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## **Reforming Nepal's education system for greater integrity and improved outcomes**

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Corruption erodes sustainable and inclusive development. It is both a political and technical challenge. The U4 Anti-Corruption Resource Centre (U4) works to understand and counter corruption worldwide.

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**Nepal has been investing heavily in education since federalisation under the 2015 Constitution, but integrity risks continue across the sector. Weak accountability and local capacity gaps are allowing corruption and inefficiency to persist in teacher management, procurement, and student support schemes. Stalled legislation exacerbates the situation but – if enacted – the Federal Education Bill would consolidate conditional grants, strengthen local audit and accountability committees, introduce direct beneficiary verification for student schemes, and ensure school management committees and parent–teacher associations are functioning as intended. This would help to ensure that the investments being made in education achieve their intended goals of improving access to a high-quality education for all.**

## **Main points**

- Nepal is allocating more than 10% of its national budget to education, yet integrity risks remain widespread and are continuing to undermine efficiency and trust in the sector. Large flows of resources are managed at the local government (LG) and school level, where accountability systems are not keeping pace.
- Teacher management, school construction, procurement, and student support schemes are all vulnerable to misuse. Cases of fake credentials, ‘ghost’ teachers and students, political patronage in recruitment, collusion in contracts, inflated costs, incomplete projects, and diversion of scholarships and

funding for menstrual products illustrate how loopholes are exploited in practice.

- Oversight and accountability mechanisms remain weak and inconsistent. More than half of local governments lack functional internal audit units, while accounts and education committees often do not meet or resolve arrears through ad hoc measures. At school level, many school management committees (SMCs) and parent–teacher associations (PTAs) exist only on paper or conduct audits in a ritualistic way, with little link to real accountability.
- Underlying these risks are stalled legislative reforms, including the delay in passing the Federal Education Act, and overlapping mandates between federal, provincial, local, and school authorities. Rigid conditional grant systems leave little flexibility for schools and LGs to respond to needs, while inconsistent application of financial rules, combined with limited staff and technical capacity, continue to drive irregularities.
- Suggested reforms include finalising the Federal Education Act to clarify mandates, consolidating conditional grants into broader categories, strengthening local audit and accountability committees, introducing direct transfers and beneficiary verification for student support schemes, and enforcing minimum standards and audits for SMCs and PTAs. Together, these measures can help close the gap between policy and practice, reduce leakage, and strengthen accountability.

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# Why integrity in Nepal's education system matters

Nepal's education sector commands over a tenth of the national budget each year, with most resources flowing to school education. Since the 2015 Constitution came into effect, democratically elected local governments (LGs) have been responsible for managing and delivering basic and secondary education.<sup>1</sup> Yet integrity concerns remain significant. Nepal ranked 107 of 180 countries on Transparency International's Corruption Perceptions Index in 2024 with a score of 34, and national surveys and media reporting continue to point to widespread political and bureaucratic corruption and impunity.<sup>2</sup>

This paper uses the following working concepts:

- **Corruption** is the use of public resources for private gain.
- **Integrity** is consistent adherence to strong moral and ethical principles.
- **Accountability** describes the processes by which individuals and institutions meet their responsibilities.
- **Transparency** is the degree to which stakeholders such as school leaders, school councils, parents, pupils, and communities can see and understand how resources are allocated and used to improve learning. Transparency can be assessed through the visibility, predictability, and understandability of resource flows.<sup>3</sup>

International evidence shows the many ways in which integrity failures manifest in education: fraudulent procurement in school construction; 'ghost' schools, teachers, and students; misappropriation of funds for textbooks and supplies; bribery in admissions and grading; nepotism in teacher recruitment; fake diplomas; teacher absenteeism; and the replacement of formal teaching with shadow education and private tutoring.<sup>4</sup> Research consistently finds an inverse relationship between transparency, accountability, and integrity on one side, and corruption on the other.

Despite the size of the budget, complaints and a backlog of unresolved audit issues indicate ongoing weaknesses in regulatory compliance, record-keeping, and financial integrity. Annual reports by the Commission for the Investigation of Abuse of

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1. Primary education in Nepal is usually referred to as 'basic education', and covers ages 5–12. Secondary education covers ages 12–16.

2. Transparency International 2024; Adhikari et al. 2014; Kathmandu University, Interdisciplinary Analysts, and The Asia Foundation 2022; Alternative Foundation 2023.

