Financing the future:

Delivering SDG 4 Quality Education in Nepal

Progress on SDG 4: expansion of access and completion

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Access and completion

Nepal has made **notable progress** in expanding access to education. **Enrolment is nearly universal at the primary and lower secondary levels,** and 89% of children are enrolled in upper secondary school. In pre-primary education, the net enrolment rate stands at 58%.[1]

Despite these advances, **significant challenges remain.** An estimated **595,209 children are out-of-school** at the primary or secondary level.[2] **Completion rates decline sharply as children progress through the system:** 82% complete primary school, 77% complete lower secondary, and only 35% reach upper secondary.[3] Although more students are now completing school, many still **struggle to master foundational subjects—at the end of primary school, just 61% of students achieve minimum proficiency in mathematics and 80% in reading.**[4]

Education Inequalities

Nepal has made **gains in gender equity**, but **deep and intersecting inequalities** persist across geography, caste, wealth, ethnicity, and disability.[5] **More girls than boys now complete primary school—85% compared to 81%. However, girls fall behind at the secondary level; 66% of girls complete lower secondary education, compared to 79% of boys, and only 34% complete upper secondary education**, compared to 37% of boys.[6]

Children from marginalised communities face even greater challenges in accessing and completing education:

- **Geography and ethnicity are significant drivers of education inequalities.** The government has identified 22 ethnic groups marginalised in education, with the Chepang group among the most excluded— for instance, only 50% of Chepang children are enrolled in primary school.[7]
- **Wealth plays a major role in determining education inequalities in Nepal.** Among children from the lowest-income households, only 76% complete primary education, 62% lower secondary education, and a mere 10% complete upper secondary education — compared to 96%, 91%, and 59%, respectively, among the wealthiest.[8]
- **Intersecting disadvantages further drive inequalities**, particularly for girls from the lowest income quintile and from Madhesi and Muslim communities.[9]
- **Children with disabilities are also highly excluded**; UNICEF estimates that 30% of children with disabilities aged 5 to 12 are not attending school.[10]

Nepal's education system is also becoming more segregated, driven by the rapid growth of private schooling.

In 2000, 9% of primary and 6% of lower secondary pupils attended private schools. By 2020, these figures had risen to **25%** and **23%** respectively.[11] Today, approximately **2.5 million students** attend approximately **6,750 private schools**. This trend is **entrenching inequality** and creating a **two-tier education system**.[12]

Teachers: the bedrock of quality

Teachers are **central to the quality of education**, as recognised in **SDG target 4.c**, which calls for a **substantial increase in the supply of qualified teachers**.[13] **Nepal has made progress in this area**, with a pupil-qualified teacher ratio of 23:1 at the primary level and 33:1 at lower secondary.[14] These averages are better than in many South Asian countries,[15] **but regional disparities persist**. In lower secondary, the ratio ranges from 30:1 in the Western region to 52:1 in the Mid-Western region (the Hills and Terai regions).[16]

Nepal's teachers are severely underpaid, with wages that have stagnated in real terms. Many report experiencing salary delays, a lack of benefits, and the need to take on second jobs to support themselves and their families. There is also widespread insecurity around retirement, due to the absence of adequate social protection or pension schemes. Permanent teachers earn about 30,000 rupees monthly (around US$251), while early childhood education teachers—also mostly women—receive even less. **These conditions undermine the attractiveness of the profession and make it increasingly difficult to recruit and retain qualified educators**.[17]

To fill these gaps, the government employs over 42,000 contract teachers (Rahat teachers), most of them women. These teachers receive no benefits and are not eligible for permanent status.[18] Their salaries, last increased in 2021, are set at a minimum of 15,000 rupees (around US$125),[19] which is **below the national minimum wage**.[20] Improving teacher pay, job security, and working conditions—especially for women, contract teachers, and those in early childhood education—is critical to sustaining and improving quality across the system.

> *"As our salaries are very low, we have to take loans from relatives in order to meet our monthly expenses and also have to pay the interest on it. When we receive our salaries, we pay back the loan. This cycle has been continuing for the past 12 years. It has become a way of life for me."*
>
> **Relief teacher, Nepal (Education International, 2023)**

