Institute of Credit and Technical Studies Abroad
ISTU-Nepal:	Institutional School Teacher's Union Nepal
NLSS:	Nepal Living Standards Survey
PACES:	Programa de Ampliación de Cobertura de la Educación Secundaria
SES:	Socio-Economic Status
SESP:	Secondary Education Support Program
SLC:	School Leaving Certificate
SSU:	School Subsidy Unit
TEP:	Teacher Education Project
UNESCO:	United Nations Educational, Scientific and Cultural Organization
US:	United States

*The Nepali year is based on the Bikram Sambat Calendar and is approximately 57 years ahead of the Gregorian Calendar. (2062/1/1 = 2005/4/14)*

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## EXECUTIVE SUMMARY

It has become almost a cliché to assert that education is a fundamental right but its provision has always been a subject of heated debate, particularly between public and private school proponents. This discussion particularly in developing countries is valid and important as community (public) schools show increasingly poor test results and are plagued with high teacher absenteeism and unaccountability. On the other hand, preference for private education is booming as can be viewed by the continual mushrooming of such schools especially in urban areas. While private schools have been traditionally viewed as being affordable only by a certain niche group with high income, today the story is different. James Tooley found in his travels across the world that the poorer sections of society need not be dependent on charity alone, and in fact, are not.

In light of this impressionable idea, we would do well to examine the concept of education vouchers and how they could revolutionize the national and world education systems. Popularized by Milton Friedman in the mid-1950s, the concept of vouchers, whereby students (or parents) are given the choice to choose where to spend public funding has managed to grip the imagination of many. Simply put, education vouchers are a way of channeling public funding into approved schools (those that meet general criteria of curriculum and sanitation among other things) chosen by students. Vouchers open up possibilities for even the poorer sections of society to begin attending private schools, an option that they would otherwise have to continually forfeit.

School choice or education vouchers may be an alien concept in Nepal as of now but its implementation over the world is far from new. The following paper thus, attempts firstly, to explain to the reader the concept of education vouchers in detail then moves on to famously covered practices in the world. Thirdly, we shall look at a plausible model of working the voucher system in our own country and why it could be a better model for educating young minds.

Colombia and Chile's vouchers systems and their workings are amongst the two most researched and prominent voucher systems that have been discussed in the following discussion paper. Their workings are different from each other and Nepal would do well to scrutinize nuances of both or more examples before considering their implementation. One major criticism of Chile's voucher system is that because it is a blanket voucher system, it does not take into account household's incomes that could allow for parents to practice more school choice. Giving all families access to the same amount of voucher may be little different than allowing for blanket free education. Thus, means-tested vouchers based on family incomes shall make for an ideal voucher system in Nepal where our socio-economic conditions are what largely separate where we educate our children. Allowing for such vouchers shall give the poorer sections of society more options to attend approved schools than a blanket voucher would. This paper thus attempts to justify this stance and propose a rough guide to voucher idea implementation in the country.

Vouchers help in fostering competition among schools and increasing overall teacher and student productivity. They also helps lower corruption as funds are received by direct beneficiaries rather than

education middlemen. Vouchers also act as better incentives as they may be reduced or withdrawn based on pupil performance. It has been shown by researches (cited in the paper) that vouchers allow for more school retention and lesser working hours for students. Additionally, even female education inclines favorably as parents can educate their girls in private schools with amounts much lesser than previous traditional fees. Allowing for a pilot project thus in or around Kathmandu would be an ideal starting point for realizing this concept in the country.



# 1.0 Introduction to the Problem:

In 2014, there were 29,630 public schools and 5,593 institutional schools in the country<sup>1</sup>. More than 60% of the education budget is channeled every year to public primary education with the result that though Nepal now has a Net Enrollment Rate of over 95%<sup>2</sup> in 2012/13, repetition in Grade 1 alone is at 19.9 percent (EFA, 2015). Survival rate<sup>3</sup> for Grade 8 in public schools, as reported by the Education ForAll National Review 2001-2015, is at a dismal 69.4%. Though drop-out rates have fallen over the years, out of total drop-out rate of 6.0 percent for Grade 5 in 2015, 5.9 percent were girls (EFA, 2015).

The advent of public education in the country begins with Durbar High School opening its doors to the general mass in the 1900s. Its reach having gradually covered the entire country however, the results community schools (i.e., public schools) have subsequently shown are disappointing to say the least. This has given birth to numerous education betterment programs funded heavily by donors and the state such as the Teacher Education Project (TEP), Secondary Education Support Program (SESP), Education for All (EFA) and the School Sector Reform Program (SSRP) among others. As will be highlighted by this paper and our subsequent papers on education, these programs are far from achieving their objectives of ensuring basic education to prospective students and in general, creating a quality laden educational environment for all.

While SLC scores alone cannot be the all-encompassing proxy for measuring the performance of different schools in the country, it happens to be one of the most important factors affecting the perception people have of the various schools. Pass rates for public schools in School Leaving Certificate examinations have decreased from 58.54 percent in 2010 to a dismal 33.18% in 2015 (OCE, 2015 as cited in Samriddhi Foundation, 2015). It is difficult to accept that these results are not substantial, particularly when the trend

line is sloping downwards for public schools.