3. Hallak and Poisson 2007; UNESCO 2017.

4. Transparency International 2013.

Authority (CIAA) and the Office of the Auditor General (OAG) highlight these patterns (see Table 1). A growing body of work also documents common forms of 'institutionalised' irregularities in school spending.<sup>5</sup>

**Table 1: Education sector-related complaints registered with the CIAA and audit arrears reported in OAG annual reports**

Fiscal year	Number of complaints* in CIAA reports	Audit arrears in OAG report (Nepalese rupees, '000s)	
		Government office	Organised institutions,** committee, board etc.
2023/24	1,054	156,167	2,946,095
2022/23	3,270	333,734	2,601,083
2022/21	1,160	1,075,918	5,193,747
2021/20	2,077	209,459	5,431,787
2019/20	2,690	2,953,073	10,206,021

\* 'Complaints' refers to all complaints (both financial and non-financial in nature).

\*\* The term "organised institutions" refers to formally registered entities established under existing laws, such as a company, cooperative, non-governmental organisation (NGO), school, university, or other body corporate.

Source: CIAA and OAG reports for the respective years.

CIAA and OAG reports repeatedly flag fiduciary risks in school construction, midday meals, scholarships, teacher recruitment and salaries, grants for underserved students, and procurement of teaching/learning materials. Two drivers stand out. The first is limited capacity at the local government and school levels within a highly decentralised financing system, where schools execute over 90% of public education funds. Second, despite education accounting for a significant share of the national budget, chronic underfunding persists. Schools are often forced to stretch earmarked resources or seek supplementary funds just to sustain basic operations.

Development partners, working through a sector-wide approach, have prioritised stronger public financial management (PFM) for many years. The World Bank continues to rate fiduciary risk as 'substantial', citing inadequate local PFM capacity, delays in financial reporting, weak internal controls, under-developed grievance mechanisms, and inefficient procurement. Although Nepal has launched several legal and policy reforms, these efforts have delivered limited results on the ground. Historically, the education sector has emphasised inputs such as infrastructure and staffing rather than outcomes such as learning. Going forward, reforms need to target learning improvement as a strategic entry point to reduce waste and inefficiency and to strengthen governance outcomes.

## Research objectives

This aims and objectives of the study were to:

1. Identify main gaps and emerging issues in current education financing mechanisms and legal and institutional arrangements, particularly in the context of federal restructuring and decentralisation.
2. Examine how public resources for school education in Nepal are allocated and used, highlighting inefficiencies and opportunities for improvement.
3. Propose targeted strategies to support the government and development partners for strengthening education financing systems to improve resource use and enhance learning outcomes.

## Methodology

The study focused on Nepal's school education sub-sector, the largest recipient of public education financing. Adopting a predominantly qualitative approach, it explored integrity, transparency, and accountability issues in the sector during the post-2017 federalisation period. The research covered the federal, local, and school levels, focusing on community schools only. The private education sector, the technical and vocational education sector, and the higher education sector are outside the remit of this study.

This study used both primary and secondary sources. We selected five LGs across three provinces to capture variation in audit histories, construction activity, and staffing patterns. The sites were Adarsh Kotwal and Baragadhi Rural Municipalities (Madhesh Province), Lalitpur Metropolitan City and Roshi Rural Municipality (Bagmati Province), and Tilottama Municipality (Lumbini Province).

During field visits, we conducted semi-structured interviews with local education officials, head teachers, and members of school management committees and parent–teacher associations. At the central level, we interviewed officials from the Ministry of Education and the Ministry of Federal Affairs and General Administration. All respondents gave verbal consent before the interviews.

We analysed the interview data thematically, comparing patterns across LGs. We also examined secondary material, including reports from the OAG, the CIAA, and media reports. A stakeholder workshop in Kathmandu in September 2024, organised by U4, served to validate preliminary findings. We integrated the feedback from this event into the final report.

## Limitations

This was a qualitative study, designed to identify governance and financial management challenges. We selected sites and respondents intentionally; however, due to the political sensitivity of the topic, we needed to supplement the interviews with secondary data. Because we relied heavily on secondary sources, especially OAG and CIAA reports, some findings confirm existing official concerns rather than generate new data. Still, by triangulating multiple sources and validating findings with stakeholders, the study offers a credible picture of systemic vulnerabilities in the education sector.

## Structure of the report

Following this introductory section, part 2 of the report presents the study's findings. It begins with an overview of the legal and institutional frameworks that shape education governance, followed by an analysis of the roles and responsibilities of different levels of government. The section then outlines the main integrity risks, followed by an analysis of the systemic drivers of weak accountability and financial management.