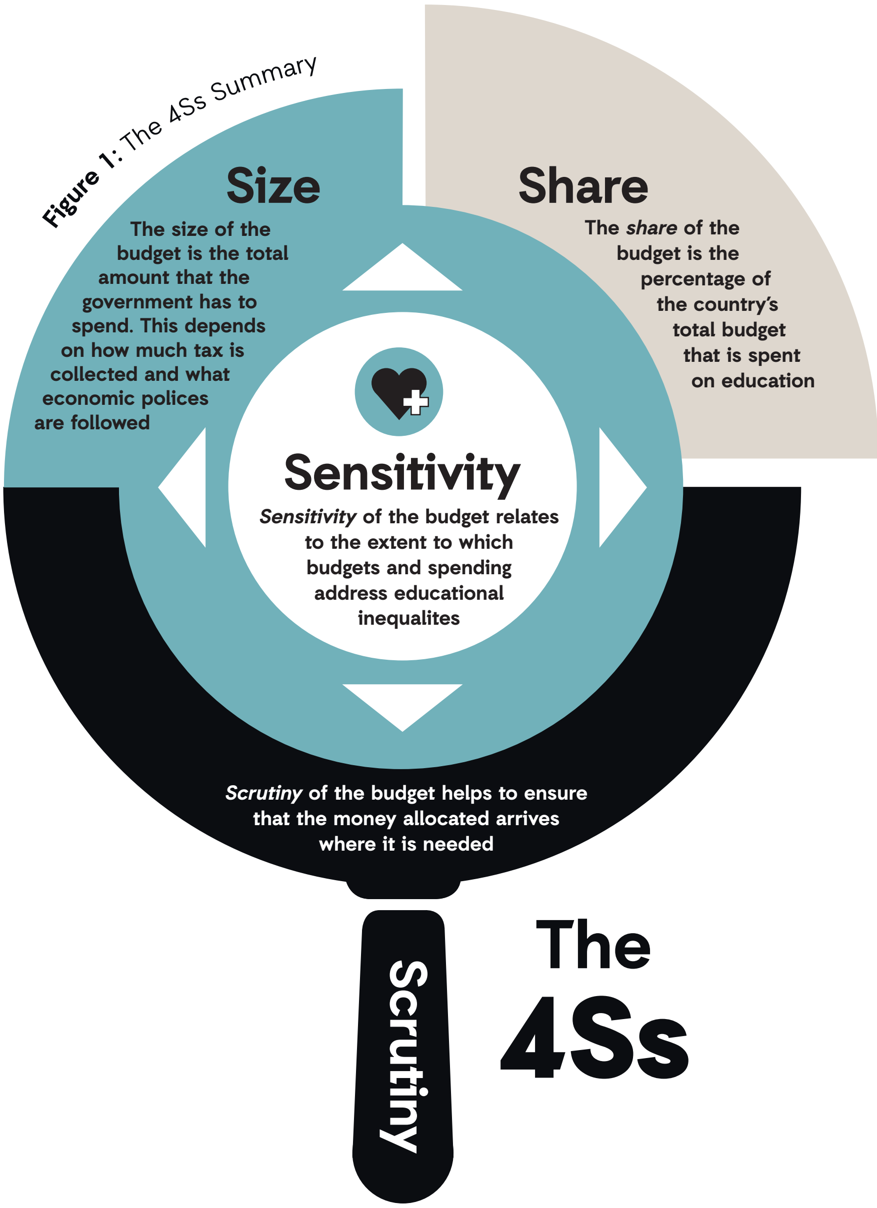
Financing the Future: SDG 4

Investing in Equity and Quality

Nepal has made progress in expanding access to education, but **urgent action is needed to tackle inequalities** that prevent many children from completing a full cycle of quality education. A key priority is **greater public investment** in education, including **scaling up a well-supported, qualified teaching workforce**. As guided by the TaxEd Alliance's 4S approach, this requires concrete action on:

1. **Share –** Allocate a larger share of the budget to education
2. **Size –** Expand overall revenues through fair taxation and debt justice
3. **Sensitivity –** Target spending to reach the most marginalised
4. **Scrutiny –** Strengthen transparency and accountability so that funds reach schools

