

Education budgeting in Bangladesh, Nepal and Sri Lanka

Resource management for prioritization and control

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AG	Auditor General
ALOE	Authority Letter of Expenditure (Nepal)
ASIP	Annual Strategic Implementation Plan (Nepal)
AWPB	Annual Work Plan and Budget (Nepal)
BMIS	Budget Management Information System
BOI	Board of Investment (Sri Lanka)
BPEP	Basic and Primary Education Project (Nepal)
BRP	Budget Resource Committee (Nepal)
CIAA	Commission for Investigation of Abuse of Authority (Nepal)
CLC	Computer Learning Centre (Sri Lanka)
CLO	Central Level Office (Nepal)
CMED	Central Monitoring and Evaluation Division (Of NPC) (Nepal)
CSSP	Community School Support Project (Nepal)
CTEVT	Council for Technical Education and Vocational Training (Nepal)
DDC	District Development Council (Nepal)
DDF	District Development Federation (Nepal)
DEC	District Education Council (Nepal)
DEO	District Education Office (Nepal and Sri Lanka)
DFID	Department for International Development (UK)
DOE	Department of Education
DTCO	District Treasury and Controller's Office (Nepal)
EC	European Commission
ECD	early childhood development
EDC	Education District Council (Nepal)
EFA	Education for All
EOQ	economic order quantity
FCG	Financial Comptroller General

List of abbreviations

FCGO	Office of the Financial Comptroller General
FMIS	Financial Management Information System
FY	fiscal year
GCE	General Certificate of Education (Sri Lanka)
GDP	Gross Domestic Product
GEP2	Second General Education Project (Sri Lanka)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Development Agency)
HDI	Human Development Index
HMG	His Majesty's Government (Nepal)
HRD	Human Resource Development
HSEB	Higher Secondary Education Board
IDA	International Development Association
IIEP	International Institute for Educational Planning
IMF	International Monetary Fund
IT	information technology
JICA	Japan International Cooperation Agency
MOES	Ministry of Education and Sports
MOF	Ministry of Finance
MTBF	Medium-Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NDAC	National Development Action Committee (Nepal)
NDF	Nordic Development Fund
NDPRC	National Development Problems Resolution Committee (Nepal)
NEC	National Education Commission (Sri Lanka)
NER	net enrolment ratio
NFE	non-formal education
NIE	National Institute of Education (Sri Lanka)
NPC	National Planning Commission
NRB	Nepal Rastra Bank

OAG	Office of the Auditor General (Nepal)
PAC	Public Accounts Committee (House of Representatives) (Nepal)
PBS	Programme Budgeting System
PDE	Provincial Department of Education (Sri Lanka)
PERC	Public Expenditure Review Commission
PPMS	Project Planning and Management System
PPS	pre-primary school
PSEDP	Plantation Schools Education Development Programme (Sri Lanka)
RED	Regional Education Directorate (Nepal)
RTCO	Regional Treasury and Controller's Office (Nepal)
SDR	Special Drawing Right (Sri Lanka)
STR	student-teacher ratio
SEMP	Secondary Education Modernization Project (Sri Lanka)
SESP	Secondary Education Support Programme (Nepal)
SIP	School Improvement Plan (Nepal)
TC	Teachers Commission
TEP	Teacher Education Project (Nepal)
TETD	Teacher Education and Teacher Deployment Project (Sri Lanka)
TEVT	Technical Education and Vocational Training
TYRB	Three-Year Rolling Budget
UGC	University Grant Commission (Nepal)
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
VDC	Village Development Committee (Nepal)
VEC	Village Education Committee (Nepal)
WFP	United Nations World Food Programme

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PREFACE

Economic and financial constraints in South Asia, as in other parts of the world, have required governments to adopt cautious policies on public expenditure. Education, which constitutes an important part of central government expenditure in national budgets, has been among the sectors affected by these financial constraints. The choice between the needs of education systems and those of other sectors where the state contributes (health care, social security, infrastructure development, etc.) has always been difficult. Ministries of education have to justify the use of resources earmarked for them, as well as additional funding they may request.

Within the context of limited public resources, governments have to ensure the most prudent use of their funds. Sound management of such funds requires rules, regulations, procedures and analyses. The budget is an essential instrument through which the political choices of governments are translated into practical outputs. For the ministry of education, as for other government ministries, the budget represents a tool for planning and administration that determines resources required for achieving annual development goals.

Ministries of education should constantly strive to improve the financial management of educational systems, for which the budget is the central instrument. Strong financial management assumes an adequate projection of needs and an efficient use of resources. The benefits achieved through adequate management of financial resources can also be used to further develop education systems.

Preparation of the budget provides the ministry of education with an opportunity to focus on its short-term objectives, to evaluate the resources needed to achieve these objectives, and to prepare technical files which would enable the ministry of education to present its position in the most favourable way in the course of negotiations and budgetary decision-making. Budgetary procedures allow the ministry of education to allocate actual resources to different regions and educational institutions. The process of budget implementation provides the ministry of education with an opportunity to analyse the

criteria of resource allocation with a view to achieving an equitable and efficient distribution of funds.

This work presents diverse experiences of how budgetary procedures are organized and carried out. It analyses their strengths and weaknesses, and provides recommendations on how procedure can be improved in the ministries in charge of education in three South Asian countries – Bangladesh, Nepal and Sri Lanka. The book outlines procedures related mainly to the allocation function of the budget, given that the budget is used as the means of allocating public resources in the provision of a mix of social services such as health, education, infrastructure and defense.

As a comparative work, the publication stresses similarities and differences in the main patterns of the budgeting process in the three countries. It seeks to contribute to the knowledge base on mechanisms used by governments to address the challenges of making education policy decisions in the context of financial constraints. The experiences described in this publication may also be useful to counterparts in other countries who are seeking to improve the provision of education in the context of limited public resources.

Mark Bray
Director, IIEP

PART I
COMPARATIVE ANALYSIS

1. COMPARATIVE ANALYSIS, LESSONS AND IMPLICATIONS FOR PLANNERS

Introduction

Public financing of education has been a priority for governments in developing countries for several decades. This is because education is perceived in modern societies as an important pillar of socio-economic development. However, in recent years, the education sector has faced stronger competition from other sectors also seeking financial government support. Given the limited resources governments can generate from taxes and other sources of revenue, there has been a strong push for improvement in the ways in which revenues are allocated among different sectors, leading to stronger efforts to improve public expenditure policy. The budget is the means by which governments, in general, allocate resources to education, and therefore any improvement in the management of these resources will require improvement in governmental budget processes.

The budgetary process is carried out in any setting where resources are to be divided among numerous claimants. Budgeting is a process for transforming financial resources into services for human purposes. Resources are limited, but human desires are not. Hence, some way must be found to divide available resources among competing services. The budget serves diverse purposes, and behind every government budget – which necessarily takes revenues from some citizens and distributes them to others – lie conflicts. A budget may therefore be considered as a record of past victories, defeats, bargaining and compromises over past allocations, as reflected in the items included and excluded. It is also a statement about the future. It attempts to link proposed expenditure with desirable future events. A budget must therefore consist of plans. It should try to determine future states of affairs through a series of current actions. Hence, budgets are also predictions.

When efforts are made to increase wealth through investment, budgets become a means of securing economic growth. If the aim is to obtain desired objectives at the lowest cost, a budget may also become

an instrument for pursuing efficiency. On the other hand, governments take money from some people in the form of taxes and give it to others who benefit from this expenditure, so budgets also constitute a means of income distribution. Furthermore, expenditure in an egalitarian context reduces differences in resources available to individuals and groups in society. Budgets can also support a hierarchical culture when spending is used to maintain differences in status and power. Indeed, when a budget is used to keep spending within set boundaries and fixed purposes, it becomes a device through which those with power try to control the behaviour of others. In summary, budgets are attempts to allocate financial resources through political processes in order to serve different ways of life.

In many countries, budgets and budgetary practices have lacked legitimacy among domestic stakeholders, and have been marked by a lack of comprehensiveness, accountability and transparency. Furthermore, they have been characterized by

- a disconnect between the budget and government policies;
- lack of clarity in budget preparations;
- an emphasis on fighting for resources rather than results;
- difficulties in planning in the single year framework, complicated by the unpredictability of budgetary resources;
- accountability undermined by a lack of clear objectives and results;
- fragmentation, with lack of coherence between different parts of the budget.

This context makes it difficult for programmes supported by public expenditure to be efficient and effective.

Recent efforts to improve public finance policy and management in developing countries are reflected in various internationally-supported planning instruments, such as the Medium-Term Expenditure

Framework (MTEF)¹ or the Medium-Term Budget Framework (MTBF). These are aimed at better government expenditure based on realistic macroeconomic projections. Improvements in public expenditure policy and management are crucial for increasing the overall effectiveness of development programmes, strengthening governance, and increasing transparency and accountability with regard to the use of public resources. Improved public expenditure management systems are also a key requirement for many donors to move to more predictable, multi-year commitments in the form of budget support. This study attempts to address a number of related issues associated with ongoing reforms in budget preparation, execution, reporting and short-term expenditure rationalization that are core areas for public expenditure management in the education sectors in Bangladesh, Nepal and Sri Lanka.

Bangladesh, Nepal and Sri Lanka are among the developing countries in South Asia trying to improve the development of their education systems through better public financing of schools. In spite of the relatively healthy economic growth observed in the three countries over recent years, their governments' fiscal and non-fiscal revenues remain limited at a time of urgent financial need for development, in particular, development of social sectors, in the face of increasing competition in the region. This situation has led governments to allocate resources more carefully to various development sectors, including education, and to better monitor use of these resources. The shares of Gross Domestic Product (GDP) and public expenditure on education in these countries remain the lowest in South Asia.

A budget is a policy instrument used to allocate resources to education and a management tool for setting priorities within the

1. The MTEF is a conceptual framework that aims to integrate the elements of good budget practice into an operational process. Its key characteristics can be summarized as:

- a medium-term perspective requiring a budget based on spending estimates for a three to five-year period, underpinned by a consistent Medium-Term Fiscal Framework (MTFF);
- a process of aligning the budget through prior elaboration of clear and transparent national policies, sector strategies and programmes and costing of programmes' activities, as a basis for medium spending estimates;
- a focus on results, accountability and transparency, with emphasis on the monitoring of inputs, outputs and outcomes as well as financial reporting and oversight. The medium-term perspective facilitates the alignment of budgets to policy objectives and gives the appropriate time and resources to achieve the desired results. The results orientation, output monitoring and feedback processes put emphasis on planning, implementation, efficiency, effectiveness and accountability, with results driving resource mobilization and allocation (World Bank, 2005).

education system, allocating resources to priority areas and monitoring the use of public funds. Since governments have limited resources to invest in education, they must rigorously assess the sector's needs, prioritize accordingly, and monitor the use of resources in responding to these needs.

This study on budgetary procedures in the ministries of education in Bangladesh, Nepal and Sri Lanka has benefited from the results of IIEP programme research carried out in various African and South East Asian countries. The main objective of this study is to describe and analyze the procedures used within the ministries of education in three countries in different development settings, for the preparation, implementation and control of education budgets at a time when new procedures are being introduced. More precisely, this study attempts to assess the strengths and weaknesses of current budget procedures, to identify the challenges and opportunities of ongoing reforms, and to propose ways to address weaknesses in order to ensure the effectiveness of budget processes.

Objectives and outcomes

The objective of this research project in Bangladesh, Nepal and Sri Lanka was to analyze the administrative and technical procedures used by the ministry of education to prepare the budget and allocate budgetary resources within each education system. The analysis also examined the roles of various actors, their strategies, and the strengths and weaknesses of their positions; the coherence of budget preparations with ministry planning operations; and the use of projections and methods of rationalization in the preparation of budgets and the distribution of budgetary resources.

The research framework provided the opportunity to carry out another objective – that of reinforcing national capacities. Civil servants from the ministries of education and finance in each country participated in three research meetings, contributing to the analysis and reflections of the group of experts on budgetary procedures and techniques used in their own country, as well as those of the other two countries.

The outcomes of this project were as follows:

- Eight education budget specialists were trained in national procedures for budget preparation and implementation. This opportunity for collective analysis and reflection reinforced the national capacities of specialists from each country.
- Three case studies were prepared by national teams, providing a detailed description of the procedures of education budget preparation and implementation in each country. The country reports also included policy recommendations for improving budget procedures. More specifically, the following were addressed:
 - administrative procedures, the distribution of roles between various actors and the decision-making process concerning budget proposals
 - the position of ministries of education in the course of negotiations with ministries of finance and how to enhance and justify this position
 - the role of technical studies and forecasts at the stage of budget preparation
 - the relationships between the budget and other ministry planning instruments, planning for medium and long-term periods, planning for staff recruitment and school construction.
- This book was produced for dissemination within the participating countries, intended as reading material in national training activities on this topic.

Methodology and outline of national case studies

Each national team cooperated with IIEP specialists to perform analyses of budgetary procedures in all three countries. Three research meetings were held where national teams discussed and shared their research findings.

The first meeting, held in Sri Lanka in 2002, was devoted to the presentation of the research project. The research teams discussed and agreed upon the terms of reference for the case studies, and an outline for each national case study was approved:

- Procedures for preparing the budget
 - general framework of procedures;
 - budgetary procedures and time-frame;
 - evaluation techniques for different budget lines;
 - behaviour of actors involved.
- Procedures for allocating budgetary resources and implementing the budget
 - allocation of budgetary resources;
 - implementation of the budget and its control.
- Conclusions
 - main findings and perspectives.

The second meeting was held in Bangladesh in 2003, where national teams presented the first drafts of their case studies. A debate took place on the links between budget and planning, and budget and management, and controlling expenses.

The third and final meeting, held in Nepal in 2004, reviewed the revised versions of the three case studies. Ways to improve procedures for budget preparation and implementation were also discussed.

This book comprises a comparative analysis (Part I), and three case studies (Part II). Part I compares main procedures across the three countries; highlights common features and differences between the countries in terms of budgetary frameworks, budget preparation and approval procedures, implementation of budget and budget control; and presents some conclusions.

Part II comprises the Bangladesh, Nepal and Sri Lanka cases studies, presented by the teams. To facilitate comparative reading, the national case studies were restructured by IIEP according to the outline approved during the first research meeting.

1.1 Budgetary framework

A budget is defined in general terms as a statement of the estimated income and expenditure of a country, organization, or individual over a given future period. In the case of budgetary processes and procedures at the government level, the notion of the budget is more precise and

has greater legal significance. A government budget can therefore be defined as: an act according to which future annual income and expenditure of the government are estimated and authorized.

A government budget is a statement of predicted income and expenditure. The budget does not correspond to the record of past income and expenditure; it attempts to estimate what the situation will be in the coming year. Hence, the preparation of the budget calls for a technical evaluation of future income and expenditure and for policy decisions to be adopted and assumptions made.

The budget is established for a specific period, usually one year. This may be the calendar year, or it may commence at any other date.

What are the main functions of the government budget?

A government budget is an instrument which legally authorizes income to be collected and expenditure to be incurred, through an appropriation bill. The rules governing the preparation and implementation of the budget, and the legal nature of the budget itself, are designed, in most countries, to enable the legislature to implement the budget. The strictly defined legal authorization conferred is of primary importance to the administrative departments responsible for implementing budgetary decisions.

The budget has a physical existence. It consists of one or more documents setting forth the statement of income and expenditure in accordance with precise and structured nomenclature. Insofar as it constitutes an estimate of future resources and expenditure, the budget is a planning instrument. It is even, in most cases, the only short-term planning instrument. The budget is an exercise in estimating the resources required to implement the measures planned by the government to attain certain objectives. It thus raises the question of what objectives, measures and resources are needed. A link between the budget and other planning instruments is necessary to ensure that the objectives pursued are properly taken into consideration. As is shown later, this link is sometimes missing. But preparing the budget is not solely an exercise in evaluating requirements; limitations on financial resources must be considered. A budget is the result of setting requirements against resources that are by definition limited. It is also

a policy-making instrument that reflects government policy decisions in the short term. It is a management instrument that checks the expenditure of each government department, providing a framework for those responsible for the use of resources available to them for the accomplishment of their mission.

The general principles on which budgetary rules and regulations are based may vary from one country to another, but most are embodied in national budgetary laws. These broad principles are motivated by constitutional and political considerations, with the idea of ensuring parliamentary control of the executive and government departments; sometimes technical considerations will play a part in facilitating administration; occasionally moral considerations will be taken into account, to ensure the rigorously correct administration of public funds. It should be noted, however, that national budgetary laws also stem from historical developments specific to each country, and that they are not always completely logical.

The budget is voted annually for one year. This obliges the executive to submit a regular request to parliament to endorse the sums generated by taxation and authorize their utilization. The budgetary and fiscal year begins at a date which varies from one country to another, and does not always coincide with the calendar year. The specificity rule is tied in with budget nomenclature. It prohibits the use of resources authorized under a specific budget line for other purposes. This is to ensure conformity with the parliamentary vote. The limitation rule establishes that the appropriations voted are limitative, and as such, may not be exceeded. The universality rule is intended to prevent the concealment of any source of income. The budget must contain all the incomings and outgoings of the organs of the state. A ministry may not collect resources and use them as it sees fit for its own purposes. In other words, receipts may not be earmarked for expenditure. There are, of course, ways of circumventing the rules, such as special budgets for autonomous agencies and specific financial contributions. According to the unity rule, which is frequently breached, a government budget must be one and indivisible, embodying in a single legal instrument all resources and outgoings, so as to give an overall picture of the financial situation envisaged. In many countries it is the practice for investment budgets, which are often tied in with external funding, to be discussed

and voted separately. Special separate budgets are also a means of circumventing the unity rule.

Budget nomenclature

The specificity principle of the budget requires the classification of revenue and expenditure. Data is organized following different types of classification. The term 'budget nomenclature' designates the classifications used in each country to arrange the data contained in the budget. These classifications are often organized by the Ministry of Finance, according to certain types of codification by which a code is associated with a title or heading. On the revenue side, budget nomenclature covers all categories of tax and other government revenue and generally classifies these as recurrent and capital, depending on their economic status. On the expenditure side, different criteria can be used to classify expenditure. In general, nomenclatures are designed to allow the identification of expenditure according to four principal criteria:

1. by government functions;
2. by institutions (service or management unit concerned);
3. by programmes and activities;
4. by type of expenditure.

Classification by functions concerns the government level. Information is organized according to public sectors, each sector corresponding to a definite function. Thus it is possible to distinguish, for example, between the economic, social and general sectors. Classification by functions has many advantages: it makes detailed financial plans very clear, enabling analysis of expenditure for each function. On the other hand, functional classification combined with economic classification shows the cost of each public function; moreover, it is possible to identify state priorities assigned to different functions. Classification by institutions concerns all public sector units, whether governmental, at different levels (central, regional or local) or independent. Classification by programmes and activities enables expenditure to be shown based on programmes and activities to be carried out, while establishing a link between expenditure and expected results. Recurrent programmes (provision of services) are

distinguished from investment programmes (production of capital goods). Classification by programmes and activities has the advantage of showing expenses by objective, and thus facilitates cost-benefit analyses. Even if such analyses are not easy to perform (it can be difficult to estimate benefits), it remains important to support decision-making on budgetary expenditure. Classification by type of expenditure on the other hand distinguishes between recurrent and capital expenses, and facilitates control of each category of expenditure following its economic object. Countries usually classify by type of expenditure, ensuring that all public sector bodies have uniform concepts of expenditure. Consequently, this classification method is used in the education sector.

Education budget and macroeconomic aggregates – some indicators

One way of examining the importance of a country's education budget is to compare it with macroeconomic aggregates: the Gross Domestic Product (GDP) or the Gross National Product (GNP) and the government budget. Depending on the purpose of the comparisons there are different ratios, as follows:

$$\frac{\text{Education Budget}}{\text{GDP or GNP (depending on its availability)}}$$

This indicator is a measure of society's contribution to public expenditure on education; in other words, it is a measure of this expenditure as a proportion of the country's wealth.

$$\frac{\text{Education Budget}}{\text{Government Budget}}$$

This indicator allows us to calculate the portion of the government budget earmarked for education.

Our work focuses on analysing the budgets of ministries of education – more precisely the expenditure side, as revenues (such as tuition fees and income-generation) are not commensurate to expenses. In other words, education at any level depends heavily on subventions, subsidies, tax-exemptions and other forms of government/public

support. Due to this dependency on government revenues, education budgets cannot be regarded as independent of the government budget as a whole (comprising not only government department expenditure but also resources derived from taxes, loans, and various other generators of income).

Some common features in the three countries

The first common feature of the budgetary processes in the three countries examined is the macroeconomic setting, which is characterized by the strong impact of external factors on the economy and budget procedures. Public expenditure management is strongly affected by either high outstanding foreign debts or grants provided to each country.

In Bangladesh, public debts represented 48.3 per cent of GDP (2004), with foreign debt making up 29.5 per cent of GDP. The importance of foreign contributions to Bangladesh's budget is also indicated by their share in the development budget. In 2003, more than 32 per cent of the funding for 20 development projects in primary and mass education came from foreign aid. In the same year, 23 per cent of the costs of 61 projects in secondary and higher education were financed from foreign resources in the form of grants and loans.

In the case of Nepal, the ratio of outstanding foreign loans to GDP was 67 per cent in 2003, while fiscal deficit was estimated at 3.6 per cent.² In this case, fiscal deficit was mainly financed by foreign loans and grants, which accounted for more than 30 per cent of total expenditure. Government activities in Nepal are heavily dependent on foreign resources.

Sri Lanka's outstanding stock of government foreign debt, as a share of GDP, stood at 45.5 per cent in 2002 while total debt service payment represented 17.7 per cent of GDP in the same year. Debt reduction became a priority, so that in 2003, the government's fiscal policy set its deficit target at 8.5 per cent of GDP before ceilings were determined for public expenditure.

2. The deficit is estimated at 3.6%, counting foreign grants.

A strong dependence on foreign aid for public expenditure in all three countries creates uncertainty when planning for the medium term and preparing the budget.

The macroeconomic settings of these countries are also adversely affected by internal, natural or political factors. The governments in Nepal and Sri Lanka have been confronted with armed conflicts, and Bangladesh's periodic heavy floods and political crises are sources of serious disturbance to the budgetary process. The success of the economic policy reforms underway in these countries will depend on how national consensus is built around the major economic, political and social policy issues, as well as on the availability of international aid. Over the last few years, all three countries have embarked on economic reforms.

The above settings provide the framework for the following analysis of existing planning and managing instruments pertaining to the budgetary processes in the three countries.

Planning and management instruments

In order to improve public resource management, governments in each country have developed, within their respective macro-economic environments, frameworks for development policy formulation that serve as the basis for budgetary processes.

Bangladesh's government designs regular five-year development plans that define its development objectives and strategies. Its policy strategy makes room for the development of an open economy. These plans constitute the basis for elaborating the annual budget, which is the annual indicator of the five-year plan. Funds allocated for the implementation of the country's annual development plan make up its development budget. Despite the government's efforts to improve management in recent years, the weakness of the articulation between the annual development plan and the non-development budget (also known as the regular budget in some countries) requires special government attention in order to guarantee the consistency and effectiveness of the various components of the budget.

Nepal's economic sector reform started in 1991 with the main objective of attracting foreign investment. Government development policies and goals are expressed in periodic five-year plans, the latest of which focuses on poverty reduction. Investment in education (one of the pillars of Nepal's poverty reduction strategy) and annual budget processes are structured within the country's national development framework. As with the case of Sri Lanka, described below, a Medium-Term Expenditure Framework (MTEF) has been recently developed. This innovative planning instrument affects the budget procedures for the Ministry of Education and Sports, allowing this Ministry to have a better view of possible future educational expenditure pattern. Foreign grants and loans that contribute substantially to Nepal's education development budget are coordinated through the MTEF. The country's Action Plan for 'Basic Education for All' is another planning instrument which frames the education budget processes. However, problems of coordination and consistency between the two plans have been highlighted recently, in particular at the implementation phase – the result of lack of sufficient domestic resources, shortage of foreign funding due to the prevailing political environment, and poor human and institutional capacity at decentralized levels.

Sri Lanka's budget process takes place within the context of a Medium Term Expenditure Forecast (MTEF), in which the government's economic development goals and strategies are set. The country has designed an economic adjustment policy and is implementing reforms aimed at reducing inefficiency in the public and private sectors. Within this context, an MTEF has been designed and serves as a management tool to determine the outlines for preparation of the education sector's annual budget. Education is considered in this context not only as a major area for public spending, but also as a factor for improving competitiveness in production and the international market.

Table 1.1 shows the main issues in the three countries relating to common features and planning instruments:

Table 1.1 Budgetary frameworks and macroeconomic indicators

Main issues	Bangladesh	Nepal	Sri Lanka
General macroeconomic framework for the budget process	Regular five-year plan	Successive five-year plans	Medium Development Policy Framework in place
Planning instrument	Annual budget	Annual budget	Annual budget
GDP growth rate (%)	5.4 (2005)	2.5 (2005)	6.2 (2005)
Government debt as % of GDP	48.3 (2004) and foreign debt 29.5 (2004)	67 (2003)	45.5 (2002)
Fiscal deficit as % of GDP	4.5 (2005)	3.6 (2003)	8.7 (2005)

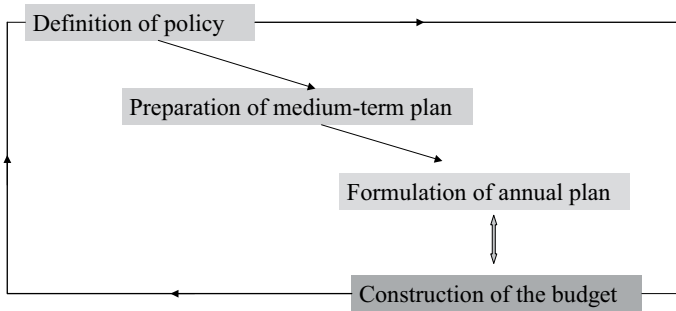
Source: Annual statistics book of the concerned countries. Various.

1.2 Budget preparation

Budget preparation is a lengthy and labour-intensive process as it implies data collection, processing and comparison. The process of preparing a budget is linked to its objectives and structure. In general, the following technical steps can be observed.

Preparation by the ministry of finance

The government budget is prepared according to the main options of the annual plan, taking into account obligations resulting from law and contracts. Normally, the options set out in the annual plan are voted by parliament, as they consolidate directives issued in conformity with the prepared long-term plan (which provides policy orientations). Hence, the government budget must be in compliance with these options, as it constitutes a translation of the annual plan into financial terms. Parliament is entitled to vote on the options of the plan and the government budget. *Figure 1.1* illustrates the relationship between political goals, plans and the budget.

Figure 1.1 Relationship between policy, plans and the budget

Given that a national budget proposal represents the government's annual plan, it makes sense that this proposal would be prepared by the government, and that the government should be entitled to present it to parliament. In general, the ministry of finance is responsible for a country's budget proposal.

Establishment of budgetary guidelines

The preparation of budgetary guidelines begins with a study and forecasting phase. This takes place in the ministry of finance at the start of the budget preparatory process. Taking into account macroeconomic and financial frameworks, and the short-term goals and major directives fixed by government, the ministry of finance establishes the main guidelines for the government's budget (the total amount of estimated revenue and expenses as well as fund allocation to sectors). Then the minister of finance issues directives concerning the form of budgetary documents and the content of expenditure proposals.

Expenditure assessment

Once they receive the directives from the ministry of finance, each sector begins its process for assessing budgetary expenditure. These budgets may be prepared using different budgeting techniques. The completed budget proposals are then sent by each sector back to the ministry of finance.

Budget meetings between the ministry of finance and line ministries

The budget proposals addressed to the ministry of finance are presented in different ways according to each country. Budget officers then carefully and critically examine each sector's request. This normally initiates a cycle of budgetary meetings organized at different administrative levels between representatives of the ministry of finance and all the economic and social sectors. These meetings serve to determine the budgetary ceilings set for the different line ministries.

Some budgeting techniques

1. Incremental or line-item budget

Unchanging budget structure, combined with predictable yearly expenditure evolution, can be expressed by the most practical method of budget presentation only when the amounts involved are increasing at a certain rate (depending on degrees of expansion and rates of inflation). This method of budgeting, where a certain amount is added to the previous figure on a particular line, item or head, or total expenditure is called an 'incremental' or 'line-item' budget.

Usually, when the government wishes to control expenditure increases subject to anticipated revenues, the ministry of finance sets budgetary ceilings for line ministries, including the ministry of education, at the beginning of the budget preparation process. These ceilings constitute specific indications aimed at limiting planned expenditure, with estimates grouped along the same heads, lines and items from year to year. Line ministries apply these ceilings and make them known to their various departments and services, according to their responsibilities. These fixed ceilings are based on past ceilings and new expenditure estimates. Budgetary ceilings are necessary to establish limits for expenditure growth, keeping it under control. They relate expenditure to expected receipts, in other words, to the current and forthcoming overall economic and financial situation.

2. Planning-Programming-Budgeting Systems (PPBS) and Zero-based budgeting (ZBB)

The abbreviation PPBS summarizes the constituent three phases of this procedure: Planning may also be termed strategy in the sense that

the aim at this stage is to define, using prospective studies, the set of long-term objectives for which various governmental departments will be responsible. Programming consists of defining the administrative steps to organize logistics to carry out the actions needed to attain the selected objectives. In this phase, resources – in terms of human resources, capital (investment) and research – are determined for the period covered. Programmes are then laid out through a work plan that is, at this stage, only indicative. Budgeting describes the phase where the annual parts of the programme are translated into an annual budget, taking financial constraints into account.

In brief, the PPBS method allows one to set certain major objectives, define programmes essential to these goals, identify resources for each type of objective, and systematically analyse the available alternatives.

Both PPBS and zero-based budgeting (ZBB) methods are based on the assumption that existing programmes should not be maintained in their present state. Each method treats the problem from the opposite angle. While PPBS aims to single out a particular goal from many others and to plan and to programme its implementation, the techniques of ZBB take the opposite hypothesis as their starting point: all programmes can be justified and are necessary except those which are not. The objective of ZBB is to distinguish those programmes with the least and lowest priority and replace them with new, more important activities. Placing new programmes on an equal footing with existing programmes means all proposals submitted for a new budget must compete with each other for priority. Money released by the discovery and elimination of certain obsolete programmes could mean either an overall decrease in funds for the sector or the more rapid expansion of higher priority programmes.

3. Results-oriented public management

Some countries have developed a new public management system based on results. Some of the OECD countries are studying this kind of system (see *Box 1*), which is oriented around three fundamental principles:

- clarity with regard to who has the authority to make what decisions;

- the matching of authority (flexibility) and accountability;
- capacity and willingness to reprioritize and reallocate resources.

Box 1. Results-oriented public management

The view that economic efficiency depends on the effectiveness of public programmes and policies has led to reappraisals of how public tasks are carried out and how performance and results are measured. The ultimate objective is, in some countries, to fashion the budget into a 'contract for performance' whereby in exchange for obtaining control of agreed resources, managers would commit themselves to specific outputs.

Five gradations of managing for results can be identified:

- Performance reporting is the systematic publication of data on results. Being systematic means that key measures are selected in advance and reports on these are issued on a regular basis. These reports sometimes concentrate on a specific policy area, such as school performance as measured by standard test scores; in this case they allow for comparisons among schools.
- Performance objectives specify expected results in advance. They are intended to modify behaviour, so it is necessary that they pertain to matters of high priority. Their publication adds weight to the objectives and conveys the sense that the government is committed to their attainment.
- Performance auditing subjects statements by governments or agencies concerning their performance to review by auditors. This is a new form of auditing and the precise role and scope of auditors in reviewing results is not well defined, however financial auditing could be used as a model.
- Performance contracts specify the output or results that an agency or a manager is committed to obtain with agreed resources. The signed contract is hammered out in negotiations between a spending agency and a central organ (such as the budget office) or between an agency and its managers. Performance contracts are a relatively new development.
- Performance budgeting is an implied contract that links resources provided to outputs promised. The linkage can range from a 'lockstep' relationship, in which a marginal unit of resources produces a marginal unit of output, to one in which the budget merely lists the expected results associated with the budgeted volume of resources.

Source: Budgeting for results: Perspectives on Public Expenditure Management; OECD, Paris 1995.

Organization of the education sector, budget types and structure in the three countries

Two ministries are responsible for education in Bangladesh: the Ministry of Secondary and Higher Education and the Ministry of Primary and Mass Education. In Nepal, the Ministry of Education

is responsible for all aspects of the country's education sector. Four bodies are responsible for education in Sri Lanka: the Ministry of Human Resource Development, Education and Cultural Affairs; the Ministry of Tertiary and Vocational Education; the Ministry of School Education; and the provincial councils, which form part of provincial governments. Each of these ministries and provincial councils has its own budget.

Bangladesh employs the traditional or incremental budget approach, and has recently introduced the programme budgeting approach for preparation of its development budget. The processes for the country's development and non-development budgets remain heavily centralized. At a national level, overall responsibility for the preparation of the development budget (necessary for the expansion of the sector) lies with the Planning Commission, while the National Economic Council makes the final decisions. The Ministry of Finance is responsible for the non-development budget. Bangladesh's budgeting processes are handled at high government levels and are strongly centralized. Lower administrative levels of the country's government play a very small role in budgeting activities.

In Bangladesh, the estimates for the non-development budget comprise estimates for ordinary obligated charges and estimates for new charges, where the former are based on the previous year's actual expenditure to which additions or cuts are made on each budget line. New charges must be justified before they can be approved. The country's development budgets are elaborated on the basis of projects that have been approved in the Annual Development Plan by the Planning Commission, and for which funding has been secured. No specific indicators are used to monitor the implementation of the budget, except indicators for the follow up of specific projects.

Nepal has only one ministry for education: the Ministry for Education and Sports. The country practices the incremental line item budgeting approach to estimate its non-development and development budgets. The Government of Nepal finances the non-development budget, while the development budget is financed, for the most part, by foreign development aid. A new budget structure was recently adopted that classifies expenditure into recurrent and capital expenditure. Both

the non-development and development budgets contain recurrent and capital expenditure. However, the non-development budget is mostly made up of recurrent expenditure, whereas the development budget mainly comprises capital expenditure. The non-development budget (where district budgets and the central budget are taken together) is submitted directly to the Ministry of Finance, while the development budget (where district budgets and the central budget are treated separately) must be approved by the National Planning Commission before it is sent to the Ministry of Finance.

Budgetary procedures in Sri Lanka are completely decentralized: budgets for provincial schools are prepared and implemented at provincial levels. The Provincial Education Director is the main coordinator for school education budgets. Ministry of Education headquarters handle only national school budgets and central administration budgets. The Ministry of Finance is responsible for coordination of the national budget. For over a decade, the country has used a modified Programme Budgeting System to forecast both recurrent and capital expenditure. Under this system, an expenditure head number is assigned for each Ministry. Programme objectives are described in a statement which classifies total expenditure related to all projects included in the programme. The summary of expenditure by programmes and projects provides actual estimates and projections of both recurrent and capital expenditure for all programmes within the ministry. Various follow-up indicators are elaborated to monitor the implementation of developing programmes and projects. However, programmes and projects are not systematically evaluated before the new budget is prepared.

Table 1.2 summarizes the main issues on budget structure and approaches in the three countries.

As in most countries in the world, the ministries of finance of each of the three countries are responsible for budget preparation. They send budget circulars to all line ministries at the beginning of the process, inviting them to prepare their budget estimates according to the forms provided and within the limits set by budgetary ceilings. However, differences exist in the way the actual budget is prepared in each country, as shown in the following paragraphs.

Table 1.2 Budget structures and approaches

Main issues	Bangladesh	Nepal	Sri Lanka
1. Budget structure and approaches	Two ministries are responsible for the education.	One ministry is responsible for the education sector.	Three ministries and the provincial governments are responsible for the education sector.
	Traditional incremental line item budgeting approach used, with the recent introduction of a programme budgeting approach for the development budget.	Incremental line item budgeting approach used for the non-development budget and programme budgeting approach used for the development budget.	The country uses the programme budgeting approach for all its budgets.
	Budgetary procedures remain highly centralized.	Budgetary processes are decentralized up to the village committee levels.	The procedure is decentralized up to the provincial level.