Finally, part 3 offers concluding reflections and policy recommendations based on the findings.

# Key findings and implications

## Legal and institutional frameworks for education governance

Nepal's anti-corruption and education governance framework rests on several laws and institutions. The Corruption Prevention Act (2002)<sup>6</sup> defines offences such as bribery, abuse of authority, and illicit enrichment, and prescribes penalties ranging from fines to imprisonment. It also grants the Commission for the Investigation of Abuse of Authority (CIAA) powers to investigate, prosecute, and recover assets from public officials suspected of corruption. Complementing this, the Good Governance (Management and Operation) Act (2008)<sup>7</sup> requires public bodies to adopt citizen charters, simplify administrative procedures, maintain service standards, and improve responsiveness to grievances, with the goal of making service delivery more accountable, inclusive, and participatory.

At the international level, Nepal's ratification of the UN Convention against Corruption (UNCAC) in 2011 commits the country to align domestic practice with global standards on prevention, criminalisation, asset recovery, and international cooperation. Preventive oversight is also carried out by the National Vigilance Centre (NVC),<sup>8</sup> which operates under the Office of the Prime Minister and Council of Ministers. The NVC verifies asset and income declarations of public officials, monitors institutional integrity plans, and inspects delays or irregularities in service delivery.

Parliamentary oversight mechanisms complement these arrangements. The Public Accounts Committee (PAC) reviews the annual reports of the OAG, which is constitutionally mandated to audit all public expenditures and issue compliance directives. In the education sector, the Education, Health and Information Technology Committee of Parliament examines audit findings specific to schools and presses ministries to resolve arrears.<sup>9</sup>

The Public Procurement Act (2007)<sup>10</sup> and Public Procurement Regulations (2007)<sup>11</sup> set rules for open competition, e-bidding, blacklisting of non-compliant firms, and grievance redress through the Public Procurement Monitoring Office. These

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6. Corruption Prevention Act (2002).

7. Good Governance (Management and Operation) Act (2008).

8. National Vigilance Centre (NVC).

9. For more on parliament's oversight bodies and processes, see the website of the National Assembly.

10. Public Procurement Act (2007).

11. Public Procurement Regulations (2007).

provisions are intended to reduce discretion and standardise procurement procedures. However, weak institutional capacity and limited political support for oversight bodies such as the CIAA and NVC often result in inconsistent enforcement.

On the public financial management (PFM) side, Nepal has introduced reforms including participatory planning processes at the local level, the rollout of the Treasury Single Account and improved reporting formats, and capacity-building initiatives for financial staff. Development partners play a key role: the Provincial and Local Governance Support Programme,<sup>12</sup> co-funded by government and donors, provides technical assistance to strengthen planning and financial accountability in municipalities; and the Nepal PFM Multi-Donor Trust Fund<sup>13</sup> has financed Public Expenditure and Financial Accountability (PEFA) assessments, Public Expenditure Reviews (PERs), and Public Expenditure Tracking Surveys (PETS) to identify systemic weaknesses.

Despite these reforms, the 2024 PEFA assessment<sup>14</sup> found continued shortcomings in aggregate fiscal discipline, strategic resource allocation, and efficiency of service delivery. In the education sector, reform programmes such as the School Sector Reform Plan, School Sector Development Plan, and School Education Sector Plan<sup>15</sup> have introduced instruments such as the PFM Action Plan,<sup>16</sup> a joint financing arrangement,<sup>17</sup> fiduciary expenditure reviews, and expanded use of the Education Management Information System (EMIS) with third-party verification. These measures are intended to strengthen school- and local government-level accounting, recover ineligible expenditures, and reduce audit arrears, though effectiveness varies widely, depending on local capacity.

The Education Review Office (ERO), established in 2011, carries out national assessments of student achievement (NASA) and of reading and numeracy (NARN), providing system-wide data on learning outcomes. While these assessments are widely disseminated, the ERO has no mandate to audit school performance or link educational outcomes with financial accountability, leaving a gap in the overall governance architecture.

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12. Provincial and Local Governance Support Programme (PLGSP).