Figure 1: The 4Ss Summary

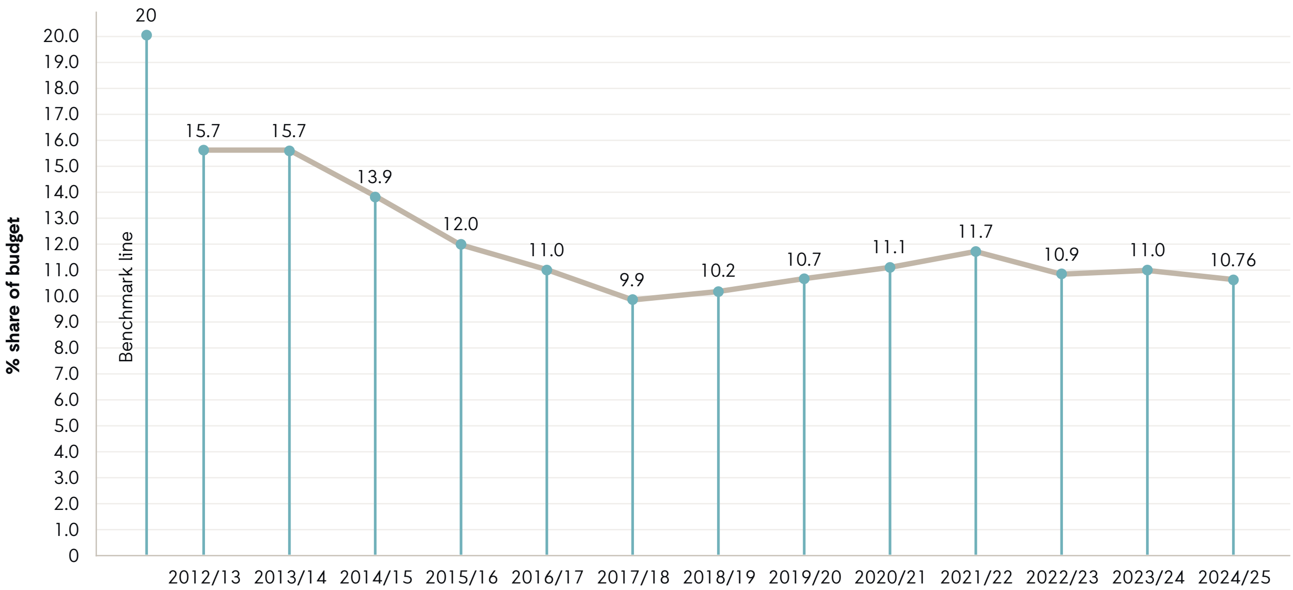


Significantly increase the *share* of the budget to education

To finance SDG 4, the Incheon Declaration and Education 2030 Framework for Action, which highlights actions to meet SDG 4, recommends **allocating at least 15–20% of the national budget**, or **4–6% of GDP**,[21] to education. In countries like Nepal, with a young and growing population and a significant distance to cover to meet the 2030 targets, the UN estimates that **the upper end of these benchmarks** is necessary.[22]

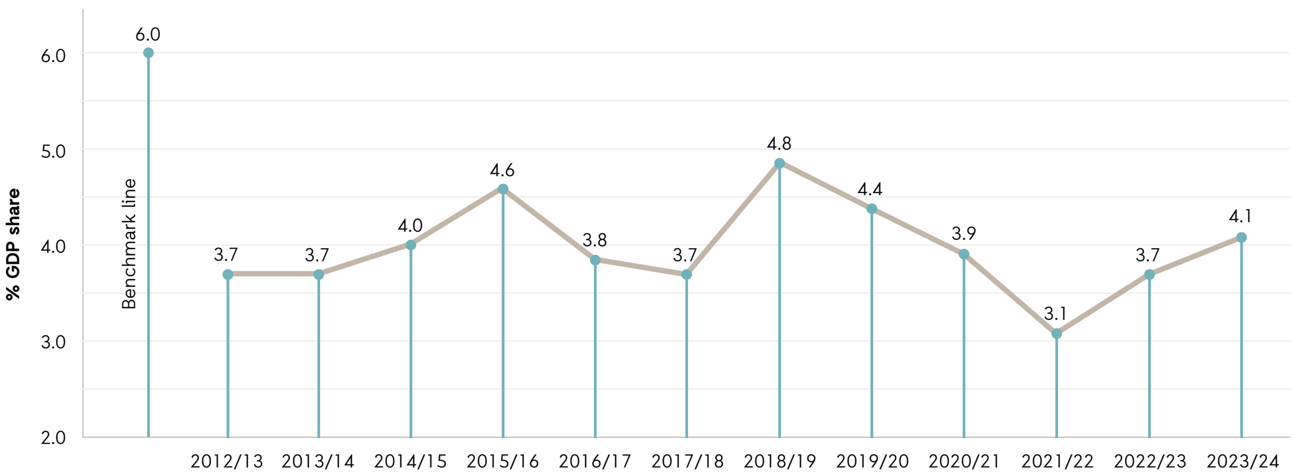
Unfortunately, Nepal is not only **falling short of these targets**, but it is **moving further away** from them. In **2023/24**, education received just **11% of the national budget** and **3.67% of GDP**, while in **2025**, the share allocated dropped further to **10.76% of the national budget**, all well below both recommended thresholds. (*See Figures 1 and 2 for historical trends*).[23]