1. Procedures in Bangladesh

As mentioned earlier, in Bangladesh, the preparation of the non-development budget (ordinary obligated charges and new charges) follows a classical incremental budget approach. The non-development budget includes expenditure on salaries and allowances, supplies and services, repairs and maintenance, miscellaneous investments and food purchases. The estimates for this expenditure, made on the basis of the past year's real expenditure and current year estimates, take into account new modifications in the budget allocation. At the beginning of the budgeting process, the Ministry of Finance sends a budget circular to the ministries of education requesting their budget estimates according to the provided forms.

The Ministry of Secondary and Higher Education disseminates the budget forms among its concerned directorates, departments and offices. These must be completed and returned before the 31 October deadline. Forms are also sent to lower level offices and institutions for completion according to their requirements for salaries, allowances, utilities, and services concerning teaching and non-teaching staff. Once the forms are completed, they are sent back through official channels

to the Chief Financial Officer of the Ministry of Secondary and Higher Education, following verification, validation and consolidation at each administrative level. In practice, mid-level officers frequently fail to check the accuracy of the information received from institutions, leading to problems of reliability. All estimates are consolidated in order to finalize the Ministry's budget. The Ministry of Secondary and Higher Education's budget is then forwarded to the Ministry of Finance following approval by the ministerial budget committee. Follow-up negotiations take place between the two ministries, leading to the approval and inclusion of the education development budget in the national development budget.

The Chief Planning Officer of the Ministry of Secondary and Higher Education is responsible for the Ministry's development budget, which is based on the five-year plan, while responsibility for coordination lies with the National Planning Commission, part of the National Economic Council (NEC). As budgets constitute the annual increments of the plan, only projects that have been approved by the National Planning Commission and for which financing has been secured are included in the budget. Sources and amounts of projected financing, which remain tentative while the five-year plan is prepared, have to be specified and carefully analysed when the project is included in the Annual Development Programme (ADP). When discussions between the Ministry of Finance and the Ministry of Secondary and Higher Education come to a close, the Ministry of Secondary and Higher Education's approved budget proposal is included within the national budget, which is then presented to parliament.

Similar exercises are conducted at the Ministry of Primary and Mass Education, where the draft budget must show actual expenditure of the previous year, income and expenditure of the current fiscal year, as well as expected income and expenditure for the next fiscal year. The budget proposal is examined and discussed at a meeting of senior ministry officials and, following its approval, is sent to the Ministry of Finance for consideration. A series of discussions held between the Ministry of Finance and the Ministry of Primary and Mass Education follow, leading to the final version of the proposal, to be included in the national non-development budget. It is worth mentioning here that both ministries of education face problems due to a lack of coordination

between the development budget and the non-development budget – the two being prepared by different actors who do not meet on a regular basis.

Bangladesh's budget nomenclature seems to reflect more a concern for control of the government's administrative structure and the nature of expenditure, than a concern for the programmes' contents and outputs. This contrasts with the budget of Sri Lanka, analysed later in this section, where nomenclature based on programme budget, project, and nature of expenditure focuses more on the programme to be carried out than on the nature of expenditure. Programme budgeting makes it easy to link expenditure to the result/output. Finally, budget nomenclature in Nepal, discussed below, is a mixture of both incremental and programme budget structures.

2. Procedures in Nepal

In Nepal, budget circulars providing guidelines and ceilings are sent by the Ministry of Finance to each line ministry for the non-development budget, and by the National Planning Commission for the development budget. Within the Ministry of Education and Sports, the same circulars are sent to each of the 75 district development committees and to the central offices, departments and institutions, all of which prepare both non-development and development budget proposals.

For the district budget, comprised of estimates from 75 district development committees, the preparation process starts at the village level, where village development committees (VDCs) estimate their education budgets for the following programmes:

- Basic and primary education
- Women's education
- National scholarships
- Scholarships for the children of martyrs
- Non-formal education

The Ministry of Education and Sports provides standard unit costs (norms) prepared on a three-year basis upon which 60 per cent of the total estimates for the development budget component of the district budget must be based. However, the actual allocation of resources to districts, after the budget's approval, is based on differentiated unit costs, which

take regional differences into account. Furthermore, the receipt side of district budget estimates must show projected revenues from lower secondary and secondary school fees (primary education in Nepal is free). The estimates of every village development committee within each district are collected, collated and discussed at the district level before the district education budget proposal is approved at that level. Each approved district budget is then sent to the Ministry of Education and Sports, which consolidates all district level development budgets and sends them, along with the central education development budget to the National Planning Commission for examination and approval.

The procedure for preparing the consolidated Ministry's non-development education budget (which includes district and central budgets) is the same as for the development budget, with the exception that the non-development budget is sent directly to the Ministry of Finance without passing through the NPC.

Difficulties in preparing the education budget in Nepal often involve the Central Level Offices (CLOs) within the Ministry of Education and Sports. Budget estimates for the CLOs almost always exceed the ceilings set for them, which are generally inadequate. Their estimates are often very high, and must be revised by the Ministry four or five times before they are in line with the set ceilings. The University Grant Commission (UGC) and other autonomous bodies such as the Council for Technical Education and Vocational Training (CTEVT) and the Sports Council make direct requests to NPC and the Ministry of Finance for additional funds beyond their ceilings. This makes coordination with the Ministry of Education difficult to ensure, and complicates the Ministry's position when negotiating with NPC and the Ministry of Finance.

Other difficulties arise due to a lack of functional District Development Committees (DDC). In recent years, the armed conflicts in Nepal have caused a decrease in the number of districts with functioning DDCs, creating difficulties for the preparation of district budgets. In most cases, estimates from village development committees (VDC) are not properly checked. In many cases these committees do not follow budget preparation procedure, and the resulting district level budget estimates are not accurate. Additional difficulties arise with the

use of unit costs determined on the basis of data and statistics, which are not always reliable. These drawbacks combined with the lack of good telecommunications between districts and headquarters; render the budget processes in Nepal frequently undependable.

3. Procedures in Sri Lanka

In comparison to the cases of Nepal and Bangladesh, Sri Lanka's budgeting approach provides a better framework for making expenditure estimates and linking these to the set programme's results. The country's Programme Budgeting System regroups expenditure into two groups according to accounting principles, namely recurrent and capital budget. As mentioned earlier, two budgets are prepared separately for education: the provincial education budget mostly for schools education, and the Ministry of Education's budget which caters to the few government national schools and central-level directorates and institutes. The Higher Education Grant Commission prepares a different budget for higher education.

Within the framework of the Programme Budgeting system applied in Sri Lanka, education expenditure estimates are made on the basis of programme activity costs. The sub-programmes and projects within each programme spell out clearly the objectives and activities to be carried out during the coming fiscal year. The procedures for estimating expenditure may be described as follows: a special format is used for each institution or department, where an expenditure forecast is made for five years, called a Medium-Term Expenditure Forecast (MTEF). The MTEF shows for each institution the capital and recurrent, actual and forecasted expenditure. The same format is used for each programme within the institution. In addition, the draft budget must include a department summary of expenditure by category, which shows the categorized classification of total department expenditure (recurrent and capital). The format for the draft budget retraces expenditure for three consecutive years; actual expenditure of the previous year is inserted in the first column, and expenditure estimates for the current and next year are reported in the other two columns.

As in Bangladesh and Nepal, budget preparation in Sri Lanka starts with a budget circular sent to Ministries and Departments by the Treasury Department. Unlike Bangladesh and Nepal, the Treasury

Department in Sri Lanka determines the quantity of provision for each Ministry and Department in advance, separating capital and recurrent expenditure from projects funded by foreign aid, using Zero Base Budgeting (in place since 2002).

For national schools, subject directors (Director for National Schools, Director for Science and Technology, Director for Sports and Physical Education, etc.), reporting to the Secretary of Education, are responsible for budget preparation at the institutional level. In the case of provincial schools, subject directors report to both the Chief Secretary of the Province and the Secretary of Education. In zonal offices, subject directors may be responsible for more than one subject. When the circular is sent out, the Accounting Department of the Ministry of Education requests all subject directors to submit their budget proposals for inclusion in the following year's budget. Head office officials contact provincial education subject directors and provincial directors, who in turn contact the zonal directors, if necessary. Subject directors are also given deadlines for submission of their proposals.

At the provincial level, two budget proposals are prepared: one for national schools in the province and the other for provincial schools. This operation is coordinated by Ministry subject directors. Once subject directors have received all proposals from every province, they prepare a fresh statement proposal for provinces on a priority basis. This is handed to the Director of Planning with a copy to the Finance Division, together with a document justifying the proposals and a cost estimate for each one.

Salary forecasts are prepared according to each project, and take into account permanent vs. temporary staff. Each programme/project estimate must show a statement of establishment listing permanent and temporary staff separately. Any new establishment must be justified and all specifics must be provided. Other recurrent expenditure and capital expenditure are estimated by project, then by programme using the same system.

As in Nepal and Bangladesh, a budget committee within the Ministry of Education in Sri Lanka, appointed by the Secretary of Education, is responsible for the final ministerial decision on the education budget. When the budget proposals are received by the Accounts Department

of the Ministry, the unit consolidates the Ministry's recurrent budget (accounts unit for recurrent expenditure) and its capital budget (accounts unit for capital expenditure) in consultation with the Chief Accountant and the Director of Planning. Thereafter, the consolidated budget is submitted to the budget committee. The budget committee reviews the draft budget, paying attention to both the budget ceilings specified by the National Budget Department, and the designated priorities in the Ministry's proposals. The committee suggests amendments, tentatively finalizes the budget for the Ministry, and forwards it to the National Department of Budget.

Upon receiving the draft budget, the National Department of Budget calls for the Secretary of the Ministry of Education to discuss the draft budget for the coming financial year. The Education Secretary attends the meeting with members of the Ministry's budget committee, heads of Ministry institutions and subject directors. At this time, modifications may be made with the agreement of both parties. After a consensus has been reached, the education budget is included in the national budget. The Ministry of Finance then submits the consolidated national budget proposal to parliament for approval.

Generally speaking, Sri Lanka's annual education budget is based on the needs expressed in the annual action plan derived from the national and provincial Middle-Term Development Plans. The provincial annual action plan for development is prepared at various zonal levels for provincial schools and is treated as the basis for preparing the budget for each province. The planning division of the provincial department prepares annual budget estimates relating each project to qualitative and quantitative development; the planning division shares the task of project prioritization with the financial division of the same department. Thereafter, budget items will be subject to coordination at a provincial level and then submitted to the Finance Commission. Once the provincial budget has been approved, the Finance Commission reports upon the provisions allocated for education in provincial schools. The respective provincial council authorities then allocate funds accordingly to the various divisions.

The central Ministry of Education's budget is based upon the needs defined in the annual action plans prepared for the institutions and

national schools that fall under the responsibility of the central Ministry. The calculation of budget estimates takes national school requirements for the next five years into consideration. These requirements include building construction, maintenance and equipment for each school for the next five years, and are based on national norms concerning additional supply, the differences between such resources available for each school and future requirements. Object codes are prepared quantitatively for the year according to a phased programme based on their supply during a three-year period. Accordingly, budgeting will take into account expenditure for projects leading to quality improvement. Appropriate financial provisions will be determined based on the annual action plans of those institutions under the purview of the Ministry, including the various Ministry divisions and the National Institute of Education.

The prepared budget estimates are submitted to the Ministry's budget committee for further action and, once they are approved, the estimates are submitted to the National Budget Department and the National Policy Planning Department. This procedure is aimed at ensuring that budget estimates are prepared based on the annual action plan derived from the national and provincial Middle-Term Development Plans. The draft estimates normally include the activities to be implemented during the coming year. The final figure of provisions is reached according to the availability of funds indicated by Treasury officials. The main difficulty encountered throughout Sri Lanka's budgeting processes is the lack of personnel trained in planning and monitoring at the provincial and national levels. This lack of coordination is a major obstacle to achieving harmony across government actions.

The main issues concerning budget preparation in the three countries are summarized in *Table 1.3*.

Table 1.3 Budget preparation

Main issues	Bangladesh	Nepal	Sri Lanka
2. Preparation of the budget	<p>Once launched, the budget preparation process moves from higher to lower administrative levels.</p> <p>Estimates of expenditure for non-development budget are prepared on the basis of previous year real expenditure, to which a percentage increase is added. This is the case for each administrative unit level, and follows a specific format.</p> <p>Verification and validation of information is performed at each administrative level.</p> <p>Lower levels of administration play a very small role.</p> <p>All budget estimates are consolidated and centralized, becoming the ministry's budget proposal.</p>	<p>After the launching of the process by the Ministry of Finance, the preparatory work starts at the village development committee level.</p> <p>Most difficulties live with the inadequate ceilings set for the Central Level Offices (CLOs).</p> <p>Budget estimates for village and district budgets are based on specific norms. Since few effective District Development Committees function, many Village Development Committee budgets are not properly checked.</p> <p>The Ministry of Education and Sports' budget estimates are finalized by its Budget Department.</p>	<p>The central ministry budgets and the provincial budgets are prepared separately. The budget estimates are made for each programme and sub-programme using a standard format.</p> <p>Recurrent budget and capital budget estimates are prepared simultaneously but at different levels: provincial and national.</p> <p>Budget estimates are based on programme activity costs.</p> <p>Each institution and department uses a special format for estimates of recurrent and capital expenditure for its programmes.</p> <p>Departmental and institutional expenditure estimate forecasts are made for three consecutive years.</p> <p>The Treasury Department is responsible for overall budget coordination.</p>

1.3 Budget approval

The concept of the budget given here corresponds to the conventional view of the budget as a legal instrument. The budget is seen in terms of the procedures and rules in accordance with which it is prepared and implemented. Underlying these procedures and rules are the decision-making process, the distribution of responsibilities among government departments, and the general political atmosphere and the role of parliament. Who has the authority to decide levels of taxation and to establish the government's lines of action? Most basic budgetary principles are designed to ensure the control of the legislative power over the administration.

But the budget can also be regarded from two other angles: economic and functional. Modern states are powerful economic agents. In exercising its overall responsibility, the government uses its financial powers and its power of law enforcement to establish the general lines of the country's economy. The government budget is thus a powerful instrument of macro-economic policy enabling the economy to be influenced, given direction, and regulated through the system of taxation and exoneration, the management of budget deficits, and patterns of expenditure. In addition, the budget can be regarded from the angle of distribution of resources among different government departments to enable them to attain their fixed objectives. From this functional perspective, the budget raises the question of the objectives to be attained and the resources necessary to attain them, and may be seen as an exercise in making optimum use of limited resources.

With these three dimensions implicit in the budget, it follows that parliament must vote the budget before the end of the preparation phase according to the budget calendar, which ends with the budget's approval.

Government budget estimates must be approved by the Cabinet in Bangladesh, by the National Planning Commission and the Council of Ministers in Nepal, and by the Treasury officials in Sri Lanka. Following approval, the Finance Minister introduces the budget before Parliament. Indeed, it is prohibited by the Constitution in all three countries to withdraw money from public funds without prior approval of this chief government body. Parliament votes on the budget after

discussion within its finance committee. In Bangladesh and Nepal, the government budget is voted on in June; in Sri Lanka, the vote takes place in December. Finally, the President of the Republic must approve the bills (the Appropriation Bill, the Financial Loan and National Loan Bills whichever appropriate).

Vote on account

In the event that the budget is not approved on time for the beginning of the new fiscal year, the Constitution in the three countries allows Parliament to vote on accounts, allowing the government to use public funds in order to meet certain expenditure mentioned in the financial statement for the year to come. In Bangladesh, the equivalent of two months' worth of expenditure from the previous year is thus sanctioned, and can be extended to 120 days in instances where Parliament fails to vote on the budget, yet the President has approved it. In Nepal, vote on account is included in the Appropriation Bill and shall not exceed one-third of the estimates of expenditure for the financial year. In Sri Lanka, Parliament gives consent for a temporary budget for a maximum period of three months. The vote on account constitutes a portion of the budget drafted for the next financial year.

Supplementary bill

This bill is laid before parliament for approval when, for any financial year, the amount authorized for a particular item for the current financial year is insufficient, when a need arises for expenditure on a new item not included in the annual financial statement for that year, or in the cases where overspending for an item has occurred during the financial year. The case studies show that this practice is seen more often in Bangladesh than in the other two countries. Frequent use of supplementary bills is an indicator of inaccurate estimation of expenditure for the fiscal year.

The main issues concerning budget approval in the three countries are summarized in *Table 1.4*.

Table 1.4 Budget approval

Main issues	Bangladesh	Nepal	Sri Lanka
3. Budget approval	<p>Cabinet approval is required before the Appropriation Bill is put before Parliament, where it gets final approval by majority vote.</p> <p>The education budget is incorporated into the national budget prior to Cabinet approval.</p> <p>The Ministries of Education hold a series of discussions with the Ministry of Finance before the education budget is included in the national budget.</p> <p>The President of the Republic must approve the bills.</p> <p>Vote on account required if Parliament does not approve the budget on time (for up to two months).</p> <p>Supplementary bills must be approved by Parliament.</p>	<p>The National Planning Commission and the Councils of Ministers must approve budget estimates before the bill is put before Parliament.</p> <p>Majority vote is required for the budget to be approved.</p> <p>The seal of the President must be put on the bills passed by the Parliament.</p> <p>Vote on account required if Parliament does not approve the budget on time (for up to one-third of previous year's budget).</p> <p>Supplementary bills must be approved by Parliament.</p>	<p>Treasury officials approve budget estimates before the bill is put before Parliament.</p> <p>To be approved, estimates must reflect the annual action plan derived from provincial and national Middle-Term Development Plans.</p> <p>The education budget is an integral part of the national budget.</p> <p>The President of the Republic must approve the bills.</p> <p>Vote on account required if parliament does not approve the budget on time (for up to three months).</p> <p>Supplementary bills must be approved by Parliament.</p>

1.4 Implementation and control of the budget

Once the budget has been voted by Parliament, its implementation can begin. However, before departments can start spending the funds allocated to them, the Ministry of Finance has to specify some rules concerning implementation procedures. Budgetary allocations must

be set up taking into account three orders of criteria: (i) the chapter or programme (depending on the budgetary nomenclature adopted); (ii) space; and (iii) time.

Setting up allocations by chapter or programme consists of the distribution of funds to their respective article, paragraph, budgetary line or programme, sub-programme, project or activity (depending on the nomenclature used). The allocation of funds in space refers to the model of budgetary centralization or decentralization adopted by each country. Credits, which in general are valid for one year, can be used at any time during the year. Timely distribution of annual allocations is synonymous with good administrative management. In general, ministries of finance regulate the flow of expenditure throughout the fiscal year, through procedures controlling the release of budgetary funds. Ministry departments cannot immediately get their hands on the funds allotted to them on the very first day of the budgetary year, even if the budget has been voted by Parliament.

The expenditure timetable answers to the management needs of the state treasury; fiscal entries are also scaled in time according to different charge and tax due dates. The expenditure timetable also helps the Ministry of Finance prevent departments from using the total amount of their budgetary allocation at the beginning of the year. In addition, budgets are set up to take into account the different standards and procedures that apply to the three main kinds of expenditure: personal expenditure, financing the purchase of goods and services, and investment expenditure.

The budget is a law prepared by the government and voted by Parliament. It can be modified by the vote of a Law of Finance. The Ministry of Finance can also regulate expenditure in the course of budget execution. If budget implementation must be in conformity with the Law of Finance voted by Parliament, modifications are likely to take place in the course of the year. These will be incorporated into the Laws of Finance, which serve as amendments to the approved budget. These laws can integrate additional credits assigned to new needs, or correct receipt evaluations allowing for the creation of new resources. They are prepared and voted in the same way as the Law of Finance, which is approved annually by Parliament.

Budget implementation must proceed according to a system set up by each government (usually by the ministry of finance) and approved by Parliament. To this end, controls are necessary. But in almost all countries, control of implementation of the government budget causes tensions between Parliament and the government, as well as among the different administrations inside government. Independent of these details, the system of budget control implies the existence of three key elements: (i) a standard – a model to which the control operations can refer; (ii) institutions responsible for comparing and evaluating the difference between the operation and the standard; (iii) a mechanism – to suppress or moderate the standard, once the difference between the operation and the standard is established.

Standards for state operations include the dispositions explicit in the budgetary document as well as regulations orienting budget implementation. The budget contains a series of rules designed to make sure the agents in charge of its implementation do not misappropriate public funds for their own profit. In addition, these rules explain how to recruit civil servants, conduct affairs, and the conditions under which the public and private companies can benefit from state subsidies. The institutions which compare the operation and the standard can be numerous and diverse. Usually, the trend is to multiply controls at all levels and all phases of budget implementation. Techniques and procedures of comparison are identical almost everywhere, although they can vary from a priori controls, conducted before the beginning of the operation, to a posteriori controls, which take place once the operation is finished; to management controls, on-site controls, administrative or accounting controls, and so on. The effectiveness of these techniques and procedures depends largely on the capacities of the agents carrying them out. Financial regulations make a distinction between those authorized to incur expenditure (procurement), those who effect payment (accounts), and those responsible for ensuring that procedure is followed correctly (comptrollers). It is essential that the above-mentioned agents undergo continual training. However, deeper obstacles underlie the technical difficulties involved in controlling budget implementation. Employees of organizations subject to control try, generally, to withdraw from situations where they frequently find themselves at a hierarchical disadvantage, unable to experience such

control merely as an instrument of collective discipline. The real question could be for whom the controller or the controlling organization work.

Budget implementation and control in the three countries

Once the budget has been approved, budget implementation begins. The ministry of finance initiates and coordinates the implementation process in the three countries. However, the procedures involved vary among the countries, as shown below:

Bangladesh

In Bangladesh, the budget put before Parliament contains only aggregated figures, whereas in Nepal and Sri Lanka the proposed budget is presented to Parliament with detailed estimates for institutions, organizations and activities. It is up to each Bangladeshi ministry to make the detailed final allotment to directorates or departments, regions and provinces after the budget's approval. This allows adjustments to be made while the budget is implemented, but presents the risk of misallocating public resources without Parliament's approval.

1. Non-development budget

Following Parliament's vote, the Minister of Finance of Bangladesh sends the approved budget book to the Ministry of Education for allotment of funds to subordinate directorates or departments. After receiving their allotment orders, the concerned directorates or departments issue separate allotment orders to regional districts, offices and educational institutions authorizing them to spend as per budgetary allocation on line items. The allotment for the Ministry of Education is made annually. However, six months after budget implementation starts, revised budget estimates are prepared on the basis of the previous three months' expenditure.

Special financial rules and regulations established by the government determine what actual expenditure Ministry offices and agencies incur. Each head of division, department and agency is responsible for both his office and for subordinate offices' expenditure. A controlling officer must not only make sure that the total amount of expenditure is kept within the limit of the approved appropriation, but must also ensure that funds allotted to spending units are spent in the

public's interest and on the object for which the money was provided. There are different procedures for expenditure on salary bills, on special funds for scientific equipment and on other recurrent expenditure.

Accounts offices examine bills and vouchers to determine whether they are in accordance with government rules and regulations, whether they fall within the Ministry or Division's administrative authority, and whether budget provisions exist. The accountants must strictly observe the following rules:

- No expenditure can be incurred for the item for which no budgetary allocation exists.
 - Funds allocated must be spent for the purpose for which they are allocated.
 - Funds allocated must be spent in accordance with financial rules and regulations.
 - Expenditure must not exceed the sanctioned budget allocation made for the respective items/sub-heads.
 - No expenditure can be incurred in anticipation of supplementary grants without prior approval of the Ministry of Finance.
2. Special rules for personnel emolument

Concerning personnel emolument in Bangladesh, a national pay scale for government and non-government teaching and non-teaching staff is used. Salaries and other allowances are paid according to the appropriate corresponding pay scale. Once Parliament has approved the budget, each directorate or department makes allotments for the total amount of salaries and allowances in the educational institutions for which they are responsible. Teaching and non-teaching staff are paid on a monthly basis. In addition, teaching and non-teaching staff in government institutions receive two fixed bonuses per year. The 'gazetted' officers are self-drawing and disbursing officers (DDO), while the heads of institutions draw and disburse the salaries for the 'non-gazetted' teaching and non-teaching staff.³

Government institutions recruit new teachers and other personnel based on the staffing patterns at each level of the education sector, which

3. Two categories of teachers exist in government schools: 'gazetted' and 'non-gazetted' teachers. The posts of Headmaster and Assistant Headmaster are 'gazetted' and the rest of the posts for teaching and non-teaching staff are 'non-gazetted'.

also serve as the basis for budget preparation, following the approval of the Ministry of Establishment and that of the Ministry of Finance. Student-teacher ratios are used only for the purpose of opening new sections and recruiting language teachers, not for estimating salaries.

Salaries are disbursed via bank cheque to all employees at all levels of educational institutions. Each head of institution submits salary bills to the accounts office of their respective district or subdistrict (upazilla). Accounts officers make sure that the salary bills match their records, then issue cheques in favour of the institution. The cheques are sent to the appropriate banks for cashing purposes.

3. Funds for scientific equipment

Special funds are set aside in the educational budget for the purchase of scientific equipment. Allotments are made individually to each educational institute for purchasing equipment. In addition, a lump grant is earmarked and distributed for the purchase of scientific equipment.

4. Other recurrent expenditure

For the purchase of goods and services in the education sector in Bangladesh, the procedure is as follows:

- The District Directorate Office (DDO) initiates spot quotation/tender.
- The supplier participates in the quotation, tender, etc.
- The tender is normally accepted on the basis of the lowest bidder.
- The Authority approves the work order.
- The supplier supplies goods/materials.
- Bills are submitted to the office of the concerned central Directorate.
- Bills are approved and forwarded to the Chief Accounts Office, which issues payment in the form of a cheque.
- The cheque is issued and handed over to the supplier.

5. Project expenditure

Project Directors are responsible for the implementation of project activities, following project implementation guidelines prepared by

the Ministry of Finance and the Implementation, Monitoring and Evaluation Division of the Planning Commission. For personnel matters related to projects, a recruitment committee headed by the project director recommends project personnel, to be approved by the Ministry of Finance before recruitment begins. Funds for development projects are released on a quarterly basis by the Ministry of Education. All financial transactions must follow specific legal procedures and rules set by donors.

6. Monitoring

A number of organizations and agencies participate in monitoring budget implementation. The financial management units (FMU) within each of the two ministries of education are responsible for the non-development budget. These units collect data on budget execution and prepare monthly reports on implementation to the Principal Accounts Officer (the Secretary of Education is also the Principal Account Officer) with copy to the Ministry of Finance and all other concerned authorities.

For the projects included in the development budget, an internal and an external monitoring mechanism are in place. Internal monitoring is conducted by the head of the agency carrying out the project for the given Ministry of Education, while the Monitoring and Evaluation Division of the Ministry of Finance is responsible for external monitoring. External monitoring is based on monthly, quarterly, annual and special reports provided by the Ministry in charge of the project's implementation. Various projects are underway in Bangladesh's education sector with a multitude of executing agencies, making it difficult to monitor and evaluate each project thoroughly.

Nepal

In Nepal, the budget is more detailed; specifics are provided by spending agencies and units and, following its approval, all central agencies are requested to prepare their quarterly implementation plans. These plans take into account any changes to be made to the initial budget proposal that was approved by the Ministry of Education. The National Planning Commission then puts its seal on the plans before budget implementation begins. After the enactment of the Appropriation Act (official approval of the budget), the Ministry of Finance sends the

so-called budget authority letter along with a resource table to each concerned ministry at the beginning of the fiscal year. The budget authority letter is also sent to the Office of the Financial Comptroller General, the concerned District Treasury and Controller's office, and to constitutional organs and bodies of each concerned ministry. Thus, the administrative procedures for spending on both regular and development budgets are activated. The following rules and regulations guide the actual implementation of the budget.

1. Administrative rules and regulations

Financial and administrative rules authorize the Ministry of Finance to adjust the budget during the course of the year in relation with budget receipts, including:

- freezing the budget if project construction work does not start by the end of the eighth month
- amending financial regulations and delegation of authority to ensure the smooth implementation of programmes, and
- approving the quarterly programme and amending the annual programme within the Ministry.

2. Role of the Ministry of Education and Sports

Once the Ministry of Education and Sports receives the budget authority letter from the Ministry of Finance and obtains the details concerning the education budget, it forwards the authorization letter and resource book to Ministry departments and central offices for budget implementation. The Ministry of Education and Sports also approves the development programme along with its quarterly allocations, based on the annual programme and budget. Funds are spent following the Appropriation Act and financial administration regulations. To ensure a proper mid-year budget review, each agency is required to prepare a work plan and to submit a bi-monthly progress report to the Ministry of Finance. This allows the Ministry of Finance to incorporate all foreign aid funding into the budget and monitor its implementation.

3. The Office of the Financial Comptroller General (FCGO)

In liaison with the Ministry of Finance, this office is responsible for issuing general instructions for budget release, including specific quarterly budget release orders. It also provides assistance, gives

advice and settles administrative disputes while ensuring that financial rules and regulations prevail. Most government spending takes place through bank transactions, and here FCGO plays an important role: it chooses the banks that carry out government transactions, prepares and enforces a manual for government transactions, and arranges for banks to transfer funds to different government offices.

4. Monitoring and control

Most of the organizations involved in budget planning and implementation are also involved in different stages of budget monitoring and controlling. The Ministry of Education and Sports, the Ministry of Finance, FCGO, the District Treasury and Controller's office play essential roles. The Permanent Progress Report Evaluation Committee, composed of senior officers from the Ministry of Education and Sports, the National Planning Commission (NPC) and the Ministry of Finance, evaluates education programme and project progress reports twice a year, making any necessary adjustments.

The monitoring and evaluation section within the Ministry of Education and Sports is responsible for: (i) providing support to overcome difficulties and problems in the course of programme implementation, (ii) organizing meetings addressing progress and problems concerning all Ministry projects and programmes on a quarterly basis, (iii) preparing, with the organizations in charge of each programme and project, monitoring indicators for all programmes and projects, to be used by all stakeholders; and (iv) preparing and submitting regular monitoring reports in standardized formats provided by NPC (monthly, quarterly, biannual, annual and project status report formats) to both NPC and the Ministry of Finance.

The National Planning Commission plays an important role in monitoring and evaluating the implementation of Nepal's development budget. More precisely, it develops indicators and monitoring formats with the collaboration of all concerned stakeholders, and organizes meetings, under the chairmanship of an NPC member, to address programme and project progress and discuss problems. The NPC collects and prepares progress reports on priority projects on a monthly basis, thus monitoring and evaluating whether programmes and projects are being implemented well.

The National Development Action Committee (NDAC) and National Development Problems Resolution Committee (NDPRC) meet twice a year, under the Prime Minister's chairmanship. The main objective of these meetings is to evaluate programmes and projects and to address any problems that may be hampering their progress. Ministers and secretaries of all ministries as well as the chief of FCGO and AGO attend these meetings. All problems left unresolved within a ministry are referred to NPC and discussed there. As all ministers and secretaries attend this meeting, inter-ministry problems linked with other urgent issues are discussed and solutions are sought. The agendas of these meetings include: progress briefings, development problems, coordination, foreign assistance, peace and security, monitoring and supervision, and cross-cutting issues.

Several organizations are involved in budget control. These are: the Commission for the Investigation of Abuse of Authority (CIAA), Parliament and the Parliamentary Committees, FCGO, and the District Treasury and Controller's Office. They act at different stages in order to ensure proper implementation of budget processes and to guarantee their efficiency. Some of these organizations investigate, evaluate and advise, while others control and take action when wrongdoings are discovered. The monitoring and control system in place is complex and leaves no room for misconduct among civil servants managing public funds.

However, the authors of the case study on Nepal indicate that no strict action is in place for those officials who do not follow the existing financial rules and regulations fully. Even though the government is trying to reinforce the monitoring mechanism, substantial improvement has yet to be seen. To this end, the resources allocated to monitoring and controls are insufficient.

A newly introduced system of classification whereby expenditure is classified as either recurrent, capital or payment of principal, whether it belongs to the development or non-development budget, has created a lot of frustration among accountants who have seen their workload double without the hiring of additional staff. The shortage of sufficient qualified personnel and the maintaining of the government's former accounting system prevent the release of timely statements and

information as required by various stakeholders. For example, the system is unable to meet the information needs of parliament's Public Accounts Committee in the context of the parliamentary system of government. The line item classification approach under the current system does not correspond to foreign donors' categories of receipts and expenditure as mentioned in loan agreements. Because the current classification system is not always based upon activities, their monitoring becomes difficult to carry out.

5. Budget gaps and their causes

The gaps between estimated and actual implemented budgets, pointed out by the case study authors, are mainly caused by underspending and are the result of the following principal project-related causes:

- lack of adequate resources when donor funds do not materialize, for example, when unconfirmed resources have been allocated to a programme and do not arrive;
- delays in preliminary project management and difficulties in preparing procurement plans for projects in their first year of implementation;
- difficulties in recruiting specialist project staff in time for the start of the projects;
- security problems in many provinces, which cause major delays in project implementation, leading to underspending;
- red tape and confusion about who is authorized to approve quarterly plans and programmes;
- ineffective DDCs – since the fiscal year 2002/2003, District Development Committees (DDCs) have been responsible for implementing the non-development budget for primary and women's education; ineffective DDCs, due to Nepal's violent social turmoil, have slowed down project implementation and prevented objectives from being met;
- slow approval of the annual plan by the NPC, which creates delays in the implementation of the development budget;
- inefficiency on the part of banks in charge of government transactions: disbursement of funds and account reconciliation are often delayed; sometimes, expenditure warrants do not reach the officers in charge in due time.

Sri Lanka

Once the government budget has been presented to Parliament, and the Appropriation Bill passed, the legal requirement which allows the Treasury to start budget implementation is met. This commences with the signing of the General Warrant by the Minister of Finance after approval of the national budget by the President of the Republic.

Once the General Warrant has been signed by the Minister of Finance, line ministries are requested to prepare their annual cash requirements for submission to the General Treasury's State Account Department in order to obtain cash imprest (as in Nepal). The Treasury facilitates the process in three ways:

- a bank facility system for recurrent expenditure (the Treasury sets a limit to how much spending banks may honour);
- direct cash release to the ministry bank account in the state bank for capital expenditure and payment of loans to public servants in the ministry;
- direct cash release to bank accounts opened separately for each foreign aid project.

Officers charged with making actual expenditure on public funds implement the Ministry of Education's yearly action plan, following prescribed financial rules. Ledgers are opened for the new financial year, and then imprest is released and allocated to colleges of education, provincial education departments and on to zonal education offices. These offices and departments are responsible for implementing the budget allocated to them, and must provide monthly summaries of expenditure and receipts after making payment for services, procurement and civil works to the Ministry of Education's Accounts Department. The Ministry consolidates the monthly summaries of expenditure into a single summary and sends it to the State Account Department. At the end of the fiscal year, the Ministry of Education prepares the Annual Appropriation Account and submits it to the Treasury through the Auditor General.

The control mechanism involves a number of actors and organizations at different stages, including the progress control meeting – a monthly meeting in which a technical subcommittee of the Ministry of Education, composed of directors, engineers and accountants from

provincial bodies and the relevant officials from the Head Office, discusses various aspects of the ongoing budget implementation processes. Representatives from the National Budget Department also take part in this meeting. Its main purpose is often to review performance in the provinces. Granted allocations, actual expenditure incurred, possible savings and the possibility of over-expenditure are some of the other subjects examined during this meeting. If savings of provision are available in one province and requested by another, the Ministry of Education's Account Department of the Ministry takes action to transfer funds to the province that needs them.

The provincial education departments send their monthly expenditure summary to the Ministry of Education's Accounts Department. Details of expenditure are recorded from this monthly summary statement against the allocation granted to the province, allowing the Accounts Department to identify, at any time, any unusual or suspicious goings-on. Further control is obtained through the enforcement of the financial rules detailed below, comprising a number of methods and techniques adopted in handling public funds to ensure their safe custody and accountability.

1. Financial regulations

The Minister of Finance issues the financial regulations listed below. The regulations apply to every public servant who handles public funds and government assets.

- Establishment Rules and Regulations: these rules and regulations mainly deal with personnel Administration of the Public service;
- circular instructions issued by the Treasury and the Ministry of Public Administration;
- circulars issued by the Ministry of Education, manual prepared on Colleges of Education;
- internal audit;
- external audit (Auditor General): constitutently appointed independent person who reports to Parliament on ministry matters he/she finds unsatisfactory;
- Parliament's Public Accounts Committee: this high-level parliamentary committee is constitutionally established to review matters arising from the Auditor General's reports.