13. Nepal PFM Multi-Donor Trust Fund.

14. Ministry of Finance 2024.

15. Ministry of Education, Science, and Technology 2022.

16. PFM Action Plan.

17. Joint Financing Arrangement between a 'pool' of donor countries and His Majesty's Government of Nepal.

## Roles and responsibilities across levels of government

**Federal level.** The Ministry of Education, Science, and Technology (MoEST) sets national policy, curriculum standards, and examinations, and allocates conditional grants to local governments. Its agency, the Centre for Education and Human Resource Development (CEHRD),<sup>18</sup> implements national plans, manages school grants, and develops teacher capacity. Supporting bodies such as the Curriculum Development Centre and the National Examinations Board oversee curricula and assessments. To guide spending, MoEST/CEHRD issues an annual Program Implementation Manual (PIM)<sup>19</sup> and directives on procurement, social and financial audits, and specific programmes (such as scholarships, midday meals, and menstrual products). However, weak dissemination and limited technical capacity at local levels mean that many of these instruments are not applied as intended, creating gaps between policy design and practice.

**Provincial level.** Provincial ministries of education and social development adapt federal policies to the provincial context, oversee teacher training through provincial centres, and manage school construction and quality improvement initiatives. They also allocate supplementary education budgets. In principle, provinces serve as intermediaries between federal and local governments, ensuring standards and providing technical support. In practice, their role remains narrow and weakly defined, often limited to coordination functions, with little authority or capacity to enforce compliance or address local-level irregularities.

**Local level.** The 2015 Constitution<sup>20</sup> and the Local Government Operation Act 2017<sup>21</sup> give local governments exclusive jurisdiction over basic and secondary education, including planning, staffing, budgeting, and examinations up to grade 8. They require that LGs establish internal audit units and public accounts committees, with the OAG providing external audits. Despite this, more than half of LGs lack functioning audit units, and many accounts committees are inactive or use inconsistent practices to resolve arrears, sometimes through retrospective approvals or write-offs. The absence of clear federal guidance on committee procedures has enabled these ad hoc approaches, undermining financial discipline and allowing irregularities to accumulate over years.

**School level.** Head teachers manage daily operations and report to school management committees (SMCs), which are meant to provide oversight by

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18. Centre for Education and Human Resource Development (CEHRD).

19. Central Level Program Implementation Manual (PIM) for FY 2081/82.

20. Nepal's 2015 Constitution.

21. Nepal Law Commission 2017.

approving budgets, mobilising resources, and ensuring annual audits.<sup>22</sup> Parent–teacher associations (PTAs) conduct mandatory social audits and share results with communities. Schools are also required to follow the Public Procurement Act and regulations for construction and procurement. In reality, many SMCs and PTAs function poorly, and the legal framework governing their authority has not yet been updated to reflect Nepal's federal system. This mismatch creates uncertainty over the accountability of schools to both local governments and communities.

## Integrity challenges in Nepal's education governance and public financial management

Nepal's education sector receives more than 10% of the federal budget, yet weak governance and public financial management leave it highly vulnerable to leakage. The majority of education funding received by LGs is in the form of conditional federal grants. According to the Program Implementation Manual (PIM) prepared by CEHRD, there are numerous types of conditional grants that flow to schools (see Annex 2).<sup>23</sup> Within these, the most common integrity risks are in teacher salaries and grants, school construction and procurement, and student support schemes. These risks are compounded by loopholes in legislation, financial management, and oversight that allow irregularities to persist.

### Teacher salaries and grants

Teacher management represents one of the most corruption-prone areas. Investigations by the CIAA and OAG repeatedly document cases of individuals securing teaching posts with fake certificates, while local interviews revealed recruitment processes shaped by nepotism and political patronage. Some posts are effectively sold to the highest bidder or distributed to party affiliates, damaging teaching standards and demoralising qualified teachers. Weak verification systems allow 'ghost' teachers to remain on the payroll and even to benefit from promotions.

The CIAA and OAG suggest that a combination of stricter verification processes, routine audits, and severe penalties for offenders could mitigate this issue, ensuring that only qualified individuals are entrusted with educating the nation's children.<sup>24</sup> There have been some notable efforts to curb the misuse of teacher salaries and grants, including systematic removal of ghost teachers and the introduction of direct

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22. See [Education Act 1971](#), [Education Regulations 2002](#), and the [Compulsory and Free Education Act 2018](#).

23. It should be noted that not all schools receive all the grants specified above. In addition, there are some conditional grants that go to the LGs for management of specified education-related activities. These include the management of LG EMIS, conduction of activities related to implementation of ReAL plan implementation and teacher mentoring.