Figure 2: Nepal share of the budget on education, 2012 - 2025



Source: Based on Government of Nepal Red Book budget document

Figure 3: Nepal share of GDP to education, 2012/13 - 2023/4



Source: Based on Government of Nepal Red Book budget document

Make education budgets *sensitive* to equity and able to target the most marginalised

The Nepalese government has made some strong efforts to target equity-enhancing measures in education budgets:

- The government launched the **Consolidated Equity Strategy** in **2014** and the **Equity Index** in **2017** as tools to address inequities in the education system. These initiatives focus on **girls, women, and children from disadvantaged groups**, ranking districts and municipalities based on a composite index of disparities to inform **equity-focused resource allocation**.[24] One of the aims is to reduce the number of **children who are out of school**. These efforts have shown impact: in 2019, independent verification confirmed a **60% reduction in out-of-school children** across **15 targeted districts** following implementation of the Index.[25]
- Nepal has also made efforts to ensure that the education budget is **gender equitable**. A **Gender Responsive Budget Committee** within the Ministry of Finance evaluates how much of each year's education allocation **"directly" or "indirectly" promotes gender equity**. In the **2022–2023 budget, 17% of education spending directly supported gender equity**, with an additional **11% contributing indirectly**.[26]

However, poor families are picking up the bill due to overall insufficient public funding for education. **Household expenditure on education stands at 3.2% of GDP**, with families funding **half of all education spending** in Nepal. As government investment declines and external financing diminishes, households are left to fill the gap. This burden rises to 71% at the upper secondary level. When financing depends on the pockets of the poorest, it consumes a disproportionate share of their already limited budgets—**a regressive model of education funding** that undermines access and equity.[27] Meanwhile, as more children enrol in **private schools**,[28] household spending continues to rise. At the same time, government spending has declined, further widening inequalities and limiting access for the most vulnerable.[29]

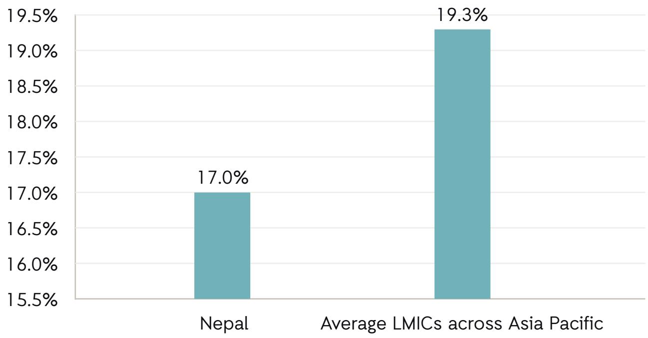
Box 1. Does recurrent and capital spending allow for equity and quality?

To achieve SDG4, budgets need to expand to pay for one-off capital projects, such as school construction, and increase recurrent (or operating) costs, including teacher-related payments, which constitute the largest budget component. A UN SDG 4 costing[30] breakdown noted that to achieve quality and equity, 84% should be spent on recurrent/operating costs - 75% of that for wages and salaries - and 14% on capital/ development projects. In Nepal, the budget breakdown is around 98% spent on recurrent and 2% on capital.[31]

To achieve SDG4, governments must increase the *size* of their overall budgets.

Nepal must urgently expand its public spending capacity to meet the costs of SDG 4.
This is becoming increasingly difficult amid **rising debt servicing, which is draining precious revenues**. In 2024, debt servicing (domestic and external) is consuming a growing share of public resources—amounting to **over half of government revenues (56%), 44% of expenditures**, and **10% of GDP** in 2024. Alarmingly, the government allocated **four times more to debt payments than to education** that year, placing further **downward pressure on education financing**.[32]

Figure 4: Tax-GDP ratios, Nepal compared to average LMICs in Asia Pacific (latest year).



Source: Asia Pacific Average, OECD Revenue Statistics for Asia Pacific (2022).[33] *Nepal, IMF Country Report (2024)*[34]

Mounting **debt levels** also invite pressure from the **IMF** to implement **austerity measures**, often involving **cuts or freezes to public sector wage bills**. These limit the government's ability to hire and retain teachers or improve their salaries—undermining education quality and access.

To reverse the decline in public spending capacity, **Nepal must resist harmful austerity measures and boost domestic revenue through fair and progressive taxation**. Encouragingly, **Nepal's revenue-to-GDP ratio has increased substantially over the past decade** (see Figure 4). However, the tax-to-GDP ratio remains relatively low—the IMF projected it at just **17% in 2024**.[35] This is **below the average for lower-middle-income countries**[36] (see Figure 3), highlighting the need for further revenue mobilisation to meet development goals such as SDG 4.