The main problems identified in budget procedures in Sri Lanka are related to lack of trained personnel. Indeed, at the regional and zonal levels, there is a shortage of staff capable to properly carrying out budget preparation, implementation and control.

The main issues arising from budget implementation and control in the three countries are summarized in *Tables 1.5* and *1.6*.

Table 1.5 Budget implementation

Main issues	Bangladesh	Nepal	Sri Lanka
4. Budget implementation	Detailed estimates per institutions/agencies are not included in the budget approved by Parliament. Only aggregate estimates are approved. Each ministry makes final budget allocations once the bill has been approved.	Detailed budget is approved. No other reallocation made after budget approval.	Detailed budget is approved. No other reallocation made after budget approval.
5. Submission of the annual implementation plan to MOF	Aggregates are approved. Each ministry makes final budget allocations once the bill has been approved.	After budget is approved, implementation agencies are required to submit quarterly cash requirement plans to MOF.	Once Parliament passes the bill and the General Warrant is signed by the MOF, line ministries are required to prepare and submit their annual cash requirements to the State Account Department of the General Treasury.
6. The budget authority letter	Allotment order issued by the Ministry to regional offices, districts, institutions and agencies indicate respective ceilings.	The budget authority letter is sent from MOF to the office of the Comptroller General and to the District Treasury and Controller officer to activate the administrative procedure for cash release to implementation agencies.	Cash imprest is then obtained and budget implementation can start, following the financial rules. Open tenders are called for procurement of goods and services.
	Implementation agencies release funds for development projects on a quarterly basis. Other funds are released monthly following the cash requirement plan.	The Office of the Financial Comptroller General plays an important role in the implementation processes.	

Table 1.6 Budget control

Main issues	Bangladesh	Nepal	Sri Lanka
7. Budget control and gaps between approved and implemented budget	<p>Heads of institutions submit monthly salary bills to District/subdistrict (Upzilla) accounts officers who in turn issue cheques in favour of the institutions.</p> <p>Funds for purchase of scientific equipment are released once a year.</p> <p>Open tendering procedures are used for procurement purposes.</p> <p>Several organizations are involved in monitoring, controlling, and auditing budget implementation.</p> <p>The financial management unit prepares monthly reports.</p> <p>The Monitoring and Evaluation Division of Ministry of Finance is responsible for external monitoring.</p> <p>The office of the Comptroller ensures transparency and accountability in the use of public funds.</p>	<p>Various agencies conduct administrative monitoring and control. These activities need improvement.</p> <p>Gaps result because of:</p> <ul style="list-style-type: none"> – lack of resources when donors funds do not materialize, mostly for projects. – delays in issuing the budget authorization letter. – difficulties in preparing the procurement plan for projects. – difficulties in recruiting specialist project staff on time. – security problems in many districts. – bureaucratic delays and confusion in sharing responsibilities. – banks in charge of government transactions are inefficient. 	<p>The control mechanism involves several actors and organizations.</p> <p>Budget gaps result mainly from delays in the release of donor funds for projects.</p> <p>Unsafe conditions in some provinces make it difficult to fully implement programmes and projects included in the budget.</p> <p>There are usually no gaps in the implementation of non-development budgets. Gaps exist in the execution of development budgets.</p> <p>Annual report on budget execution is prepared at the end of the year and serves as a base for approving next year's budget.</p> <p>The budget control mechanism includes:</p> <ul style="list-style-type: none"> – Programme control meetings (a monthly meeting with the technical sub-committee of the Ministry of Education). – Review of physical performance in provinces. – Internal and external audits. – Review by Parliament's Public Accounts Committee.

1.5 Conclusions and perspectives

Different approaches to budgeting, resource allocation and financial management depend on the importance given to the three key functions of the budget process: control of public resources, planning for the future allocation of public resources, and management of public resources. Nevertheless, budgetary decisions are mostly dictated by the constraints of the macro-economic context, accepted by the government. The measures accompanying these macro-economic constraints sometimes have significant consequences where budgetary decision-making is concerned. These may include setting a ceiling on the number of civil servants employed, freezing civil service recruitment, limiting the civil service wage-bill, and fixing expenditure either in absolute terms or in relation to the overall budget.

Budgetary decision-making takes place essentially in two phases: during preparation of the budget and during implementation. Furthermore, the situation is complicated by the separate decision-making processes for non-development and development budgets, which involve various administrative levels and different actors.

Budget preparation is the first decision phase, where provisional indications of budget allocations are made in negotiation with the Ministry of Finance. During this phase, directives given to the services responsible for assessing expenditure are essential, as they affect the translation of educational objectives into expenditure according to budgetary nomenclature. The better a budget is prepared technically, the easier it is to defend or readjust in the event of cuts. For example, indicators such as number of pupils per teacher, number of pupils per class, or number of teachers per class, are crucial when evaluating non-development budget expenditure. This stage ends when Parliament adopts the budget.

Budget implementation is decisive for the annual implementation of educational policy once the ministry of finance has authorized expenditure. It determines how the funds are spent. However, this phase is mainly monitored by the ministry of finance which coordinates and decides at the central and/or regional level. Although ministries of education devote much of their time to preparing policy documents and the budget, their involvement in monitoring the implementation

of these policy documents and annual budgets is marginal. In addition, decentralization (for example, in Sri Lanka and Nepal – for the development budget in the latter) and different ministries for education (in the cases of Bangladesh and Sri Lanka) have introduced other actors into the budget decision-making processes at the central and regional levels. This can cloud the overall vision of education, and hamper the meeting of priorities set in the budget.

Processes, actors and budget decision-making

Budgetary processes depend on the way in which the budget is structured in a country. The budget structure in Bangladesh is more centralized than the two other countries in the study. However, Bangladesh's public financial management is in the process of transition from its old form, based on an incremental approach with a strong bureaucracy, to a modern form that includes concepts of accountability, value for money, transparency, and so on. We know that, at present, a medium-term expenditure framework is being implemented and applied in some sectors, namely in the education sector.

In the case of Nepal, only the development budget has been decentralized both in terms of its preparation and its implementation. This has the advantage of involving actors whose roles are essential for the successful implementation of education budgets more closely in budget preparation. The process also provides an opportunity for donor agencies to directly monitor the implementation of projects financed by the grants they provide, and access the impacts of such development projects. However, effective execution at the district level is flawed, with many difficulties due to the state of internal conflicts prevailing in the majority of the country's regions.

Budgetary procedures in Sri Lanka are fully decentralized with each region preparing its own development and non-development budget. However, in spite of the advantages of the programme budgeting system in place in this country, which allow direct linkage between expenditure and programme results, the diversity of parties involved in the budgetary processes makes it difficult to obtain a clear and global vision of the amount being spent on education. Furthermore, the lack of capacity in the regions and districts in Sri Lanka, as in the District

Development Committee (DDC) in Nepal, is yet another constraint on proper budget implementation and monitoring. The development of poverty reduction strategies in Sri Lanka has allowed the government to directly link education development goals for the country with the level of inputs necessary for achieving the yearly set goals. The estimates for these inputs, the annual budgets for the education sector, are also in line with the projected medium public expenditure forecasts that take into account the needs, requirements and foreseen government revenue from both internal and external sources. However, the introduction of these new management tools creates new challenges for the country, in terms of capacity to move smoothly from traditional approaches to budget management to the new approaches.

Each of the three countries has in place a complex mechanism for monitoring and controlling systems for public expenditure. Nevertheless, budget implementation remains difficult and transparency and accountability is not always guaranteed. Finally, it must be stressed that the upward trend in economic growth in the three countries during recent years, and the efforts being made by each government to improve public finance management policy, are signs that resources for the education sectors will continue to grow and greater efficiency will be seen in the use of these resources in the decade ahead.

Some perspectives

It appears crucial that budget preparation be preceded by a systematic technical analysis of the education system and the prospective development of demand and supply at both regional and local levels. This would allow for the systematic updating of indicators when assessing budgetary expenditure. It would also provide a clear and systematic overview of regional distribution of expenditure by level, function and object of expenditure. In short, micro-planning, budget preparation and execution should go hand-in-hand.

To prepare and implement education budgets effectively, particularly in countries as heavily dependent on foreign aid as the three featured here, implies participating in a complex process regulated by a wide range of public finance standards and donor norms. It is important therefore that staff in the education sector fully comprehend this

process and keep up to date through concerted consensus with all actors involved. Only a good knowledge of budget preparation and execution techniques can ensure equal dialogue between the education sector, the ministry of finance and donors. Within the current framework of budget reforms in these countries, it is through appropriate, systematic and sustainable training that national and regional planners and managers will be able to translate education plans into budgets and effectively implement their policies for educational development.

However, reforms need to offer solutions to specific problems. In this sense it is important to list the questions and respective answers to be addressed in future reforms. Furthermore, it is important to need to acknowledge that key functions of the budgetary process involve many sub-functions: policy-making, conflict resolution, communicating, accounting, macroeconomic direction, programme selection, evaluation and aid management. A reform programme may address one or more of these issues, but must also take account of the linkages between all of them. The following areas require particular attention:

- Budget systems cannot be bought fully assembled off the shelf.
- The budgetary basics of each country have to be understood (including accounting, budget examination, estimating, forecasting, monitoring, and evaluating). Fault will often lie not with the basic budget systems themselves, but with the environment in which they operate.
- Budget reforms should take particular account of effective communication – a two-way process that facilitates bringing the full range of stakeholders into the reform process.
- In countries where foreign aid is significant, particular attention needs to be paid to aligning donor practices with the reform effort. As a minimum, all donor support to government should be incorporated in the budget.
- Performance-oriented tools and techniques will only deliver when the central processes of resource allocation, budgeting and financial management change to support and require performance orientation at the agency level.
- Building greater performance orientation into a budget system is not simply a matter of implementing the latest tool or technique, equally important are personnel management and training and

structure of government to provide incentives for improved performance.

Current approaches also recognize that budget reform is not enough – it is one part of an integrated strategy for better public sector performance.

Too many countries have been distracted and too many scarce resources wasted by the latest budgetary tool or technique. Specific tools and techniques do have a contribution to make, and they are prominent in most current reform efforts. However, they cannot solve the problem of a budget system and process that is not performance oriented and that does not have the basics right (World Bank, 1998).

It is important to remember that the education budget is a planning instrument that contains policy decisions to be expressed in action. In fact, to achieve the objectives of the education system, by level and type of education, the budget depends on the available and used resources during the fiscal period. According to the EFA Global Monitoring Report 2008 (UNESCO, 2007), the Dakar Framework for Action firmly placed governments of low-income countries in the driver's seat, urging them to increase the share of public expenditure allocated for all aspects of basic education, and to increase efficiency through improved levels of governance and the wider involvement of non-government bodies. Donors were encouraged to boost government efforts by not only increasing the amount of aid for basic education, but also by making it available in ways that ensure it is more effective.

The response to the call at Dakar for donors to coordinate their efforts around sector-wide reforms and policies has been positive, as the increased share of education aid demonstrates. However, the experiences and evaluations of a small number of donor agencies at the forefront of this movement, and the country case studies indicate that adoption of a programmatic approach is not without difficulties and that several conditions need to be met for it to be effective. Among these are:

- a well-prepared sector or sub-sector plan to which the government is committed;

- the ability of the education sector to obtain the required backing of key ministries such as those dealing with finance and personnel;
- a solid system of public financial management that is accountable and transparent;
- broad support from multiple stakeholders who through their own actions can support or hinder the progress of the plan;
- an interest and ability on the part of government enabling it to carefully monitor change in the sector and to react appropriately, and, generally;
- capacity at all levels of policy-making and service delivery to ensure that decisions are made and carried through effectively.

To the extent that these and other necessary conditions are lacking, direct sectoral or general budget support will not be effective. (It is ironic that the conditions necessary for successful sectoral or general budget support exist more commonly in middle income countries while these forms of aid are more common in low income countries.)

The donors, in turn, whether within or outside a group providing general financial support to the sector programme, need to ensure that, in all their dealings with the government and other donors, the principles of harmonization and alignment are adhered to and that their own actions do not distort government priorities. Finally, even where many of the issues of harmonization and alignment are being dealt with formally, the nature of the obstacles surrounding dialogue between government and donors is not always sufficiently assessed on both sides⁴.

Accounting systems need to be revised to provide real cost information by programme. Civil service systems need to introduce greater concern for merit and a greater public service ethos. The main characteristics of a well-performing budget system can be set out as follows:

- Aggregate, binding fiscal targets are necessary. These involve a medium-term perspective and ensure that policy-making and planning are always confronted with aggregate constraint.

4. Extract from: *EFA Global Monitoring Report 2008* (UNESCO, 2007, page 169).

- There is a need to establish incentives for better allocation and use of resources.
- Budgetary systems need to develop themselves within a context of greater autonomy of line agencies.
- Accountability of line managers means switching accountability (by simplifying the procedure of public expenditure) to ex post accountability for results. This implies that governments have the ability to measure progress toward achieving their objectives.

The introduction of new planning instruments such as the Medium-Term Expenditure Framework (MTEF) or poverty reduction strategy papers (PRSP) contributes to the improvement of the framework for budget processes. Where instruments have been developed, the budgetary processes take on a new dimension with regard to expected results for budget implementation, which can contribute to better performance in achieving educational goals.

PART II
NATIONAL CASE STUDIES OF
BUDGETARY PROCEDURES FOR EDUCATION

2. BANGLADESH

Figure 2.1 Map of Bangladesh



Source: Texas University Maps.

Introduction

Education is a key factor for boosting a nation's economy. The budgetary procedures a government establishes to develop its country's education sector play an important role in the quality of education for the citizens of that country.

The objective of this case study is to analyse the administrative and technical procedures used to prepare the budget of the Ministries of Education of Bangladesh and to manage budgetary resources allocated to the education system. It focuses on the planning instruments of the Ministry, which uses projections and methods of rationalization for budget preparation and for the allocation and use of budgetary resources in the country. It also analyses the roles played by various actors, as well as their strategies, weaknesses and strengths in budget preparation.

The case study is divided into six chapters, starting with a brief review of Bangladesh and ending with findings, suggestions and recommendations.

2.1 The country and its context

Bangladesh remains one of the poorest countries in the world. However, it maintains itself as a moderately indebted country and has never defaulted on its debt service liabilities to multilateral and bilateral donors. The country is densely populated and located in southern Asia, surrounded by India to the north, India to the west, India and Myanmar to the east and the Bay of Bengal to the south. The country's total surface area is 147,570 square kilometres and it has a population of 130 million (Population Census, 2002). Its mineral resources are natural gas, limestone, hard rock, coal, and so on. The country is organized into administrative units: divisions (6), districts (64) and subdistricts or upazilas (507). The local government institutions comprise: Municipal Corporations (4), Municipalities (223) and Union Parshad (4,484). The country has a per capita income of US\$350, ranking among the lowest in the world.

Between 2000 and 2003 the GDP growth rate (constant price) was 5.3, 4.4 and 5.3 per cent respectively. During the same period the rates of national savings were 22.4, 23.4 and 23.7 per cent respectively. Both public and private investments rose during the same period; growth rates for public investment were respectively 7.2, 6.4 and 6.7 per cent, and for private investment 15.8, 16.8 and 16.5 per cent. The national rate of inflation assessed by the national price index in 2002-2003 stood at 5.14 per cent. This rate was 2.36, 1.58 and 3.41 per cent in

2001-2002, 2000-2001 and 1999-2000 respectively (the Bangladesh Bureau of Statistics has constructed a national consumer price index using 1985-1986 as its base year).

Despite the prevailing adverse global economic situation, the current account balance of payment in Bangladesh registered a surplus of US\$240 million in 2001-2002, which was 0.5 per cent of GDP. This trend continued in 2002-2003 and the surplus stood at US\$328 million, which was 0.63 per cent of GDP.

Bangladesh has pursued a flexible exchange rate policy for more than a decade. With a view to maintaining the competitiveness of its currency, the taka, the exchange rate is adjusted by taking into account the trade weighted real effective exchange rate (REER). The Government of Bangladesh introduced a floating exchange rate for the first time on 31 May 2003.

The spectacular progress achieved in the education sector contributed to this development. Student enrolment has risen remarkably following the introduction of compulsory primary education in 1990. Special subsidy programmes have been initiated to increase female education and the literacy rate (15+ years) grew from 35 per cent in 1991 to 65 per cent in 2002. The private sector's role in education also has expanded, while about 15 per cent of the national budget is allocated to education of which the share of basic education is nearly 50 per cent. The annual public sector expenditure on education is 2.2 per cent of GDP.

Table 2.1 shows the national budget and trends in the allocation of funds for education under both non-development and development budgets for the period 1990-1991 to 2001-2002.

Table 2.1 Trends in the national budget and shares of the education sector (in millions of taka)

Budget year	Non-development budget			Development budget		
	All sectors	Education	% Education sector	All sectors	Education	% Education sector
1990-1991	73,102.4	11,820.1	16.17	61,210.0	3,124.1	5.10
1991-1992	79,000.0	13,815.8	17.49	71,500.0	5,272.7	7.37
1992-1993	85,100.0	16,743.9	19.68	81,210.0	5,930.4	7.30
1993-1994	91,500.0	18,057.5	19.73	96,000.0	9,550.9	9.95
1994-1995	103,000.0	20,077.3	19.49	111,500.0	15,185.3	13.62
1995-1996	118,139.2	21,514.5	18.21	104,470.0	13,711.7	13.13
1996-1997	125,349.1	22,955.4	18.21	117,000.0	15,517.8	13.26
1997-1998	145,000.0	26,957.4	18.59	12,000.0	14,830.4	12.16
1998-1999	167,650.0	29,680.0	17.70	140,000.0	17,510.0	12.51
1999-2000	184,440.0	32,567.2	17.76	165,000.0	19,818.9	12.01
2000-2001	196,330.0	35,996.6	18.23	175,000.0	22,520.4	12.87
2001-2002	207,061.8	37,389.7	18.06	165,830.0	21,376.8	12.89

Source: Ministry of Finance. Government of Bangladesh.

2.2 Educational administration and the education system

Education ministries and autonomous organizations

The education system in Bangladesh is managed and administered by two ministries, the Ministry of Secondary and Higher Education and the Ministry of Primary and Mass Education, in association with a number of autonomous bodies. The different components of the education management structure and their respective roles are described below.

(a) *Ministry of Secondary and Higher Education*

The Ministry of Secondary and Higher Education (MSHE) is concerned with policy formulation, planning, monitoring, evaluation and execution of plans and programmes related to secondary and higher education, including technical and madrasah education. The line directorates are responsible for management and supervision of institutions under their respective control. The line directorates/departments/offices under the Ministry of Secondary and Higher Education are as follows:

- Directorate of Secondary and Higher Education (DSHE): This directorate, headed by a Director-General, is responsible for administration, management and control of secondary and higher education, including madrasah and other special types of education. It is assisted by subordinate offices located at the divisional, district and the zone levels.
- Directorate of Technical Education (DTE): This Directorate is responsible for the management and administration of technical and vocational institutions such as polytechnics, monotronics and other similar types of institutes. It has Inspectorate Offices at divisional headquarters.
- Bangladesh National Commission for UNESCO (BNCU): This organization functions as a corporate body within the Ministry of Education. The Education Secretary is the Secretary-General of BNCU. The Commission consists of 69 members constituted by eminent educationists and intellectuals interested in educational, scientific and cultural matters in the country. A senior official appointed as its Secretary normally heads the Secretariat of the Commission.
- The National Academy for Educational Management (NAEM) is responsible for in-service training of senior educational administrators and teachers at the secondary and higher secondary levels. It also conducts foundation training for officers of the Bangladesh Civil Service (Education) Cadre.
- Bangladesh Bureau of Educational Information and Statistics (BANBEIS) is the organization in charge of the collection, compilation and dissemination of educational information and statistics at various levels and concerning different types of education. It is the Apex Body of the Educational Management Information System (EMIS) of the country. It is also the National Coordinator of RINSACA (Regional Informatics for South and Central Asia). Recently, it has been assigned the important task of selection, processing and computerizing data necessary for awarding government subsidies to private education institutions.
- The Education Engineering Department (EED) is responsible for the construction, repair and maintenance of educational infrastructure under development and non-development budgets.

- Directorate of Inspection and Audit (DIA): The head of this Directorate is responsible for inspection and audits aimed at improving the standard of education of non-government educational institutions at different levels.
- Chief Accounts Office (CAO): A separate accounts office, under a Chief Accounts Officer (CAO), carries out the accounting function of the MSHE in pursuance of the government policy of decentralization.

(b) *Autonomous organizations*

A number of autonomous bodies have a share in the administration of education. These are as follows:

1. University Grants Commission (UGC): The University Grants Commission is responsible for the coordination of university activities and the distribution of government grants among them.
2. National University: This body is an Affiliating University responsible for academic control of all affiliated colleges offering courses in Degree Pass, Honours and Masters, and for conducting Bachelor Degree and Master's examinations.
3. Bangladesh Open University: Bangladesh Open University conducts 18 formal and 19 non-formal education courses. It has 12 regional centres for its 6 faculties and schools, as well as 80 local centres and 1,000 tutorials across Bangladesh.
4. Education Boards: Six Boards of Intermediate and Secondary Education are responsible for conducting the SSC and HSC level public examinations.
5. Madrasah Education Board: This Board is responsible for conducting public examinations from Dhakil to Kamil levels.
6. National Curriculum and Textbook Board (NCTB): The National Curriculum and Textbook Board is an autonomous body under the Ministry of Secondary and Higher Education, responsible for curriculum renewal, modification and development, and textbook production and distribution at primary, secondary and higher secondary levels. The NCTB publishes primary and secondary level textbooks according to the approved curriculum and syllabus. Primary level textbook distribution is free of cost to all primary schools through the respective department and agencies.

Post-primary level textbooks are not free, but a reasonable price for each book has been fixed by the Board for open sale on the market. The copyright of all textbooks and other books published by the Board is vested in the Board.

7. Technical Education Board: This Board is entrusted with the task of conducting certificate diploma examinations in technical education.

(c) *Ministry of Primary and Mass Education*

Bangladesh is committed to the World Declaration on Education for All (Jomtein, March 1990) and the Convention on the Rights of the Child (New York, September 1990). Recognizing the importance of primary and non-formal education in achieving education for all and eradicating illiteracy, the government created a new Division called Primary and Mass Education Division (PMED) in August 1992, and the same was transformed into a full-fledged ministry, the Ministry of Primary and Mass Education (MPME), in 2003. This Ministry is responsible for policy formulation, planning, evaluation and execution of plans as well as initiating legislative measures related to primary and non-formal education. The following line directorates fall under the Ministry of Primary and Mass Education:

1. The Directorate of Primary Education (DPE) controls, coordinates and regulates the field administration of primary education. This Directorate was created in 1981 with a view to giving full attention to primary education as an independent area of focus. It has several subordinate offices, including 6 Divisional (regional) Offices, 64 District Offices and 481 Upazila Offices.
2. The National Academy for Primary Education (NAPE) is Bangladesh's most important institution of training and research in the field of primary education. It is headed by a Director and governed by a Board of Governors chaired by the Secretary, Ministry of Primary and Mass Education. The academy oversees 53 Government Training Institutes and one private Primary Training Institute. These institutes offer a one-year Certificate-Education course to primary school teachers.
3. The Compulsory Primary Education Implementation Monitoring Unit was created by the government in 1991 after the enactment

of the Primary Education (Compulsory) Act of 1990, with the objectives of monitoring compulsory primary education programme at the field level, conducting child surveys, and collecting information on the primary school-age population and children attending schools.

Structure of the education system

- (a) *General education is comprised of three levels: primary, secondary and tertiary. Its organizational structure is presented in Table 2.2*

Table 2.2 Organization of primary, secondary and tertiary education

I	Primary Education (Grades I to V)	This level lasts five years and is generally meant for children in the 6 to 10-year-old age group.
II	Secondary Education	This stage lasts seven years and includes the sub-levels below.
	a. Junior Secondary Education (Grades VI to VIII)	This level lasts three years and is meant for the children in the 11-13 year-old age group.
	b. Secondary Education (Grades IX to X)	This level lasts two years and is meant for boys and girls aged 14-15 years. At the end of this level, students take the Public Examination. Successful candidates receive their Secondary School Certificate (SSC).
	c. Higher Secondary Education	This level lasts two years and is generally meant for boys and girls aged 16-17 years. At the end of this level, students take the Public Examination. Successful candidates receive their Higher Secondary Certificate (HSC).
III	Tertiary Education	This is a three year-long pass course or a four year-long honours course for a Bachelor's degree followed by a two year-long Master's course for pass graduates and a one year-long Master's course for honours graduates. Colleges and universities offer these courses of studies.

- (b) *Madrasah education*

Running parallel to mainstream formal education, the five stages of the Madrasah (Islamic) education system comprise the following levels: Ebtedayee (five years), Dakhil (five years), Alim (two years), Fazil (two years) and Kamil (two years). Madrasahs are required to adopt national curricula as a condition for government recognition and

support. Students are required to appear before the Public Examination after completing each level except Ebtedayee.

(c) *Technical/professional education*

Separate tracks exist for vocational, technical and professional studies like engineering, medical, agriculture, and so on. After completing Junior Secondary level (Grade VIII), students enter into vocational training institutes for two-year vocational courses culminating in the SSC certificate. Having earned their vocational SSC, they can enter vocational training institutes (VTIs) again to earn a two year-long vocational HSC, or polytechnic institutes for a three year-long course leading to a diploma in engineering. After passing a scientific HSC, students can earn Bachelor of Science degrees in engineering or agriculture (four years), or complete a five year-long course for a medical degree (MBBS). These degrees are offered by different colleges and universities.

(d) *Teacher education*

Several institutes offer various courses for teachers of different educational levels. These are primary training institutes (PTIs), which offer a one-year certificate course in education for teachers of primary level, and teacher training colleges (TTCs), which offer one-year Bachelor's degrees in education (B.Ed) for secondary level teachers. Bangladesh Open University (BOU) also offers long-distance B.Ed courses. The Institute of Education and Research (IER) of Dhaka University offers a one year-long diploma in education and a one-year Master's programme in education (M.Ed). TTCs also offer M.Ed. courses. The Higher Secondary Teacher Training Institute (HSTTIs) conducts in-service training for college teachers. The Vocational Teacher Training Institute (VTTI) offers one year-long courses for VTI teachers, while the technical teachers training colleges (TTTCs) conduct training courses for teachers of polytechnic institutes. *Annexes 1 to 5* provide detailed data on the education sector.

2.3 Procedures for preparation of the budget

General framework and budgetary concepts

Under Article 87 of the Constitution of the People's Republic of Bangladesh, a statement of the estimated receipts and expenditure of the government for each financial year has to be laid before Parliament. The Constitution refers to this statement as 'the Annual Financial Statement'.

The Annual Financial Statement or budget consists of two parts: receipts and expenditure; the receipt portion refers to two funds – the 'Consolidated Fund' and the 'Public Account of the Republic'. Under Article 84(1) of the Constitution, the Consolidated Fund comprises all revenues received and loans obtained by the government as well as all moneys received in repayment of any loan. All other public monies received by the Government or on behalf of the Government are credited to the 'Public Account of the Republic'.

Revenue receipts include tax revenue, non-tax revenue, foreign grants and loans, and so on. Tax revenues fall into two categories: National Board of Revenue taxes and Non-National Board of Revenue taxes. Income tax, custom duties, Value Added Tax (VAT), supplementary duties, wealth tax, gift tax, electricity duties, travel tax, and so on, are National Board of Revenue taxes. Non-National Board of Revenue taxes include land revenue, narcotic duties, stamp duties, vehicle tax, and so on. Foreign grants and loans comprise all types of loans and grants including food and commodity aid received from foreign countries and development agencies.

Concerning expenditure, the budget is divided into two distinct categories: the non-development budget and the development budget. The non-development budget includes expenditure on salaries and allowances, supplies and services, repairs and maintenance, interest payment, subsidies and other transfer payments, miscellaneous investments, food purchases, debt servicing, and so on. The development budget is based on the Annual Development Programme (ADP); in effect, it is the ADP translated into budgetary format.

Expenditure is classified under two categories: charged expenditure and other expenditure. The expenses related to constitutional bodies such as the Supreme Court, Comptroller and Auditor General (CandAG) are termed charged expenditure, which is discussed in parliament but not subject to its vote. All other expenditure falls under the other expenditure category, which is voted on by parliament.

Budget nomenclature

From 1 July 1998, the Government of Bangladesh introduced a new classification chart in budget and accounts. The new classification is based on a coding structure, divided into four levels:

- Constitutional/Legal Code - 1 digit
- Organizational Code - 4 digits
- Operational Code - 4 digits
- Economic Code - 4 digits.

The above 13 digits are divided into four levels. Level 1 indicates expenditure and receipts as per constitutional provision. Level 2 indicates ministry/division and department/directorate/a group of activities under its control. Level 3 is the code for the part of the organization or operational unit against which a budget allocation is given. Both levels 2 and 3 are functional codes. Level 4 is the economic code; it indicates whether the allocation is meant for salary, allowances, supply and services, and so on. Each ministry/division is identified by a functional code, whereas the type of expenditure is ascertained by an economic code. Any change, amendment, addition and alteration in codes requires the approval of the Code Control Unit in the Comptroller and Auditor General's (CandAG) office. Any proposal for change, amendment, addition and alteration in code has to be sent to the Comptroller and Auditor General (CandAG) through the Ministry of Finance. The new classification has enabled public servants to update and analyse budgetary data more easily.

Budgetary procedures and time frame

The time frame for preparation and submission of budget as required by the Ministry of Finance is set out in *Table 2.3*.

Table 2.3 Budget calendar (financial year July-June)

Year t-1	Particulars	Last date
1.	Printing of departmental estimates	31 July
2.	Printing and distribution of budget (estimating officers forms and controlling officers forms)	31 August
3.	Preparation, printing and supply of budget forms to the accounts officer concerned	30 September
4.	Submission of estimates by the estimating officers	10 October
5.	Receipt of estimate in accounts office and Ministry of Finance from the controlling officers with three months actual	31 October
6.	Receipt of consolidated estimates in the Ministry of Finance with three months actual from the accounts officer	25 November
Year t		
7.	Completion of examination of budget estimate in the Ministry of Finance	20 January
8.	Receipt of schedule of new expenditure in the Ministry of Finance	22 January
9.	Receipt of six months actual from the accounts officer	15 February
10.	Completion of review of the estimates on the basis of six months actual in the Ministry of Finance	28 February
11.	Preparation and despatch to press of the first editions of the budget and schedule of new expenditure.	1 March
12.	Receipt back on the first edition of the budget from press and despatch to ministries/divisions	10 March
13.	Forecast of foreign assistance for development programme	14 March
14.	Completion of discussion of the estimates with administrative ministries/divisions	28 March
15.	Receipt of final development programme for the Ministry of Planning/Planning Commission	28 March
16.	Preparation and printing of budget documents	31 May

(a) Non-development budget

1. Procedures in the Ministry of Secondary and Higher Education

The Ministry of Finance is responsible for the preparation and submission of the budget to the Parliament or National Assembly. For this purpose, the Ministry of Finance requests that the Ministry of Education provide budgetary information as per their prescribed pro forma. The Ministry of Secondary and Higher Education then sends the pro forma to the concerned directorates/departments/offices for completion before 31 October.

The heads of directorates/departments send the same to their subordinate offices and educational institutions for completion according to their needs, including salaries, allowances and utility services of teaching and non-teaching staff.

The educational institutions fill out the pro forma according to their needs (for salary, allowance, and utility services) and submit them to the higher authority through the legal channel. A systems exists for verifying the proposals at different levels.

After receiving the required information from their subordinates, the concerned directorates/departments consolidate the facts and figures and prepare their draft budget estimates. Thereafter, they submit their draft budget proposals to the Ministry of Secondary and Higher Education. The draft budget estimates show the actual expenditure of the previous year, income and expenditure for the current fiscal year, and also expected income for the next fiscal year.

On receiving the proposals, the Ministry of Secondary and Higher Education examines the budget estimates on the basis of criteria set by the Ministry of Finance. Before finalizing the draft budget proposal, the Ministry of Secondary and Higher Education holds a meeting attended by senior officials of the concerned directorates/departments. The draft budget estimates are discussed and approved. Then the Ministry of Secondary and Higher Education sends the budget proposal to the Ministry of Finance with a request to allocate necessary funds in favour of the respective directorates/departments.

On receiving the proposal, the Ministry of Finance reviews the budget proposal both for receipts and expenditure and prepares the first edition of the budget, which it sends back to the Ministry of Secondary and Higher Education for further necessary action. Thereafter, a budget meeting is held with the Ministry of Finance under the chairmanship of the Finance Secretary, where heads of the concerned ministry directorates/departments participate and justify their demands for funds. After detailed discussion and consultation, the Ministry of Finance finalizes the budget proposal.

2. Procedures in Ministry of Primary and Mass Education

The Directorate of Primary Education falls under the administrative control of the Ministry of Primary and Mass Education. The procedure for budget preparation in the Ministry of Primary and Mass Education is as follows:

- The Ministry of Primary and Mass Education sends the pro forma furnished by the Ministry of Finance to the Director General, Directorate of Primary Education. The Directorate of Primary Education in turn sends it to district primary education officers and upazila (subdistrict) education officers for completion within the specified period. Upazila education officers then send the pro forma to the education institutions under their jurisdiction.
- After completing the form, each primary school authority submits the pro forma to the district primary education officers and upazila education officers for onward transmission to the Director General, Directorate of Primary Education and the Ministry of Primary and Mass Education.
- The final preparation of the budget is identical to that described above for the Ministry of Secondary and Higher Education.

(b) *Development budget*

Planning activities in Bangladesh are guided by the Five Year Plan and the Annual Plan. The Five Year Plan defines the broad objectives of development and strategies. The Annual Plan is a short-term operational plan within the framework of which Annual Development Programmes are drawn. Thus, the Annual Plan provides the necessary link between the Five Year Plan and the actual situation of the country's economy and the government's annual policy objectives.

The overall responsibility for plan formulation, preparation, coordination and evaluation lies with the Planning Commission. The ultimate authority, however, is the National Economic Council (NEC), which is the supreme body for approving plans, deciding on policies and sanctioning projects. At the field level, the administrative ministries/divisions and their agencies/departments/directorates and corporations are concerned with the execution and operation of development projects in the public sector. Since the national plan is a single entity, the

government also exerts, directly and indirectly, considerable influence on financial investment in the private sector.

1. Project preparation and inclusion in the Annual Development Programme (ADP)

Directorates/departments develop a project concept paper (PCP), which is examined by the ministry planning cell and then by the Planning Commission. A project proposal has to be approved by the competent authority before it can find a place in the ADP. Depending on the size of the project, it can be approved by an administrative ministry, by the Planning Ministry or by the Executive Committee of the National Economic Council (ECNEC).

Approval of a project, however, does not mean automatic clearance for starting implementation. Despite a project's approval, actual resource availability for its execution depends on its relative priority size, overall resource position, linkage with other projects, and so on. Therefore, even after a project's approval by the competent authority, its execution does not start until it is included in the Annual Development Programme (ADP) or cleared in advance by the competent authority for inclusion in the revised ADP.

Budget estimates are finalized following completion of discussions concerning the Revised Annual Development Programme (RADP) in the Planning Commission with representatives of concerned administrative ministries/divisions and the Ministry of Finance. Particulars of each approved project included in RADP, such as revenue and capital components and estimated receipts, are furnished to the Ministry of Finance for incorporation in the budget. Similarly, when the ADP is finalized, the Planning Commission forwards particulars of each development project included in the programme, such as revenue and capital components and receipts, to the Ministry of Finance for incorporation in the budget. The Finance Ministry then classifies the projects, making provision for the appropriate code number for incorporation in the annual budget and submission before Parliament.

Five-Year Plans indicate not only the physical requirements of development planning for the next five years, but also the amount and source of finance for implementation of the plan. Sources and

amounts indicated, however, are tentative. When the Five-Year Plan is broken down into the Annual Development Programme for actual implementation of development projects, the immediate prospect of resource availability – both local and external – is examined and estimated carefully, and the size of the ADP is fixed. In the ADP, necessary allocations are made for individual sectors/sub-sectors, as well as for individual projects.

The projects are executed by executing agencies under the control, supervision and support of the administrative ministry. Depending on its priority and recommendation from the programming committee and clearance from the appropriate authority, a project may be included in the ADP before or after its approval. Once a project is approved by the competent authority and has found a place in the ADP, the implementation process starts. Recruitment of project staff, procurement, construction and all other project activities get underway. Project expenditure can be incurred according to the provision in the ADP.