It must be noted that other factors also contribute to education success, and cannot be purely measured by SLC scores. It is important to analyze graduate employment comparisons; post-schooling income levels; and even Human Development Index measurements, such as life expectancy. However, a number of reasons could have led to this poor performance by public schools, which in turn are problems in themselves. The first surrounds issues of incentives for teachers, namely in rewards and punishments. High levels of teacher absenteeism (15 percent to 18 percent)<sup>4</sup> are not ideal but are only a product of a state system that does not reward excellence. Although an ideal world would see teachers perform their job for the love of it, this is unrealistic. Teachers must be motivated by financial or institutional reward schemes and the current public system does not promote this.

This is also true for the schools themselves. Government funded schools naturally do not have any incentive to improve their services, and as a result do not have to take as much care for their students as private institutions do. Better infrastructure does not automatically mean better education<sup>5</sup>.

Other factors have also contributed in lowering standards in public schools. Frequently, public schools are interrupted by public holidays, or shut down because of strikes. Study materials also arrive late, causing headaches for teachers. Students face months without books, which of course hinders their education. It is evident thus, that we need to structurally reform our current education system. With both the School Sector Reform Plan and the Education For All projects coming to a culmination in 2015, the time is ripe for a newer innovation.

1 MOE, Nepal Education in Figures (2014)

2 Education For All National Review (2001-2015)

3 Survival rate is indicative of the percentage of students that were retained until a given grade

4 Kedar Bhakta Mathema as interviewed by The Kathmandu Post, 2015/03/23

5 James Tooley, The Beautiful Tree (2009)

A simple yet imperative economic concept that holds true even for the education market is that of incentives. Human beings respond well to incentives. If the public system is failing, naturally one would look towards free markets and privatization for better results. The important question here is how can markets then help incentivize the education system? Moe (2002) answers this using two crucial concepts. Firstly, markets promote choice and choice itself is valuable. To be able to choose schools not because one has to but because one wants to makes a world of difference in both parents' and the students' perception of the education institution. Secondly, 'choice transforms incentives and in doing so promises to transform the system as a whole' (Moe, 2002). Under the current system of public funding, public schools are financed regardless of their performance. But once choice becomes a plausible factor, this no longer becomes the case as schools too begin to compete for students. Parents and students are no longer a 'captive clientele'<sup>6</sup> but are active seekers of quality education. This concept is enshrined in the idea of school choice.

Milton Friedman, in his classic 'Capitalism and Freedom' (1962) expounded his idea of school choice, whereby students and households would be given a choice to choose where to educate their child via the provision of school vouchers rather than isolating them to the nearest public school. This paper thus attempts to explain the nuances of school choice through the education voucher and its relevance to Nepal. There are several models of the education voucher that have been replicated the world over and hence, is not an ideological concept alone. This paper also examines what kinds of education voucher systems have been developed and tried around the world and which one would suit Nepal the best.

Freedom of choice underpins the values of liberty that define modern, successful democracies around

the world. Currently, the Nepalese system funds the **schools, not the students**. This leaves poor families in a despairing situation, who stare down the barrel of these alarming SLC statistics and see no future for their son or daughter. In an article titled 'Free to choose, and learn' published by The Economist in May 2007, the principle of a voucher system has been explained succinctly: **"The state pays; parents choose; schools compete; standards rise; everybody gains."**

A fact that has to be kept in mind when examining this paper however is that while private schools are booming in number in larger cities, rural areas are still heavily dependent on community schools (for instance: 3558 community schools in the Far West compared to 455 institutional schools in the same region)<sup>7</sup>. Thus while administering school choice, we also need to make sure that institutional schools (i.e., private schools) are reaching the rural areas. For this, failing public schools could be privatized or charter schools could be developed<sup>8</sup>. The introduction of school choice before the presence of choices would make little sense. Hence, this paper looks to both, explore the possibility of school choice in the country, as well as provide a clearer concept on the subject for reference application in the country.

<sup>6</sup> For more on the 'captive clientele', see Moe, Terry (2002), The Structure of School Choice

<sup>7</sup> Nepal Education in Figures, 2014  
<sup>8</sup> A charter school is a school that receives public funding but control is independently exercised by the usually private governing body.

## 2.0 The Education Voucher System or 'School Choice':

The idea of the voucher system in education was popularized by Milton Friedman's 1955 essay, 'The Role of Government in Education'. More than half a century later, the idea is still equally relevant and has been steadily gaining popularity throughout the world. In fact dismal performance by public schools, notably in developing countries, has created a massive wave of support towards alternatives to financing public schools directly. Countries, whose exemplary systems have been talked about further in following chapters, have chosen to opt for the voucher system to finance public and private education. Others like Nepal and India have seen a rise in the tide of low-cost private schools. Though the education voucher is different from the concept of charter schools and even low cost private schools, they are inextricably linked together. This chapter aims to give the reader clarity on the concept of education vouchers and voucher schools.

An **education voucher system** is an arrangement whereby the state and/or municipal governments hand out a certain percentage of the cost of education of a student in form of a cash voucher. This cash voucher acts as actual money substitute that the student can use to attend an 'approved' school of his/her choice (either public or private). 'Approved' schools shall generally mean independent schools that shall be willing to participate in voucher system schooling and maintain certain standards of schooling such as minimum common content and sanitary conditions in the schools (Friedman, 1995).