Box 2. IMF, austerity and teacher shortages

In Nepal, the IMF has repeatedly called on the government to limit the public sector wage bill. In 2017, it recommended cuts to government spending on health and education workers, and in 2018, it called for further action to ensure fiscal sustainability. In 2020, the government was advised to freeze the public sector wage bill at 2.9% of GDP through to 2024.[37] However, faced with public criticism of the introduction of austerity measures, the government increased the salaries of its employees by 2000 Nepalese Rupees (approximately USD$16) per month in 2021.

Increasing Tax Revenues—Progressively and Fairly

> *"Governments should commit to reaching an adequate tax-to-GDP ratio through ambitious and progressive tax reforms… Progressively realising the right to education using maximum available resources means going beyond the resources currently at government disposal; it includes resources that could potentially be mobilised, in particular through progressive taxation."*
>
> **Farida Shaheed, UN Special Rapporteur on the Right to Education —**
> **Quoted in Stolen Futures: The Impacts of Tax Injustice on the Right to Education (2024)**

Nepal should focus on leveraging progressive, gender-responsive, and climate-sensitive tax policy reforms to increase its **tax-to-GDP ratio by five percentage points** from current levels.[38] An IMF research paper suggests that for many countries, this is an **ambitious but achievable medium-term goal.**[39] In Nepal, this aligns with the government's own Domestic Revenue Mobilisation Strategy, which aims to increase tax revenue by 4.6 percentage points by 2029—a welcome move, provided it focuses on more progressive measures.[40]

According to the **Tax Justice Network**, if Nepal were to achieve this five percentage points increase, it could generate **an additional US$2 billion annually** in domestic revenue. If the government allocated **20% of this new revenue to education**, in line with **international benchmarks**, it would result in **an extra US$400 million per year** for the education sector. This could fund **schooling for an additional 451,026 pupils annually**.[41] Crucially, this amount is **more than double the predicted annual financing gap** in Nepal's **School Sector Development Plan**—estimated at **US$193 million per year between 2023 and 2031**).[42]

Of course, **any tax revenue increase should aim to do so progressively**, with attention to additional tax burdens falling on the richest, especially as Nepal already tends to rely heavily on indirect taxes, making its system less progressive than many (see Box 3). However, there are several ways to raise new revenues progressively, including:

- Implementing national wealth taxes
- Combating tax abuse by multinational corporations and wealthy individuals using tax havens to underpay taxes
- Reducing unnecessary tax exemptions and incentives

In Nepal, the scale of these reforms can help deliver increased tax-to-GDP ratios and provide a path to significantly expanded education budgets. For example:

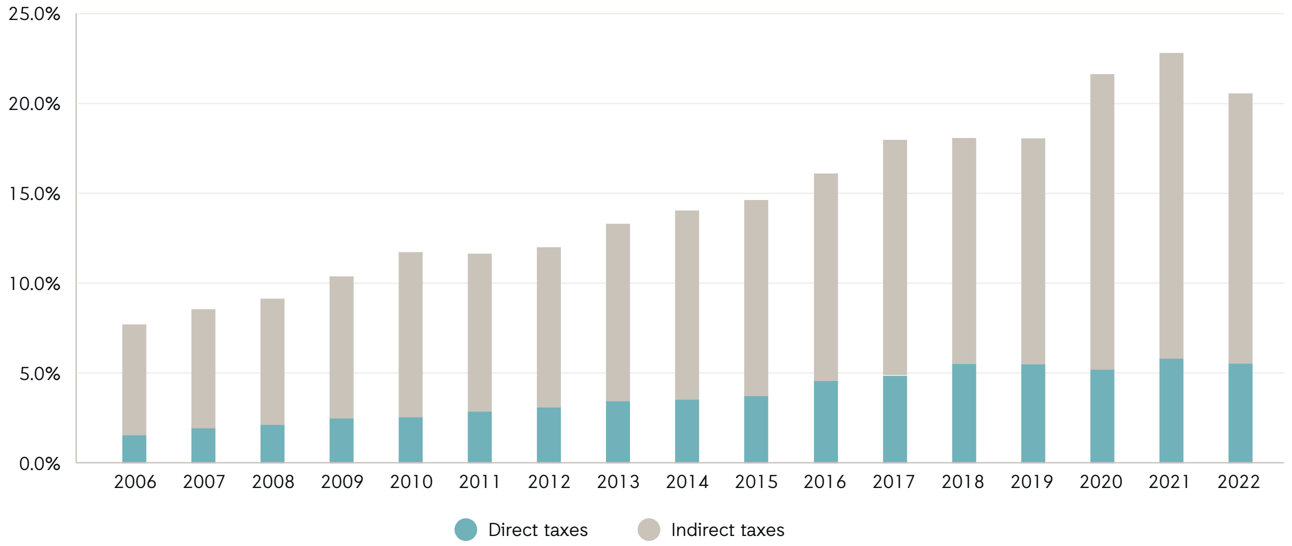
- **Preventing cross-border tax abuse could generate an additional US$8.8 million**. If 20% of this additional revenue were allocated to the education budget, this would equate to:
  – Funding **an additional 1,948 thousand pupils, or**
  – Paying for **3,647 teacher salaries**.[43]