24. See Himalayan Times. 2021. [Institute scrutiny system to curb fake credential: CIAA](#).

salary transfers through bank accounts. These measures have reduced the misuse of funds but have not eliminated the underlying loopholes that sustain corruption in recruitment and promotion.<sup>25</sup>

### School construction and procurement

The construction of school infrastructure and the procurement of equipment are particularly vulnerable to collusion between contractors, school officials, and local politicians. OAG audits point to inflated costs, the use of substandard materials, and contracts awarded without competitive bidding.<sup>26</sup> These practices have undermined the substantial investments in infrastructure, leading to unsafe or incomplete school buildings. Delays in disbursement, lack of proper completion certificates, and inconsistent criteria for selecting schools for construction projects further weaken accountability. In many cases, funds have been disbursed even when little or no work was carried out.<sup>27</sup> OAG reports have recommended strengthening oversight during the bidding and construction phases, along with regular inspections and community monitoring, to curb these practices and ensure that school infrastructure projects improve the quality of education and learning – a positive return on investment.<sup>28</sup>

### Student support schemes and incentives

Schemes designed to support students, such as scholarships, midday meals, and menstrual products, are vulnerable to theft, diversion, and leakage. CIAA and OAG reports document diversions of funds to politically connected families or better-off students, diluting the programmes' equity objectives. Mismanagement of procurement processes often results in poor-quality food or insufficient sanitary supplies, undermining student health and attendance. Weak monitoring enables these practices to persist, while schools are incentivized to inflate enrolment figures in EMIS, including the creation of 'ghost students', to gain additional resources that are not matched by real need. The CIAA and OAG reports recommend implementing stricter monitoring and direct transfer of funds to the beneficiaries so as to reduce these irregularities and ensure that the intended benefits reach the students.<sup>29</sup>

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25. See for example, Himalayan News Service. 2023. [Eight sued for submitting fake credentials for govt jobs](#).

26. Office of the Auditor General, annual reports (various years); see in particular 2017–2023.

27. Audit reports available on file with the Auditor General but see, for example, Nepal news, 2025. [Nepal's Fiscal Red Flags: Key Takeaways from Nepal's 62nd Annual Audit Report](#).

28. See above, and past audit reports, for example [The Auditor General's Fifty-Seventh Annual Report 2020 Summary Report](#).

29. Office of the Auditor General (OAG). Various years. Annual reports; Commission for the Investigation of Abuse of Authority (CIAA). Various years. Annual reports.

### Other integrity risks

Beyond these three areas, misuse of school funds and property is common. Some SMCs have diverted money to non-educational purposes, while resources such as libraries and computer labs remain underutilised or neglected. Recruitment of administrative staff is also often subject to bribery and favouritism, further entrenching a culture of corruption and weakening trust in education governance.

## Drivers and loopholes that enable integrity risks

Nepal's shift to federalism gave LGs constitutional authority over school education, but the legal, institutional, and financial architecture has not kept pace. The result is a system where mandates overlap, rules conflict, and compliance is uneven. These issues enable leakage in teacher management, construction/procurement, and student support schemes.

### Legislative and governance gaps

The Constitution envisaged a sequenced, top-down legislative process, with a Federal Education Act, then provincial laws, followed by local education by-laws, to avoid contradictions across levels. However, this sequencing has not materialised. The Education Act and Regulations, drafted before federalism, do not recognise autonomous, elected LGs. The Federal Education Bill, proposed in 2024, has attracted more than 1,750 proposed amendments and remains stalled amid competing interests. Associations of private schools resist clauses requiring for-profit schools to convert to non-profit trusts; permanent teachers oppose LG control and seek to remain a federal cadre; the Federation of LGs wants to retain full constitutional authority over school education; and the Federation of SMCs argues for continued community-based governance and a strong role for SMCs. Delays in passing the Federal Civil Service Act further compound uncertainty for teachers and education staff, leaving recruitment, deployment, and promotion without clear, updated guidance.

Legal ambiguities and overlaps generate day-to-day governance frictions. The Public Procurement Act treats schools as public entities but does not define a legally recognised chief executive, fuelling disputes between SMC chairs and head teachers over who has ultimate authority in school procurement. The Education Act and the Local Government Operation Act (LGOA) assign conflicting responsibilities for construction, maintenance, and management: SMCs and head teachers under the Education Act versus LGs under the LGOA. This leads to divergent approaches (for example, competitive bidding versus user committees) and opens avenues for political interference.