Education vouchers can be of two types: targeted and universal. Targeted vouchers give selected groups of people access to voucher assistance. An example of this is Colombia, which adopted the Program for the Expansion of Secondary Education Coverage (PACES) in 1991. The program ran for six years and covered

125,000 students in 216 municipalities across the bottom third of income-earners. The results at the end of the program clearly showed that the students who used the vouchers were better off. For instance, voucher students received overall more number of years in schools and worked fewer hours (as has been further described in following chapters).

In contrast, a universal scheme grants vouchers to every municipality. Every municipality receives individualized monthly grants based on the number of students attending class in its schools. This system is more costly to the government but provides more fairness. Chile's voucher system divides the provision of vouchers between the municipality and the state. Netherlands' government also provides universal vouchers.

### 2.1 Education vouchers and improved education:

In this section, we shall examine a number of cases worldwide that have established and operated school vouchers and their mode of conduction and documented effects.

#### 1. Columbia:

Colombia's Programa de Ampliación de Cobertura de la Educación Secundaria (PACES) has proved to be one of the most successful and experimentally sound instances of schools voucher implementation programs in the world. PACES had, by 2001 alone, provided vouchers that covered about half or more of private primary education to more than 125,000 pupils (Angrist, et. al, 2001).

PPACES began in late 1991 as 'part of a wider decentralization effort in an attempt to expand

private provision of public services' (King et. al 1997 as cited Angrist, et al. 2001).

The PACES program targeted low-income families by offering vouchers only to children residing in neighborhoods classified as falling into the two lowest socioeconomic strata (out of 6 possible strata). Applicants had to submit a utility bill to establish residential location and voucher eligibility. A second important feature of program targeting was that vouchers were offered only to children attending public primary schools. This restriction further excluded upper-income households since almost half of children from the richest income quintile attended private primary schools. (Angrist et. al, 2001)

As further explained in the same research, the vouchers amounted to US \$190 around 1993-95 but did not increase according to inflation in successive years. In 1995, the average per-pupil spending in Colombia's public secondary school system was over US \$350 (DNP, 1999 as cited in Angrist et. al, 2001). Here, municipal governments covered 20% of the total cost while the state covered 80% of the total cost. The allocation to number of students was determined by estimating the gap between primary school enrollment and the space available in public secondary schools. (Angrist, et. al, 2001). This would be a reasonably good estimate of how many children had dropped off formal education after primary school, thereby accounting for the empty spaces.

Students who received vouchers were automatically renewed until the 11th grade, provided that the student's performance was up to par. Those failing a grade would be dropped from the program.

The program proved to be a randomized experiment as applicants exceeded available voucher spots,

and a software-facilitated lottery was used to determine winners. Regional offices of ICETEX (Colombian Institute of Credit and Technical Studies Abroad) helped individual municipalities determine number of vouchers to be funded, checked school requirements for them to participate and also monitored the implementation of the program (Angrist, et. al. 2001).

How effective did the PACES turn out to be? Angrist, et. al (2001) who extensively researched the program, came up with a number of conclusions about it which has been presented as follows:

1. Voucher winners completed more years of schooling than non-voucher winners (who were being educated in schools that didn't follow the voucher system) and were less likely to repeat grades. Voucher students had statistically 0.8 more years of schooling as seen in the researcher's 1995 Bogota sample.
2. Sex-wise, boys received 0.06 more years of schooling than non-voucher recipients while girls received 0.12 more years of schooling than their counterparts who hadn't received these school vouchers.
3. Voucher awardees worked 1.2 fewer hours than non-awardees - an effect seen more precisely in girls. The researchers have attributed this change to income effects for the household post-voucher, greater time demands of private schooling (that most voucher winners chose to attend) compared to public schools, or perhaps more appropriately, there was more incentive for voucher winners to spend more time studying considering failing a grade would mean losing the voucher.
4. Because voucher sizes were not very large (\$190) compared to average private secondary

school charges of \$300 per year, these vouchers were not large enough to have caused households to have increased their educational spending by choosing more expensive private schools.

## 2. Chile:

Chile's national school voucher program that it has administered since 1981 has, since its inception, attracted both admirers and critics alike. Chile decentralized its education system in the 1980's, transferring responsibility of public school management from the Ministry of Education to municipalities (Elacqua, Contretas & Salazar, 2008). Three kinds of school thus came into existence, the municipal public school, the voucher accepting private schools and the fee-accepting private schools (that were not publicly subsidized). Despite state subsidies, there were particular differences between municipal and private voucher accepting schools as noted by Elacqua, et. al (2008):

1. Municipal elementary schools were barred from charging parents fees as opposed to private run voucher schools.
2. Municipal schools were by law made to accept all students who applied while private voucher schools could administer tests and parent interviews before admitting a child.
3. Municipal schools had to comply with labor laws that made it virtually impossible to fire a low-performing teacher whereas private run voucher schools had greater freedom to terminate employment.

4. Municipal school teacher's salaries increased incrementally per year based on years of experience where there were no such rules of increment in the private school sector.

In the Chilean school voucher system, the government subsidizes schools chosen by parents proportionate to size of enrollment; i.e. the state pays each student one School Subsidy Unit (SSU) for every child who attends classes at that particular school (Contreras, 2001). The maximum number of students that could be admitted to voucher schools were 45 students per class.