- **Tax expenditures are also an area that requires urgent government action**. Preliminary findings from a 2024 study by the Nepalese Inland Revenue Department indicate that tax expenditures result **in losses equivalent to 6% of the country's GDP**, amounting to NPR 296.7 billion.[44] While pro-poor tax measures like VAT exemptions on basic food items are essential to protect the poorest, other exemptions, such as corporate tax incentives, may be undermining public financing. Nepal's Domestic Revenue Strategy warns that *"excessive tax exemptions, deductions, concessions, and rebates"* are eroding the tax base. As such, while not all exemptions need to be eliminated, using the total volume of exemptions helps to illustrate the scale of the issue. Redirecting just 20% of these forgone revenues to education, as per international recommendations, could raise US$301 million—enough to fund:
  – **School places for all out-of-school children** at primary and secondary level for one year[45]
  – The total **yearly costs for 10,000 new secondary teachers**[46]
  – **Free school meals for all 3 million children**[47]

Box 3. Progressive and regressive taxes in Nepal

Over the period 2006-2022 (the latest available year), Nepal has improved its tax-to-GDP ratio – especially in the last decade. Indeed, between 2006 and 2022 there has been a threefold increase. At the same time, they have done too little to reduce the overreliance on indirect taxes, which has focused heavily on expanding taxes through regressive VAT.[48] This suggests that the tax system is not progressive enough and is instead further entrenching gender inequality.

Figure 5: Direct to indirect taxes in total taxes over time, 2006-2022 (latest years)



Data from ICDT/UNU-WIDER Government Revenue Dataset.
** Note. Direct to indirect taxes can be a useful proxy for how regressive or progressive a tax system is. An overreliance on indirect taxes tends to highlight a more regressive tax regime (i.e. an overreliance on VAT, which often hits the poorest hardest), while a greater reliance on direct taxes tends to be more progressive (as this includes corporate taxes or income taxes for those in the more formalised sectors).*

The 5Rs of tax and the future of public services

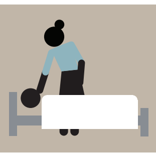
Our tax sysytems are our most powerful tools for creating just societies that gives equal weight to the needs of everyone. Here's what our tax system can deliver if we programme them to work for everybody, instead of just the wealthy few:

5Rs

Revenue
to fund universal public services and sustainable infrastructure.

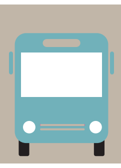
Every second, a nurse's yearly salary is lost to a tax haven. Over $483 billion in tax is underpaid each year by corporate giants and the superrich that coulld be going to our public services.

Women provide 71% of unpaid dementia care hours globally. Tax can fund public caregiving systems, redistributing and reducing care burdens.



Redistribution
to curb inequality between individuals and between groups.

Repricing
to limit public "bads" like carbon-intensive products and promote "goods", like sustainable local production.



A lower VAT rate on public transport fares and a higher tax rate on vehicle ownership can increase use of public transportation. Higher taxes on ownership of private jets and other highly polluting transportation can disengage their use by the superrich.

Reliance of government spending on tax revenues is strongly linked to higher quality of governance and political representation.

Representation
to strengthen democratic processes and improve democratic governance.

Reparation
to redress the historical legacies of colonisation and ecological damage.

Reprogramming the global tax system to protect people's needs and rights can help countries fund a transistion to food systems that serve people and planet.