## Weak oversight structures and application of rules

The LGOA requires LGs to form internal audit units, establish accounts committees and education committees, and submit to external audit by the OAG. In practice, more than half of LGs lack internal audit units; few have functional accounts and education committees. The Act offers no clear delineation of education committee roles, and committees often make politically driven decisions, especially around teacher recruitment at local level, and often outside established legal procedures, creating tensions with LG education officers. Fieldwork also points to inconsistent audit expectations: documentation accepted by one OAG team in one year may be rejected by another the next year, inadvertently creating audit issues for LGs. This inconsistency has, in some municipalities, triggered extra-legal 'solutions' or workarounds such as retrospective approvals of expenditure and writing off debts to contractors to settle arrears, practices that undermine the accountability framework.

## Public financial management challenges

Funding flows largely through tightly earmarked conditional grants, limiting the flexibility of LGs and schools in how it is used. LGs release funds to schools on a trimester basis across roughly 90 activities grouped under 28 grant heads, clustered into four broad categories: teachers, students, school operations/management, and infrastructure (see Annex 2). Delays in disbursement from federal to LGs and from LGs to schools are common, leading to postponed or unimplemented activities. Such delays also lead to twin problems: on one hand, if there is insufficient oversight, they result in funds being misused for unintended purposes. On the other hand – due to ringfencing and strict rules preventing LGs and schools from repurposing their funding – significant portions of grants for school meals, menstrual products, and construction are 'frozen' and returned to the treasury at year-end.

Basic controls exist but are inconsistently applied. Disbursement letters specifying title and amount should accompany each tranche of grant funding, and while this practice has improved since federalisation, it remains uneven. Some LG education officers now use social media to publicise releases, improving transparency. Schools must report back with supporting documentation, which OAG uses in LG-level audits, yet there are no uniform reporting standards across LGs, and record-keeping quality varies widely. OAG's external audits have nudged schools toward better documentation over time, but year-to-year inconsistency in audit assessments persists.

Each year, following approval of the education Annual Work Plan and Budget, MoEST issues a Program Implementation Manual (PIM), setting permissible expenditures and procedures for conditional grants. MoEST is responsible for guiding LG education officers; however, the PIM often lacks operational clarity on how LGs should utilise funds and frequently refers to auxiliary directives that are not

readily accessible. In the absence of clear public financial management guidance from the Ministry of Federal Affairs and General Administration (MoFAGA), the PIM should incorporate such provisions to support record-keeping and accountability. Closer alignment with OAG and MoFAGA laws, guidelines, and directives is essential; as OAG emphasises, ‘the Constitution and the laws are always above the [MoEST’s] PIM.’<sup>30</sup>

### **Local education administration and school-level compliance**

Capacity constraints present a significant problem. Around one-third of sanctioned posts in LG education units and divisions remain vacant. Staffing can range from nine in metropolitan cities to two in rural municipalities. Newly recruited staff often lack training in planning, budgeting, monitoring, and reporting, and there is limited clarity or coordination between MoEST and MoFAGA on who leads capacity development. LGs also lack the tools and resources to validate EMIS data submitted by schools on a routine basis.

Teacher deployment is highly uneven: teacher–student ratios range from 1:17 in Gandaki to 1:56 in Madhesh, with pronounced shortages in the Tarai. This imbalance drives problematic workarounds. LG officials resort to over-reporting of enrolment to generate inflated conditional grants, with the surplus used to hire locally paid teachers; schools sometimes count grade 1 pupils as belonging to the ‘early childhood’ cohort in order to access the higher per-child grant (500 versus 300 Nepalese rupees) and run two to three years of early childhood education despite the policy mandating just one year. EMIS data show that locally hired teachers comprise about 16% of basic and 15.4% of secondary positions. Schools also reallocate grants (eg, portfolio management, teaching/learning materials, per-capita allocations) to cover salaries and operations. While schools must submit progress reports with evidence, reporting formats are not standardised across LGs and there are few consequences for late or missing reports. LGs, tasked with EMIS validation, often lack mechanisms and capacity for systematic monitoring.

School-level governance on paper is anchored in SMCs and PTAs, but compliance is weak. EMIS 2023/24 indicates that 10% of basic schools lack SMCs and 33% lack PTAs; 50% of basic schools and 44% of secondary schools have not conducted social audits; and 14% of basic and 45% of secondary schools have not conducted financial audits. In the two Madhesh LGs visited, many SMCs had not been reconstituted even after terms expired. Where audits occur, they tend to be ritualistic, focusing on financial disclosure without linking resources to learning outcomes. The combined effect of legislative delays, overlapping mandates, capacity gaps, and inconsistent

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30. Quote from interviewee.

financial management is a fragmented governance system that creates space for inefficiency, political interference, and integrity risks.