(c) *The autonomous bodies*

1. Ten education boards

There are ten education/curriculum boards under the Ministry of Secondary and Higher Education in Bangladesh. These are the nine Boards of Intermediate and Secondary Education (Dhaka, Rajshahi, Jessore, Chittagong, Sylhet, Barisal, Comilla), the Madrasah Education Board, the Technical Education Board; and the National Curriculum and Text Book Board. These boards are fully autonomous and governed by separate acts, ordinances and regulations. Except for the National Curriculum and Text Book Board (NCTB), the main objectives of the other boards are to conduct public examinations at the Secondary and Higher Secondary level. NCTB is responsible for framing curricula for primary, secondary and higher secondary levels. It also publishes textbooks for primary, secondary and higher secondary levels. Each board has its own source of income, namely examination fees, registration fees, secondary level textbook sales, fees and royalties.

The above-mentioned boards have their own finance committees. Each board prepares its draft budget estimate and places it before its financial committee for approval. The draft budget shows the actual

expenditure and income of the previous year as well as the expected income and expenditure of the coming year. The preparation of budget estimates is made in accordance with Ministry of Finance guidelines. However, following the board's approval, the concerned authority submits the budget estimates to the Ministry of Secondary and Higher Education (MSHE) for final approval. On receiving the board-approved budget estimates, MSHE carefully examines them according to the existing rules and regulations. Thereafter, budget meetings are held in the ministry under the chairmanship of the Education Secretary, who is also head of the budget committee. Allocations are finalized in the budget meeting. Following this, the Ministry of Secondary and Higher Education issues approval letters addressed to the chairman of the board, indicating the amount that has been approved. All such activities are required to be completed within three months of the date that MHSE received the budget estimates.

2. Universities in Bangladesh

The University Grants Commission of Bangladesh is an autonomous body. The main objective of the commission is to:

- assess needs in the field of university education and formulate plans for its development;
- determine the financial needs of universities;
- receive funds from the government to allocate and disburse as grants for university maintenance and development;
- evaluate the programmes underway for developing university teaching departments, institutes and other constituent institutions;
- examine all kinds university development plans;
- advise the government on the establishment of new universities or on proposals for expansion of existing universities;
- Collect statistical and other information on university matters;
- Advise the government on proposals to grant the right to confer special degree-awarding status to colleges which may be considered suitable for such status;
- Exercise such other powers and perform such other functions as may be conferred on it by any law or by the government.

The University Grants Commission collects necessary information from universities as per the prescribed pro forma and prepares draft budget estimates. Then the commission approves the draft budget estimates and recommends submission of the budget proposal to the Ministry of Education. Preparation and approval processes are the same as those for all other government institutions/departments.

Evaluation technique for budget lines

The actual expenditure of previous years can be used as an important guide in framing budget estimates. The continuance of any trend of growth or decline in income indicated by records from previous years, may – in the absence of definite reasons to the contrary – be assumed for all cases in which the proportionate estimate can be usefully employed.

Estimates of expenditure are divided into two sections: estimates for ordinary charges and estimates for new expenditure. Budget estimates serve two purposes:

- Their primary function is to forecast the expenditure of the ensuing year, and thus to enable government to make the necessary arrangements for financing the charges which it will be called upon to meet.
- When the budget is passed, the approved allotments are made available to the offices for expenditure in the ensuing year.

An overestimate of expenditure under one head reduces the amount which can be treated as available for other heads, while an underestimate of expenditure or the omission of items of outlay which are likely to be incurred can be remedied later only by postponement of other items of expenditure for which provisions have been duly made. It is consequently of great importance that expenditure estimates be accurately framed, and that programmes involving new expenditure be carefully worked out before the budget estimates are forwarded. Likewise, no admissible charges likely to be incurred should be omitted.

The budgeting technique followed in Bangladesh is the incremental or line item budget. In this method, a certain amount is added every

year to the previous figure on a particular line, item, head or total expenditure.

Budget preparation in the education sector by the two ministries of education involves data collection, processing and comparison by the directorates and departments. At the directorate or department levels, estimates are grouped along the same heads, lines and items from year to year. In other words, expenditure is classified by lines, items and heads and draft budget estimates are prepared for the next period on the basis of past figures.

The specific responsibility for formulating the development budget lies with the Planning Chief of the Ministry of Education for Secondary and Higher Education. The Assistant Chief of the ministry's planning cell collects, analyzes and compiles data, under the supervision of the Deputy Chief of the same wing. The non-development budget is formulated by the Senior Assistant Secretary of the Budget Section, under the supervision of the Deputy Secretary/Joint Secretary of the Ministry of Secondary and Higher Education.

The overall responsibility for formulating both development and non-development budgets lies with the Secretary of the Ministry of Secondary and Higher Education. The same system prevails in the Ministry of Primary and Mass Education.

After internal discussion and approval, the Ministry of Secondary and Higher Education finally submits the draft budget estimates to the Ministry of Finance within a specified period of time. Negotiation then takes place between the two ministries. The draft budget estimates submitted by the Ministry of Education contain only global figures for main lines/heads. If the amount of the budget proposal corresponds to the ceiling, it is integrated into the total.

Increases in wage bills and other recurrent expenditure are justified by the evolution of teaching staff needs. The Ministry of Finance consults the Ministry of Secondary and Higher Education on queries and informs him/her about any cuts. Donor-funded projects are added to the budget.

Behaviour of the actors involved

The financial year in Bangladesh begins in July and ends in June. Budget negotiation takes place between the Ministry of Finance and the Ministry of Secondary and Higher Education from end October through mid-March. The Finance Secretary plays a key role in the budget negotiation meeting where negotiation is finalized. This meeting takes the form of a general discussion on budgetary allocation; no technical discussions are held. However, relevant technical high officials attend the meeting and participate in discussion if necessary. The Education Secretary negotiates on behalf of the Ministry of Secondary and Higher Education. After submission of the draft budget proposal to the Ministry of Finance on or before 31 October, negotiation starts and continues at different levels and times between the two ministries. The final negotiations take place in the budget discussion meeting held in the month of March.

The Secretary of the Administrative Ministry and the Heads of the directorates and departments participate in the negotiation meeting. The Ministry of Finance pilots the whole process concerning allotment of funds in the budget for both development and non-development expenditure. The Ministry of Secondary and Higher Education prepares budget estimates according to the basic needs of the departments/ educational institutes and submits these to the Ministry of Finance, in the hope that it will provide the requested funds in the ensuing budget. But the Ministry of Finance does not allocate the requested funds in the budget. Rather, it usually provides funds incrementally, based on the previous year's expenditure. This does not fulfil the requirements of the Ministry of Secondary and Higher Education's departments and educational institutes.

The present form of negotiation has been in practice for a long time. Normally the Ministry of Secondary and Higher Education is required to submit only global figures for the main line/heads. If the amount of the budget proposal corresponds to the ceiling, it is integrated into the total, and the Ministry of Finance then continues with the rest of the process. The Ministry of Finance does not impose staff reductions, but sometimes suggests reducing expenditure on utility services. At the

end of the process, the Finance Minister places the draft budget before Parliament or the National Assembly and defends it.

Every year in the month of April, before the national budget is put before Parliament, the Bangladesh Development Forum (BDF) takes place, with the participation of the Paris Club.⁵ This meeting is sometimes held in Bangladesh. In this meeting, development partners discuss and review in depth the performance of the Bangladeshi government in the socio-economic field. After evaluating its performance and assessing the fulfillment of its commitments, donors take decisions on providing grants and loans to the country. On the basis of this meeting's outcome, the Bangladeshi government assesses its foreign aid component in the Annual Development Programme.

During preparation of the budget, the Finance Minister consults with different civil society organizations: journalists, teachers, research organizations and parents all give their input to the government. Thus, the budget reflects the views of some of the people.

Role of the Resource Committee

Before holding budget meetings with other ministries/divisions/departments, the Ministry of Finance examines the sources of revenue and prepares an estimate of receipts which forms the basis of all allocations. The Resource Committee, assisted by a technical committee, finalizes the receipt estimates. The composition of the Resource Committee (RC) may be seen in *Annex 7*.

Any disputes or conflicts that arise in view of budget estimate preparation and approval are resolved by the Ministry of Secondary and Higher Education and the Ministry of Finance in separate meetings. In Bangladesh only one draft budget is framed on or before 31 October. There is no provision for preparing several budgets in a row and the question of modifying them does not arise. Disputes are settled through discussion and the draft budget estimates are approved. Parliament is fully empowered to amend the finance bill placed by the Finance Minister.

5. "The Paris Club is an informal group of financial officials from 19 of the world's richest countries, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries and their creditors."

Role of the Economic Relations Division (Ministry of Finance)

The Economic Relation Division of the Ministry of Finance is responsible for the following activities:

- assessing foreign exchange requirements on the basis of the Five-Year Plan and the Annual Development Plan, and negotiating to secure economic aid from foreign governments and organizations
- assessing requirements and negotiating to secure technical assistance for Bangladesh from foreign governments and international organizations
- reviewing the utilization of foreign aid credit for aided projects
- controlling foreign exchange for development budget
- liaising with international development agencies
- controlling flowing funds and approving voluntary agency operational plans
- looking into external economic policy and technical economic cooperation between developed and developing countries, in particular, issues of development financing, transfer of resources, external debt and technology transfer
- looking after economic and operational matters pertaining to the Economic and Social Council of the United Nations and its regional and functional commissions.

In summary, it may be said that the main responsibilities of the Economic Relations Division are assessment, mobilization and allocation of external assistance. This division also checks aid utilization and takes part in monitoring budget implementation. The Ministry of Foreign Affairs conducts foreign relations, but the Economic Relations Division is more concerned with fostering economic relations between development partners and executing agencies.

Negotiation of external assistance

The Economic Relations Division (ERD) of the Ministry of Finance plays a vital role in obtaining foreign aid for educational development projects. Negotiating external assistance for a project generally begins early in the project conception stage. Project ideas are discussed in depth with donor agencies, and then project profiles

are prepared. Once a project concept has been identified, the process of securing financing for the project generally takes some time. Approval status assurance (pre-ECNEC, for example) is necessary. Sometimes projects for which external assistance is available are not executed for months on end simply because they have not been approved by the competent authority. There have been other cases where approved projects have been modified and revised subject to aid negotiation.

Budget approval

- (a) *Budget Speech:* According to the constitution, the Finance Minister must place the budget before Parliament in the month of June, introducing it with a speech known as the Budget Speech. This consists of two parts. The first addresses the overall economic and financial conditions prevailing in the country, the government's economic performance over the last year, its economic plans and programmes, and its budgetary allocation. The second part covers taxation measures.
- (b) *Cabinet approval:* Before submitting the budget to Parliament, Cabinet approval must be obtained. The Cabinet meeting is usually held in the Assembly Building just prior to the start of the parliamentary session.
- (c) *Procedure relating to the Annual Statement:* Much of the Annual Financial Statement as related to expenditure charged upon the consolidated fund may be discussed in, but shall not be submitted to the vote of, parliament. Much of the Annual Financial Statement as related to other expenditure shall be submitted to Parliament in the form of demand for grants, and Parliament shall have power to assent to or to refuse to assent to any demand, or to assent to it subject to a reduction of the amount specified therein. No demand for grants shall be made except on the recommendation of the President.
- (d) *Bills:* After the budget discussion, the following bills are placed before Parliament: the Money Bill, the Appropriation Bill and the Supplementary Bill.
- (e) *Introduction of a bill in Parliament:* No money bill or any bill that involves expenditure of public moneys, shall be introduced before Parliament except with the recommendation of the President.

- (f) *Money Bill*: A money bill is a bill containing provisions dealing with all or any of the following matters:
- the imposition, regulation, alteration, remission or repeal of any tax
 - the borrowing of money or the giving of any guarantee by the government or the amendment of any law relating to the financing obligations of the government
 - the custody of the consolidated fund, the payment of money into, or the issue or appropriation of money into, or the issue or appropriation of money from that fund
 - the imposition of a charge upon the consolidated fund or the alteration or abolition of any such charge
 - the receipts of money on account of the consolidated fund or the Public Account of the Republic or the custody or issue of such money, or the audit of government accounts
 - any subordinate matter incidental to any of the matters specified in the above sub-clauses.
- (g) *Appropriation Bill*: As soon as grants have been made by Parliament, another bill shall be put before Parliament to provide for appropriation out of the consolidated fund of all moneys required to meet the grants so made by Parliament and the expenditure charged on the consolidated fund.
- No money shall be withdrawn from the consolidated fund except under appropriation made by law passed in accordance with the provisions of Article 90(1) of the Constitution.
- (h) *Supplementary Bill*: Recourse is made to a supplementary bill if in respect of any financial year it is found:
- that the amount authorized to be expended for a particular service for the current financial year is insufficient or that a need has arisen for expenditure upon some new service not included in the Annual Financial Statement for that year, or
 - that any money has been spent on a service during a financial year in excess of the amount granted for that service for that year.

The President has the power to authorize expenditure from the consolidated fund whether or not it is charged by or under the constitution upon that fund, and shall cause to be laid before Parliament a supplementary financial statement setting out the estimated amount

of expenditure, or as the case may be, an excess financial statement setting out the amount of the excess.

- (i) *Vote on Accounts*: If for any reason it is impossible to pass the Appropriation Bill before 30 June, a Vote on Account Bill is placed before Parliament. Usually, through this bill an amount equivalent to two months' expenditure is sanctioned.
- (j) *Authorization of expenditure in certain cases*: If in respect of a financial year Parliament has failed to make the grant, the President may authorize the withdrawal from the consolidated fund of funds required to meet expenditure mentioned in the Annual Financial Statement for the year, for a period not exceeding 120 days in that year, pending the making of the grant and the passing of the law.

2.4 Procedures for allocation of budgetary resources and budget implementation

Non-development budget

After Parliament approves the budget, the Ministry of Finance sends the approved budget book to the Ministry of Secondary and Higher Education for allotment of funds to directorates/departments. On receiving the allotment order, the concerned directorates and departments issue separate allotment orders to regional/district offices and to educational institutions, authorizing them to make expenditure as per budgetary allocations on each line/item. This budget allocation for educational expenditure is made annually. After six months, revised estimates are prepared on the basis of expenditure of the previous three months.

Expenditure from the authorized budget is incurred by the administrative ministry/division through their offices and agencies according to the delegation of power given by the Ministry of Finance. Power is delegated separately for the development and non-development budgets. Besides the delegation of power, there are other financial rules and regulations which provide guidance and directives for spending on behalf of the government.

As a general rule, no authority may incur any expenditure or enter into any liability involving expenditure from public funds until

the expenditure has been sanctioned by general or special government orders, or by an authority to which power has been duly delegated on its behalf, and the expenditure has been provided for in authorized grants and appropriations for the year. Each head of department is responsible for financial order and strict economy at every step. The head of department is responsible for the observance of all relevant financial rules and regulations both by him/her and by subordinate disbursing officers.

A controlling officer must ensure not only that total expenditure is kept within the limit of authorized appropriation but also that the funds allotted to spending units are expended in the public's interest and on items for which the money was provided. In order to maintain proper control, the officer should arrange to be kept informed, not only of what has actually been spent from an appropriation, but also of what commitment and liabilities have been and will be incurred against it. The officer must be in a position to assume before the government and the Public Accounts Committee, if necessary, complete responsibility for departmental expenditure, and to explain or justify any instance of excess or financial irregularity that may be brought to notice as a result of audit scrutiny or otherwise.

(a) *Permanent advances*

General financial rules in Bangladesh allow a head of education office or institution to take permanent advances to meet day-to-day petty expenses of emergent nature. The government may grant permanent advances to an officer, who may have to make payments before these can be placed in funds. The authority fixes the amount of the advances for the officer beforehand. Each officer holding a permanent advance must send an acknowledgement to the account officer for which he/she is accountable for as of the 30th of May.

Account offices examine the bills and vouchers to ensure that they are as per rules and regulations, are within the authority of the administrative ministry/division, and that budget provisions exist.' Some of these rules and regulations are as follows:

- No expenditure can be incurred for an item for which no budgetary allocation exists.

- Funds allocated must be spent for the purpose for which they are allocated.
- Funds allocated must be spent in accordance with financial rules and regulations.
- Expenditure must not exceed the sanctioned budget allocation made for the respective items/sub-heads.
- No expenditure can be incurred in anticipation of supplementary grants without prior concurrence of the Ministry of Finance.

With regard to personnel emoluments in Bangladesh, there is a national pay scale for government and non-government teaching and non-teaching staff. Salaries and other allowances are paid according to the appropriate corresponding pay scale. Once the budget has been approved by Parliament, the total amount of salaries and allowances is allotted in one disbursement to each educational institution. Teaching and non-teaching staff receive their salaries on a monthly basis. ‘Gazetted’ officers are self-drawing and disbursing officers (DDO), while the heads of institution draw and disburse the salaries for ‘non-gazetted’ teaching and non-teaching staff. The procedure of drawing and disbursing salaries is the same at all levels of educational institutions – through cheques.

Each head of institution submits salary bills to its district/upazila accounts office. The respective accounts officer is authorized to pass the bill after verifying the records. After the bills are passed, the officer issues cheques in favour of the institution, which are placed at the authorized bank for cashing. It is worth mentioning here that the teaching and non-teaching staff of government institutions receives two fixed bonuses per year. In addition, they are entitled to take rest and recreation leave every three years with one month’s basic pay (salary) plus fifteen days leave. Female teaching staffs are entitled to four months maternity leave with full pay.

(b) Funds for scientific equipment

There is a provision for allotment of funds for scientific equipment in the education budget. Allotments are made to each educational institute for the purchase of equipment, with an additional lump grant earmarked for the purchase of scientific equipment, which is distributed centrally. The process of distribution of funds for purchase of equipment is as follows:

- The Ministry of Secondary and Higher Education issues the order in favour of educational institutions.
- The directorate/department selects the institutions, which prepare a list of equipment needed.
- The selected individual institutions purchase the scientific equipment through quotation and open tender.

1. Example of budget implementation

The Directorate of Higher Secondary Education provides one example of budget implementation. After receiving its allocation, the Directorate's accounts section makes the necessary expenditure as per budget provision. The Deputy Director (Administration) acts as the drawing and disbursing officer (DDO), but the Director General's approval is needed before any expenditure can be made using the funds. Salaries and allowances comprise the largest component of the budget. The bill is prepared for each month by the DDO and submitted to the Chief Accounts Officer of the administrative ministry. After passing the bill, a cheque is issued, which is deposited with the authorized bank for cashing. The detailed procedure for disbursing salaries and allowances is described further below.

For the purchase of goods and services the procedure is as follows:

- DDO initiates spot quotation/tender
- The supplier participates in the quotation, tender, etc.
- tender is accepted, normally on the basis of lowest bidder
- the authority gives the work order
- the supplier supplies goods/materials
- bills are submitted to the office of the Directorate
- bills are approved and forwarded to the Chief Accounts Office, which issues payment in the form of a cheque
- the cheque is issued and handed over to the supplier.

In the cases of projects, the Director is responsible for the implementation of the whole projects. The Ministry of Finance and the Implementation, Monitoring and Evaluation Division of the Planning Commission issue project implementation guidelines. Each Project Director has to follow these guidelines. Under the project Director there

is a recruitment committee, which recommends project personnel. The recommendation then has to be approved by the ministry.

(c) *Annual expenditure by type of institution*

Tables 2.4 and 2.5 show national budget funds for education under both the development and non-development budgets for the years 1990-1991, 1994-1995, 2000-2001 and 2001-2002, by type of education. For the development budget, the share of primary and mass education exhibits a slight decline, but remains above 57 per cent of the total during these years. The share of the same sub-sector in the non-development budget has declined from 45.6 per cent in 1990-1991 to 32.2 per cent in 2000-2001. Priority was given to secondary and higher secondary education in 2001-2002 with 50.3 per cent.

Table 2.4 Development budget (in millions of taka*)

Type of education	1990-1991		1994-1995		2000-2001		2001-2002	
	Budget	%	Budget	%	Budget	%	Budget	%
Primary and mass	1,955.2	62.6	8,874.9	58.5	13,765.8	61.1	12,223.1	57.2
Secondary and higher	423.6	13.6	5314.4	35.0	6,724.4	29.8	7,224.9	33.8
Technical	374.3	12.0	192.3	1.3	925.3	4.1	925.6	4.3
University	315.5	10.1	653.9	4.3	917.2	4.1	959.8	4.5
Ministry projects	53.6	1.7	139.9	0.9	213.9	0.9	43.4	0.2
Total	3,122.2	100	15,175.4	100	22,546.6	100	21,376.8	100

*US\$1 = 69.45 taka (21 June 2006).

Table 2.5 Non-development budget (in millions of taka*)

Type of education	1990-1991		1994-1995		2000-2001		2001-2002	
	Budget allocation	%	Budget allocation	%	Budget allocation	%	Budget allocation	%
Primary and mass	5,385.0	45.6	8,659.6	43.1	13,704.8	38.3	14,284.3	38.2
Secondary and higher	4,699.1	39.7	8901.0	44.3	17,870.7	49.9	18,823.5	50.3
Technical	285.7	2.4	417.7	2.1	464.5	1.3	437.2	1.2
University	1,030.1	8.7	1,533.0	7.7	2,919.1	8.2	2,935.7	7.9
Other subsidiary service department (MOE)	420.2	3.6	566.0	2.8	498.1	1.4	512.6	1.4
Administrative (MOE)	-	-	-	-	339.4	0.9	396.3	1.1
Total	11,820.1	100	20,077.3	100	35,796.6	100	37,389.6	100

*US\$1 = 69.45 taka (21 June 2006).

The criteria for distribution of resources are as follows.

1. Teaching staff

Allocation of resources for the teaching staff of Bangladesh's educational institutions is shown in *Table 2.6*.

The Ministries of Education do not allocate funds directly to each institution. Instead, they allocate all funds provided in the budget in favour of the directorates/departments on an annual basis. On receiving the allotment order, the directorate/departments issue separate allotment orders to each educational institution. The directorate/department therefore acts as an intermediate body.

The resources for teaching staff salaries are provided on the basis of number of staff who have worked an eight-hour period. Salaries are paid on a monthly basis through authorized banks.

The criteria used for distribution of resources are:

- (i) the fixed government pay scale, and
- (ii) the number of teachers involved.

For collection of data concerning resource allocation for teaching staff, a prescribed pro forma is used, in which existing manpower and approved manpower are categorized separately. An apex organization, BANBEIS, is responsible for collecting, compiling and disseminating data and information related to education statistics. These criteria are public information and can be contested.

An explicit policy exists concerning the division of resources among:

- (i) the number of institutions
- (ii) the number of teachers involved
- (iii) the fixed salary structure

Resources are allocated at the beginning of the financial year, in the month of July. Expenditure must be incurred on or before 30 June. Institutions must strictly adhere to this schedule. *Annex 1* shows the number and types of institutions referred to here.

2. Non-teaching staff

The budget of the Ministry of Secondary and Higher Education covers different categories of non-teaching staff, also called class III and class IV employees. The same criteria for distribution of resources that are applicable to teaching staff also apply to non-teaching staff.

3. Other type of expenditure

The Education Engineering Department (EED) is a separate engineering department under the Ministry of Secondary and Higher Education. It is responsible for educational institution maintenance and has 32 zonal offices throughout the country. There is no budgetary provision for garden maintenance or school and boarding house services.

The Ministry of Secondary and Higher Education transfers funds for maintenance of education institutions to the Education Engineering Department (EED). The Chief Engineer of EED sends funding to its 32 zonal offices. With the consent of each head of institution, EED prepares an estimate for maintenance and construction work. Generally, funds are provided for repairs and building maintenance. Sometimes in emergency situations, funds are diverted for the re-construction of educational institutions.

(d) The control mechanism and accounting officers

A control mechanism exists for the implementation of the budget. A controlling officer called the Chief Accounts Officer is responsible for passing bills prepared and submitted by the heads of institutions. In addition, each institution undergoes an annual audit. If any claim is made against a head of an institution regarding the misappropriation of funds, he/she has to undergo an immediate audit.

The Secretary of the Ministry of Secondary and Higher Education is the Principal Accounting Officer who ensures that funds allocated to the ministry or division, its attached departments and subordinate offices, are spent in accordance with current rules and regulations. The Principal Accounting Officer reports to the Public Accounts Committee, a part of Parliament. He/she is accountable to the Comptroller and Auditor General for all Ministry of Secondary and Higher Education expenditure.

Development budget

Funds for development projects are released on a quarterly basis by the Ministry of Secondary and Higher Education. All project directors are directly responsible for project expenditure.

All financial transactions are carried out as per the following:

- delegation of financial power framed by the Ministry of Finance;
- financial rules;
- instructions issued by the Ministry of Finance from time to time;
- guidelines issued by the Planning Commission;
- donors' guidelines are also followed for the implementation of projects funded with foreign aid.

The project director reports on development expenditure to the Ministry of Secondary and Higher Education, thereby keeping the government informed of such expenditure. In addition, the Financial Management Unit in the Ministry of Secondary and Higher Education monitors development project expenditure and reports on it on a monthly basis, justifying any instances of excess financial irregularity that may be brought to notice as a result of audit scrutinizing or otherwise.

Box 2. Examples of ongoing projects: Stipend Programme

Stipend on Primary Education

The government is committed to implementing this programme to emancipate the country from the curse of illiteracy. With a view to increasing the enrolment rate of children at the primary level and to reducing the dropout rate, a 'cash for education' programme has been undertaken throughout the country. Under this programme, poor families receive a stipend of 100 taka and 125 taka per month for sending one or more children to school, subject to the child's attendance being 85 per cent and earning 40 per cent marks in the final examination.

The Bangladeshi government set up the Stipend for Primary Education programme 2002-2003, a massive new stipend project for primary education, with its own resources. Taka 650 crore (amounting to US\$108 million) was allocated for this project.

Stipend on Secondary Education

Education has a positive effect on quality of life. Accordingly, the Ministry of Education has undertaken various development and reform programmes. A list of various stipend projects aimed at poverty reduction and female education is given below. These projects play an important role in improving Bangladesh's education system.

The objectives of the stipend programme were to increase the secondary school level enrolment of girls by providing stipends to girl students studying in Grades 6 to 10, and providing tuition fees to institutions against stipend recipients. During the project implementation period, it was found that the enrolment of girls in various grades increased enormously over the years. The increase in enrolment was so high that by the end of the project period (June 2001) girls outnumbered boys in the classes (53 per cent girls vs. 47 per cent boys). At the time that the project was launched in 1993, female enrolment in secondary schools was only 30 per cent.

The three criteria for receiving the stipend are:

1. attending school for at least 75 per cent of the total school days;
2. obtaining at least 45 per cent marks on average in final examinations; and
3. remaining unmarried up until the SSC examination.

The following projects have contributed to enhancing the quality of education and reducing population growth:

1. Secondary Education Sector Improvement Project (SESIP), covering 53 upazilas (Grades 6 to 10)
2. Female Secondary Education Stipend Project (NORAD) (FESP), covering 19 upazilas (Grades 6 to 10)
3. Female Secondary School Assistance Project (FSSAP), covering 119 upazilas (Grades 6 to 10)
4. Female Secondary Stipend Project, covering 282 upazilas (Grades 6 to 10).
5. Award of general scholarship and stipend in Bangladesh, covering the entire country (meritorious students only).

With the objective of awarding stipends to female students, the Female Stipend Programme was introduced at the higher secondary level (Grades 11 and 12) in January 2002 to facilitate women's access to higher education.

The aim of stipend projects is to stimulate significant increases in the enrolment of girls, enabling educated women to participate fully in the economic and social development of the country.

The stipend projects were also designed to reduce gender disparity and to achieve gender equity in access to secondary education.

Source: Ministry of Secondary and Higher Education. Government of Bangladesh. Various project documents.

Distribution of expenditure among divisions and districts

When the budget is approved by Parliament, the Ministry of Finance hands over the budget books to the administrative ministries or divisions to make expenditure as per allotments made available to offices in the ensuing year. After receiving the budget book, the ministries of education transfer the budget allocation to their subordinate directorates/departments and offices according to Ministry of Finance guidelines. Subsequently, heads of directorates or departments issue separate allotment orders in favour of educational institutions such as schools, colleges, madrasahs and subordinate offices at the divisional and district levels. There is a separate accounts section in the office of the head of each institution. A controlling officer (DDO) looks after the accounts.

There are separate accounts offices in 64 districts and 464 upazilas in Bangladesh called District Accounts Offices and Upazila Accounts Office respectively. Accounts officers are fully responsible for passing the bills. Before doing so, accounts officers must examine the bills and vouchers and assess whether they fall within the authority of the administrative ministry or division and whether budget provisions exist.

Budgets are not prepared on the basis of teacher-student ratios, but on the basis of staffing patterns for teaching and non-teaching staff at each level of education. The teacher-student ratio is taken into consideration only with regard to opening new sections and recruiting language teachers (English and Bengali), who teach students at all levels. *Table 2.6* shows the staffing pattern of general education at different levels.

Table 2.6 Staffing patterns for general education in different levels

Sl. No.	Type of educational institutions	Class	No. of teachers
1.	Government primary schools	1-5	4.2 (avg.)
2.	Registered non-government primary schools	1-5	4 (avg.)
3.	Ebtedayee madrasah	Primary level	4 (avg.)
4.	Government secondary schools	6-10	22 (avg.)
5.	Non-government secondary schools	6-10	12 (avg.)
6.	Government colleges	a) Intermediate level	17-18 (avg.)
		b) Degree level	25
		c) Honours	32
		d) Masters	91
7.	Non-government colleges	a) Intermediate level	20 (avg.)
		b) Degree level	35
		c) Honours	44
		d) Masters	44
8.	Government madrasah	Kamil	27
9.	Non-government madrasah	Dhakhil	13 (avg.)
		Alim	17 (avg.)
		Fazil	21 (avg.)
		Kamil	25 (avg.)

Source: BANBEIS.

Teacher recruitment

Teacher recruitment is one of the most important activities affecting an educational institute's performance. There are separate recruitment rules for the appointment of teachers for government institutions. In general, two categories of teacher exist in government schools: 'gazetted' and 'non-gazetted'. The posts of Headmaster and Assistant Headmaster are 'gazetted' while the rest of the posts for teaching and non-teaching staff are 'non-gazetted'. The Public Service Commission recruits for 'gazetted' posts through competitive examination. All 'non-gazetted' posts are filled by each department according to existing recruitment rules. The minimum qualifications and experience for appointment for different categories of teachers are stated in the recruitment rules.

Separate recruitment rules exist for the appointment of teaching and non-teaching staff for non-government educational institutions. Each non-government institution/school has a Managing Committee composed of the following members:

- chairman (for schools located in district headquarters, the concerned Deputy Commissioner, and for schools located outside the district headquarters, the concerned Upazilla Education Office – UEO).
- member: Secretary (head of the respective institution)
- teachers’ representatives (elected by the teachers)
- guardians’ representative (elected by the guardians)
- founders’ representative (elected by the founders from amongst themselves)
- donors’ representatives (elected by the donors from amongst themselves)
- persons interested in education (nominated by the Divisional Deputy Director).

The above-mentioned committee selects and recruits teachers according to the approved recruitment rules for the different categories of teachers for the school. All teacher appointments are made for a probationary period of two years and, on satisfactory completion of the probationary period, a probationer is confirmed in service. If a probationer fails to show satisfactory progress during his/her period of probation and if the appointing authority is of the opinion that his/her work or conduct as a teacher is not satisfactory and he/she is unlikely to improve, the appointing authority may discharge the teacher or extend his/her probation by a further period not exceeding one year. In the case of government teachers, all candidates have to be trained in teacher’s education. If the teachers are not trained before their appointment, they have to fulfill this requirement.

Creation of new posts within government institutions

For the creation of new teaching posts and non-teaching staff posts within government institutions, the approval of the Ministries of Establishment and Finance is required. A department head submits a proposal to the Ministry of Education with sufficient justification for the creation of new posts. On receiving the proposal, the Ministry of Education examines it carefully then sends it to the Ministry of Establishment for approval. On receiving the approval of the Ministry of Establishment, the administrative ministry then sends the proposal to the Ministry of Finance for final approval. Once the Ministry of

Finance approves it, the Ministry of Education issues the government order for the creation of posts, observing the formalities. Furthermore, the government's approval is required for the creation of a new post in any subject within a non-government institution.

A novelty in Bangladesh's educational budget is that taka 1,464 crore (14,640 million taka) is earmarked for the promotion of private education in Bangladesh. This amount is given as salary support to privately managed non-government schools, colleges and madrasahs, and so on. The support consists of 90 per cent of basic pay plus fixed house rent of Tk100 per month and a fixed medical allowance of Tk150 per month. The institution's income provides the remaining 10 per cent of salary. The government does not impose any restriction on tuition fees.

It may be stated here that a welfare fund has been created for the welfare of the teaching and non-teaching staff of non-government institutions, and their family members. Teachers contribute 2 per cent of their salary each month to the welfare fund, which the government approves as a one-time lump grant. The government provides funds for retired, ill and deceased teaching and non-teaching staff and their families as per a rule created for that purpose.

Table 2.7 Salary structures for government and non-government teachers

Govt. primary school	Pay scale in taka (Tk)	Other benefits
Headmaster	1,975-3,920 (trained) 1,750-3,300 (non-trained)	House rent, medical allowance as per rule.
Assistant teacher	1,875-3,605 (trained) 1,625-2,905 (non-trained)	- Do -
Govt. secondary school		
Headmaster	7,200-10,840	- Do -
Assistant headmaster	4,300-7,740	- Do -
Assistant teacher	3,400-6,625	- Do -
Govt. college		
Principal (Professor)	10,700-13,100	- Do -
Vice-Principal	10,700-13,100/9,500-12,100	- Do -
Associate professor	9,500-12,100	- Do -
Assistant professor	7,200-10,840	- Do -
Lecturer	4,300-7,740	- Do -

Govt. primary school	Pay scale in taka (Tk)	Other benefits
Non-govt. school (secondary school)		
Headmaster	6,150-9,750 (15 years experience)	House rent, medical allowance as per rule.
Asst. Headmaster	4,300-7,740	- Do -
Asst. Teacher	3,400-6,625	- Do -
Junior secondary school		
Headmaster	4,300-7,740 (12 years experience)	- Do -
Asst. Teacher	3,400-6,625 (trained)	- Do -
Asst. Teacher	2,550 (non-trained)	- Do -
Non-govt. college		
Principal	10,700-13,100 (Degree College) 9,500-12,100 (Intermediate College)	- Do -
Vice-Principal	9,500-12,100 (Degree College)	- Do -
Asst. Professor	7,200-10,840	- Do -
Lecturer	4,300-7,740	- Do -
Madrasah		
Principal	10,700-13,100 (Kamil Madrasah) 9,500-12,100 (Fazil Madrasah) 6,150-9,750 (Alim Madrasah)	- Do -
Vice-Principal	7,200-10,840 (Fazil and Kamil)	- Do -
Mufassir/Muhaddis	7,200-10,840 (Kamil Madrasah)	- Do -
Lecturer	4,300-7,740	- Do -
Super	4,300-7,740 (Dakhil Madrasah)	- Do -

Source: Ministry of Finance, Payroll Division.

2.5 Monitoring and audits

Monitoring

Each of the two education ministries (the Ministry of Secondary and Higher Education and the Ministry of Primary and Mass Education) has established a Financial Management Unit (FMU). This unit collects, collates and analyses data and prepares monthly reports on the implementation of the non-development budget, which it submits to the Principal Accounting Officer – the Secretary of the Ministry – with copies to the Ministry of Finance, the Chief Accounts Officer and other concerned authorities.

Monitoring the implementation of development projects is part of the formative evaluation system. As a tool for management, monitoring is undertaken through a periodic review of activity status with a view to forecasting achievement of aims. Its primary objective is to provide the right people with the right information at the right time. The right people are the project team members and those people at the supervisory levels who need to track project progress. The right information is information required by all levels to carry out specified responsibilities. And the right time is early enough to identify potential problems and consider available alternatives for corrective measures. In other words, monitoring involves all levels of management in tracking and monitoring scheduled work with respect to time and cost. A well-developed monitoring system promotes an organized project work schedule.

Projects are monitored through two channels: internal and external.