Box 4. The UN Tax Convention

Tax justice advocates have been calling for a shift in the global tax governance and international cooperation to a system that is fair, inclusive, transparent and supports the efforts of Global South countries to mobilise domestic resources to effectively invest in gender responsive public services, including education. The current system has primarily been led by the Organisation for Economic Cooperation and Development (OECD), which lacks effective representation of countries in the Global South and prioritises the interests of Global North countries. Currently, there are only 38 OECD members compared to 193 member states at the UN. The OECD has also been criticized for being ineffective, lacking accountability and professional standards, and perpetuating racist, extractive and colonial structures.[49]

In December 2023, the UN General Assembly adopted Resolution 77/244[50] on the promotion of inclusive and effective international tax cooperation at the United Nations. This momentous shift led by the Africa Group, was reaffirmed in December 2023 by a subsequent UN General Assembly resolution,[51] which kicked off the State-led process for developing a Framework Convention on International Tax Cooperation at the UN. The Terms of Reference (TORs[52]) for this Convention were adopted by the UN in December 2024.[53] This process is envisioned to run from 2025 to 2027 with the development of the Convention, and two early protocols on (i) taxation of income from cross-border services in the digitalised and globalised economy, and (ii) dispute prevention and resolution.

Launch of Gender Responsive Budgeting Report in Kathmandu, Nepal.
PHOTO: AAIN – ACTIONAID INTERNATIONAL NEPAL.

Financing the future: Call to action

The TaxEd Alliance calls on the government of Nepal to take the following measures needed to fully finance quality, inclusive, gender responsive public education and achieve SDG 4:

1. Increasing the **SHARE** of the budget allocated to education, by meeting (or exceeding) the UNESCO's benchmarks of 20% of national budget and/or 6% of GDP.

2. Increasing the **SIZE** of the overall budget, maximizing the availability of resources for investment in public education by:
   - Reforming tax policies to establish progressive, gender-responsive and climate-sensitive tax frameworks that will increase the tax-to-GDP ratio by at least 5 percentage points and unlock more revenue to invest in public education. To do so, Nepal should focus on:
     – Ending harmful tax incentives.
     – Reviewing tax and royalty agreements in the natural resource / extractive sector
     – Reviewing and cancelling double tax treaties
     – Closing loopholes which enable tax avoidance and evasion in the private sector
     – Promoting and enforcing fair corporate tax
     – Promoting and enforcing progressive taxes on personal income and wealth. Supporting the development of a binding, UN Framework Convention on International Tax Cooperation that aims to seal the loopholes in international tax governance and cooperation that have enabled countries to lose billions in revenue through global tax abuse.
   - Push back against the coercive policy advice of the IMF on austerity, including public sector wage bill cuts and privatisation, utilizing instead alternatives to austerity including progressive taxation.
   - Work together with other countries calling for debt relief and debt cancellation and support the efforts towards a UN Framework Convention on Sovereign Debt.

3. Increasing the **SENSITIVITY** of national education budgets by:
   - Focusing on equity in public expenditure to redress inequality and tackle discrimination (e.g. investing in accessible school infrastructure; ensuring adequate sanitation facilities to support efforts to keep girls in schools; increased investments in incentives for teacher postings in poor rural areas).
   - Developing the Consolidated Equity Index to apply a nation-wide equity funding formulae which explicitly addresses disadvantage and inequality.

4. Enhancing the **SCRUTINY** of national education budgets by:
   - Establishing structures for and actively encouraging scrutiny of education budgets and expenditure to promote transparency and accountability and improve efficiency through timely disbursement of funds, and ensuring that funds are spent effectively (especially in disadvantaged areas), e.g. by enabling or formalising community and civil society oversight.

Endnotes

1. Figures are taken from the UNESCO Institute of Statistics (UiS) data (latest available year, 2023).

2. Figures are taken from the UNESCO Institute of Statistics (UiS) data (the latest available year, 2024). This is broken down as 57,449 for primary school; 78,651 for lower secondary, 459,109 for upper secondary. See https://databrowser.uis.unesco.org/

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39. The following IMF Staff report notes: *"Increasing the tax-to-GDP ratio by 5 percentage points of GDP in the next decade is an ambitious but reasonable aspiration in many countries."* Gaspar, V., Amaglobeli, D., Garcia-Escribano, M., Prady, D., & Soto, M. (2019). *Fiscal policy and development: Human, social, and physical investment for the SDGs* (IMF Staff Discussion Note No. SDN/19/03). International Monetary Fund. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444. It is important to note that this calculation does not look at the mechanisms for achieving the 5 percentage points increase (i.e., which tax reforms are pursued). For the organisations represented here, any future revenue generation should be done with a focus on progressive, gender-responsive and climate-sensitive tax reforms so that any new taxes do not hurt the poorest and most vulnerable but rather fall on those most able to pay.