# Conclusion: Overcoming Nepal's integrity risks

Nepal's education sector faces several integrity risks, despite major reforms and decentralisation. For example, teacher management remains vulnerable to fake credentials, patronage, and ghost teachers, weakening both financial controls and educational quality. Procurement in school construction and equipment suffers from collusion, inflated costs, and unfinished projects, leaving infrastructure unsafe and resources wasted. Student support schemes such as scholarships, menstrual products, and midday meals are undermined by mismanagement, leakage, and EMIS data manipulation, often excluding the very groups they are meant to serve.

These risks are sustained by systemic drivers, including: outdated legislation, the stalled federal education law, and unresolved tensions between federal, local, and community mandates; weak or non-existent oversight structures such as internal audit units and accounts committees at LG level; rigid and poorly sequenced conditional grant systems that reduce local flexibility; and limited capacity at LG and school levels to plan, monitor, and audit education funds. Oversight and accountability mechanisms at the school level, including SMCs, PTAs, and mandated audits, exist largely on paper but are inconsistently applied in practice.

Unless these challenges are addressed, Nepal's constitutional promise of free, compulsory, quality education will remain undermined by inefficiencies, leakage, and inequities. What is needed now are reforms that directly connect these well-documented integrity risks to targeted policy and institutional solutions.

# Recommendations

## Aligning governance, legislation, and practice

- Development partners should use their leverage to support the enactment of the Federal Education Act to remove contradictions between the Education Act and the Local Government Operation Act and clarify which bodies have authority over teacher recruitment, procurement, and school governance.
- They should also support the government of Nepal to develop and disseminate simplified compliance handbooks for LG education committees, SMCs, and PTAs, spelling out their legal mandates and limits.

## Strengthening public financial management

- The government of Nepal should consolidate conditional grants into fewer categories (teachers, students, school operations, infrastructure) to reduce rigidity while preventing misuse.
- Introduce beneficiary verification mechanisms (eg, direct transfers, EMIS-linked identity checks with biometric verification) for scholarships, menstrual products, and meals, to cut leakage and reduce the number of ghost students.
- Require OAG to conduct risk-based sample audits of school procurement and construction projects each year, with public disclosure of irregularities.
- Issue uniform audit resolution standards for LG accounts committees to prevent retrospective approvals or arbitrary write-offs.

## Improving local and school-level accountability

- Ensure every LG establishes functional internal audit units, accounts committees, and education committees, backed by clear federal guidance and training.
- Mandate ward-level monitoring of schools in jurisdictions where LG capacity is limited, supported by community involvement and civil society.
- Require minimum functionality standards for SMCs and PTAs, for example, regular meetings, published minutes, community reporting.
- Mandate training for SMC and PTA members in financial management and social audit practices, supported by LGs. Strengthen social audits with certified facilitators from civil society.
- Link disbursement of certain grants (eg, capitation, scholarships) to proof of

SMC/PTA audit completion.

- In construction projects, mandate the use of completion certificates and third-party verification before disbursement.
- Ensure public disclosure of school construction contracts and costs at LG level.
- Strengthen procurement committees at school and LG level by ensuring community representation and the involvement of civil society organisations.
- Provide a consolidated resource book of MoEST guidelines (audits, procurement, scholarships, meals, menstrual products) to reduce confusion and inconsistent application.

Ultimately, the Government of Nepal, development partners, and other stakeholders will need to take ownership of the reform process and think about how best to sequence the reforms. It will require sustained political will across tiers of government, investment in local capacity, and the consistent application of rules to close the gap between policy and practice. In addition, it is crucial that schools and communities are mobilised and involved, and that head teachers, PTAs and SMCs are well-equipped to manage schools and their finances transparently and effectively to enhance learning outcomes.