Though test scores are only one of the various ways to measure school and pupil achievement, they are usually considered amongst the most valid and replicable. Aedo and Larranaga (1994) (as cited in Contreras, 2001) used a sample of 500 schools in Chile to find that private subsidized schools did obtain higher test scores than public schools. Contreras (2001) concludes his paper with the recommendation that because voucher schools provide students with an opportunity to increase their test scores, have greater access to higher education and future social mobility, the state should support these voucher schools and increase their availability.

Behrman, et. al (2013) also find that private voucher accepting schools attract better teachers than municipal ones largely because salary is based on higher productivity (as opposed to experience alone). They also note that the existence of such schools pulls in higher productive teachers into the education sector thereby improving the overall pool of teachers.

## 3.0 Education vouchers and a probable model for Nepal:

In 2009, the Government of Nepal spent \$102.2 (in constant US\$) per student on education (UNESCO, 2009<sup>9</sup>). Now considering that all existing private schools in Nepal do not receive any kind of state subsidy and are fee-accepting schools, this expenditure can be understood as isolated to public school children.

However, due to lack of data for current years, we have tried to compute per pupil spending for recent years by simply dividing the allocated education budget for a particular year by total public school enrollment. This number differs from the number quoted from UNESCO because of probable differences in variables considered<sup>10</sup>.

Table 1. Enrollment in Public School in Nepal<sup>11</sup> and Education Budget<sup>12</sup> for given years in NRs

Year	Primary	Lower Secondary	Secondary	Total Public School Enrollment	Education Budget
2008	3968004	1226987	570505	5765496	28390000000
2009	4253775	1366967	655988	6276730	39086407000
2010	4357731	1461937	673885	6493553	46616672000
2011	4111679	1546647	708154	6366480	57827542000
2012	3885449	1537167	722145	6144761	63918839000
2013	3724043	1544658	727014	5995715	80958080000

Source: MOE (2010), GON Red Book of mentioned years

Primary education accounts for more than 60% of all education budget spent in recent years:

Table 2. Percentage of total education budget's allocation to primary education

Indicators	2001	2002	2003	2004	2005	2006	2012	Target 2015
% GNP channeled to Primary education	1.8	2.0	1.9	2.0	1.9	2.0	2.0	2.5
% of Education Budget channeled to Primary Education	56.7	60	60	63	62	61	63	65

Source: Education For All National Review Report (2001 – 2015)

The division of primary, secondary and higher secondary education has been slowly replaced by the division into basic and secondary education as reaffirmed by the School Sector Reform Plan (2009-15). Basic education is to signify grades 1-8 and secondary education is to include grades 9-12 (SSRP, 2009)<sup>13</sup>. Based on this information, the division of education budget for a number of given years can be represented as thus:

Table 3 Percentage share of basic education and secondary education in total education budget

Indicator	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
%Share of education budget on basic education	70	71	71	72	73	74	74	75	76
%Share in education budget on secondary education	9	9	9	9	9	9	9	9	9

Source: School Sector Reform Plan (2009-2015)

9 Education-Government Expenditure per student in Constant US\$ (Nepal). <http://data.uis.unesco.org/index.aspx?queryid=190>

10 UNESCO's methodology for calculating per pupil spending was not available.

11 Student enrollment numbers is reported in yearly publication "Nepal Education in Figure" by Ministry of Education

12 Education based on Ministry of Education: A glimpse 2010 and Budget Red Books

13 The division as basic and secondary education is still yet to be passed by the Parliament. For more see <http://therisingnepal.org.np/news/2275>



It can be seen from the above table that the state puts heavy emphasis on primary education enrollment. However, enrollment alone is not sufficient, the point is that a child needs to be incentivized to remain in an education system long enough for him/her to gain skills necessary to attain work in progressive years. This line of thought shall be further discussed in following chapters.

Based on tables 1 and 3, per pupil spending for given years could be computed as thus:

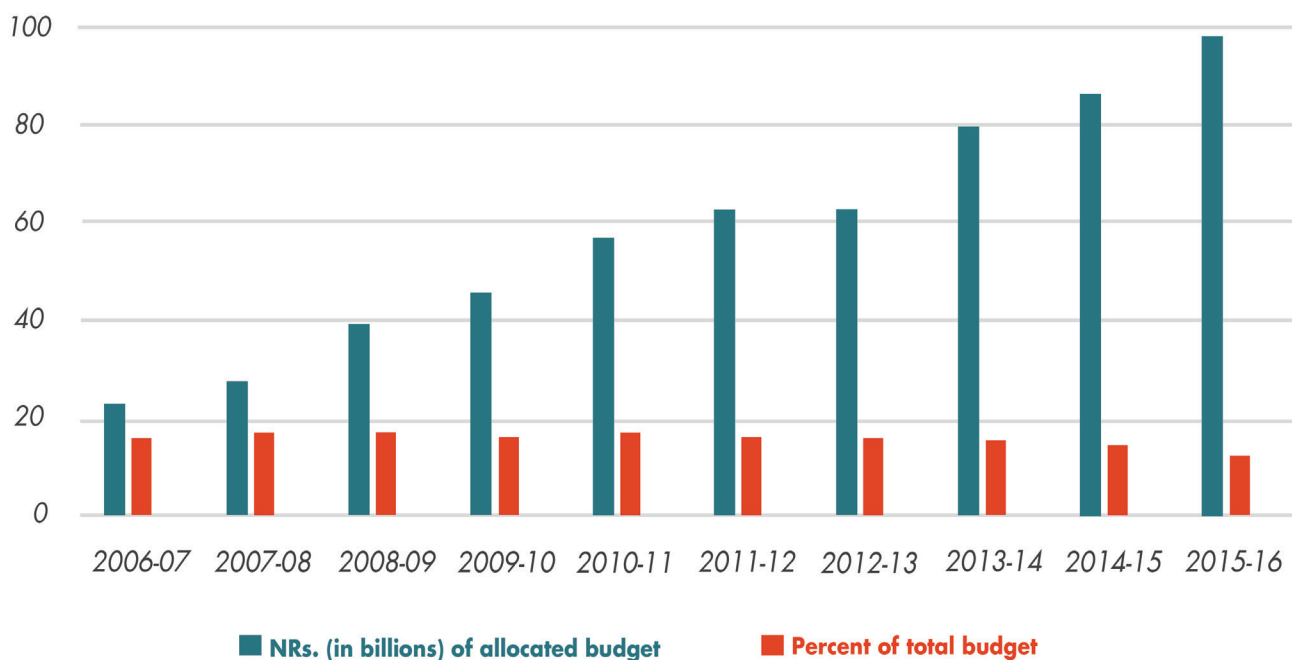
Table 4. Per pupil spending by the government for given years