Internal monitoring

Internal monitoring is carried out by the executing chain of command: the project director, the head of agency, and the ministry. Information on project management, including problems and progress, is reported periodically through this channel to executing agency authorities. Ministries take decisions to resolve problems encountered during a project. Accountability in terms of resource utilization and project achievement is ensured by this chain of command.

External monitoring

The central monitoring organization, entitled the Implementation, Monitoring and Evaluation Division (IMED), is responsible for monitoring all projects included in the ADP. Projects are monitored through the following means:

- Monthly, quarterly, annual and special reports are obtained from the Ministry concerning physical and financial progress. Each project and its problems are analyzed by IMED.
- IMED inspects projects and keeps the implementing Ministry, Planning Commission and NEC informed of progress and problems observed during inspection.
- Monthly review meetings are held under the Chairmanship of the Minister or Secretary concerned. IMED, Planning Commission and External Resource Division (ERD) representatives attend these meetings.

In addition to the above monitoring process the NEC (National Economics Council) monitors the implementation of the ADP through quarterly review meetings for which IMED prepares the working papers. The NEC also meets occasionally to review project implementation progress and problems in a sector or in a number of sectors.

Project implementation activities are evaluated and monitored every month under the chairmanship of the Education Secretary in the Ministry. Regional and district offices as well as educational institutions take part in budget preparations. These offices and institutions have to use the prescribed pro forma supplied by the Ministry of Finance to indicate their requirements in terms of salaries and allowances for teaching and non-teaching staff, expenses on utility services, and so on.

Directorates/departments are primarily responsible for budget preparation for educational institutions. There is a marginal link between enrolment and teacher recruitment. If student enrolment exceeds 160, then a new class section can be created and is entitled to one additional teacher per subject. There is a staffing pattern for teaching and non-teaching staff for both government and non-government institutions.

Audit and control of the budget

The Secretary of the Ministry of Secondary and Higher Education is the Principal Accounting Officer who ensures that funds allocated to the Ministry and divisions, its attached departments, subordinate offices and educational institutions are spent in accordance with the rules and laws. The Principal Accounting Officer has to face the Public Accounts Committee – a Standing Committee that forms part of Parliament. He/she is accountable to the Comptroller and Auditor General for the expenditure of the Ministry of Secondary and Higher Education.

Each head of department is responsible for financial order and strict economy at every step. He/she is responsible for observance of all relevant financial rules and regulations both by his own offices and by subordinate disbursing officers. The head should not make any expenditure or enter into any liability involving expenditure from public funds until the expenditure is sanctioned by general or special government orders.

The government has a separate Audit Directorate under the office of the Comptroller and Auditor General (CandAG) to ensure transparency and accountability. The Audit Directorate conducts inspections and audits of government educational institutions and offices regularly and submits reports to the concerned authority for necessary action. This aside, the Ministry of Education has also set up a Directorate of Audit and Inspection (internal audit). This directorate is responsible for inspections and audits aimed at improving the standard of education of non-government educational institutions at every level.

The Financial Management Units (FMU) in the Ministry of Secondary and Higher Education and the Ministry of Primary and Mass Education monitor revenue and development expenditure, reporting regularly. If they find any financial irregularity they may bring it to notice, resulting in audit scrutiny or otherwise.

The Implementation, Monitoring and Evaluation Division (IMED) is the central monitoring organization in the country. This division regularly monitors all projects included in the ADP.

Performance indicators (development projects)

With the identification of objectives of expenditure for different development projects, a system of performance indicators has been developed, and is now used for the purpose of monitoring development projects and evaluating their achievements.

2.6 Conclusions and recommendations

Conclusions

Financing education is principally a government responsibility in Bangladesh, but the private sector bears a considerable portion of the total cost of education. This is particularly the case at secondary and tertiary levels, where the private sector bears the lion's share of funding for salaries, the total allowances of teachers and other employees, the costs of land for school/institution premises and the costs of learning materials for non-government schools and colleges. The government funds both non-development and development expenditure on education through non-development and development allocations in the national budget. The sources of non-development allocations are the revenue earnings of the government, drawn from internal revenue sources. A considerable amount of development allocations comes from external aid, loans and grants, which account for less than 20 per cent of government development expenditure on basic education.

Bangladesh uses the 'incremental' or 'line item' budget method, which is characterized by a stable budget structure. This budget structure has remained unchanged over the years, while each budget line is adjusted by adding an incremental amount of money to the previous year's allotment. The method does not provide specific links between budget estimates and a set of norms or indicators on needs. This implies that there is little connection between the budget allocation to certain departments or divisions and their expected outputs.

There is no clear connection between development and non-development budgets. The development budget based on the Annual Development Programme relies heavily on donor contributions. There is no articulated link between the implied costs of projects included in the development budget and the non-development budget.

The budgeted amounts have to be spent within the financial year (by 30 June of the fiscal year). Accordingly, there is strong pressure to spend as the fiscal year comes to an end. In order to avoid the dilemma of unspent money, concerned educational institutions, offices and departments prepare bills hurriedly and send them to the accounts office in order to collect cheques. As a result, a large amount of money is spent within a short period of time. Funds for development projects are released on a quarterly basis, and this creates constraints in their use. Sometimes, important programmes are not implemented due to shortage of funds.

The government is committed to creating enabling conditions for sustainable economic and social development by reducing the poverty level by one half within one decade, as a part of the targets set by the UN Millennium Development Goals. The Annual Development Programme has, therefore, been prepared with the aims and objectives of implementing economic policies relating to poverty alleviation, which should raise income, create employment opportunities, and ensure human resource development by providing education, health and nutrition, and electricity, with an emphasis on rural development and strengthening women's and children's priority programmes.

The actual success of the Annual Development Programme depends on timely and proper implementation of projects. Since unnecessary delays in project implementation cause the main bottlenecks in the development process, it is essential that all responsible actors take appropriate steps from the very beginning. The recent Annual Development Programme gave highest priority to secondary level education followed by primary and technical education. The investment schedule, though not entirely satisfactory, had a touch of realism. It is quite possible to make a nation literate and educated at a low level of development. University education stole a march over primary and secondary education although, its favourable effect on redistribution of income aside, it is well known that development-linked functional literacy in general and production-conscious secondary education in particular constitutes the 'steel frame' of economic development.

There should be a strong connection between budgeting and management for the proper implementation and success of governmental

objectives. With this in mind, the government is now (following the study) implementing a comprehensive and well-coordinated medium-term programme with the decisive aims of accelerating economic growth, reducing poverty and ensuring social development.

Recommendations

- The incremental budgeting system should be changed to a more logical incremental budgeting system.
- Ministries of Education officials need to be trained in budget management information systems for the betterment of the budgetary procedure.
- Financial and administrative power should be decentralized, up to a certain level, for issues such as recruitment of non-gazetted staff, sanctioning leave, granting of pensions, etc.
- The non-development and development budgets should be integrated.
- Training on the proper implementation of financial rules and regulations should be given to personnel dealing with education administration.
- Higher education should follow the government's cost recovery policy.
- Random budget cuts should be avoided as much as possible to enable the approved programme to be implemented.
- System monitoring with regard to budget implementation should be strengthened in the Ministry of Secondary and Higher Education and the Ministry of Primary and Mass Education, as well as at the directorate level.
- Coordination between the Ministry of Secondary and Higher Education, the Ministry of Primary and Mass Education and agencies should be developed.

3. NEPAL

Figure 3.1 Map of Nepal



Source: Texas University Maps.

Introduction

In Nepal, education plays a vital role in contributing to the government’s poverty alleviation goal. As such, a substantial percentage (around 15 per cent on average) of Nepal’s total budget has been allocated to the education sector over the last three years. Development partners involved in the development of education in Nepal have been consistently enthusiastic and supportive towards the education sector, in particular, the primary and secondary education, technical and vocational sub-sectors.

The main questions facing Nepal’s education sector today concern how to best utilize the available resources and how to ensure transparency and fiscal discipline. These issues are closely related to planning and budgetary procedures. This case study provides an opportunity to examine the budgetary procedures of the education sector within the context of the total budgetary and planning procedures of

the Government of Nepal. It is based mainly on the budget (plans and programmes) of the 2002-2003 fiscal years. However, attempts have been made to include more recent relevant information to the extent possible.

This case study is made up of six sections. *Section 3.1* presents the country and its economic and social environment; *Section 3.2* focuses on the education system, its goals and management structure. *Sections 3.3* and *3.4* analyse procedures for preparing and implementing budgets within the Ministry of Education. *Section 3.5* focuses on accounting, monitoring and budget control. *Section 3.6* draws lessons from the study and offers some recommendations in conclusion.

3.1 The country and its context

Nepal is a landlocked country located between the two most populous countries in the world, India and China. The snow-covered Himalaya mountain region to the north features Mount Everest, the highest peak in the world. Nepal's middle hill region is made up of magnificent mountains, hills, valleys and lakes. The country's southern region, Terai, is a gigantic plain of alluvial soil consisting of dense forest, national parks, wildlife reserves and conservation areas.

Nepal is an example of unification through diversity, in spite of its history, and has proudly maintained its status as an independent sovereign state. Nepal is now a Republic with a parliamentary democracy where people exercise rights of adult franchise. The executive, legislative and judiciary bodies function and exercise their rights independently. The Prime Minister holds the executive power. The new Constituent Assembly has 564 members elected from 205 electoral constituencies in the 75 districts of the country. Nepal became a secular and inclusive Republic on 28 May 2008 when the Constituent Assembly members voted the end of Nepal's 240-year-old monarchy.

There are five development regions and 75 administrative districts. Districts are divided into smaller units, called Village Development Committees (VDCs) and municipalities. There are currently 3,913 VDCs and 58 municipalities in the country. The capital of Nepal is Kathmandu.

Population

The population of Nepal was 27.1 million in 2006 with an annual growth rate of 2.2 per cent during the 1991-2001 decade. Geographic distribution of population is uneven. The 2001 census gave figures of 7.3, 44.3 and 48.4 per cent of the total population in the Himalayan, Hill and Terai regions respectively. In 2005, life expectancy was 62 years. In 2001, the literacy rate for the population aged 6 years and over was estimated at 53.7 per cent.

Economy

Nepal is among the poorest and least developed countries in the world, with nearly half of its population living below the poverty line. Production of textiles and carpets has expanded recently and has accounted for about 80 per cent of foreign exchange earnings over the past three years. Agricultural production is growing at about 5 per cent on average as compared with an annual population growth of 2.2 per cent.

Since May 1991, the government has moved forward with economic reforms, the main objective of which is to encourage trade and foreign investment by simplifying investment procedures, for example, reducing the requirements for business licenses and registration. The country's economic growth has not improved markedly over time in line with population growth. Little over half (57 per cent) of the population of working age was reported as economically active in 1991. In 1994, Nepal was placed 149th out of 173 countries on the UNDP's Human Development Index (HDI) development scale. Agriculture is the main base of the economy, providing a livelihood for over 81 per cent of the population and accounting for 41 per cent of GDP. The contributions of non-agricultural activities are gradually increasing in terms of GDP per capita. GDP per capita was estimated in the order of US\$297 for the year 2004-2005. The public sector's contribution to the national economy for the fiscal year 2005-2006 was 12.4 per cent of GDP.

The process of planned development began in 1956 with a five-year plan. The tenth such plan started in the fiscal year 2002-2003 and ended in 2007. This plan had the basic objective of poverty alleviation.

Fiscal deficit and GDP ratio in the national budget

During the 1999-2000 fiscal year, the ratio of fiscal deficit to GDP decreased by 0.6 per cent compared to the previous fiscal year. During the 2001-2002 and 2002-2003 fiscal years, the ratio of fiscal deficit to GDP decreased by 0.46 and 1.82 percentage points respectively, mainly because of decreased development expenditure (see *Tables 3.1* and *3.2*).

Table 3.1 Fiscal deficit and GDP ratio in the national budget (in Nepalese Rupees*)

FY	Total expenses	Revenue	Foreign grant	Total receipt	Fiscal deficit	Loan (foreign /domestic)	GDP	Fiscal deficit/GDP ratio (%)	Loan/GDP ratio (%)	Total exp/GDP ratio (%)
1998/1999	59,579,000	37,251,000	4,336,600	41,587,600	17,991,400	219,245,076	342,036,000	5.26	64.10	17.42
1999/2000	66,272,500	42,893,800	5,711,700	48,605,500	17,667,000	245,149,248	379,488,000	4.66	64.60	17.46
2000/2001	79,835,100	48,893,600	6,753,400	55,647,000	24,188,100	260,440,226	410,789,000	5.89	63.40	19.43
2001/2002	80,072,200	50,445,500	6,686,100	57,131,600	22,940,600	293,921,496	422,301,000	5.43	69.60	18.96
2002/2003	84,006,100	56,229,800	11,339,100	67,568,900	16,437,200	307,990,995	454,935,000	3.61	67.70	18.47

*US\$1 = 76.14 Nepalese rupees (average 2004).

Source: Red Book of respective years, Ministry of Finance.

Table 3.2 Statement showing trend of development expenditure (in Nepalese Rupees)

FY	Expenses		
	Non-development	Development	Total
1998/1999	31,047,700	28,531,300	59,579,000
1999/2000	34,523,300	31,749,200	66,272,500
2000/2001	42,769,200	37,065,900	79,835,100
2001/2002	48,590,000	31,482,200	80,072,200
2002/2003	54,973,100	29,033,000	84,006,100

Source: Red Book of respective years, Ministry of Finance.

Table 3.3 shows national budget trends as a share of GDP, and the distribution of the national budget between the development and non-development budgets over the period 1998-1999 to 2002-2003. The table shows that the total government budget as a share of GDP

has been growing regularly, from 20.3 per cent in 1998-1999 to 25.54 per cent in 2002-2003.

Table 3.3 Development and non-development budget as a percentage of GDP

Indicators	Fiscal year				
	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Development budget to total budget	54.14	54.18	52.5	50.58	40.24
Non-development budget to total budget	45.85	45.82	47.5	49.42	59.76
Budget to GDP	20.38	20.14	22.39	22.18	25.54

Source: Red Book of respective years, Ministry of Finance.

The share of GDP allocated to the education sector was 3.8 per cent in 2002-2003.

Share of education in the national budget

The percentage allotted to the educational budget out of the total national budget has increased gradually since 1997 to reach 14.9 per cent in the fiscal year 2002-2003. *Table 3.4* presents the trends in the education sector's share of the government budget between 1997-1998 and 2002-2003.

Table 3.4 Budgetary trend in the education sector

Fiscal year	Percentage of education budget to total budget
1997-1998	13.08
1998-1999	12.49
1999-2000	13.17
2000-2001	14.01
2001-2002	14.01
2002-2003	14.98

Source: Red Book of respective years, Ministry of Finance.

A Monarchy throughout most of its history, Nepal became a Republic when a peace agreement was signed after a decade-long civil war between the Maoist revolutionary fighters and the royal army. Nepal was declared a Republic on 28 May 2008 and the first President of Nepal, Ram Baran Yadav, was sworn in on 23 July 2008. The new Constituent Assembly is drafting the new constitution of the country.

The civil war situation has badly affected the country's education programmes that the Government is currently trying to improve. It was common for students and teachers to be abducted during the political instability. Because of this insurgency situation, a large part of the government's revenue was allocated to the security sector. That is why investment in education was increasingly dependent on foreign grants and loans. It was difficult to maintain a balance between the available budget and growing programmes. This is one of the central reasons behind the government's decision to set up the Medium-Term Expenditure Framework (MTEF) as a budgetary procedure. With peace now prevailing in the country, it is hoped that the current Government efforts will help improve rapidly the education sector.

3.2 Education sector

Structure and goals of the education system

Nepal's school system comprises five years of primary education (Grades 1 to 5 for the 6-10 year-old age group), three years for lower secondary education (Grades 6 to 8), two years for secondary education (Grades 9 to 10), two years for higher secondary education (Grades 11 to 12), three years for a Bachelor's degree and two years for a Master's degree. In technical and vocational education the duration of academic coursework is different from that of the general coursework described above. The number of years depends upon the nature of the studies (see *Annex 8*).

Major educational goals

The main goals of the education sector are:

- to nurture and develop the personalities and innate abilities of each individual;
- to instill respect for human values and the will to safeguard national and social belief;
- to enhance social unity;
- to help the individual develop his/her identity in both the national and international context and lead a socially harmonious life in the modern world;

- to add to the modernization of the nation by creating able human resources for its development;
- to teach the thoughtful protection and wise use of Nepal's natural resources;
- to help the disadvantaged citizen to enter the mainstream of national life.

More specifically, the objectives assigned to each level of education are described as follows.

Early childhood development and pre-primary schools (ECD and PPS)

This programme is designed in order:

1. to promote the well-rounded development of young children by establishing community-based child development centres;
2. to provide pre-primary level education to children below the age of five years and prepare them for primary education;
3. to enhance the capabilities of organizations involved in the development of infants and young children.

One of the objectives of the tenth five-year plan was for ECD/PPS enrolment to constitute 30 per cent of total net enrolment ratio (NER) in primary schools.

Non-formal education

The non-formal education programme was developed to:

1. increase the literacy rate among adults and keep literacy skills sustainable;
2. provide education to children deprived of school education through a non-formal alternative schooling programme;
3. enhance the capabilities of organizations providing informal education;
4. give dynamism to continual and functional education by establishing community study centres.

Primary education

The main aim of primary education is to develop the innate ability of each individual child through child-centered education, where

emphasis is given to simple reading, writing and mathematical skills for use in everyday life. The importance of honesty, independence and hard work is also stressed. In addition, primary education has the following specific objectives:

- to develop the habit of exploration through curiosity;
- to create interest in arts and culture;
- to develop the ability to communicate and exchange ideas, both orally and in writing;
- to develop the necessary mathematical skills to solve practical everyday problems;
- to develop a positive awareness of health issues in everyday life;
- to develop awareness of the importance of the environment;
- to develop a cooperative and responsible attitude and an appreciation of social norms;
- to develop an appreciation of democratic values;
- to create responsible citizens who are proud of their nation and are devoted to national unity.

Table 3.5 Types and number of primary schools, student enrolment and number of teachers on duty

Code	Description	Schools	Enrolment	Teachers
1	Public schools	20,969	3,418,923	78,552
2	Community schools	1,802	164,965	3,725
3	Private schools	2,172	269,730	14,382
	Total	24,943	3,853,618	96,659

Source: 1999-2000 Education data.

Lower secondary education

The main aim of lower secondary education is to produce productive citizens who believe in democracy and are aware of their responsibility towards social and national development. Students in lower secondary education are expected to be hard workers and competent in communicating ideas. The other aim of lower secondary education is to prepare children who have completed primary education for secondary education, and to enhance the quality of secondary education.

Table 3.6 Types and number of lower secondary schools, student enrolment and number of teachers on duty

Code	Description	Schools	Enrolment	Teachers
1	Public schools	5,870	927,629	18,476
2	Community schools	162	22,609	1,695
	Total	6,032	950,238	20,171

Source: 1999-2000 Education data.

Secondary education

The main aim of secondary education is to produce competent and healthy citizens who can contribute to the economic development of the country, and are familiar with national traditions and cultural, social and democratic values. Students at this level should be able to communicate their feeling clearly, think scientifically as well as creatively, be capable of cooperation, and be eager to work to earn their livelihoods.

Table 3.7 Types and number of secondary schools, student enrolment and number of teachers on duty

Code	Description	Schools	Enrolment	Teachers
1	Public schools	3,106	385,551	13,061
2	Community schools	132	113,616	540
3	Private schools	875	52,429	5,245
	Total	4,113	551,596	18,846

Source: 1999-2000 Education data.

Higher secondary education

The main aim of higher secondary education is to produce skilled human resources capable of making solid contributions to the overall development of the country and to impart to them the basic knowledge and skills required for receiving higher-level education. There are two types of higher secondary schools: government grant-aided schools (402) and private schools (391).

Higher education

The main objective of higher education is to produce skilled, high-level, technical human resources of an international standard, with good academic qualities and the capacities needed for the overall development of the country. Higher education should also

develop patriotic and self-sufficient citizens with a sense of national responsibility.

(i) *Technical and vocational education*

The main objective of technical and vocational education is to produce the basic and medium-level technical human resources needed for the country's development. There are four types of technical and vocational schools: technical institutes for training technical instructors, community development centres, trade schools and annex schools. *Table 3.8* provides statistics on technical and vocational schools.

Table 3.8 Number of technical and vocational schools

Particular	Government-aided	Private	Total
Technical institute for technical instructors	1		1
Community development centre	2		2
Trade schools	15	163	178
Annex schools	15		15
Total	33	163	196

Source: 1999-2000 Education data.

Educational administration and status

The Ministry of Education and Sports (MOES) was first created in 1951. The task of initiating and systematizing educational activities across the country lies with this Ministry. Its organizational structure is designed so that the Ministry's roles and responsibilities are distributed from the central to district levels (see the organizational structure of MOES in *Annex 9*).

Over the past five decades, the education system in Nepal has successfully concentrated on increasing access to primary schools to 80.4 NER (whereas girls' net enrolment ratio is 74.6), and on developing the foundations of secondary and tertiary education. The literacy rate has increased from 5 per cent to 53.7 per cent for the whole population, whereas the literacy rate for the female population is 42.5 per cent. These achievements constitute the first phase in the educational development of the country. As the pressure to further expand the system intensifies, so do concerns over the equity and quality of the education provided. The responses to these pressures and concerns, many of which will be

made over the next few years, will determine the future structure and strength of the system.

Provision of access to basic education

Primary education is free and students are not charged tuition fees. Textbooks are provided for free. In addition, a yearly stipend of Rs. 250 is provided for all dalit (scheduled caste) students. Yearly stipends of Rs. 250 are also provided for girls from selected districts. In districts with food shortages, students of public schools get one meal per day. In order to increase girls' enrolment rate, the education act has made provision to recruit at least one female teacher in each primary school.

Education is provided for free through the secondary level for all students from ethnic minority groups, dalits, and girls from families below the poverty level. Private schools are very expensive at all levels. However, in private schools there is also a legal provision for providing scholarship to 5 per cent of the total students in the school. The cost of education at government-funded universities is very low.

Teacher management

There are 4,038 pre-primary, 25,927 primary, 7,289 lower secondary and 4,350 secondary schools – including private schools – in the country. There are 11,785 pre-primary teachers, 97,879 primary teachers, 25,375 lower secondary teachers and 19,498 secondary teachers. Presently the student-teacher ratio on average stands at 22, 37, 38 and 19 in pre-primary, primary, lower secondary and secondary levels respectively. The student-teacher ratio, as per the education act, is 40, 45 and 50 in the Himalayan, Hill and Tarai areas respectively. As per the Education Act, there should be at least one female teacher in each school. However, there are many schools that do not have a single female teacher, especially in the Himalayan and Hill districts. Over the last four to five years, no new public school teachers have been recruited by the government because of resource constraints, and many communities have to pay the salaries of newly appointed teachers themselves.

In line with the Dakar declaration on 'Education for All', the Government of Nepal declared an EFA Action Plan for 2000-2015. As per the Action Plan, it has to enrol 100 per cent of primary school-aged children in schools by 2015. In order to cater to out-of-school children, whose numbers are estimated at 19 per cent of all school-going aged children, and to improve the quality of education in schools, as per the EFA plan, the government has made budgetary provisions to recruit new teachers. As per the budget speech for the fiscal year 2004-2005, the government planned to create two posts in each community primary school. The government pays the salaries of all public school teachers, and teaching licenses are compulsory for teachers in Nepal. In order to obtain a teaching license, one must have undergone teacher training. The National Level Teacher Service Commission is responsible for providing teaching licenses and teachers' tenure. The salary scale of teachers is equal to that of civil servants.

Government policy towards private education

Like other developing countries, Nepal is aware of the fact that the government alone cannot meet the growing demand for education. Public-private partnerships are a must in order to address the growing challenges in the education sector. The private sector in Nepal has been highly encouraged to invest in the education sector, and the government has created an open environment for private schools to flourish freely.

The government places no restrictions on private schools except to fix the rate of tuition fees. Private schools have been quick in attracting students because of the quality of the education they offer. Educational statistics for the year 2001 show that 8.71 per cent of students in Nepal study in private schools. Since private schools are blamed for making education expensive, the government is trying to control the situation through legal provision.

Public-private partnerships in education

School education is comprised of primary and lower secondary education. Both private and public schools provide this type of education. As per the education act and regulations, schools are categorized as follows:

(a) School education (public)

As far as public schools are concerned, the following regulations apply:

1. primary education is free including textbooks with nominal scholarship;
2. lower secondary and secondary schools charge nominal fees. The government provides block grant funds for salary and administrative costs in such schools.

(b) School education (private)

Private schools providing school education fall into the following categories:

1. fully private;
2. private school run by trustees.

Private investment groups run fully private schools with the intent of making a profit. Private schools run by trustee funds, such as Mission schools and Budhanilkantha schools are set up to provide services to their communities.

(c) Higher secondary education

At this level of education, the following distinction is made:

1. fully private;
2. nominal government funding.

In the higher secondary education sector, most schools are private and do not receive any government support. However, those attached to public secondary schools get some yearly block grants from the government. Consequently, at higher secondary levels, students pay much more to attend private schools compared to government-funded schools. All the funding provided to the education sector is detailed in the national budget.

(d) Higher education

Higher education institutions can be either:

- private with occasional nominal government funding;
- fully funded by the government.

The government funds four out of five of Nepal's universities. The sole private university occasionally receives government grants.

Education budgets

Fifty-nine per cent of the budget available for the education sector is allocated to the primary sub-sector. The available budget for the education sector is distributed among 62 different programmes and projects. *Table 3.9* provides detailed information on education budget allocations for 2002-2003.

**Table 3.9 Budget allocation for fiscal year 2002-2003
(in 1000 Rupees)**

SN	Budget heading	Non-development budget	Development budget	Total budget	Percentage
1	Primary education	5,857,456	266,738	8,524,844	59.19
2	Secondary education	3,013,971	3,125	3,017,096	20.95
3	Higher secondary education	10,980	36,103	47,083	0.33
4	Non-formal education	-	70,395	70,395	0.49
5	Women's education	-	180,506	180,506	1.25
6	Curriculum, textbook and education materials	12,507	77,000	89,507	0.62
7	Education administration	684,534	-	684,534	4.75
8	Scholarship and student welfare	20,500	82,603	103,103	0.72
9	Sports and youth	65,000	28,750	93,750	0.65
10	Higher education	1,362,690	108,400	1,471,090	10.21
11	Technical and vocational education	756	92,540	93,296	0.65
12	Other	27,217	-	27,217	0.19
	Grand total	11,055,611	3,346,810	14 402,421	100
	Total national budget		96,124,796		
	Education budget		14,402,421		
	Percentage of education in national budget		14.98		

Source: Red Book of respective years, Ministry of Finance.

Per student, the non-development budget for primary education shows an increasing trend in current prices, but a decreasing trend in constant prices, as *Tables 3.10* and *3.11* illustrate.

Table 3.10 Per student (primary education) non-development budget at current prices

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
(a) Total budget (in Rs.)	2,575,540,000	2,657,772,000	2,814,584,000	3,375,400,000	3,561,272,000
(b) Total enrolment	3,263,050	3,447,607	3,460,756	3,587,665	3,780,314
(a)/(b) Budget per student (in rupees)	789.3	770.9	813.29	940.83	942.06
Growth rate (%)		2.33	3.04	19.20	19.35

Source: The authors.

Table 3.11 Per student (primary education) non-development budget at constant prices (1995-1996)

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Price indexes	100	103	109	131	138
(a) Budget at 1995-1996 price	2,575,540,000	2,580,505,800	2,582,785,400	2,576,982,600	2,582,566,800
(b) Total enrolment	3,263,050	3,447,607	3,460,756	3,587,665	3,780,314
(a)/(b) Budget per student (in Rs.) (at constant price)	789.3	748.49	746.31	718.29	683.16
Growth rate (%)		-5.17	-5.45	-9.00	-13.45

Sources: The authors.

3.3 Procedures for preparation of the budget

General framework and budgetary concepts

For the preparation, approval and passing of the budget, the legal and institutional provisions of the Constitution of the Kingdom of Nepal (1990), the Financial Procedure Act (1998), the Local Self-Governance Rules (1999), the Financial Administration Rules (1999), Budget Speech/Votes on Accounts and the Appropriation Act must be followed.

Long-term (periodic plan): the tenth five-year plan

The use of periodic five-year plans has been in practice since 1956. The annual plan is directed by the strategic policies of the five-year plan. Nepal's tenth five-year plan began in the 2002-2003 fiscal year.

Similarly, the first year of the medium-term budgetary framework will be the first year of the tenth plan. There is thus consistency in Nepal's planning and budgeting activities, between Nepal's MTEF and its tenth five-year plan.

Medium-Term Expenditure Framework (MTEF)

Nepal uses a medium-term expenditure framework (MTEF) in the development process of its annual budget. This forms part of the periodic plan, and is linked to last year's programme and the programmes of the coming two years. Nepal has used a MTEF since 2001-2002, to maintain a balance between limited resources and unlimited needs by prioritizing projects under the guided criteria given by the National Planning Commission (NPC). Use of the MTEF will also help maintain fiscal discipline.

The MTEF was initially aimed at incorporating five ministries, namely: Agriculture and Cooperatives, Education and Sports, Health, Water Resources and Physical Planning and Works. It was later implemented in all ministries from the beginning of the fiscal year.

The Government of Nepal initiated the MTEF with the objective of preparing a three-year rolling annual programme and budgeting system linked to the tenth plan's goals. Positive indications of its effectiveness are emerging. Budget allocation and the implementation process are now more realistic, the monitoring and evaluation exercise has become meaningful, and budget release for projects has become predictable.

Box 3. Rationale for use of an MTEF

- The MTEF will strengthen weak implementation capabilities to achieve desired outcomes.
- The new programme would improve the economic balance by allocating resources in a realistic manner.
- The programme is being introduced mainly to link annual budgets with long-term plans, priorities, projects and programmes, prepare sectoral programmes under the budget ceilings, and maintain fiscal discipline.
- The MTEF ranks programmes based on the importance of the projects, and includes a three-year budget projection that maintains a realistic macro framework.
- The MTEF has projected the growth of GDP for the next fiscal year to be 5.5 with agriculture GDP valued at 4%. It has projected a decline in the fiscal deficit in the coming years but an increase in revenue collection in terms of GDP estimates.
- The outcome of the newly initiated approach would be impressive where projects are classified by objectives and have better inter-and intra-sector resource allocations. The results of the MTEF would be observed in terms of more efficient use of public resources, greater transparency and credibility and greater fiscal discipline.
- Performance criteria would be developed and implemented along with the development of a strong monitoring framework, where budget release would be linked with performance to ensure the MTEF's effective implementation.
- The MTEF is a new government approach aimed at ensuring maximum output by prioritizing development projects to secure maximum outcomes from the available government resources. Development projects have been classified into three types, namely P1, P2 and P3. Programmes falling under P2 and P3 categories have lower priority than P1 projects.
- MTEF has been introduced to improve sustainability and continuity of programmes and projects. Under MTEF, ministries are also directed to furnish three-year rolling budgets for development programmes, segregating central and district level budgets under the MTEF.

Source: Ministry of Finance, Government of Bangladesh.

The MTEF is elaborated with a view to:

- finance projects and programmes on the basis of prioritization;
- link allocations between previous and current fiscal years and the two fiscal years to come;
- rationalize funding support, demonstrating the connection between resources, programme objectives and outputs;
- continue the government's commitment of funds for three years;

- maintain fiscal discipline in public expenditure management;
- link the annual plan with the long-term plan;
- integrate non-development and development budgets.

Central-level and district-level budgets

There is a provision for two types of budget in the Red Book, the government's budget book (see *Annex 12*): the central-level budget and the district-level budget. NPC and the Ministry of Finance (MOF) approve the budgets.

From a budgetary point of view, the province or district has a vital role in preparing the district-level budget. No programmes are implemented unless and until the district development council (DDC) approves them; however, the government provides the budget ceiling for the DDC.

The district-level budget follows the guidelines of the NPC, MOF, MOES and concerned institutions in its planning and budgeting procedure. This exercise is performed at the district level in which the District Education Office (DEO), the District Education Committee (DEC) and DDC are extensively involved.

Budget nomenclature

The budget expenditure classification (budget nomenclature) system in place in Nepal is a complex one. Several types of classification operate at the same time. These can be distinguished as follows:

1. Classification by objectives: Sectoral objectives for government spending are clearly spelled out into different heads and line items. This line-item budgeting and classification system has been in practice in Nepal since 1962, along with the other budget classification systems.
2. Functional classification: The major services and activities that are to be performed by the government are organized into main heads and sub-heads in the budget book (the Red Book). Under this system, the expenditure allocated for MOES (including the offices working within the ministry) is included under main heading (code) number 65 (within social services). Expenditure is

then incorporated depending on the different offices and projects and their different sub-headings. For example:

65-3-110 Ministry of Education and Sports

65-3-115 Department of Education

65-3-120 Regional Educational Directorates 5

65-3-121 District Education Offices 75

65-4-411 Basic and Primary Education II

65-4-412 Teacher Education Project.

3. Under the organizational classification system, the budget is prepared on the basis of organization (ministry, department, project, office, etc.). The economic classification system organizes the budget on the basis of the economic nature of the expenditure to be carried out. Both systems have been in use in Nepal since 1962.
4. The programme and performance classification system is based on programmes. It is also referred to as the achievement-oriented/performance-oriented budget and has been applied together with the above-mentioned classification systems. The same is true for the system of classification by services, which provides information about the expenditure of different services of different government bodies (the executive, legislative and judiciary).
5. The system of classification by nature of expenditure (non-development and development) was introduced recently and came into effect during the 2004-2005 fiscal years. This system has greatly changed the classification of government expenditure. Under this classification system, government expenditure is classified into three broad categories: (a) Recurrent Expenditure (non-development); (b) Capital Expenditure; (development); and (c) Payment of Principal. *Table 3.12* illustrates former and recent expenditure classification systems (detailed classification of expenditure by nature is given in *Annex 10*).

Table 3.12 Comparative chart showing former and recent classification

Former code and definition (MOES)		Recent code and definition (MOES)	
Budget code 65	Ministry of Education and Sports	Budget code 65-	Ministry of Education and Sports
Code 3	Non-development/revenue expenditure	Code 3	Recurrent expenditure
Code 4	Development (centre)	Code 4-	Capital expenditure
Code 5	Development (districts)	Code 5-	Payment of principal

Note:

The first code (i.e. 65-) denotes the Ministry of Education and Sports.

The second code (i.e. 3-) denotes recurrent expenditure (non-development budget).

The third code (i.e. 4-) denotes capital expenditure (development budget).

The fourth code (i.e. 5-) denotes payment of principal expenditure.

Tables 3.13 and 3.14 show alternative methods of budget classification and sector-wise priority and strategic allocation and their respective codes:

Table 3.13 Alternative methods of budget classification, estimates of expenditure by economic heads and line items for fiscal year 2002-2003 (in 1000 Rupees)

Code	Economic heads and expenditure items	Non-development	Development	Total
Current expenditure				
1	Consumption expenses (1.01-1.08)	20,073,629	1,639,729	21,713,358
2	Office operation and services (2.01-2.08)	21,53,915	12,44,106	3,398,021
3	Grants and subsidies (current transfer)- (3.01-3.04)	12,216,260	4,776,971	16,993,231
4	Service and production expenses (4.01-4.06)	729,988	2,351,552	3,081,540
9	Contingency expenses (9.01)	4,137,688	3,232,222	7,369,910
10	Principal payments (10.01-10.02)	8,341,393	0	8,341,393
11	Interest payments (11.01-11.02)	8,006,076	0	8,006,076
12	Refunding (12.01)	169,760	0	169,760
Total				
Capital expenditure*				
5	Capital transfer (5.01-5.02)	1,228,512	25,435,095	26,663,60727
6	Capital formation (6.01-6.07)	1,019,512	10,151,248	11,170,760
7	Investment (7.01-7.02)	37,500	8,236,725	8,274,225
8	Capital grants (8.01-8.03)	0	6,964,559	6,964,559
Grand total		57,445,121	38,679,675	96,124,796

* Since the 2004-2005 fiscal year, this category has been renamed 'capital expenditure'.

Source: Ministry of Finance. Government of Bangladesh.