# Annex 1: Local government functions with respect to basic and secondary education

- Policy, legislation, standards-setting, plan formulation, implementation, monitoring, evaluation and regulation of Early Childhood Education (ECED), basic education, parental education, informal education, open and alternative lifelong learning, community learning, and special education
- Establishment, permission, operation, management and regulation of community, institutional, trust and cooperative schools
- Plan formulation, implementation, monitoring, evaluation and regulation of technical education and vocational training
- Permission, monitoring, and regulation of mother-tongue schools
- Property management of schools that are merged or closed
- Formation and management of village and municipal education committees
- Formation and management of school management committees
- Naming of schools
- Land ownership, property documentation, protection and management of community schools
- Schools' quality improvement and distribution of curricular materials
- Adjustment/redeployment of teachers and staff of community schools
- School mapping, permission, approval, adjustment and regulation of schools
- Physical facility construction, repair and maintenance, operation and management of community schools
- Conduct, monitoring, and management of basic level examination
- Assessment and management of student learning achievement
- Management of free education, student incentives, and scholarships
- Permission and regulation of teaching activities occurring outside of schools such as tuition, coaching
- Protection, expansion, and standardization of local level education knowledge, skills, and technology

- Operation and management of local libraries and reading centres
- Coordination and regulation of education programmes up to secondary level
- Management of grants and budget of community schools, and ensure, monitor, and regulate account-keeping in schools
- Teaching/learning, training and capacity development of teachers and staff
- Management of extra-curricular activities

Source: Local Government Operation Act 2017.<sup>31</sup>

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31. Nepal Local Government Operation Act 2017 (in Nepali).

# Annex 2: Various types of conditional grants for schools

## Conditional grants for schools

SN	Category	Type/number of grants
1	Teachers and Staff	<ul style="list-style-type: none"> <li>▪ Salary and allowance grants for approved (permanent) and <u>rahat</u> position teachers* at basic and secondary levels (including for trainers of technical stream, and special education teachers and staff)</li> <li>▪ Remuneration for early childhood education (ECED) teachers</li> <li>▪ Grant for management of school support staff at basic level, and accountant and support staff at secondary level</li> <li>▪ Teacher grant for math, science and English subjects for schools (grades 6–8 and 9–0) with no or inadequate subject teachers</li> <li>▪ Teacher grant for schools with Bhutanese refugee children</li> <li>▪ Lump-sum grant for community schools without approved teacher positions and teacher grants</li> </ul>
2	Students	<ul style="list-style-type: none"> <li>▪ 7 types of Per Capita Funding (PCF) grants for management of learning materials and digital learning materials (ECED–grade 12)</li> <li>▪ 4 types of grants for free textbooks (grades 1–12)</li> <li>▪ 14 types of non-residential and residential scholarships (including for targeted groups/geographic regions and Poor, Prajiti (Dalit), Targeted Students (PPTS))</li> <li>▪ 2 types of midday meal grants for ECED–grade 5 children (Karnali and non-Karnali package)</li> <li>▪ Free menstrual products for girls in community schools</li> </ul>
3	School operation and management	<ul style="list-style-type: none"> <li>▪ Lump-sum grant for school operation and management (amount varies by levels offered)</li> <li>▪ Lump-sum grant for School Improvement Plan (SIP) development/ updating, conducting parental education and Extra-Curricular Activities (ECA) (amount varies for basic and secondary school)</li> <li>▪ Lump-sum grant for financial audit, social audit, student report card, school data (EMIS) management, bulletin publishing, etc (amount varies for basic and secondary school)</li> <li>▪ Grant for internet connectivity and operation</li> </ul>

SN	Category	Type/number of grants
		<ul style="list-style-type: none"> <li>▪ Lump-sum grant for management of library, lab, and ICT</li> <li>▪ Lump-sum grant for hostel operation (for specific schools only)</li> <li>▪ Lump-sum grant for management of resource classes (only for schools conducting such classes)</li> <li>▪ Grant for schools serving students with special needs (based on number of students)</li> <li>▪ Lump-sum grant for lab equipment management for schools with technical subjects</li> <li>▪ Lump-sum grant for operation of Multi-Grade Multi-Level (MGML) classes (only for selected schools)</li> <li>▪ Lump-sum grant for operation of multilingual education (only for selected schools)</li> <li>▪ 18 types of grants for operation and management of traditional schools and Non-Formal Education (NFE), including Community Learning Centres (CLCs)</li> </ul>
4	School construction and physical facility improvement	<ul style="list-style-type: none"> <li>▪ Grant for model schools selected by the centre</li> <li>▪ Grant for lab management for schools offering technical stream in grade 9</li> <li>▪ Grant for schools selected for the promotion of science in grades 11-12</li> <li>▪ Grant for the operation of special schools with residential facilities</li> <li>▪ School building construction grant based on community partnership (in non-earthquake-affected districts)</li> </ul>

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\* 'Rahat' teachers in the Nepali context refers to government-funded temporary teaching positions created to address teacher shortages, often called 'rahat teachers' or 'relief teachers'.

Source: CEHRD, 2024a.

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