Year	Education budget	Basic education enrollment	Amount allocated to basic education*	Per pupil spending for basic education	Amount allocated to secondary education**	Secondary education enrollment	Per pupil spending for secondary education
2008	28390000000	5194991	20156900000	3880.06447	2555100000	570505	4478.66364
2009	39086407000	5620742	27751348970	4937.310585	3517776630	655988	5362.562471
2010	46616672000	5819668	33564003840	5767.339965	4195500480	673885	6225.840433
2011	57827542000	5658326	42214105660	7460.529079	5204478780	708154	7349.360139
2012	63918839000	5422616	47299940860	8722.716279	5752695510	722145	7966.122468
2013	80958080000	5268701	59908979200	11370.73051	7286227200	727014	10022.12777

Source: Author's calculation from Table 1 & 3

A few limitations need to be taken into account when considering these calculations. This is a simplification of an annual sectorial budget allocation in the country. Though Nepal's budget allocation on education has increased in terms of amount, the percentage allocation has decreased substantially from 2013, as can be seen by the following graph:

Figure 1. Budget allocation to education by GoN from 2006/07 – 2015/16



Source: School Sector Reform Plan (2009-2015)

It is lowest thus in the years for 2015/16, but this can be explained by the fact that Nepal was hit by a massive earthquake 7.8 Richter scale earthquake killing at least 8,020 people (10/05/2015, The Kathmandu Post)<sup>14</sup> and required budget to be massively allocated to reconstruction and rehabilitation projects with NRs. 74 billion being allocated for reconstruction purposes alone (14/07/2015, Karobar Daily<sup>15</sup>). Because of such an anomaly where massive expenditure had to be redirected at another sector this year, we shall only look at approximate data on government spending per pupil until 2013, keeping in mind that budget allocation to education shall definitely be redirected to the sector in coming fiscal years (considering it is widely accepted that governments should spend at least 20% of their annual national budget on education<sup>16</sup>). This means that the education budget will increase over time and per pupil spending will also grow as a result.

Now let us look at rates of tuition and associated fees of one Kathmandu based low-cost private schools<sup>17</sup> in Nepal of grades kindergarten to 10:

Table 5: Fee structure of a low-cost private school in Kathmandu<sup>18</sup>

Grade	Annual Fee*	Monthly Fee**	Books	Copies	House Uniform***	Exam Fee	Grand Total
Nursery	5000	1100	1175	1500	1600	350	10725
LKG	5500	1150	1275	1500	1600	350	11375
UKG	5500	1200	1375	1500	1600	350	11525
One	6000	1275	2122	2000	1600	400	13397
Two	6000	1350	2236	2400	1700	400	14086
Three	7000	1400	2440	2500	1700	400	15440
Four	7000	1450	2628	2600	1700	400	15778
Five	8000	1550	3080	2700	1750	400	17480
Six	8000	1600	3081	2800	1750	450	17681
Seven	9000	1700	3437	2900	1750	450	19237
Eight	9000	1800	2950	3200	1800	450	19200
Nine	10000	1900	2655	3500	1800	500	20355
Ten	10000	2000	2960	4000	1800	500	21260

\*Annual Fee is taken once at the beginning of every academic session.

\*\*Monthly Fee is the monthly tuition fee; to be paid every month

\*\*\*House Uniform is to mean the dress of the 'House'<sup>19</sup> one is picked into.

Fees for residential services (hostel) and fees for students eating at the school mess (day-borders) have not been added to Table 5, considering that these services are optional and opted for only by a few parents. We are thus looking at only costs borne under usual recurrent headings by all parents every year in a low-cost private school.

14 For more see <http://kathmandupost.ekantipur.com/news/2015-05-10/earthquake-death-toll-reaches-8020.html>

15 Scattered budget focused on reconstruction, Karobar Daily, 14/07/2015. Retrieved from: <http://www.karobardaily.com/2015/07/5931/>

16 Education as an Expenditure Priority, A Budget Guide for Civil Society Organizations Working in Education, undated.

17 Though this term has been popularized by James Tooley's 2009 work 'The Beautiful Tree', here, low-cost private schools are to signify C-grade schools in Nepal, whereby fees are notably lower than the higher grades and thus relatively more affordable.