Table 3.14 Sector-wise priority and strategic allocation for fiscal year 2003-2004 (development expenditure) (in 1,000 Rupees)

Sector/ministry	Allocation	Priority				Strategy				
		P1	P2	P3	N	01	02	03	04	07
Constitutional bodies (14-19)	170,050	170,050	0	0	0	0	0	0	170,050	0
General administration (including NPC Secretariat)	285,953	177,553	78,800	29,600	0	0	0	0	285,953	0
Social services (including MOES)	17,579,423	12,642,592	4,141,372	795,459	0	0	11,846,418	2,411,106	3,221,899	0
Economic services	2,333,464	17,348,498	5,108,038	878,105	0	17,462,450	4,450,718	568,044	853,429	0
Miscellaneous (including MOF)	474,933	0	424,933	50,000	0	10,000	0	0	464,933	0
Note:										
Code	Priority	Code	Strategy							
P1	First	01	Sustainable and board-based economic growth							
P2	Second	02	Social sector infrastructure development							
P3	Third	03	Targeted programmes							
N	None (non-development)	07	General administration							

Budgetary procedures and timeframe

Table 3.15 Budget (year t) formulation timetable

Year t-1	
	1. District-level development budget, formulation guidelines and budget ceilings established
Last week of September	NPC requests necessary information from concerned line ministries to determine district-level budget ceilings for the coming fiscal year.
Third week of October	Line ministries submit their district-level initial proposed budgets to NPC.
First week of November	NPC, in consultation with line ministries, delivers the budget ceiling and macro-guidelines for budget to all District Development Committees (DDCs).
Second week of November	Line ministries circulate the above to DDC along with information concerning allocations for projects and micro-guidelines.
	2. Preparing total budget size (ceiling)
First week of December	Line ministries send initial proposals for development budgets to NPC. NPC determines the total size of the national development budget.
Second week of December	NPC prepares the development budget ceilings (concerning sectors and ministries) and submits them to the Budget Resource Committee (BRC). MOF prepares the non-development budget ceilings and submits them to BRC.
Third week of December	BRC determines total budget size and approves budget ceilings.
	3. Distributing budget formulation guidelines and budget ceiling information
Third week of December	MOF sends out non-development budget ceiling and directives. NPC sends out development budget ceiling (concerning sectors and ministries) and guidelines.
Last week of December	Line ministries send budget ceiling and guidelines concerning development and non-development budgets to departments/districts, offices and projects.
Year t	
	4. Preparation and submission of non-development and development budgets
Third week of January	District level offices prepare and send non-development budget forms to all concerned departments for completion. Annual budget goals must be taken into account.
Second week of February	Departments complete and return non-development budget forms, which together form the <i>unified non-development budget</i> , to their ministries, taking into account annual goals.

Third week of February	Line ministries prepare their own non-development budget proposals and submit them to MOF. Line ministries send district-level and department non-development budgets to MOF.
Last week of February	Line ministries prepare development budgets (keeping within the limits of previously defined ceilings), The Annual Development programme (plan) and budget of central level projects.
Second week of March	DDC submits approved district programmes to concerned ministries. MOF organizes discussion on non-development budgets (for those ministries which do not put forth development budget proposals).
Third week of March	MOF initiates discussions on non-development and development budgets. NPC, MOF and line ministries hold discussions on the central budget.
First week of April	Line ministries propose and submit budgets for district-level projects to MOF and NPC.
5. Discussion of non-development and development budgets	
Second week of April	NPC, MOF and line ministries hold discussions on district-level budgets.
Third week of April	MOF prepares the initial draft of the budget.
First week of May	MOF prepares the final draft of the budget.
6. Budget deliberation and approval from Parliament	
Second week of May	The Finance Minister presents the budget to Parliament.
Fourth week of June	Parliament approves and accepts the budget.
7. Insurance of Authority to Expenditure (AoE) and activity approval	
First week of July	Line ministries approve activities with quarterly allocations. The Finance Secretary delivers AoE.
Second week of July	Secretary of concerned office starts to implement the budget

(a) Planning and budgeting procedures in education

The Ministry of Education and Sports has the task of initiating and systematizing educational activities across the Republic of Nepal. It is mainly responsible for taking care of overall policy development, planning, management, service delivery systems and monitoring and evaluation in the education sector across the country.

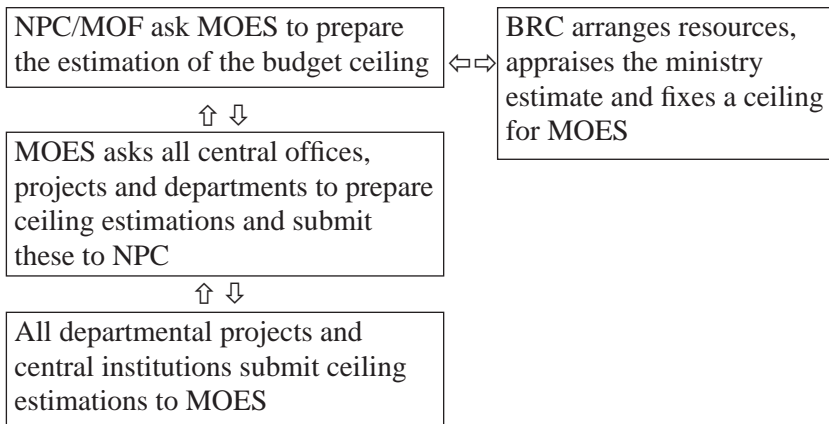
While preparing the budget, MOES has to take the following factors into consideration:

- government development policies and ongoing programmes and projects
- the actual work performance report with income and expenditure of the preceding financial year
- current prices and possible increases in price rates
- timely submission of budget estimate
- the availability of required human resources and construction materials
- estimates to be made on the basis of loans or aid to be received according to agreements with development partners
- the tenth five-year plan and the MTEF.

The budget is discussed at ministry level under the chairmanship of the Joint Secretary of the MOES Planning Division. All planning officers of the concerned Central Level Offices (CLOs) participate in the discussion. The programme and budget are assessed and discussed based on the project document, NPC guidelines, the tenth five-year plan, the MTEF and other policy documents. Rounds of discussions are held until programmes take their final shapes and budget allocations are made.

These rounds of discussions, plans and programmes are repeatedly revised until a common agreement is found. MOES carries out other major activities such as preparing the estimation of central/district-level development budget ceilings and forwarding it to NPC.

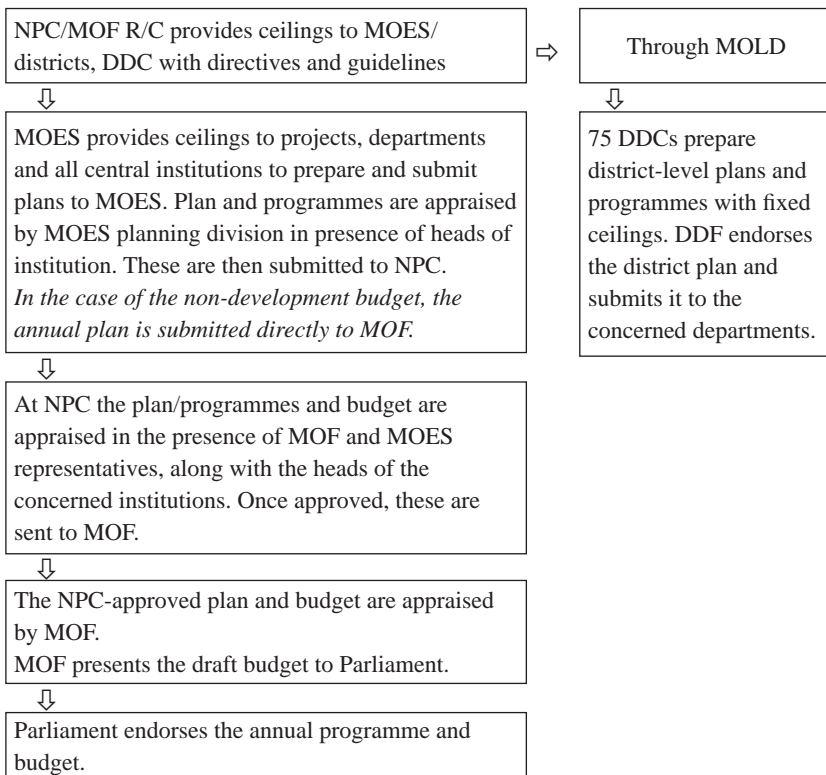
Figure 3.2 Procedures for estimating budget ceilings



After the ceiling is estimated, programmes and budget are planned on the following criteria:

- project documents;
- reflection of long-term plan and MTEF;
- current and ongoing programmes;
- agreement between government and donors;
- recommendation of formative evaluations and study reports;
- assessed new needs;
- government resources and donor support;
- departments' innovative ideas;
- government priorities;
- MTEF (medium-term expenditure framework).

Figure 3.3 Procedures for preparing programmes and budgets



During this process, the Ministry of Education and Sports will undertake the following tasks:

- Send a circular to its subordinate departments/central offices/projects to prepare planning and budgets. The non-development budget is prepared in accordance with MOF circulars. The development budget is subject to the ceilings, guidelines and specific formats set out by NPC.
- Collect, verify, evaluate, appraise and start discussions with stakeholders, and consolidate the plans and programmes that have central and district-level activities.
- Seriously discuss the programmes and budgets of all projects with donors during their visits and incorporate donor recommendations into the Annual Strategic Implementation plan (ASIP), the Annual Work Plan and Budget (AWPB) and the Procurement Plan.
- Complete and send the correct forms to MOF and NPC for preliminary programme and budget proposals for district-level projects that have been approved by district councils.
- Prepare the programme and budget for central projects using the correct formats, then send these to NPC.
- Complete the non-development budget form taking into account central and district-level annual targets before submission to MOF.
- Prepare and submit the fundamental policies and programmes of the education sector to be included in the budget speech.

The annual plan or budget is generally submitted to NPC twice. The district-level development plan and budget are submitted to NPC, followed by the central development budget in April. The non-development budget is submitted to MOF directly; it does not pass through NPC. Budget discussions are held at the same time for both district-level and central budgets. MOES defends the total education budget in negotiations with NPC and MOF.

(b) Decentralization in the education sector

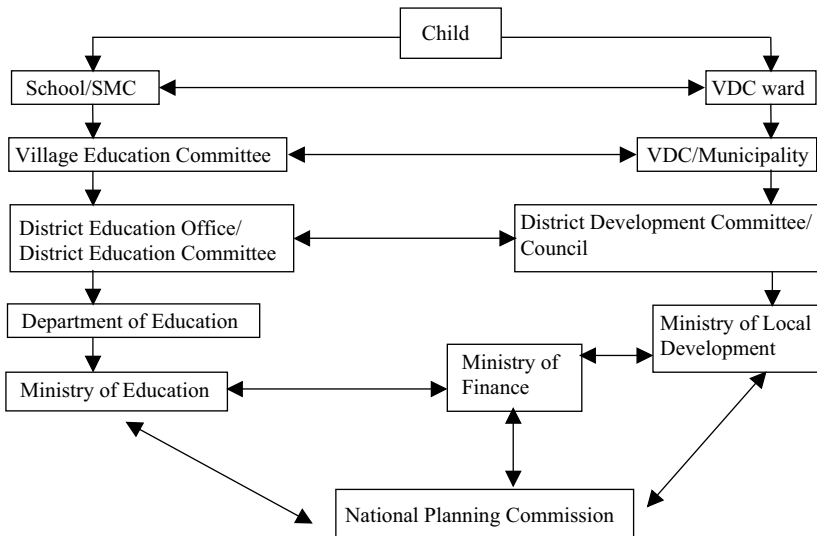
As a result of the Local Self-Governance Act (1999), MOES has amended the Education Act and relevant regulations enabling it to commence decentralization. Although inconsistencies remained between the Education Act and the Local Self-Governance Act,

MOES initiated steps toward decentralization in 2002, introducing a decentralization manual, with regard to implementation of its education programmes.

Concerning decentralization, the government has piloted comprehensive bottom-up planning exercises in 12 out of 75 districts, and in one selected resource centre in each of the remaining 633 districts. In addition to teacher salaries and administrative costs, each piloted school is provided with Rs. 200, Rs. 170, or Rs. 150 per student for quality improvement in the Himalayan, Hill and Terai districts respectively.

In selected districts, comprehensive planning is being piloted where annual planning and budgeting starts at the school level. After the appraisal of the concerned resource centre, the plan is sent to the Village Education Committee (VEC). The VEC makes a compiled village education plan which it sends to the Village Development Committee (VDC). After VDC's approval, the plan is sent to the District Education Committee (DEC). After DEC's appraisal it is sent to DDC. Once it has been passed by DDC, it takes final shape and is sent to the Department of Education (DOE). The bottom-up planning chart is illustrated in *Figure 3.4*.

Figure 3.4 Decentralization: bottom-up planning chart



With the exception of the piloted districts described above, planning starts from the district level. Programmes and budgets are prepared at the district level and sent to the central Department of Education (DOE). Nepal is currently in a transition period; its government planning and budgetary procedures are changing from a top-down to a bottom-up system. Reforms are common these days, as different types of exercises such as the MTEF, decentralization and governance reform programmes are put into practice.

(c) Donor support in education

Nepal's education sector receives substantial support in the form of grants and loans from different donors. MOES has completed many projects, and many projects are ongoing with new projects in the pipeline. Current donors comprise the World Bank, ADB, Danida, Norway, Finland, EC, JICA, DFID, UNICEF, WFP and UNFPA. Some donors join forces through basket funding to support basic and primary education projects (BPEP), while other donors give support on a per-programme basis. All donors involved in basket funding follow and accept a single planning, budgeting, implementing, monitoring and reporting system. For any decision requiring concurrence from all donors, approval is obtained and granted by the World Bank. The implementing agency does not have to deal separately with all donors of the basket fund, as the donors have, by common agreement, authorized the World Bank to hold this responsibility.

Some programmes are fully supported by donors while others need matching funds (counterpart funds), ranging from 4 to 50 per cent. The percentage of counterpart funds needed differs from project to project.

During the project implementation stage, donors may make suggestions to enhance project activities, based on their supervision mission report. By mutual understanding between donors and the implementing agency, such suggestions are taken into account.

Evaluation techniques for budget lines

(a) The link between the educational budget and the national development plan

All educational objectives and development policies are linked to the national development goals of the national development plan,

the eleventh five-year 2008-2013. Educational demands are increasing, yet budgetary constraints remain. So projects and programmes are prioritized under certain fixed criteria in the MTEF's three-year rolling budget. The MTEF exercise is finely tuned to the national development plan's objectives, outputs and outcomes.

(b) Coherence between the budget and EMIS

Budgeting and planning are based on available statistics. The information available in the statistic sections of MOES and the Department of Education is of the utmost importance. Annual plans and budget are arranged on a quarterly basis. Monitoring indicators are defined at the planning phase, with the agreement of MOES, NPC and the bodies involved in monitoring activities for NPC, MOF, and MOES – as well as the concerned institution itself. MOES is also trying hard to improve and strengthen education management information systems (EMIS) at the central and district-levels. Planning and budgeting are assessed at all levels: MOES, NPC and MOF. During appraisal of the annual plan, the link between project and programme objectives, data, indicators, outputs and budget allocations are taken into account.

(c) The link between the educational budget and the new yearly school improvement plan

The central budget is linked to the district-level budget, as is the new yearly school improvement plan. Provisions for budget transparency and acquainting actors at all levels with the annual budget at each level and each plan and programme are ensured through an orientation programme.

In addition to funds made available from the central budget, local bodies (DDC/VDC) may provide extra funds for schools. School management committees have the authority to charge tuition fees starting at the lower secondary level (though rates charged for tuition are subject to the district education office's approval).

(d) Budget estimates on the basis of unit cost

The education budget is estimated on the basis of unit cost to the extent possible. As regards the preparation of unit cost, NPC has decreed that development budget estimations should be based on unit

cost. This is the reason why most institutions are trying their best to prepare annual plans and budgets on the basis of unit cost. In this regard, higher education is lagging behind, compared to other institutions.

Detailed unit costs of some of the major programmes are given in *Annex II*.

Behaviour of the actors involved

(a) National Planning Commission (NPC)

The National Planning Commission plays the leading role in the process, responsible for the coordination, monitoring and evaluation of all planning activities – the foremost among these being the preparation and operation of five-year plans and annual development programmes. Within the NPC there are seven divisions, each headed by a joint secretary responsible for the planning of particular functional sectors. In addition, one further division deals with the monitoring and review of plans. *Box 4* explains the main activities performed by the NPC Secretariat as concerns budget formulation.

(b) Ministry of Finance (MOF)

Within MOF, the Budget Division, headed by a joint secretary, is responsible for budget preparation and monitoring. Each of the four undersecretaries is responsible for several line ministries. MOF's Budget Division determines the procedures to be followed and the forms to be used by line ministries when preparing budgets. There is also a Foreign Aid Division, which undertakes the lead role in organizing, mobilizing and controlling foreign aid.

Discussions at MOF level are supposed to concern final approval of the budget. Project heads and representatives from MOES' planning and finance divisions take part in these discussions, and department heads also participate in the meetings. These discussions are held at the undersecretary level. Following these discussions, the MOF will:

- prepare an integrated budget by unifying the budgets of all institutional projects and programmes, and
- finalize resource adjustment.

Box 4. The activities of the NPC

The NPC undertakes the following budget formulation activities:

- Issues a circular to the concerned ministry requesting a preliminary estimate of budget in project-based form, in order to fix the shape of the development budget for the forthcoming fiscal year. The concerned ministry has to report back to the NPC.
- Prepares the ceiling for the development budget with due consultation with the Ministry of Finance (MOF), then forwards it to the Budget Resource Committee (BRC).
- Sends the ceiling and detailed development budget guidelines along with a formulation and discussion schedule to concerned ministries for the forthcoming fiscal year.
- Forwards the budget ceilings and overall guidelines to all DDCs, after discussions are held with the concerned ministries.
- Assists in the mobilization of internal and foreign resources, as well as traditional and modern techniques for the smooth performance of development programmes and projects.
- Provides manuals, guidance and suggestions on the formulation and preparation of plans and programmes of ministries, departments, other institutions and local bodies.
- Identifies and selects development projects and programmes for the development of the country.
- Formulates an annual development programme then forwards it for approval to the cabinet.
- Projects the availability of financial resources with the mutual cooperation and involvement of MOF (especially concerning donor-funded projects and plans), and makes allocations on a priority basis.
- Provides each ministry with a yearly budget ceiling for the formulation of its development budget.
- Sets out priority and policy goals in respect of the plans and programmes for the forthcoming fiscal year, and provides necessary guidelines to concerned ministries and MOF prior to sending the circular for preparation of the budget.
- Holds discussions on the planning and budgeting of central and district-level development programmes.
- Makes the final decisions on plans and programmes, on the basis of discussions held between representatives of MOES and MOF, and then forwards these to MOF.

Source: National Planning Commission, Kathmandu, Nepal.

MOF is mainly responsible for revenue policy and planning as well as the statement of income and expenditure (budget). The main activities MOF performs within the context of planning and budgeting are indicated in *Box 5*.

Box 5. Ministry of Finance: main activities – planning and budgeting procedures

The Ministry of Finance provides the following information to the Budget Resource Committee (BRC):

- analysis of regular expenditure;
- estimate of revenue;
- details on projects and foreign donors;
- GDP growth rate, inflation, price escalation, investments as well as an analytical statement of macro-economic indicators.

It also undertakes the following tasks:

- Prepares preliminary estimates of non-development/development budget ceilings and submits them to BRC.
- Fixes the non-development budget ceiling.
- Sends a circular to line ministries concerning the preparation of non-development/development budgets along with the ceiling and directions (in the form of circular), and guidelines (in the form of a manual) for the forthcoming fiscal year. Sets the limits for sectoral and ministerial budgets for the forthcoming year, considering the goals and policies of periodic plans as well as NPC guidelines. It also takes into account the work to be carried out by the Government and the targets to be achieved. In the case of development programmes and budgets, MOF will review the development programmes and budgets approved by NPC.
- Chairs the meeting arranged by NPC for the approval of the annual development programme.
- Collects expenditure statements of the past fiscal year from the concerned ministries.
- Holds discussions on the non-development budgets of offices with no development budget.
- Holds budget discussions for offices that have overestimated their development budgets. At these meetings, discussions on central and district-level non-development and development budgets are held simultaneously.
- Meets with line ministry representatives and department heads to discuss resource adjustment.
- Prepares compiled and detailed work plans and budgets for all education sectors, presenting central and district-level plans and budgets separately.

- Prepares the preliminary draft of the budget proposal after discussions with various bodies or agencies over line ministry budget or programmes, taking into account the availability of internal and external financial resources.
- Holds a budget meeting with high-level office heads, line ministry representatives and NPC representatives; and prepares a final draft of the budget (incorporating sources of revenue and detailed descriptions of expenditure) based on discussions with MOES representatives. The final draft of the budget is submitted to the Council of Ministers for approval.
- Submits the draft budget proposal to the Finance Minister for approval. The Finance Minister delivers the budget speech to Parliament, after the cabinet's approval, along with a brief description of technical procedures used for preparing the budget.
- Submits the Finance Bill (for the purpose of raising revenue) and Appropriation Bill (for the purpose of spending) to the Lower House of Parliament (House of Representatives) for the President.

(c) *Budget Resource Committee (RC)*

The Budget Resource Committee estimates annual resource and expenditure ceilings. It is mainly responsible for the projection of financial resources and takes decisions on the allocation of ceilings for the annual budget. This Committee is chaired by the Vice-Chairman of the National Planning Commission (NPC), and comprises one NPC member (in charge of financial resources), the Governor of Nepal Rastra Bank (NRB), the Secretary, Ministry of Finance (MOF), and the Financial Comptroller General (FCG).

The main activities carried out by the BRC within the framework of planning and budgeting procedures are as follows:

- BRC issues a projection of financial resources and fixing budget ceilings, taking into account different factors such as Nepal's economic growth rate, situation regarding import/export, inflation, revenue estimate, assistance, grants and loans to be obtained from internal and external financial resources and charges payable for loans. BRC tries to maintain a balance between the demands of ministries and the available financial resources.
- BRC meets and holds discussions on priorities, policy and financial situations, situations of balance of payment, trade balances, revenue estimates, and potentialities of external and internal financial resources, as well as the shape and threshold of the total budget.

(d) *Ministry of Education and Sports (MOES)*

In general, line ministries are responsible for budget preparation and disbursing and controlling expenditure. The finance section of MOES' Administrative Division coordinates the preparation of the non-development budget and is responsible for implementing this budget, including budget authorization. There appears to be little involvement on the part of MOES' Finance Section in the preparation of the development budget. The planning section coordinates the preparation of the development budget, under the planning and policy division.

(e) *Department of Education/other departmental offices*

The Department of Education and other departmental offices are responsible for the preparation of the non-development and development budgets.

(f) *Regional Education Directorates (RED)*

There are five regional education directorates, which have limited involvement in the preparation of district-level budgets, and mainly play a monitoring role.

(g) *District Education Offices (DEO)*

There are 75 district education offices, which are responsible for the formulation and implementation of the plans and programmes, working as district-level executive units.

(h) *SIP/VEC-VDC/DEC/DDC*

The School Improvement Plan (SIP) is initiated from the school level. Village Education Committees (VEC) prepare their village education plans and forward them to the Village Development Committees (VDC) for approval. Then the VDCs forwards the plans to the District Education Office (DEO), which consults with the District Education Committee (DEC), prepares a complete education plan of the district, and forwards it to the District Development Committee (DDC). After the plan is approved by the District Development Federation (DDF), DDC forwards it to NPC through MOES.

Budget approval and passing

(a) The budget speech

The annual development programme is approved by the NPC and the Council of Ministers. After the national budget is finalized, the annual budget should be approved by the Council of Ministers in such a manner that the approved annual development programme can be fully implemented. The budget speech, presented by the Finance Minister, in the joint session of Parliament's upper and lower houses, is an analysis of the estimates of income and expenditure for the forthcoming fiscal year. It addresses the following:

- revenue estimates;
- revenue savings;
- loans (external);
- assistance (external);
- grants (external);
- loans (internal);
- government goals, policies and priorities;
- statements of the expenses allocated to each ministry in the previous financial year;
- particulars showing that the expense objectives have been achieved.

(b) Approval of the budget by Parliament

After the budget speech, discussions on the programme and budget are held as concerns each sector and ministry. Detailed discussions take place in a closed session of Parliament's Finance Committee. The following documents are submitted to Parliament at this stage of the budget procedure:

- statement of expenditure estimates, goals and progress description
- descriptions of corporations and technical assistance
- two documents associated with central and district-level project or programmes, prepared by NPC, are submitted to Parliament some days after the budget speech.

Both houses of Parliament discuss the budget extensively in a closed session. In many cases, opposing parties propose amendments to

the budget. When the discussion is over, the Appropriation and Finance Bills are presented to the Parliament Finance Committee. The majority in Parliament passes such bills. The government grants assent by placing the seal of the President of the Republic on the Appropriation, Financial and National Loans Bills passed by Parliament.

(c) *Appropriation Act*

The monies required for meeting expenditure to be provided for any Appropriation Act shall be specified under appropriate heads in an Appropriation Bill.

(d) *Votes on Account*

A portion of the expenditure estimated for the financial year may be incurred in advance by a Votes on Account Act, when an Appropriation Bill is under consideration after the estimates of revenues and expenditures have been presented. The sum of expenditure incurred in accordance with the Votes on Account Act shall be included in the Appropriation Bill and shall not exceed one-third of the estimate of expenditures for the financial year.

The problems and issues found in planning and budgeting procedures are detailed below:

Box 6. Problems and issues in planning and budgeting procedures

- Because of inadequate budget ceilings, it is very difficult to meet the demands of CLOs. The University Grant Commission (UGC), CTEVT and the Sports Council always disagree with the ceiling, provided by MOES. Since all three institutions are autonomous, they have direct and strong access to NPC and MOF. UGC, in particular, is not willing to participate in Ministry-level discussions. Furthermore, UGC does not submit its planning and budgeting to MOES in good time, and never meets its deadline in submitting its annual plan. Almost every year, UGC realizes an increase in budget ceiling as a result of its influential and direct access to NPC and MOF. Almost all annual plans submitted by CLOs exceed the set ceilings. The annual plans are revised four to five times in order to bring them to within the limits of the given ceiling. The Ministry of Education and Sports cannot itself meet the limit of the given ceiling set by NPC. As a result, discussions at the NPC level can become difficult with much debate. The Honourable NPC member cannot finalize discussions when ceilings have to be increased; in such cases the honourable Vice Chairman of NPC is consulted. Likewise, the representative of MOF

consults with senior dignitaries at MOF. Only after rounds of meetings, will negotiations with MOES be finalized.

- The planning process is becoming increasingly technical and scientific. New planning concepts are being exercised with respect to logical frameworks, monitoring indicators, unit cost-based budgeting and formula funding. Planning officers are trained and kept informed. All should have studied project documents and agreements signed with different funding agencies. However, problems emerge as a result of the frequent transfer of planning officers from one place to another. In many cases, new officers with little or no knowledge of planning and budgeting replace experienced and knowledgeable colleagues. Such conditions have had significant negative impacts on the planning division of MOES.
- Even after finalization of the annual plan at NPC, budget discussions takes place again at the Ministry of Finance, at the level of the under-secretary. Some resource readjustment is made as officials try to cut the budget down in size. In some cases, budget programme cuts and random changes to funding sources result in numerous problems for MOES at the implementation stage.
- During the 2000-2003 fiscal year, following the directive issued by MOF and NPC, the annual programme was approved by NPC, even though the authority for this decision falls under the jurisdiction of the Ministry of Education and Sports according to existing regulations. Likewise, in 2004-2005, NPC also approved the annual programmes of P1 and central level projects.
- The lack of an effective computer networking (database) system among Regional Education Directorates, Central Level Organizations and the Ministry of Education and Sports, impacts the level of realism of both programmes and budgets.
- No appropriate procurement manual exists.
- The budget is allocated without adequate analysis of the programme concerned.
- There is a lack of adequate exercises for project planning and management systems.
- Discussion on planning and budgeting activities at Ministry level is not undertaken seriously before submission of the budgets to NPC.
- Stakeholders do not fully follow expenditure norms while formulating programmes and budgets.
- The budgetary planning and programme preparation processes are still top-down with little involvement of concerned stakeholders, such as local level institutions, community groups and beneficiaries.
- Proposed project programmes are tied to fixed ceilings. Necessary programmes for completion of projects are sometimes not launched because of lack of adequate funds.

3.4 Procedures for allocation of budgetary resources and budget implementation

General procedures and organizations involved

Once Parliament approves the annual budget, it is made public in the budget book. All the projects and programmes from every institution or organization are revised, made specific and thoroughly planned on a quarterly basis at the ministry level and stamped with the NPC's seal. Only then is the annual plan eligible for implementation. The annual work plans and budgets (AWPBs) of donor-funded projects are also linked to the annual plan, with donor approval.

Different organizations participate in the implementation of the education budget. As per the budget book, all the implementing central agencies prepare quarterly plans. If MOF makes certain cuts in the budget, the CLOs make slight changes in the programme. After NPC puts its seal of approval to MOES' plan, it can be implemented.

The implementation procedure is not as complex as the planning procedure. It can be summarized in chronological order as follows:

Table 3.16 Budget implementation procedure (chronological)

SN	Description of activities	Mode of execution	Period of execution	Responsible agency division offices	Techniques, instruments and indicators used
1	The MOF issues a letter of authority of expenditure for the implementation of MOES' budget and provides copies to FCGO and OAG.	Executed through a letter of authority of expenditure from the Secretary of MOF to the Secretary of MOES.	First week of July	MOF/Finance secretary	Ministry-level internal decision by MOF and Secretary of MOES will grant a letter of authority of expenditure. Execute annual targeted programmes.
2	MOES issues a letter of authority of expenditure to the head of central offices.	An authorization letter is written by Secretary of MOES to central offices	Second week of July	MOES/Secretary of MOES	Secretary-level internal decision of MOES can implement the budget. Director-General will receive the authorized letter for budget implementation from the Secretary of MOES. Execute annual targeted programmes.
3	Central offices issue the letter of authority of expenditure for budget implementation at district and regional-level offices.	An authorization letter of expenditure is provided by the Director / Director General of Central Agencies	Third week of July	DOE/DG	RED, DDC and DEO will receive the authority letter of expenditure for budget implementation. Schools will receive block grants. Schools will run smoothly.
4	FCGO also provides the same instructions/ guidelines to the concerned District Treasury and Controller's Office	FCGO will issue a letter of authorization for the release of the budget to the concerned district offices.	Second week of July	FCGO/FCG	All the DDCs and DOEs will budget as much as they spent under the monthly reimbursement procedure out of the approved annual budget and programmes.

More details on how the different organizations participate in the budget implementation phase are described below.

Ministry of Finance (MOF)

After enactment of the Appropriation Act, the Ministry of Finance sends budget authority letters along with resource tables to concerned ministries at the beginning of the fiscal year, informing them of their budgets for non-development and development programmes. MOF provides advice on matters relating to financial obligations sought from various ministries, departments and offices. It also performs financial analyses and authorizes the creation of permanent positions. It gives consent to raising financial obligations and maintains updated records thereof, and gives approval for the execution of decisions of financial liability in relation to providing additional facilities.

For the mid-year budget review process, MOF asks each agency to prepare a work plan and to submit bi-monthly progress reports. MOF is responsible for incorporating all foreign aid into the budget. It withholds sanction accordingly and gives notice thereof to FCGO, the concerned District Treasury and Controller's Office, the constitutional organ and body and the concerned ministry. It also gives sanction, subject to the limits of the yearly Appropriation Act, and gives a reference copy thereof to OAG and FCGO.

Ministry of Education and Sports (MOES)

After the Red Book is made public, MOES receives a letter of authority of expenditure from MOF to implement the budget. Then MOES issues its own authority letter to subordinate authorities for budget implementation. It then approves the development programme along with quarterly allocation on the basis of the annual programme and budget, following the enactment of the Appropriation Act (in the case of P1 projects, NPC reserves the right to approve the annual programme at the central level). MOES sends the budget authority letter and approved annual plan and programmes as well as budget details, authorization and source book information to Ministry departments and central offices.

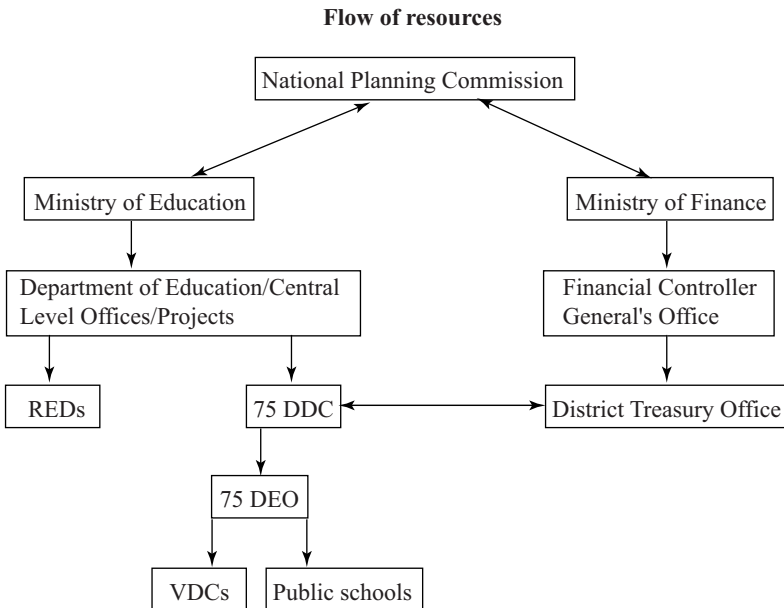
The Department of Education organizes a national-level workshop for all DEOs, REDs and central institutions, as a sort of orientation

session on the approved annual plan and budget. The detailed guidelines concerning implementation of the annual plan are discussed at this workshop.

MOES may then transfer the funds from one head to another within the limit prescribed by the Appropriation Act and by financial administration regulations. It may also request additional funds or budget transfers from MOF, on behalf of certain offices, pending MOF sanction.

The budget for primary education, under the non-development programme and the budget for women's education under the development programme are channelled through local bodies to schools. A chart describing the flow of resources is presented in *Figure 3.5*. It shows how the budget passed by Parliament reaches the school level for implementation. It is of note, here, that the authority letter for budget implementation for the primary and women's education sectors (non-development budget) is given to DDC by MOES, yet in the case of the secondary and lower secondary education sectors, the letter goes directly from MOES to DEOs.

Figure 3.5 Flow of resources



MOES' guidelines dictate that all types of expenditure take place at the local level according to decisions taken by the school management committee. Local bodies are given the responsibility of administrative supervision of schools, as well as supervising the quality of education offered. The implementation of all programmes falls under the jurisdiction of the Department of Education (DEC) at the central level and the District Education Office (DEO) and local bodies at the province (district) level. Recently, a Community School Support Programme (CSSP) was launched to aid in the handing over of school administration to communities, as described in *Box 7*.

Box 7. Community School Support Programme (CSSP)

This programme has been launched in order to aid in the handing over of school administration to school communities. CSSP gives communities the authority to hire their own teachers if the current teachers do not perform satisfactorily. In some cases, communities have fired government teachers and hired their own teachers, improving the functioning of their schools. This handing over scheme has created awareness among community members. The government has committed to providing a block grant to community-administered schools that will be not less than what the amount previously received by the schools. This will act as a guarantee of teachers' salaries and certain administrative expenditure.

Office of the Financial Comptroller General (FCGO)

This office is responsible for issuing instructions for the budget release in general and quarterly budget release orders in particular. It liaises with donors and MOF concerning foreign aid, and gives advice on and settles any dispute about financial administration while implementing the prevailing financial rules and regulations. It also carries out other functions as may be specified by the government.

District Treasury and Controller's Office (DTCO)

DTCO is in charge of releasing the budget on the basis of a monthly reimbursement procedure (based on the details of expenditure and the physical progress report of the past trimester) within the quarterly budget release limit of FCGO. If necessary, in the case of a decentralized budget, budget requests and release are made via the concerned District Development Committee on a quarterly basis, to and from the concerned DEO through the concerned DTCO.