40. The IMF recent ECF notes that the government Domestic Revenue Mobilisation Strategy which is aiming to increase tax revenue to 20.9% of GDP by 2029 (from the 2024 17%), and which includes some progressive measures and a good emphasis on collecting more income tax and increasing taxes on financial income (which is positive), but it also includes some worrying VAT suggestions such as reducing food exemptions from VAT. Source: see Annex 3, Section B of https://www.imf.org/en/Publications/CR/Issues/2025/03/18/Nepal-Fifth-Review-Under-the-Extended-Credit-Facility-Arrangement-and-Request-for-565326

41. Tax Justice Network (2024). Stolen futures: the impacts of tax injustice on the Right to Education. Please see the methodology notes in the report for information on this calculation.

42. The estimated financing gap is drawn from the Nepal School Sector Plan 2022/23–2031/32, published by the Ministry of Education, Science and Technology, Government of Nepal. The Plan outlines a required budget of NPR 978 billion for the first five years of implementation, of which NPR 846 billion is expected to be covered by the education allocation in the federal budget. This leaves a gap of NPR 132 billion over five years—or NPR 26 billion per year. Using the June 2025 exchange rate of NPR 135.2 = US$ 1 (Nepal Rastra Bank), this equates to an annual gap of approximately US$ 192 million. Source: Ministry of Education, Science and Technology (MoEST), Government of Nepal. (2022). *School Sector Plan (SSP), 2022/23–2031/32*. Kathmandu: Government of Nepal.

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44. Nepal Inland Revenue (2024), Estimating Tax Expenditure: Experiences and Challenges. https://www.addistaxinitiative.net/sites/default/files/resources/Session%205_Nepal_Panday.pdf. This uses the IMF revenue forgone methodology. We acknowledge that this captures all tax breaks like deductions, credits, exemptions, and reduced tax rates, which may not all have a regressive impact and some support the poorest.

45. This estimate is based on 2024 data from the UNESCO Institute for Statistics (UIS), which reports 57,449 out-of-school children at the primary level, 78,651 at the lower-secondary level, and 459,109 at the upper-secondary level in Nepal. A flat per-child cost of US$200 was applied across all levels, drawing from UNICEF's *Education Budget Brief 2021/22.* While this likely underestimates the true costs—particularly for upper-secondary education—it reflects the best available data. Using these figures, the estimated cost to provide one year of schooling for all out-of-school children would be US$11.49 million for primary, US$15.73 million for lower-secondary, and US$91.82 million for upper-secondary, resulting in a total cost of US$134.77 million. Sources: UNESCO Institute for Statistics. *Education Indicators and Expenditure Data*. https://databrowser.uis.unesco.org/browser/EDUCATION/UIS-EducationOPRI/gov-exp-prc; UNICEF (2022). *Education Budget Brief 2021/22.* https://www.unicef.org/nepal/media/14421/file/Budget%20Brief%20-%202021-22%20-%20Education.pdf

46. This estimate is based on Nepal's official salary scale for government lower-secondary teachers, reported at NPR 55,337 per month. Annual salary is therefore NPR 664,044. Using the current mid-market exchange rate of 1 NPR = US$ 0.00730 (Wise/XE, June 2025), this equates to approximately US$ 4,847 per teacher per year. For 10,000 teachers, the total annual cost is US$ 48,700,000. Sources: *Salary Scale of Government Teachers in Nepal*, Educate Nepal. https://www.educatenepal.com/news/detail/salary-scale-of-government-teachers-in-

nepal. Exchange rate data: 1 NPR = 0.00730 US$ (mid-market rate as of June 2025) unitconverters.net+12wise.com+12foreignexchange.org.uk+12

47. This estimate assumes a cost of NPR 25 per meal per child, reflecting top-up practices by local governments above the federal allocation of NPR 15. At an exchange rate of NPR 135 = US$1 (June 2025), this equates to approximately US$0.18 per meal. Feeding 3,000,000 children for 200 school days per year would cost an estimated US$108 million annually. This is consistent with the Global Child Nutrition Foundation's 2020 estimate, which places the cost of one school meal per student in Nepal at approximately US$ 36 per year. Sources: Government of Nepal & Global Child Nutrition Foundation (2020). *Nepal: National School Meal Programme, in Global Survey of School Meal Programs.* https://gcnf.org/wp-content/uploads/2021/03/CR_Nepal_07_2020.pdf Nepal Ministry of Education and UNICEF (2022). *Education Budget Brief 2021/22*. Exchange rate: Nepal Rastra Bank, June 2025

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Cover photo: Child in Nepal playing on the way home after school.
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