18 Samriddhi reserves the right to not disclose information about personally interviewed organizations.

19 Houses are usually divided on the basis of colors (e.g. Red, Blue, Green and/or Yellow) or there are house-names associated with these colors into which students are sorted into for the rest of the academic year or throughout their attendance in that particular schools. Usually, these houses serve as teams-separation during sporting or other events.



As shown by Table 4, in 2013, the government roughly spent NRs. 11,370.73051 per child for basic education and NRs. 10,022.12 per child in secondary education in a public school as per our calculations. At the rate of the Forex Exchange on 10/12/2015<sup>20</sup> (\$1 = Rs.103.92), this equals \$109.41 and \$96.44 respectively.

As can be seen from Table 5, the amount is enough or more than enough to grant vouchers covering up to 50% until kindergarten, where total-fees reaches Rs.25,295. For grades beyond kindergarten, the voucher grant at the stated rate of provision of roughly \$109 for per pupil primary education seems to be decreasing in terms of cost-coverage, but this is only when keeping in mind the currently available data. As explained previously, 20% of the national GDP by all countries are expected to be allocated to education. Considering this information, per pupil spending will increase exponentially in coming years. Also, because of the boom of private schools in and around the valley, private school fees will lower due to increased competition, causing more money to be allocated to vouchers if the idea is implemented.

Keeping in mind this information, with a voucher totaling roughly \$219 will be enough to cover 50% and more of costs until grade 10, as can be seen from table 5. Additionally, it is important to note that this is just one instance of a relatively affordable school by the middle and lower middle class families. With the introduction of the voucher system, there shall be a boom in private-voucher accepting schools (to be explained further in later sections), especially designed for lower-income families, where this amount shall be able to waive more tuition fees.

Considering per pupil spending of current years and other variables (such as tuition-fees of low-

cost private schools in the capital), the **average voucher size for Nepal as of now could equal roughly \$110-\$220**. This amount could adjust itself incrementally as the national education budget increases annually and also be adjusted to inflation every year. This voucher needs to be means-tested, however, rather than a blanket number. This line of thought will be further explained in following section.

It may be additionally argued that the introduction of the voucher system shall greatly reduce the poor's access to free public education. However, even public school proponents will accept that a change in the course of execution is warranted. It has to be noted that the above comparison has been made between how much cost could the current and expected per pupil spending by the state cover in low-to-middle cost private schools. The introduction of vouchers shall not call for immediate elimination of free public education. For those unable to top up the voucher sum and attend relatively more expensive private schools, community schools shall still exist to serve them. The idea here is the introduction of the voucher system first in a well-chosen area (based on factors such as where public schools are failing) as a pilot project. The success and failure of the project then could call for extension in the program and a massive revision of the way schools will be funded.

In the Chilean voucher system, municipalities receive funding from the state based on number of children that choose to attend municipal voucher schools (Elacqua, et.al, 2008). With capital spending standing at only 3.3% of GDP in 2014 (The Kathmandu Post, 09/08/2014)<sup>21</sup> the national budget is being desperately looked at being re-channeled into productive investment. The state could choose

20 Nepal Rastra Bank, Forex Exchange on 10/12/15 <http://www.nrb.org.np/fxmexchangerate.php>

21 For more see: <http://kathmandupost.ekantipur.com/printedition/news/2014-09-07/recurrent-expenditure-higher-than-tax-revenue.html>

to provide student subsidy units to municipal schools like in Chile, based on enrollment rates. The state could also likely choose to provide these vouchers to parents/students directly based on their income-levels and allow them to choose between entering a public school or private voucher accepting school.

It needs to be noted that with the introduction of school vouchers, there shall be an advent of a new class of private schools such as the **private-voucher accepting schools**. This will not eliminate the fee-accepting private schools that we are familiar with now, but rather create a market for a different kind of school altogether. This gives parents more choices over where to send their children based on their resources and want. Though community schools outnumber institutional schools, their dismal performance makes for hesitant parents when it comes to educating their child in such an institution. **Altogether creating a market for voucher accepting private schools will make for higher number of total schools in the country, a model that could well reach even the rural sides of Nepal.**

## 4.0 The means-tested voucher in Nepal:

In Chile, we witnessed a national flat voucher system of roughly \$190<sup>22</sup> for each pupil moving to secondary school. One of this system's biggest criticisms was that the state did not look at income-levels of parents when awarding vouchers which greatly disadvantaged the poorest sections of society as their vouchers would mostly be able to buy places only in municipal schools.<sup>23</sup> This is due to lack of family funds which could be used to top-up to enter private voucher-accepting schools. As put by Gonzalez, et. al (2004),

The students from the poorest households obtain the worse results, showing strong association between SES (Socio-Economic Status) and test results. The poorest students are concentrated in municipal schools: 40% of their students come from the poorest 20% of the population. However, it would be an exaggeration to think that there is a complete segregation between pupils that attend municipal and private subsidized schools. Pupils at private subsidized schools come – in relatively similar ways – from the first eight socioeconomic deciles. That is to say, the demand for places at private subsidized schools comes from a broad spectrum of the population. The exceptions are the richest households, whose school age children are concentrated in private fee paying schools.