The District Treasury and Controller General (DTCO) gives advice on and settles any dispute about financial administration at the district level. He/she has the authority to make budget transfers from one budget sub-head to another budget sub-head within the non-development and development budgets, as specified by FCGO, by obtaining the written consent of the concerned office – as long as the amount transferred does not exceed more than 10 per cent of the budget sub-head to which the funds are transferred from the source of the government (except for budget sub-heads containing funds from foreign sources). DTCO carries out internal audits of revenue, appropriation, security deposits and goods in-kind. DTCO can freeze the bank account of any office which is found not to have maintained its accounting books accurately or to have broken rules and regulations, and gives information and notice thereof to the pertinent superior office.

(e) Nepal Rastra Bank (Central Bank of Nepal)

The central bank operates financial transactions of the government through its branches wherever possible – if not through a Rastria Baniya Bank branch or sub-branch offices, then through a Nepal Bank Limited branch or sub-branch offices. It monitors the government's economic position, and performs the following tasks while making monetary arrangements for the government:

- specifying the bank to carry out governmental transactions;
- preparing and enforcing a manual for governmental transactions;
- arranging for funds to be provided by different banks to different offices for the operation of governmental transactions.

Allocation of resources by regions/districts

The MOES/Department of Education organizes resource allocation on a district basis (see the Flow of resources chart in *Figure 3.3* for ease of reference).

Budget allocations are made on the basis of teachers per number of schools, while scholarships are provided on the basis of number of students in a particular student group. The programme and budget increasingly addresses education in rural areas and education of disadvantaged groups and girls.

The district-level budget is allocated on the basis of fixed norms and criteria, which are determined by statistical data and set indicators:

- Non-teaching staff are paid on a cost-sharing basis for secondary schools while non-teaching state-funded university staff are fully paid by public funds.
- Textbooks are provided free of cost to all primary school children in Grades 1 to 5.
- Non-formal education classes are funded on a quota basis.
- Unconditional block grants are provided on the basis of district classification.
- At primary level, on an annual basis, Rs. 300 are provided per teacher and Rs. 11,000 are provided for stationery and administration costs per school. Each year, teachers' salaries are provided for 13 months.
- At lower secondary and secondary levels, Rs. 500 are provided per teacher and Rs. 13,000 for stationery and administration costs per school, on an annual basis. Each year, teachers' salaries are provided for 13 months.
- Programme cost is calculated on the basis of available unit cost and on the norms and criteria set, with a common understanding between donors and the implementing agencies (see *Annex II*).

The annual block grant, which covers the salaries of public primary school teachers, is provided through DDC. In addition, some nominal grants are also provided to all public schools up to secondary level to support school administrative costs. Textbooks for all primary school children are provided free of cost. All dalit children enrolled in primary schools and many girls enrolled in primary schools receive a small amount for stationery as a scholarship. The development programme budget spent at district level is shown in the district level annual plan (*Table 3.17*).

Table 3.18 provides an example of the district budget allocation in 2002-2003.

Table 3.17 District Level Annual Programme for fiscal year 2002-2003

		Ministry'sName: Education and Sports Grant and Subheading Code: 65		Development region: Eastern District: Taplejung		(Rs. In thousand)						
SN	Project Name	Grant and subheading no	Physical Target			Trisemester allocation						Remarks
			Annual Budget	Description of work to be competed	Number or Quantity	First		Second		Third		
						Physical target	Budget	Physical target	Budget	Physical target	Budget	
1	Basic and Primary Education Program	5-411	5 597	Program Execution		Execution	2238	Execution	2238	Execution	1121	Dev.
2	Women's Education	5-710	299	Primary school girl's scholarship	588			Distribution	147			Dev.
3	Dalit Student Scholarship	5-720	94	Local Girl's Scholarship Scholarship	190	Selection		Distribution	47	Execution	47	Dev.
4	School's Physical improvement	5-750	150	School's physical improvement		Selection		Grant	75	Grant	75	Dev.
5	Literacy Campaign	4-601	2 964	adult education class children education class post literacy class	140 60 50	Start		Execution		Execution		Dev.
						Start	988	Execution	988	Execution	988	Dev.
Total			9 104				3226		3647		2231	
Dev.-Development												

Table 3.18 District budget allocation for fiscal year 2002-2003 (in 1000 Rupees)
Ministry of Education and Sports

SN	District	Total *budget	SN	District	Total *budget	SN	District	Total *budget
1	Taplejung	8,752	17	Dhnusha	18,738	36	Nawalparasi	17,006
2	Panchatar	12,183	18	Mahottari	24,980	37	Rupandehi	62,698
3	Ilam	20,351	19	Sarlahi	13,016	38	Kapilbastu	64,019
4	Jhapa	55,624	20	Sindhuli	57,747	39	Arghakhanchi	13,468
5	Sankhuwasabha	10,741	21	Ramachhap	13,205	40	Palpa	19,934
6	Terathum	9,345	22	Dolakha	9,186	41	Gulmi	19,604
7	Bhojpur	14,258	23	Sindhupalchok	89,978	42	Syangja	58,579
8	Dhankuta	14,569	24	Rasuwa	19,658	43	Tanahu	26,418
9	Sunsari	39,006	25	Dhading	19,447	44	Gorkha	48,833
10	Marang	38,802	26	Nuwakot	14,578	45	Manang	3,111
11	Solukhumbu	8,271	27	Kathmandu	15,950	46	Lamjung	13,517
12	Khotang	39,848	28	Lalitpur	13,998	47	Kaski	20,576
13	Udaypur	15,811	29	Bhaktapur	13,731	48	Parbat	8,811
14	Okaldhunga	51,305	30	Kavrepalanchok	93,483	49	Baglung	17,317
15	Saptari	52,004	31	Makawanpur	10,559	50	Myagdi	9,236
16	Siraha	12,402	32	Rautahat	15,900	51	Mustang	8,452
	Eastern Region	403,272	33	Bara	82,811		Western Region	411,579
			34	Parsa	29,960			
52	Dolpa	8,101	35	Chitwan	23,154			
53	Humla	15,796		Central Region	580,079			
54	Jumla	14,919						
55	Kalikot	18,201	67	Kailali	81,924			

SN	District	Total *budget	SN	District	Total *budget	SN	District	Total *budget
56	Rukum	15,519	68	Doti	51,379			
57	Rolpa	46,211	69	Aachham	44,899			
58	Pyuthan	22,801	70	Bajura	11,863			
59	Dang	20,206	71	Dadeldhura	18,089			
60	Salyan	18,330	72	Kanchanpur	32,715			
61	Banke	12,871	73	Bajhang	38,953			
62	Bardiya	38,231	74	Darchula	23,730			
63	Surkhet	37,830	75	Baitadi	34,415			
64	Jajarkot	23,984	Far Western Region		337,967			
65	Dailekh	24,603						
66	Mugu	11,632						
Mid-western Region		329,235	Grand total		2,062 132			
			(5 Regions)					

Note: The district budget consists of the following programmes: Basic and Primary Education Programme II, Women's Education, National Scholarship Programme, Scholarships for Martyrs' Children, Non-formal Education.

At present, the trend is to allocate 20 per cent of the budget to the districts and 80 per cent centrally, especially in BPEP, which has received substantial funding support from donors.

Teacher training at the school level is managed and supported from the central budget. Teachers receive some allowance during the training period. Improving school facilities is the responsibility of the local community. However, at the moment, different donor-agency supported projects are financing the improvement of school facilities.

Budget under- and overspending

Every year there are certain differences between the approved budget and the implemented budget.

(a) Underspending

The main reasons for underspending are as follows:

- If the project is in its first year of implementation, preliminary management and the formulation of its procurement plan may take some time. The procurement of services and equipment may not run smoothly at first.
- Sometimes the recruitment of human resources, such as engineers and overseers cannot be expedited, in cases of underspending, and therefore construction work may not be completed on schedule.
- Sometimes security problems hamper the running of a programme.

(b) Overspending

Overspending generally occurs when there are valid reasons for making budget increments in certain budget heads at the same time as there are savings in other budget heads. Adjustments can be made by transferring budget from one head to another with the approval of the competent authority. But this type of adjustment may not exceed 25 per cent of the allocated budget on any particular budget head. Whenever there is an unavoidable reason for overexpenditure, MOF releases additional funds to MOES, in addition to the allocated budget for MOES in the Red Book.

Box 8 illustrates the main problems and issues found in implementing education budgets in Nepal.

Box 8. Problems and issues in implementing education budgets

- As per Financial Administration Regulations, the Secretary can approve the trimester annual plan and programme on receipt of the letter of authority of expenditure from the MOF. This provision was created in order to implement the programme at the earliest possible moment. But in the year 2002-2003, with the new guidelines issued by MOF and NPC, the annual programme was approved by NPC even though this authority fell within the jurisdiction of the Ministry of Education and Sports as per the Financial Administration Regulations. This created confusion and contradiction among stakeholders. It also delayed the implementation of programmes, which finally slowed the progress of projects and programmes to a certain extent.
- In general, there is a gap between the proposed and approved budget. The reasons for this are:
 - lack of adequate resources;
 - lack of an effective Educational Information System;
 - bottom-up planning approach has not been fully practised;
 - Expenditure Norms have not been fully followed;
 - unit cost-based costing has not been fully applied.
- Another serious problem felt by the Ministry of Education and Sports was that the MOF had placed the budget of certain programmes in an untied source while readjusting the budget during budget finalization time. This created a serious problem. The programme continued but the budget was not released until the second part of the year. There was great confusion as to whether to stop or continue the programme. With strong discussion and dialogue with NPC and MOF, the budget, which was placed in the untied source, was released by the last quarter of the fiscal year. This greatly hampered the smooth implementation of programmes.
- Some other identified problems are mentioned below:
 - There is a lack of adequate counterpart funds in cases of donor funded programmes.
 - Since F.Y. 2002/2003, the budgets for primary education (regular) and women's education programmes have been channelled through District Development Committees. But DDCs have done little except to recommend or issue the letter of authority of expenditure to the concerned DEO for the purpose of releasing the budget from the concerned District Treasury and Controllers' Office.
 - There has been a delay in approving the annual programme by the NPC, which is hampering the implementation of the programme.
 - Since the beginning of the fiscal year, MOF is withholding the release of the budget of certain programmes, which is also hampering the implementation of the programme.

- There are sometimes minor disagreements between the government transaction-handling banks and the concerned office during the final hour of the closing period of the concerned fiscal year.
- Government transaction-handling operating banks are not furnishing or providing monthly bank statements in time, which is causing delays in the reconciliation of accounts with the concerned bank.
- Expenditure warrants (letter of authority to budget expenditure) do not reach the spending offices in time.

3.5 Accounting management, monitoring and control

The Office of the Financial Comptroller General (FCGO) is mainly responsible for designing systems for the supervision and inspection of the current accounting system. If the system is not working properly, FCGO notifies the secretary of the concerned ministry that the system is not functioning as it should.

FCGO performs the following activities as regards accounting management:

- gets the accounting (cash or inventory) formats approved by the Office of the Auditor General and introduces such formats
- maintains the central account of appropriation, revenue and security deposit, the account of assistance, grant, loan, interest and dividend; prepares central financial statements, and submits the same for audit
- maintains accounts of the consolidated fund, contingency fund and other government funds
- maintains accounts of the amount invested by the government and of the loans granted to the government.

Concerning monitoring and control, FCGO is responsible, at the central level, for administering the public treasury and controlling accounts on behalf of MOF. It performs other functions that are defined by the prevailing financial rules and regulations. It is empowered to:

- monitor the financial flow of development programmes in order to ensure that the budget is spent as proposed and approved
- inspect offices as necessary and give any directions concerning the mobilization of appropriation, revenue, deposits, other governmental funds and goods in-kind and stock/balances

- maintain an inventory of irregularities obtained from the constitutional organs, bodies and ministries on the basis of annual statements
- issue instructions for internal audits to District Treasury and Controller's Offices
- perform internal audits through District Treasury and Controller's Offices
- control budgets, administer the treasury along with other functions as directed by MOF.

At the district level, the District Treasury and Controller's Offices (DTCOs) have the responsibilities described in *Box 9*.

Furthermore, local civil society organizations such as District Development Committees, Municipalities and Village Development Committees ensure monitoring at their level. These bodies have, among other things, the following responsibilities:

- to monitor and supervise district-level programmes as per the local self-governance acts and regulations
- to play a crucial role in the budgetary process from the standpoint of transparency and accountability in public spending
- to build opinions, hold interaction programmes, publish interviews and raise issues
- to publish reports and news that prompt the Commission for Investigation of Abuse of Authority (CIAA) to bring officials involved in questionable activities to court, enhancing a sense of accountability and discouraging corruption in public spending/revenue, and
- to ensure budget transparency through publication in the Red Book, on each office notice board, and at parents' assembly at the school level.

At the national level, there are other important organizations which carry out activities to monitor and control the budget process.

Box 9. District Treasury and Controller's Office: main responsibilities

Review and approve the programme and budget release system of 'first priority' projects. These actions are taken with a view to releasing:

- a) funds for the first quarter for 'first priority' projects during the last fiscal year if physical progress is at 80 per cent, and
- b) monthly reimbursements, if progress of the 'first priority project' is at 80 per cent or more during releasing of the budget at the start of the second and third quarter.

The DTCO also has the following main responsibilities:

- To release funds for approved Programme Operation Action Plans related to development projects and to withhold budget release for projects delayed for over three months without a valid reason, as well as for projects not executing contract agreements concerning construction-related works up to the second week of February.
- To assist 'first priority' project units in improving reports on physical progress as well as financial progress (expenditure) on a quarterly basis.
- To publish income and expenditure statements for all government offices and government grant-receiving entities on a monthly basis.
- To monitor whether district education office has sent the statement of expenditure (SOE) to the district Treasurer's office for reimbursement on a monthly basis.
- To occasionally verify accounting records to ensure that these are properly maintained, that statements have been issued, and that the cash balance is accurate.
- To investigate anomalies (between the office where the anomaly was discovered and the chief of the financial administration section), to advise the concerned office, and notify the pertinent superior office of the concerned office and FCGO of the advice given.
- To inspect the financial transactions of district offices and render opinions and advice to these offices, subject to FCGO policy and direction and prevailing law.
- To inspect district office appropriation accounts, settlement of revenue accounts and receipts and security deposit accounts, cash balance and settlement of irregularities, send an inspection report to FCGO and the pertinent superior office, and act on the directions received from FCGO.
- To verify, at least five days prior to annual closing, that all district offices have refunded unspent (surplus) funds after closing financial transactions.
- To study and investigate matters upon receipt of district annual work completion reports (as per FAR Rule 136), and forward these, accompanied by comments or opinions, to the concerned office's pertinent superior office within one month.

The National Planning Commission (NPC)

This commission develops indicators and monitoring formats in collaboration with all concerned stakeholders. It organizes meetings, under the chairmanship of the concerned Honourable member of NPC, to discuss progress and problems concerning programme implementation. The commission also collects and prepares progress reports on priority projects on a monthly basis, and monitors and evaluates whether programmes and projects are being well implemented.

The National Development Action Committee (NDAC) and the National Development Problems Resolution Committee (NDPRC)

These committees meet together under the Prime Minister's chairmanship twice a year. The main objective of these meetings is to discuss projects and their progress, including problems that have hampered progress. Ministers and secretaries of all ministries and heads of FCGO and OAG also attend this meeting. All unsolved problems at Ministry level referred to NPC are discussed here. Inter-ministry problems are discussed and solutions are sought. The agendas of these meetings usually include the following topics: Progress Briefing, Development Problems Coordination, Foreign Assistance, Peace and Security, Monitoring and Supervision, Cross-cutting Issues. The Chairman of this meeting (the Right Honourable Prime Minister) makes remarks and provides directives, mainly in regard to development programmes and projects.

The Commission for the Investigation of Abuse of Authority

The Commission for the Investigation of Abuse of Authority (CIAA) is mandated to undertake the following tasks:

- Conduct or authorize the undertaking of inquiries into and investigations of improper conduct or corruption by a person holding any public office.
- Advise or forward a recommendation to the concerned authority in writing for taking departmental or any other necessary action to any person holding any public office who has misused his authority by improper conduct.

- Bring or cause to be brought an action against a person, holding any public office who has committed an act which is defined by law as corrupt or any other person involved therein in a court with jurisdiction in accordance with the law.
- Delegate any of its powers, functions and duties relating to the inquiry, investigation or bringing actions, to the chief commissioner or a commissioner or any employee.

Parliament and the Parliamentary Committees

Parliament and the Parliamentary Committees have to:

- approve the budget;
- take initiatives to improve fiscal governance and reduce the corruption associated with revenue collection and public spending;
- monitor government activities including budget implementation, and make suggestions to correct anomalies and leakage;
- monitor the progress made in budgetary policies and programmes;
- participate actively in monitoring financial discipline, ensuring adequate checks and balances in the public spending process;
- monitor expenditure and hold discussions on fiscal and monetary matters through the finance committee.

Office of the Auditor General (OAG)

The OAG performs audits on government revenue/expenditure as determined by law, with due consideration given to the regularity, economy, efficiency, effectiveness and propriety thereof. Its main tasks are to:

- provide suggestions for the appointment of auditors to carry out the audit of any corporate body of which the government owns more than 50 per cent of the shares or assets;
- issue necessary directives setting forth the principles for carrying out the audit of such documents or information, which may be demanded by the auditor general or by his assistants;
- prepare an early report and submit it to the Parliament which in turn instructs its Public Accounts Committee to verify the report. The government takes necessary action when it receives the report prepared by the Public Accounts Committee.

Monitoring and evaluation

The government has worked hard to improve and strengthen the monitoring and evaluation system over the last three years. It has implemented a systematic institutionalized monitoring mechanism, and various levels of organizations involved in the planning and implementation procedures are also involved in the monitoring process. MOES, MOF, FCGO and DTCO are involved in different stages of budget implementation. All the CLOs have developed monitoring formats based on the nature of their programmes. Common formats for planning and monitoring have been developed by NPC.

The following evaluation and monitoring committees exist within MOES.

(a) Progress Evaluation and Development Problem Solution Committee

MOES has a permanent, high-level progress evaluation and development problem solution committee. The committee is composed, under the chairmanship of the Minister, of the secretary of the Ministry, all joint secretaries of the Ministry, programme and project heads and all heads of CLOs. The honourable NPC member, the joint secretary of NPC, the MOF under-secretary and an OAG representative – all of whom are responsible for the education sector – attend committee meetings. Meetings evaluate quarterly and yearly programme and project progress reports. At the meeting, the Honorable Minister and other concerned dignitaries ask project and department heads for clarifications concerning project progress and problems. If any problems remain unsolved at the ministry level, the Ministry refers it to NPC.

(b) The monitoring and evaluation section

This section provides support to overcome difficulties and problems in the course of programme implementation. It organizes briefing meetings on a quarterly and annual basis on the progress, problems and issues of all projects and programmes in the Ministry, and prepares indicators with the support of the organizations involved, which are used by all stakeholders for monitoring purposes. Finally, it is responsible for preparing and submitting all types of regular monitoring reports in a standardized format provided by NPC (monthly, quarterly, biannual, annual and project status) to NPC and MOF.

(c) *Other monitoring bodies*

In addition to MOES' monitoring and evaluation section, there is a planning and evaluation section in the Department of Education. Likewise, some CLOs have evaluation sections that also monitor programmes.

(d) *Donor supervision missions*

The joint donor/government supervision missions monitor all donor-funded programmes and projects, mainly BPEP, TEP and SESP, twice a year. Suggestions made as a result of these missions are followed up on by the implementing agency, with a common understanding between those who effectuated the supervision mission and MOES. The government takes the suggestions of donors very seriously.

**Box 10. Major breakthroughs in the education sector
(including Education for All)**

The recently revised Financial Procedure Act and Financial Administration Regulations facilitate project work to a considerable extent. A biannual budgetary review process has been initiated, and budget allocation formats have been developed (their refinement process is ongoing). Arrangements are being made for the introduction of a treasury system for the release of allocated funds. An audit of block grants schemes (channelled through district development committees) has been initiated. The budget release process is now tied up with the physical progress of prioritized projects. In order to further highlight Nepal's commitment to EFA, an intensive literacy campaign was launched in eight districts to eradicate illiteracy during the 2003-2004 fiscal year.

Since the 2003-2004 fiscal year, the Nepalese Government has adopted a policy of providing community-managed schools maintaining a pre-determined teacher-student ratio with a maximum of one teacher's salary or one-quarter of the salary bill. Community schools run on government grants and will receive additional grants provided they enrol targeted numbers of under-privileged students such as dalits and members of ethnic groups, as well as girls. Since the 2003-2004 fiscal year, necessary cost recovery measures are being adopted in higher education. Accordingly, colleges affiliated with Tribhuvan University are encouraged to use their physical facilities for training programmes in order to generate more income.

As of the 2003-2004 fiscal year, an additional grant of Rs. 400,000 has been provided to schools in rural areas, to enhance the quality of education offered by these schools. As a result, there has been more than a 50 per cent increase in students passing SLC exams. The Nepalese Government has decided to adopt a policy of equity-based scholarships in order to provide opportunities to girls, dalits and

members of ethnic groups: out of the total number of scholarships available in a particular year, 20 per cent will be awarded to girls, 10 per cent to dalits and 15 per cent to members of ethnic minority groups. All dalit children admitted to primary schools will be provided with scholarships, under the joint investment and management of the Nepalese Government, local municipalities, the chamber of commerce (community, government-private sector partnership programme) and some trade schools (one each in five development regions). The Government of Nepal has been exercising an Immediate Action Plan initiated by donors in order to expedite the project and programme activities. The budget release procedure is directly linked to the physical progress of the projects/programmes for P1 projects.

Box 11 indicates the main problems and issues encountered by those responsible for budgetary expenditure classifications and education budget accounting and monitoring:

Box 11. Problems and issues encountered by those responsible for education budget accounting and monitoring

- Since the 2003-2004 fiscal year, expenditure is being broadly classified into recurrent and capital expenditure instead of non-development and development expenditure.
- Every year, each line item of expenditure should be reclassified (if necessary) and updated in the changed context.
- Similarly, guidelines relating to government transactions (especially prepared and issued to banks authorized to handle government transactions) should be revised and updated each year. Revenue classification code numbers should be updated and incorporated into government transaction guidelines.
- Until now, budget classification has not been based on activities. This is the reason why budget monitoring is difficult.
- Since the 2004-2005 fiscal year, expenditure has been classified under recurrent and capital expenditure for every programme by giving separate code numbers for recurrent and capital expenditure (whether of a non-development or development nature). Such classification has doubled the volume of work in terms of record keeping and preparation of financial statements. For the first time in 42 years, the volume of transactions has increased significantly. But no significant change (besides the addition of formats) has been made to the accounting system prevailing in the government sector. The accounting system was unable to furnish statements and information as per the requirement of various stakeholders. In addition, no strict action was taken against officials who did not fully follow existing financial rules and regulations.

The following lapses were found in the present accounting and monitoring systems:

- Under the government's accounting system, records were only kept when actual cash was paid and received.
- There was no direct relationship between expenditure accounting and inventory accounting.
- Advances were treated as expenditure under the existing system.
- The yearly financial statement revealed the financial position of one year only and was sometimes unable to show transactions for direct payments and the commodities that were paid .
- There was no system of carry-over for unclear advances, incomes and expenditure for the previous year.
- There was no direct relationship between the physical and financial progress of the project/programme.
- Formats were not designed to show the direct relationship between revenue and expenditure accounting.
- The line item classification of budget under the government's accounting system did not correspond to donors' categories of receipts and expenditure mentioned in loan agreements.
- The existing government accounting system was unable to fulfil the informational needs of Parliament's Public Accounts Committee in the context of the parliamentary system of government.
- The existing inventory accounting system was unable to maintain classified records of government properties as fixed and current assets at the national level. Also, there was no system for finding economic order quantity (EOQ) and the unused goods.
- Although the government is trying to strengthen its monitoring mechanism, substantial improvement has yet to be seen. The reason for this is that adequate funds have not been allocated for this purpose. CLO monitoring and evaluation sections are not well equipped, and there is a shortage of trained human resources. Trained officers remain occupied at central offices as no vehicle is available for them to visit field offices. Moreover, officials are not eager to visit field offices because the per diem and subsistence allowances are very small. The Regional Education Directorate has not been specifically assigned the role of monitoring. Likewise, local bodies have not been specifically given any monitoring duties.
- In the absence of set performance indicators, monitoring and evaluation activities are not as effective as expected.
- The unit cost-based programme formulation procedure has not been fully implemented. In its absence, monitoring and evaluation activities are difficult to carry out.
- There is no effective Education Management Information System in place.

3.6 Conclusions and Recommendations

Conclusions

The current trend is for 15 per cent of the total government budget to be allocated to the education sector. More than 50 per cent of the education budget goes to basic and primary education, while around 80 per cent of the BPEP (now EFA) budget is allocated to district-level programmes. The main source of funding for public schools is a block grant provided by the government. The government does not provide any funding to private schools. Donors play a significant role in formulating school education budgets. The MTEF has been put in place in order to help establish the link between the non-development and development budgets.

Serious discussions take place on a frequent basis at NPC concerning the formulation of planning and budgeting. However, regional directorates play no significant role in the formulation of the development plan and budget. Monitoring and supervision are lacking at local levels and depend heavily on the central system.

There is no adequate coordination between the non-development and development budgets during the planning, budgeting, monitoring and evaluation processes. The annual incremental budgeting system is used for the non-development budget. The development budget largely depends on foreign assistance; this results in problems relating to issues of sustainability. Higher education, especially Tribhuvan University, is largely dependent on government funding for both its development and non-development budgets.

An effective Information Management System, as well as a Foreign Aid Management Information System (database) are needed. The frequent transfer of project chiefs and other key project staff has hampered the budget formulation procedure. As for the donor-funded programme, some donors have reduced their aid levels and formulated strong conditions as part of their aid programmes. Development priorities as determined by Nepal do not always match those of donor agencies (which are not always related to local needs and requirements). Efforts are made to harmonize and standardize treaties and agreements entered into with donors in line with current country laws.

Recommendations

1. There should be closer linkage between the non-development and development budgets in order to effectively mobilize limited resources.
2. Offices formulating school-level education budgets involving development partners (donors) should do their part of the research to find out what donor's conditions are for aid and work them into the budget.
3. Regional directorates should be more actively involved in the formulation of the development plan and budget.
4. The unit cost-based programme should be strictly followed and encouraged at NPC-level for formulating planning and budgeting.
5. Heavy dependence on foreign sources of funding leads to potential problems of sustainability for certain programmes. Attempts should be made to increase the government's contribution to the development budget.
6. The existing Education Management Information System (EMIS) should be strengthened with a view to providing timely and reliable data for budget purposes.
7. The bottom-up planning approach should be gradually implemented along with the capacity-building programme of local stakeholders, to enable them to fully follow expenditure norms while formulating programme and budget. NPC and MOF should jointly organize regular workshops/seminars on new methods of annual programme and budget preparation at the regional level for concerned stakeholders.
8. Adequate funding should be set aside for monitoring and evaluation. Certain major monitoring and supervision activities should be shifted from the central level to the Regional Education Directorate and local bodies in order to enhance the participatory approach.
9. Planning and budgeting of the non-development and development budgets should be undertaken from a single section in the Ministry in order to ensure consistency.

10. Planning and budgeting personnel should not be transferred frequently. If a transfer is necessary, then the transferred planning officer should be replaced with another planning officer.
11. A strong and regular monitoring as well as supervision mechanism along with effective performance indicators should be developed and strengthened with regard to budget implementation. Once developed, performance indicators should be fully implemented and practised.
12. Resources for the duration of a project should be guaranteed in order for the project to operate smoothly. Any unspent funds at the end of the fiscal year should not be frozen. A project's proposed programme should not be limited with a fixed ceiling. Also, projects should be designed for funding in such a way that they can be run (on the basis of feasibility/viability of the programme) without interruption until the completion phase. Key project staff (including the project chief) should be assigned for the entire duration of the project.
13. The officers and staff working in the Budget and Programme Division of MOF should be fully conversant with the Budget Management Information System (BMIS) as well as the Financial Management Information System (FMIS).
14. The project screening process should be reviewed and the list of screened projects should be kept updated. An effective Project Planning and Management System (PPMS) should be developed.
15. An effective Foreign Aid Management Information System (database) should be developed. A clear project implementation policy should also be formulated.
16. The development priorities as determined by Nepal should match the priorities of donor agencies (fully matched with local needs and requirements). Efforts should be made to undertake negotiations with donors to harmonize and standardize treaties and agreements entered into with them in line with current country laws.
17. Activity-based budgeting and expenditure accounting should be applied as soon as possible so that the impact of budgeting can be monitored in an effective manner.

4. SRI LANKA

Figure 4.1 Map of Sri Lanka



Source: Texas University Maps.

Introduction

The following study on Sri Lanka has six sections. The first describes the country and its contextual framework for financing and managing the education sector. *Section 2* focuses on Sri Lanka's education system,

analyzing its structure and management organization. *Section 3* develops and analyses the procedures for preparing and approving the budget. *Sections 4* and *5* analyze steps relating to implementation and control of the education budget within the framework of national budgetary practices. The final section summarizes the case study, draws lessons, and proposes suggestions and recommendations for improvement of financial management of Sri Lanka's education sector.

4.1 The country and its context

Sri Lanka is a beautiful tropical island in the Indian Ocean, situated close to the southern tip of India with a land area of 62,337 square kilometres. Although it has a central range of forest-covered mountains surrounded by low plains, as a whole the country is divided into five main geographical regions known as the Central Highlands, the Wet Zone Lowlands, the Dry Zone Lowlands, the Arid Zone Lowlands and the Jaffna Peninsula. There are no marked climatic seasons as found in many other countries, but the annual temperatures of the hill country vary between 17 and 26 degrees Celsius, while the temperatures in the low country vary between 24 and 32 degrees Celsius. Annual average rainfall varies from 130 cm to 350 cm throughout the country. Rice, tea, rubber and coconut are the main crops. Although the economy is mainly based around agriculture, the country has taken appropriate and necessary steps to benefit from modern technological developments.

The people

In 2001 the estimated population in Sri Lanka was 17.80 million. The population is dispersed throughout the country, with the greatest population density in the South Western Wet Zone where agricultural and living conditions are the most favourable. The rural population accounts for 78.5 per cent of the total and 1.7 million people live in the Greater Colombo area. Although the average population density throughout the country in 2000 was 283 inhabitants/sq. km, the Western Province has the highest population density with 464 inhabitants/sq. km.

According to the 1981 Census Report, 74 per cent of the population is Sinhalese, 18.3 per cent is Tamil, and the rest (7 per cent) comprises mostly Moors and other ethnicities. Most of the Tamils live in the

Northern and Eastern Provinces. In terms of religion, the majority are Buddhist (63.3 per cent), followed by Hindu (15.5 per cent), then Christian (7.6 per cent) and other religions (0.1 per cent).

The Constitution of the Democratic Socialist Republic of Sri Lanka has accepted Sinhala and Tamil as its national languages. In addition, English has become accepted as an official language, and has shown increasing usefulness in facilitating communication among different ethnic groups.

Building a supportive macro-economic environment

One of the central objectives of the government is to restore economic growth and thereby effectively eliminate poverty in Sri Lanka. Once lasting peace has been attained⁶, prospects for improvement in the economic and social welfare of the people of Sri Lanka should significantly increase. It should be recognized, however, that substantial challenges must be overcome in order to achieve major improvements in social and economic conditions. An average of 4 to 5 per cent GDP growth since independence has not been sufficient to provide full employment with acceptable incomes for the people. It is clear that much higher rates of economic growth will be needed to bring about the required improvements in opportunities and living standards. The government has set a target growth rate of 8 per cent. This will be necessary not only to substantially reduce poverty, but also to carry out the necessary reconstruction and rehabilitation to ensure a permanent end to the conflict in the North and East. Government plans to achieve higher social and economic indicators by the year 2010 are indicated in *Tables 4.1 and 4.2*.

6. For more than two decades Sri Lanka's army was at war with the Tamil Tigers in the northern part of the country. The Sri Lanka Government declared the end of the war only on 18 May 2009 when the army defeated the Tamil Tiger rebels.

Table 4.1 Economic indicators

Economic indicators (in %)	2000	2003	2006	2008	2010
GDP growth rate	6.0	6.3	7.4	7.6	8.2
Unemployment rate	7.4	6.3	5.1	3.8	3.0
Investment/GDP	28.0	29.0	33.0	34.3	35.0
Private investment/GDP	21.5	21.9	24.2	25.6	26.2
Budget deficit/GDP	-9.9	-6.5	-4.3	-3.5	-3.0
National savings /GDP	34.4	31.2	35.6	36.2	35.5
BOP current account/GDP	-6.4	-2.2	-2.6	-1.9	-0.5
Export of G&S/GDP	39.1	42.1	45.6	48.2	50.8
Inflation	6.2	5.9	3.9	3.5	3.5
Per capita income (in US\$)	897	1,110	1,380	1,945	2,490

Source: Vision 2010.

Table 4.2 Social indicators

Social indicators (in %)	2000	2005	2010
Net enrolment rate in primary education	96	100	100
Computer literacy among school children	5	50	100
Students aged 20-24 enrolled in tertiary education	9	15	40
Trained teachers out of total teachers	59	90	100
Employability of technical trainees	60	70	100
Reduction of malnutrition among children under 5 years old	29	10	0
Reduction of iron deficiency anaemia among pregnant women	30	22	10
Increase in life expectancy at birth (years)	73.5	74.4	80
Incidence of consumption poverty	19	15	10
Increase in percentage of female officials and managers in the public services	15	20	30

Source: Vision 2010.

A set of stable, consistent and predictable macro-economic policies underpin private sector-led growth and development. If the private sector has full confidence in the nation's macro-economic management, and if the high costs of doing business can be reduced, the private sector will make the necessary investments to boost productivity and expand output.

Sri Lanka's 2002 budget places considerable emphasis on fiscal consolidation as a prerequisite for rapid and sustainable growth. In terms of revenue, a broad-based value added tax has been introduced to replace and consolidate the goods and services tax, national security levy and other turnover taxes. The temporary customs surcharge is to

be phased out, uniform import duties will be applied to the majority of agricultural commodities, and stamp duty will be eliminated. Top marginal rates of household and business income will be reduced and the direct tax system simplified.

The budget signals the government's intention to rationalize the existing tax incentive system and reduce its scope. All tax incentives, including those now presently granted by the Board of Investment (BOI), will be included under the revised Inland Revenue Act. With the aim of reducing tax evasion and improving collections, the 2002 budget signals the restructuring and amalgamation of three departments: Inland Revenue, Excise and Customs. These three agencies will be transformed into a modern, efficient Revenue Authority.

Immediate tasks

The immediate tasks facing the country are clear. A comprehensive and sustained attack must target the factors that reduce productivity and, as a result, limit investment and economic growth. The government's economic policies are being reformed to create an environment that encourages all producers of goods and services – including the activities of the government itself – to become more efficient and to continue to improve efficiency. This will mean a number of important changes.

There must be greater freedom for farmers, manufacturers, tourism, bankers and other sectors to make the necessary decisions to ensure economic efficiency. This will mean a change in the relationship between the government and the private sector. Today the government plays too a large role in making commercial decisions, and this leads to inefficiency and non-competitiveness.

The government will undertake an assessment of all regulations that affect business, removing all that are not strictly necessary for public health, safety or maintaining security. Where regulations remain, they will be reformed where necessary to ensure that they impose the least possible burden on economic performance. New regulations will be rigorously reviewed to avoid unnecessary undermining of economic growth.

The country will reach its goal of 10 per cent growth and be able to meet the challenges only if productivity is improved in all areas. Just as a private firm cannot be competitive if its marketing department or its accounting department is inefficient, so too must all sectors of the country's economy become more efficient if overall growth is to be achieved. A primary responsibility of the government is to ensure that public resources are used productively enabling the public sector to significantly improve its performance.

The government will accelerate the process of privatization and address the inefficient operations of state-owned enterprises. The goal is to completely remove the government from all commercial activities that can be more efficiently undertaken by the private sector.

In many areas, public-private partnerships or private contractors could provide services in a much more efficient manner than the current provider, the government. The government's provision of services results in a less than fully effective utilization of public resources; often, the services provided are of poor quality. For example, the provision of agricultural extension services to farmers could be significantly enhanced in a cost-effective way through the commercial participation of the private sector. These essential services could be greatly improved through the adoption of a public-private partnership approach.

The government is introducing a new Revenue Authority, which will be at the forefront of improvements in public sector efficiency. The functions of the Inland Revenue, Customs and Excise departments have considerable effect on production costs throughout the economy. Our goal is to match or exceed the efficiency with which these functions are carried out in strong economies in the region, such as Singapore and Malaysia. When these improvements have been made, similar initiatives will be extended to other government departments.