....modifying currently Chilean flat voucher by an income related system (the current flat-basic voucher plus a means-tested voucher) would compensate for the higher challenge of educating poor students. Then, the targeting

mechanism is discussed. The fact that there is not complete social segregation, or that the cross-table between school and students SES shows a significant dispersion, infer that the targeting criteria are important. We prove that significant inclusion and exclusion errors exists if additional resources are targeted by school rather than by student's socioeconomic levels. Therefore, there is a strong case for selecting an eligibility criteria based on student income levels.

It is obvious thus that the socio-economic status of a family will ultimately affect the education that a child receives. In order for us not to repeat Chile's mistake, we could begin by implementing means-tested vouchers, whereby the size of the voucher amount shall be concomitant to the family's income. This was witnessed in Colombia's targeted voucher schemes whereby vouchers were awarded to the two most challenged economic units, determined by place of residence and utility bills. Annual income of households as determined by the Household Budget Survey by Nepal Rastra Bank (taken in 10 years' intervals) could be an option to look at when determining what target groups to look at and the percentage of education expenses that the state may need to subsidize. The Household Budget Survey is used to generally measure sources and levels of income and expenditure of households in Nepal and thus an appropriate starting for the state to scrutinize household areas broadly based on income and expenditure to target school vouchers at. The Household Budget survey divides the national population based on geography and market centers, based on which it calculates total consumption and expenditure of households among other things.

22 As mentioned in the International Initiative for Impact Evaluation, July 2010

23 Gonzalez, et. al (2004), Vouchers, Inequalities and the Chilean Experience

## 4.1 Working the Education Voucher System in Nepal:

The school voucher possesses a number of intrinsic advantages in its application, including but not limited to:

- fostering competition between private and public schools
- allowing even the poorest sections of society school-choice via means-tested vouchers
- reducing education budget mismanagement and corruption levels by directly funding students (and hence decreasing the need of middlemen)
- increasing accountability of public schools owing to a sense of ownership by students and parents

Though its application will yield a number of positive results, the voucher system may also invite a number of problems which need to be well-addressed and tackled before or while their presence is made known. Alam, et. al (2010) point to a number of obstacles when administering the voucher system, a few of which have been chosen here in context of Nepal:

### 1. Strategic policy and implementation constraints of the voucher system:

Implementing the voucher system will require a massive revision of the education budget in terms of allocation, setting up and sorting municipal responsibilities and revising the scope of existing education Acts.

This however can be taken care of once an extensive targeted means-tested voucher system

is agreed upon by Department of Education and presented as a plan for furthering literacy and thus could become a project in its own right. To start with, the voucher system can be piloted in a small area in or around the city of Kathmandu itself. Depending on its subsequent success or failure, extension, revision/restructuring the national education system and budget could be carried out later on. Specific areas for project piloting could be based on areas from where children are most likely to fail or drop-out and where public schools have shown generally declining results. A means-tested voucher then, based on verified household incomes, could be introduced and run for a period of at least one academic year to view results. Additionally, vouchers could be educationally incentivized. Multiple failures could lead to voucher sustenance being removed whereas passing each successive grade would secure voucher funding for successive years in school.

### 2. Improper and unacceptable database:

Alam, et. al (2010) also state the need for a national database whereby all individual household levels of income and expenditure can be monitored whereby targeted areas could be potentially selected for vouchers. This is already taken care of as the Household Budget Survey carried out by Nepal Rastra Bank can also be used as the primary database. Other such census tools that measure or label income and expenditure, such as the National Living Standards Survey can also act as sub-databases.

One of the most important challenges however, is predicting the reaction of teacher unions of public schools. Though private schools in Nepal also have teacher unions such as the Institutional School Teacher's Union Nepal (ISTU-Nepal), 18 public school

unions as of 2014 have now merged into one single association (Federation of Nepali Teachers)<sup>24</sup>. There have been various documented instances of teacher unions opposing school choice (Walberg, 2007). The simplest explanation for this could be that under the voucher system, more and more students may attempt to engage themselves in private schools, whereby enrollment rates in public schools may decrease enough for teachers to be laid off. In a competitive market however, perhaps there can simply be a reallocation of good teachers from public to private if this scenario does unfold. Hereby, it shall be a win-win situation for both students and teachers. As found by Behrman et.al (2013), private voucher schools attracted better teachers than municipal schools because they paid and valued higher productivity. This also helps draw higher qualified teachers into the larger teaching force itself. A reallocation of funds for education shall also thus be steadily diverted from schools to parents, giving them the upper hand in choosing which schools to fund based on performance and market information availability.

In addition to this, if there is in fact a large switch of teachers from municipal schools to private ones, public schools will be forced to raise their standards of education delivery and accountability to compete with these schools, acting as a self-enforcing reward and punishment mechanism on its own.

*More on other challenges and opportunities on working the voucher system in Nepal shall be presented by Samriddhi's follow up paper on charter and voucher schools in 2016.*

A 2013 review of the Nepal Millennium Development Goals in **achieving universal primary education** highlighted a number of constraints to attaining this

goal. The constraints were inclusive but not limited to the following:

- The need to increase availability of schools in rural areas as presence of schools is directly correlated with enrollment and indirectly related to learning and retention.
- Need for consistency in data reporting as data reported by the DoE and NLSS and other census tools do not always tally.
- Enrolling and retaining those socially ostracized (e.g. those infected with HIV/AIDS and the kamaiya (bonded labor group)) is still a major challenge. Government schemes such as providing free meals to students of certain grades are inadequate and incentives need to be revised in terms of costs to schooling a child for marginalized communities.
- Untimely distribution of textbooks and curricula material and largely unqualified teaching force. 28% of primary schools students in 2012 did not receive their textbooks until 2 weeks of classes having resumed.
- Net Enrollment Rate (NER) stands at 95.3 percent in 2013 but this needs to be compared with the fact that grade 1 has the highest repetition rate amongst all grades (19.9 percent) and successively higher grades have a hard time retaining students.

Looking at the constraints presented, it would be fair to ask how the voucher system and allowance of ease for private players to operate in the education market could potentially address these problems pertaining to education attainment.

A major challenge the government faces is in ensuring that socially and economically marginalized

24 For more see 18 teachers' associations to form single umbrella body. (2014, December 22). The Kathmandu Post. <http://kathmandupost.ekantipur.com/news/2014-12-22/18-teachers-associations-to-form-single-umbrella-body.html>

communities get a chance to educate themselves well. The state's incentive such as providing free meals to students in rural areas usually backfire because then students will try and stay put in grades that provide free meals. This can instead be replaced by the means-tested voucher system whereby the government can pinpoint the economic status of a marginalized group and offer full or almost full voucher incentives. Until now the government fully subsidizes public education until grade 8, but instead of providing a blanket provision to all students, it could instead invest in means-tested vouchers to better use allocated resources. Thus by introducing a means-tested voucher, those most in need of waivers will receive them and those willing to pay more and switch to private schools but still be partially waived for will also be able to do so. .

Another challenge is that of ensuring retention of those enrolled. Retention could be affected by a number of plausible factors for the marginalized such as community ostracizing (because of belonging to a relatively lower socio-economic background

or having HIV/AIDS among other more deadly diseases), lack of financial resources to educate past free education levels and unaccountable teachers. Education vouchers then can help reduce this level of stigmatization by allowing parents and students to choose a different school instead of the limited municipal schools in the area. It can also help supplement financial resources to educate a child instead of only providing him/her free education until grade 8. Because of a direct fee-paying environment, teachers would also become more accountable and this would inevitably reduce teacher absenteeism.

It has also been shown by case studies' of countries presented above that girls are in-fact able to stay more years in schooling when an education voucher system is implemented. This could be explained by the fact that most parents in rural areas do not necessarily value girls' education but when presented with an education voucher, it becomes much cheaper to educate girls in private schools as well. This could potentially help reduce drop-out rates for females in basic education in the country.

## 5.0 Conclusion:

The abject performance of public schools in the country has led to a massive zero-enrollment rate in hundreds of public schools across the country<sup>25</sup>. Why then is the national budget on education not looking at a radically different approach to revamp the status of these failing schools?

Education vouchers, an understandably new concept in Nepal, could prove to be a useful targeted experiment in the country. It is understandable that school officials may be skeptical of its worth, thus this paper calls for an initial means-tested targeted school voucher use in economically disadvantaged areas. After all, the primary purpose of all education institutions should be to provide quality education to children, regardless of them being privately or publicly owned. While the debate of efficiency between the two is omnipresent, there needs to be recognition of the fact that the guardian's and/or the student's own interest to choose between the two should not be thought of as secondary. In this goal, vouchers become the ideal solution.

As presented in the paper, education vouchers shall effectively curtail roles of numerous middlemen whereby funds shall reach students rather than institutions directly. They shall also help foster healthy competition between public and private schools and thus make schools more accountable towards children as they shall be directly funded via vouchers as fees. There have also been noted instances (as explained previously) of how vouchers help better the teaching pool. Retention rates would also likely improve if we better incentivize the education system. The voucher idea has been replicated in numerous areas the world over and we would do well to consider these models.

Vouchers can prove to be radical experiments but rejecting them outright before having administered them may not be the best of plans, particularly when so many public school students feel the burden of competing with privately educated peers.

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25 For more see Sharma, N. (2014, June 15). 28.19 pc pass SLC in public schools, 93.12 pc in private. Republica Daily.

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Samriddhi, The Prosperity Foundation is an independent economic policy think tank that facilitates a discourse on pragmatic market based solutions for a free and prosperous Nepal. Samriddhi is based in Kathmandu, Nepal and was established in 2007.

Samriddhi believes in the power of private entrepreneurs as key to economic development and engages in fostering democracy and building a more conducive environment for economic growth.

All of Samriddhi's research and advocacy efforts are focused on:

1. Enabling market mechanism and entrepreneurship
2. Improving governance
3. Fostering values for a free society

Some of Samriddhi's highly successful efforts include the annual economic policy reform initiative named "Nepal Economic Growth Agenda (NEGA)", a sharing platform for entrepreneurs named "Last Thursdays with an entrepreneur" and a regular discussion forum on contemporary political economic agendas named "Econ-ity". Samriddhi also hosts the secretariat of 'Campaign for a Livable Nepal', popularly known as Gari Khana Deu campaign. One of Samriddhi's award winning programs is a five-day residential workshop on economics and entrepreneurship named Arthalya, which has produced over 400 graduates over the past few years, among which more than two-dozen run their own enterprises now. Samriddhi was the recipient of the Templeton Freedom Award in 2011 and the CIPE Global Leading Practice Award in 2012.



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