In order to develop new markets, the government will seek opportunities through bilateral and regional trading agreements worldwide. Within the region, the government is broadening the Indo-Lankan Free Trade Agreement in order to greatly enhance access to the Indian market. Negotiations to establish a free trade agreement with Pakistan are nearing completion. While these initiatives will offer significant export opportunities, these alone are insufficient. Discussions concerning a trade facility with the United States are

currently underway, and possible trade agreements with a number of other countries are being considered. In principle, the government is willing to pursue any and all opportunities with any country to expand access to new and existing markets for Sri Lankan goods and services.

Investing in people

The Sri Lankan government invests in people with the intent of building a human resource base for a just and prosperous society. Ensuring that basic needs are met and that each citizen is provided with opportunities to realize their fullest potential, are central to the government's efforts to address poverty. Improved access to quality education is needed to raise productivity and enhance living standards. A larger role for the private sector in the provision of both health and education services is envisioned, enabling the government to focus its resources on improving access to quality services for poor communities. An effort will be made to redress regional inequities in the provision of basic education facilities and instructors. At the secondary school level, new curricula will be introduced and more emphasis will be given to English, Mathematics, Science and Computer Science. In order to mobilize resources for quality improvement, education outlays will need to be rationalized. Vocational training will be shifted to competency-based education and private sector involvement will be significantly boosted. Access to higher education will also be increased, and higher education institutes will improve management, and enjoy a greater degree of managerial and financial autonomy. Rigorous quality certification will be introduced at the higher education level to promote human resource development and foster social harmony.

Employment, education and human resource development

In a rapidly developing economy, it is essential that the education system provide suitable training and skills to meet changing needs. This is increasingly important in the integrated global economy in which Sri Lanka must compete. Primary, secondary and tertiary education must be made more responsive if the requirements of students and the private sector are to be met. New opportunities for training must also be developed to address needs in other areas. For example, demobilization in the military and restructuring of state-owned enterprises will

require people to acquire new skills if they are to find productive employment.

Level of foreign debt

Sri Lanka's outstanding stock of foreign debt increased by 13 per cent to reach Rs. 721 billion in the fiscal year 2002. This was mainly due to the effect of exchange rate variation amounting to Rs. 74 billion, consequent upon the substantial depreciation of the rupee against the Japanese yen and the IMF's Special Drawing Right (SDR), in a situation where the net inflow of foreign resources for budgetary financing was relatively low. As a percentage of GDP, the outstanding stock of government foreign debt remained at almost 45.5 per cent in 2002.

Of the total foreign debt stock, the share of concession loans increased to 97 per cent from 95 per cent in the previous year. Japan, as a major bilateral donor, continued to be the main provider of concession loans, accounting for 31 per cent of the total foreign debt. IDA and ADB, major multilateral donors, accounted for 24 and 23 per cent of total foreign debt stock, respectively. Meanwhile, the amount of outstanding non-concession loans decreased to 3 per cent of the total external debt, mainly because of a gradual reduction in defence-related loans. Project loans, from bilateral and multilateral sources, dominated the total foreign debt portfolio, accounting for 89 per cent of the total stock of foreign debt.

Debt service payments

Total debt service payments in 2002 amounted to Rs. 284 billion, a significant increase of 59 per cent over the previous year. As a percentage of GDP, this was an increase to 17.9 per cent from 12.7 per cent in 2001. In 2002, total debt service payments exceeded total government revenue for the first time in post-independence history. This large increase was a direct result of weak fiscal performance and the corresponding borrowing strategy in the recent past. The high level of debt service payments pre-empted government revenue receipts, requiring additional borrowing to finance essential government expenditure. This situation ultimately hampered much needed public investment, adversely affecting the growth prospects of the economy.

Overcoming the public debt crisis

If a country cannot control its finances, it cannot control its economic future. Government debt has expanded dramatically in recent years, to the point where today the size of the public debt is larger than the country's GDP. As a result, the revenue required to service this debt each year now exceeds total government revenue. This has left no choice but to continue to incur large budget deficits if the government is to meet its essential day-to-day responsibilities. For the fiscal year 2007 the deficit target was 8.5 per cent of GDP. Based on a mid-year review, the government remains on track towards meeting this deficit target, although to continue to do so will require much effort, discipline and sacrifice.

Such a large budget deficit also means that the total amount of public debt will increase even further. To put this in perspective, the total public debt translates into Rs. 77,500 for every man, woman and child in the country. The additional borrowing required to meet this year's deficit will add approximately Rs.5, 700 to this burden. It should be clear that if these large deficits continue unabated, public debt will grow faster than the economy. Eventually, the current population, or the next generation will have to face the prospect of being unable to repay these debts. However, long before that, our reputation as a country that can manage its resources and maintain its credit worthiness will be damaged to the point where it will be unable to recover.

The government is planning to meet the challenge of bringing public debt under control by taking decisive action in two areas. The first objective is to create an environment where national income grows faster than public debt, thereby permitting the country to outgrow its debt burden. The second objective is to reduce the budget deficit with the aim of slowing and eventually reversing the increases in public debt. This will entail both reducing public expenditure and increasing revenue. These adjustments are unavoidable and will have to be well managed to ensure that burdens are shared fairly and do not impose an excessive burden on the most vulnerable members of society. It is also essential that these reforms be carried out in ways that do not limit prospects for increased economic growth.

Government priorities

The government will accelerate the process of privatization. The goal is to completely remove the government from all commercial activities that can be more efficiently undertaken by the private sector. The following points summarize the government's priorities.

1. In many areas, public-private partnerships or private contractors could provide services in a much more efficient manner than the current provider, the government. The government's provision of services results in a less than fully effective utilization of public resources; often, the services provided are of poor quality. For example, the provision of agriculture extension services to farmers could be significantly enhanced in a cost-effective way through the commercial participation of the private sector. These essential services will be greatly improved through the adoption of a public-private partnership approach.
2. The government will introduce a new Revenue Authority, which will be at the forefront of improving the efficiency of the public sector. The functions of the Inland Revenue, Customs and Excise departments have considerable effect on production costs throughout the economy. The goal of the government is to match or exceed the efficiency with which these functions are carried out in strong economies in the region, such as Singapore and Malaysia. When these improvements have been made, similar initiatives will be extended to other government departments.
3. Tertiary education systems will be significantly expanded and strengthened. These reforms will address significant gaps in the training of the country's workforce with regards to limitations in providing technical and alternative forms of tertiary education. Additional sources of re-training and continuing education will be increasingly important to increasing productivity throughout the economy. The private sector is well suited to supplying these services, and greater opportunities will be provided for investment in these areas.
4. The government is committed to actively pursuing greater access to global markets. It must also be recognized that improvements in Sri Lanka's economic performance cannot be postponed. The immediate implementation of a trade policy that supports

significant expansion of trade in all areas is essential. No country has maintained high rates of economic growth without building substantially on opportunities provided through international trade.

4.2 Education in Sri Lanka

Mission

The development and implementation of a system of education conforming to global trends that imparts knowledge, skills, attitudes and social values, providing opportunities to all citizens to realize their potential to the maximum, for fruitful participation in sustaining a dignified, free, democratic society and national integration.

(a) *The structure of the general education system*

Sri Lanka's education system is comprised of two parts:

- General education (Grades 1 to 13);
- Higher education (university and vocational training).

The general education sector has three levels:

- Primary Level (Grades 1 to 5);
- Secondary Level (Grades 6 to 11);
- Collegiate Level (Grades 12 to 13).

Admission to the primary cycle begins at age 5. Students have to complete five years of schooling to graduate from the primary cycle. The curriculum of the primary cycle is largely integrated.

The secondary cycle of education is sub-divided into:

- Junior Secondary (Grades 6 to 8);
- Senior Secondary (Grades 9 to 11).

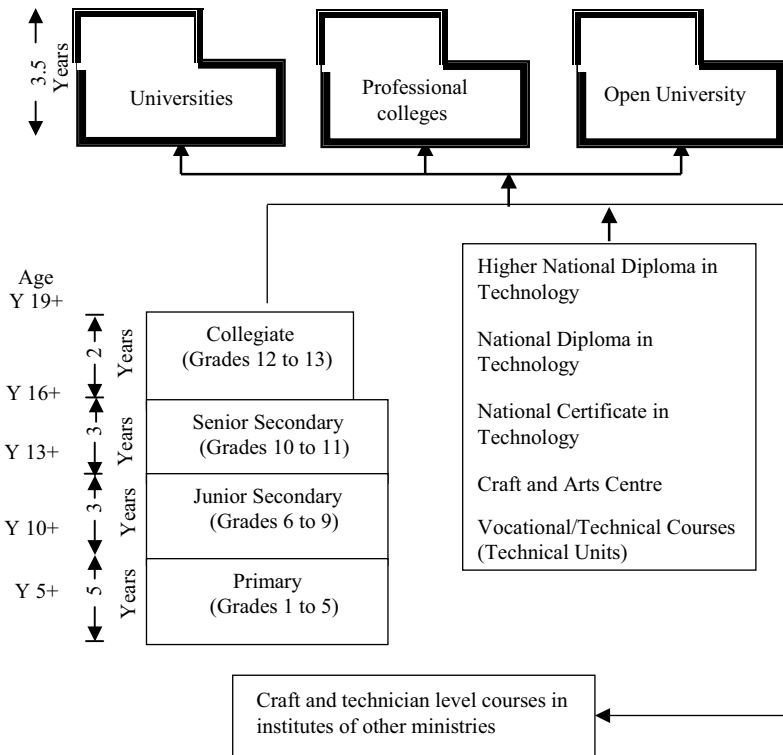
A general curriculum is implemented in the junior secondary cycle throughout the country. This consists of six compulsory subjects and four optional subject areas. In the senior secondary cycle, students have to study six compulsory subjects (Mother Tongue, English Language, Science, Mathematics, Social Studies and Religion) and two selected subjects from two subject areas (Aesthetic and Technical).

At the end of the secondary cycle, students sit a public examination called the General Certificate of Education (Ordinary Level) Examination. A student has to pass at least six subjects including Mother Tongue and Mathematics to secure a pass at this examination.

All the universities, university colleges and technical institutes mentioned above are state-owned. In addition, a few private institutions, state-recognized and well-established technical institutes provide a wide range of Engineering, Technical and Commerce courses.

Efficient and proper linkage among the different divisions, departments, institutions and other administrative sectors is essential for economical and effective operation of any organization. *Figure 4.2* illustrates the relationships among the different sectors of Sri Lanka's education system.

Figure 4.2 Structure of the education system



(b) *The management organization of the education sector*

Figure 4.3 illustrates the management organization of the education sector in Sri Lanka. Overall education policy in Sri Lanka remains the priority of the National Education Commission (NEC) and The Ministry of Human Resource Development, Education and Cultural Affairs, which is also responsible for policy guidelines and directives. The National Institute of Education (NIE) is mainly responsible for curriculum development, teacher training and research in education. The day-to-day management of education is dealt with at provincial level, zonal level, district level education offices and at school levels.

Educational policy

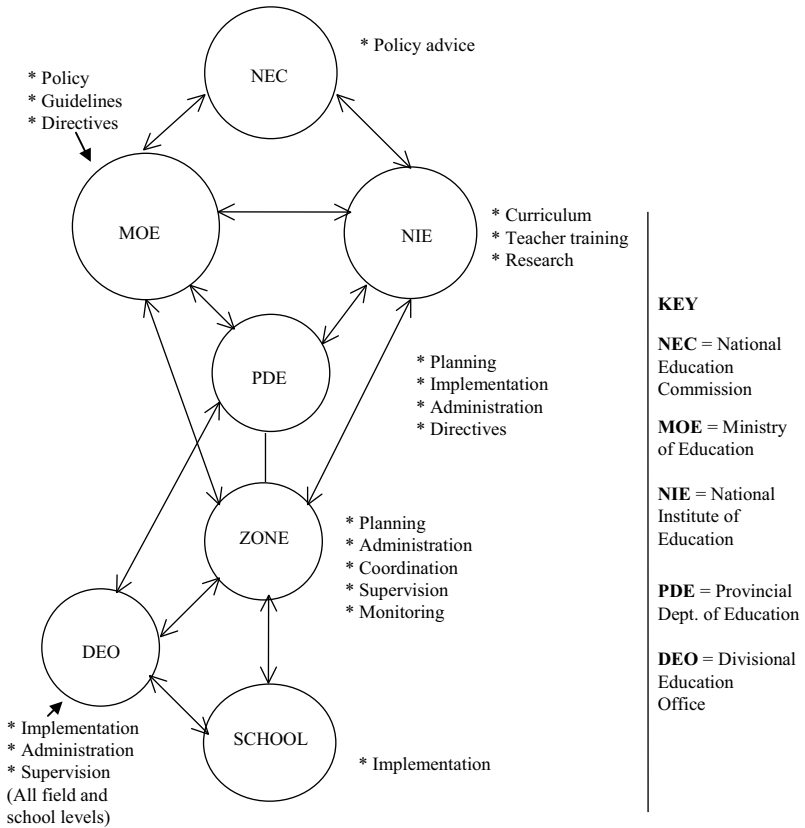
The National Education Commission (NEC) was established in 1991 and its functions focus on four areas:

- character building
- nation-building
- development of general competencies
- development of specific capabilities.

The education goals of the national policy on education are defined as follows:

- the achievement of a functioning sense of national cohesion, national integrity and national unity
- the establishment of pervasive patterns of social justice
- the evolution of a sustainable pattern of living – a sustainable lifestyle
- providing livelihood and work opportunities that are, at one and the same time, productive and give avenues of self-fulfilment
- participation in human resource development that will support the country's socio-economic growth
- involvement in nation-building activities: teaching students to care
- cultivation of an element of adaptability to change – teach students to learn and adapt, developing skills to guide change
- coping with the complex and the unforeseen, and achieving a sense of security and stability
- securing an honourable place in the international community.

Figure 4.3 Management organization of the education sector in Sri Lanka



General education: some indicators

(a) Enforcement of the law of compulsory education

Although every child has a right to receive education, the present-day reality is that some children who fall within the schooling age group are not attending school. The main objective of enforcement of the Law of Compulsory Education (1997) is to direct all children between the ages of 5 and 14 towards education.

(b) *General education*

The general education reforms introduced at Grade 1 in 1999 were extended to Grade 5 by 2003. The reforms were simultaneously introduced for Grades 7, 10 and 13 during 2000. The introduction of basic reforms to the entire general education system will be completed by 2003. However, these general educational reforms envisage not only changes in classroom teaching, but also reforms in a variety of other related activities. These include: strengthening the teaching of English, development of students' technical and practical skills, co-curricular activities, special education for handicapped students, counseling and career guidance, school-based management and teachers' education. The implementation of these proposals is essential for the success of education reforms. Furthermore, the allocation of sufficient financial resources will be essential for the reforms' timely implementation. The first GCE (Advance Level) examination under the new system was held in August 2000. A total of 115,882 students appeared for the examination and about 47 per cent qualified to apply for university admission, although the current university system can accommodate only one-sixth of this figure.

The total number of government schools was 10,548 at the end of 2001, compared to 10,615 at the end of 2000. Some schools were closed because student populations in those schools had fallen to very low levels. The student population in all government schools decreased marginally to 4,184,957 in 2001, from 4,190,657 in 2000. By the end of 2000, on average, there was a school for every 6.7 km² and the size of the average student body was 400. The total number of teachers in government schools increased by 4.3 per cent to 194,104 by the end of 2001; however, the average student-teacher ratio stood unchanged at 22:1. In addition to government schools, there were 583 Pirivena schools (schools for monks) and 78 private schools, with total student bodies of 52,906 and 96,155 respectively. Furthermore, according to MOE, there were about 95 international schools created to accommodate around 60,000 students. In recent years, international schools have become more popular among parents because of the opportunities provided to students to gain admission to foreign universities and technical institutions (see *Annex 13* for more data).

Table 4.3 General education: some indicators

No	Item	1999	2000	2001(a)
1.	• Total schools	10,695	10,615	10,548
	○ Government schools (b)	10,058	9,976	9,887
	○ O/W national schools	310	317	332
	○ Other schools	637	639	661
	▪ Private	77	78	78
	▪ Pirivenas	560	561	583
2.	• Students	4,277,104	4,337,188	4,334,018
	○ Government schools	4,134,026	4,190,657	4,184,957
	○ Other schools	143,078	146,531	149,061
	▪ Private	93,445	95,410	96,155
	▪ Pirivenas	49,633	51,121	52,906
3.	• New admissions	343,230	331,643	330,385
4.	○ Teachers	196,726	199,906	202,991
	▪ Government teachers	188,340	191,322	194,104
	▪ Others	8,386	8,584	8,887
5.	Student-teacher ratio (government schools)	22	22	22
6.	Total expenditure on education (Rs. Mn.) (c)	29,294	30,930	28,286
	Current	21,642	23,795	23,448
	Capital	7,652	7,135	4,838

Source: Ministry of Human Resources Development, Education and Cultural Affairs, University Grants Commission and Central Bank of Sri Lanka.

Note:

(a) Provisional.

(b) Excluding non-functioning schools.

(c) Includes government expenditure on higher education.

Expenditure on education

Expenditure on education in Sri Lanka was 2.5 per cent of GDP in 2001, and 9.6 per cent of total government expenditure in the same year. As shown in *Table 4.4*, the share of GDP allocated to educational expenditure remained stable between 1997 and 2001, while the sector's share in the national budget varied from 9.4 to 9.6 per cent during the same period, after reaching its highest level of 10.5 per cent in 1999.

Table 4.4 Expenditure on education, 1997-2001

Year	Total government expenditure (millions)			Expenditure on education (millions Rupees)			As a % of government expenditure of GDP (%)	As a percentage
	Current	Capital	Total	Current	Capital	Total		
1997	184,749	51,260	236,009	17,757	4,592	22,349	9.4	2.5
1998	199,648	68,277	267,925	20,582	6,112	26,694	9.9	2.6
1999(a)	207,272	71,436	278,708	21,642	7,652	29,294	10.5	2.6
2000(b)	226,751	102,261	329,012	22,985	8,198	31,183	9.4	2.5
2001(a)	281,384	106,329	387,713	28,874	8,504	37,378	9.6	2.6

Source: Ministry of Finance and Planning, Government of Sri Lanka.

Note: a = Approved estimates; b = Provisional.

As for recurrent expenditure, secondary education is provided with the highest share of the government budget at 51.9 per cent; primary education comes second in expenditure (36.4 per cent), while higher education's share is only 11.7 per cent, based on teachers' salaries. Tables 4.5, 4.6 and 4.7 provide the detailed allocation of resources among the education sector (see Annex 14 for detailed information):

Table 4.5 Recurrent expenditure on education by cycle in 2001

Cycle	As a % of recurrent public expenditure on education
Primary (Grades 1 to 5)	36.4
Secondary (Grades 6 to 11)	51.9
Collegiate (Grades 12 and 13)	11.7

Source: Based on teachers' salaries.

Table 4.6 Recurrent expenditure on education per student by cycle in 2001

Cycle	Recurrent expenditure
	Per student as a percentage of per capita income
Primary (Grades 1 to 5)	36%
Secondary (Grades 6 to 11)	51%
Collegiate (Grades 12 and 13)	13%

Source: Based on teachers' salaries.

Table 4.7 Provisions for foreign-aided projects in 2001

Project	Expenditure (millions rupees)		Total
	Capital	Recurrent	
GEP 2	1,244.00	418.21	1,662.21
TETD	1,285.00	440.00	1,725.00
SEMP	287.05	104.10	391.60
JICA	1,000.00	2.66	1,002.66
PSEDP	10.00	4.00	14.00
GTZ	19.00	146.20	165.20

Source: Ministry of Finance and Planning, Government of Sri Lanka.

4.3 Procedures for preparation of the budget

General framework and budget concepts

Under Sri Lanka's political system, each political party presents an Election Manifesto to the electorate. The party that wins and forms a government is expected to implement the Manifesto during the course of its tenure of office. At the start of each parliamentary session, the President, who is Head of State and head of the Cabinet, places before Parliament the programme of work the government hopes to implement during the session, whereupon the responsibility of identifying projects is delivered to the ministries. The ministries formulate alternative project proposals to achieve the declared objectives and select the best-suited alternatives in consultation with their minister for implementation. The budget is the means by which these projects are funded with public money.

In terms of the Constitution of the Democratic Socialist Republic of Sri Lanka, the entire control of public funds lies with the Parliament of Sri Lanka. Parliament's consent is a pre-requisite for use of public funds. Consent is obtained by means of an annual budget passed in Parliament. The ruling party, therefore, is responsible for the presentation of the annual budget to Parliament. The Finance Minister of the cabinet is responsible for the preparation of the annual budget, which is the government's financial blueprint for a specified period – normally twelve months beginning from 1 January each year. From the accounting point of view, the national budget is a consolidation of revenue and expenditure estimates, detailing separately the difference between the two (the budget gap) and explaining how the gap is financed. A summary of the national budget is given in *Annex 15* for ease of reference.

(a) *Revenue estimates*

Government revenue sources are classified under a number of revenue heads. These are the inflows to the consolidated fund, which is constitutionally established for the collection of public funds. Each revenue head is assigned to a revenue collection officer who is responsible for collecting the estimated amount of revenue for the particular financial year.

(b) *Expenditure estimates*

For the purpose of preparing expenditure estimates to be included in the national budget, Sri Lanka uses a modified Programme Budgeting System (PBS). Under this system, each ministry and department is assigned an expenditure head number and is treated as a budgetary unit.

The total expenditure budget is basically classified into two groups in accordance with the principles of accounting.

1. Recurrent expenditure (non-development budget)

Recurrent expenditure (the non-development budget) includes all recurrent expenditure incurred in carrying out the activities. It covers the operational expenditure of the entire government machinery, but is not directly productive as capital expenditure (the development budget). Recurrent expenditure helps to maintain the existing ongoing output levels of capital expenditure. The level of recurrent expenditure is based on overall government policy concerning the operation of various types of productive activities or infrastructure services.

2. Capital expenditure (development budget)

All expenditures for the acquisition, rehabilitation and improvement of capital assets and development of resources are categorized under capital expenditure (development budget).

Programme Budgeting System (PBS): special features

(a) *Mission, Functions and General Work Programme*

The PBS begins with a statement briefly describing the ministry or department's mission. The activities carried out to achieve such objectives should be listed.

(b) Department Summary of Expenditure by Programme

The narrative statement 'Mission, Functions and General Work Programme' is followed by a column-based schedule entitled the 'Department Summary of Expenditure by Programme', where actual expenditure from the previous year, estimates of expenditure for the current year and estimates of expenditure for the budget year are shown – recurrent expenditure (non-development budget) and capital expenditure (development budget) of each programme appear separately as well as combined.

(c) Programme Employment Summary

The next schedule is the 'Programme Employment Summary', detailing the staff employed in the programme. Staff are divided into four groups – A, B, C and D. Group A includes all political, constitutional and statutory appointments, which are of a temporary nature. However, this grouping does not indicate any superiority. The other groups form the real public services and indicate the groupings within the public service. Here too, actual expenditure from the previous year, estimates for the current year and estimates for the budget year are shown in columns. Details for Groups A, B, C and D are shown in a separate volume entitled 'Other Staff Schedule'.

(d) Programme Expenditure by Project

This schedule begins with a narrative statement indicating the activities taken up under the programme in brief, and the annual provision. It also takes the form of a column-based schedule indicating actual expenditure from the previous year, estimates for the current year and estimates for the budget year.

A programme in the national budget format is a financial unit of appropriation, and it usually contains a small number of projects. These are, of course, single activities or groups of homogeneous activities expected to be carried out in order to achieve programmed goals. Costs for an activity are estimated under relevant object codes (see *Annex 4.8*). The volume of work and its nature will be considered in determining the cost of an activity.

When a new project is proposed for inclusion in the national budget, it has to be approved by the Cabinet of Ministers. The project

proposal submitted for cabinet approval should be accompanied by the recommendations of the Committee of Development Secretaries. Before the Committee makes its recommendations to the Cabinet of Ministers, it examines the cost of the project in terms of national planning and the national budget, and seeks advice on recruiting project personnel from the Public Administration Department and the Department of Management and Cadre.

Salary scales for particular posts and grades are commonly accepted scales, applicable equally to all public sector employees. Other staff payments such as overtime, holiday pay and travel are estimated on the basis of hourly rates of pay/daily rate of pay and subsistence rates. As concerns procurement, an open tender procedure has to be followed.

The project cadre will be decided upon at the time at which the project is introduced on the basis of work norms, and once the cadre has been approved it will remain in place through the coming financial years. The government has also issued instructions recently for vacancies not to be filled in the public sector without the prior approval of the Department of National Budget.

(e) Project expenditure by object

Each project of the programme is dealt with separately. Activities carried out and performance indicators are listed in the schedule. The column-based schedule includes actual expenditure from the previous year, estimates for the current year and the expenditure for the budget year under each object code.

The inputs for each project are given in terms of aggregates of cost components, each identified as an object of expenditure. Since these objects tend to recur in every project, their classification has been standardized. Objects of expenditure indicate the economic classification of government expenditure under each project and are basic accounting units. Accounting records should be maintained for objects of expenditure. The schedule of object details is given in *Annex 17* for ease of reference.

(f) *Financing details*

In addition to the statements and schedules described above, the 'Financing details' element of the PBS identifies financing sources. A financing source may be one or a combination of the following:

- domestic fund (Consolidated Fund);
- foreign aid: loans;
- foreign aid: grants;
- reimbursable foreign aid: loans;
- reimbursable foreign aid: grants;
- counterpart funds.

(g) *Advance Account Activities*

As a PBS is not considered suitable for manufacturing, industrial and trading activities, a separate estimation system entitled the 'Advance Accounts System' has been introduced, where commercial accounting systems are present. These activities are financed by separate methods of funding where four types of limits are prescribed in each case.

- maximum limit of expenditure;
- maximum limit of receipts;
- maximum limit of debit balances;
- maximum limit of liabilities.

1. PBS: an example from the Ministry of Education

A. Financial year (budget year)

The financial year commences on 1 January of each year and ends on 31 December of the same year.

B. Head number

Each ministry or department is assigned a separate number. This number is known as the 'Head no.' Each expenditure head is a unit of appropriation. It is an accounting unit of a particular administrative organizational structure. For example, Head No. 501 is allocated to the Ministry of Human Resource Development and Education.

C. Mission statement

This is a simple, specific short statement of what a ministry or department is expected to achieve. For example, the mission of the

Ministry of Human Resource Development, Education: is ‘Achieving excellence, providing equity and equality through a modernized system of education that will create generations of citizens equipped to face the challenges of the twenty-first century and the preservation, promotion and propagation of the culture of Sri Lanka’.

D. Key functions

The main functions of the organization are listed under this heading. The key functions of the Ministry of Education are as follows:

- to develop, plan and monitor the implementation of reforms in the primary and secondary education sectors;
- to initiate programmes and facilitate the development of qualitative changes in the education system to suit the modern global market through providing access and equal opportunities to all children, so that they will be equipped with knowledge, skills and attitudes enabling them to become productive citizens;
- to formulate policies in relation to human resource development and carry out studies in human resource development issues;
- to formulate and implement national policies and programmes for the preservation and promotional roles of the Ministry extending to regional administration including provincial councils, government, semi-government and non-government agencies.

E. Institutions under the ministry

Institutions under the ministry are classified under three categories according to their nature:

- departments
 - Department of Examination
 - Department of Educational Publications
- statutory boards
 - National Institute of Education
 - National Library and Documentation Services Board
 - National Authority on Teachers Education
 - Buddhist and Pali University of Sri Lanka
 - Buddhasravaka Bihikkhu University
 - National Book Development Council of Sri Lanka
- public enterprises

F. Basic information

Basic information about the ministry/department is provided for the benefit of users of the budget document. Some basic information is given below about the Ministry of Human Resource Development and Education and Cultural Affairs:

- number of national schools (325); students (504,897); teachers (28,499);
- number of provincial schools (9,506); students (3,521,728); teachers (165,501);
- number of Pirivena schools (599); students (54,968); teachers (4,839);
- number of schools for handicapped students (21);
- number of students receiving hostel facilities (20,507);
- number of students receiving bursaries and scholarships (57,080).

G. Programme

A programme is a functional unit of appropriation. Budget estimates pertaining to each spending agency fall within the programmes. These programmes are formulated to facilitate a standardized system, in line with international classification. For details of standardized programmes (see *Section on Programme Budgeting System (PBS): special features*).

H. Project

A 'project' is an activity or a group of homogenous activities. It facilitates the costing of each activity and the establishment of input-output relationships.

I. Subproject

A 'subproject' is a major activity within a project that requires separate monitoring and accounting.

J. Object code or object

An 'object' is a component of a project's cost. Expenditure estimates are shown under recurrent (non-development) and capital (development) object codes. Provisions under certain object codes are non-transferable in order to ensure that specific commitments are maintained. The object

is the last unit of expenditure reporting accepted by the government. A list of standard object codes is given in *Annex 17*.

K. Object details or items

This is the smallest division of budgetary provision. The total of a few number of object details, where division of expenditure is required according to the circumstances, represents the whole object provision. The number of object details (items) under each object code depends on the budget head, programme and project.

Example:

- head: (501) Ministry of Human Resource Department and Education and Cultural Affairs;
- programme: (81) secondary education;
- project: (01) secondary education.

Table 4.8 Example of codification for a secondary education project under PBS

Project	Subproject	Object	Financing code	Item	Item Description	2002	2003	2004
						actual Rs'000	estimate Rs'000	estimate Rs'000
1	0	1905	11	-	Other			
1	0	1905	11	1	In-service training			
1	0	1905	11	2	Competitions, exhibitions and festivals			
1	0	1905	11	3	Printing of syllabuses			
1	0	1905	11	4	Incidental expenses			
1	0	1905	11	5	Action plan for Sri Lankan students			
1	0	1905	11	6	Training of school bands			
1	0	1905	11	7	Anti-narcotics			
1	0	1905	11	8	Physical education and sports			
1	0	1905	11	9	Guidance and counselling schools			
1	0	1905	11	10	Expenses for teacher recruitment			
1	0	1905	11	11	Allowances to agricultural farmers			
1	0	1905	11	12	Peace education			
1	0	1905	11	13	Environmental education			

L. Medium-Term Expenditure Forecasts

The budget for year t includes estimates of expenditure for year t as well as projections for years $t+1$ and $t+2$ (i.e. for the medium term). Projections for the medium term reflect the continuation of policies adopted for the year t , and the amounts as requested by the respective agencies. These figures are adjusted when these are not in conformity with macro projections.

Adjustments to the estimates for year $t+1$ and year $t+2$ for inflation and any salary adjustments are not shown under individual projects.

M. Recurrent Expenditure (non-development budget)

N. Capital Expenditure (development budget)

O. Performance Indicators

For the introduction of the Performance Budgeting System (PBS), project objectives and performance indicators for the period (year t – year $t+2$) for each project are included in the year t budget. The

objectives and performance indicators are designed to identify specific results that will be accomplished with year t budget expenditure, and the results projected for year t+1 and year t+2 with the budget projection for those years. *Table 4.9* provides an illustration of the PBS.

Table 4.9 Example of the 2004 budget: primary education

	Actual 2002	Estimate 2003	Estimate 2004	Projection 2005	Projection 2006
1. Staff inputs	6.863	6.863	9.431	9.431	9.431
2. Output Indicators:					
Number of primary schools		235	235	235	235
No. of classrooms refurbished			12,500	12,500	12,500
Dropout rate %			6	5	4
2. Output Indicators:					
Completion rate at primary cycle %			96	97	98
3. Efficiency Indicators:					
Student teacher rate			22	24	26

2. Expenditure budget presentation

Within the Programme Budgeting System (PBS), expenditure estimates are presented in the following order:

- Expenditure estimates for each spending unit (i.e. a ministry/department) are shown in the form of programmes, projects, object codes and object details. Financing details and employment profiles are presented to facilitate the execution of the budget by accounting officers (secretaries and heads of departments) as well as to ensure accountability.
- Under each expenditure unit the following information is provided:
 - Head number
 - mission statement of the ministry or department;
 - key functions of the ministry or department;
 - departments and institutions under the ministry:
 - i. departments,
 - ii. statutory boards and corporations,
 - iii. public enterprises,
 - summary of expenditure by departments;
 - summary of expenditure by programmes;
 - summary of expenditure by category;

- financing method;
- Ministry employment profile;
- some basic information;
- advance accounts limits;
- summary of expenditure by programmes and projects (for Ministry only);
- summary of expenditure by category (for Ministry only);
- financing method (for Ministry only);
- employment profile.

3. Linking the education budget to the national budget

Expenditure of the national budget, from the economic point of view, can be divided into two main categories:

- general public service: this covers general administration, public order and safety, and defence;
- social development and welfare: this covers health, housing, social security, welfare service, community-based programmes, physical planning and education.

It is clear that education expenditure in Sri Lanka is grouped under social development and welfare (see *Figure 4.5*).

Education in Sri Lanka is free for all students. The country's education budget consists of the expenditure budgets of the following ministries, departments and provincial councils:

- Ministry of Human Resource Development, Education and Cultural Affairs;
- Ministry of Tertiary Education and Training;
- Ministry of School Education;
- education expenditure budget of eight Provincial Councils;
- Department of Examination;
- Department of Education Publications.

Figure 4.4 Sequential order of the education budget

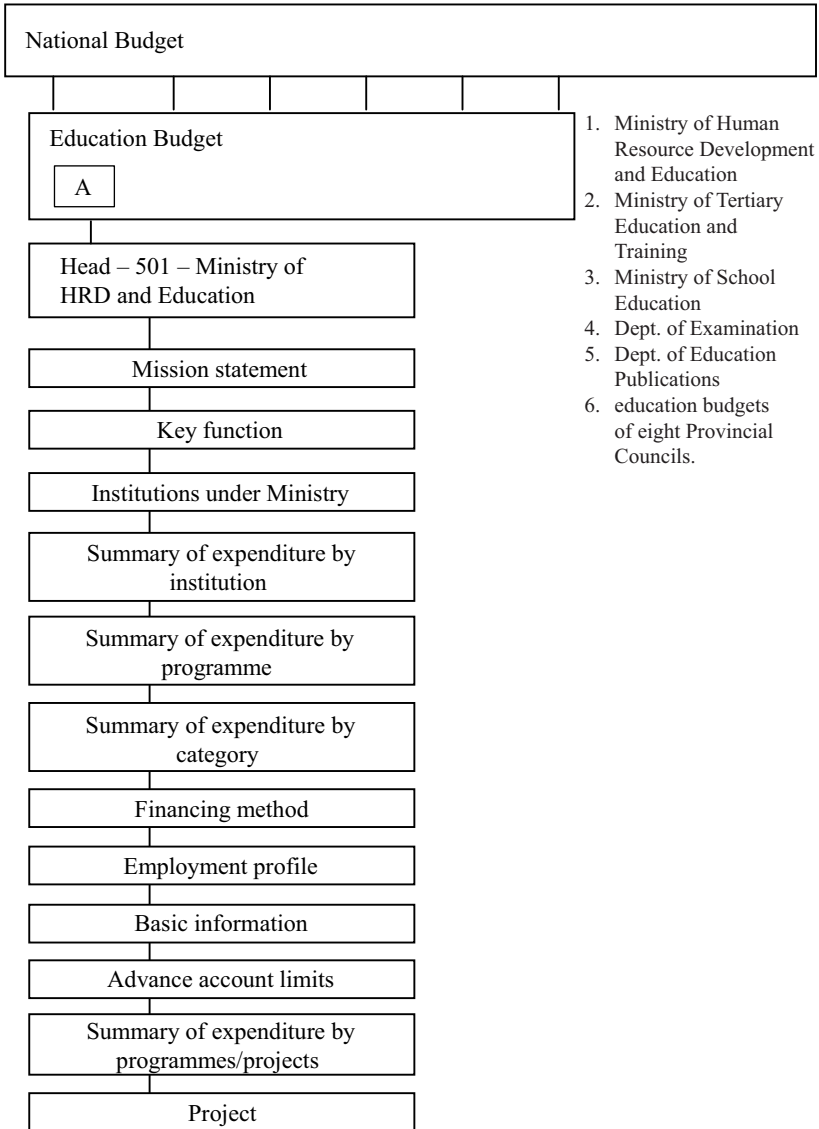
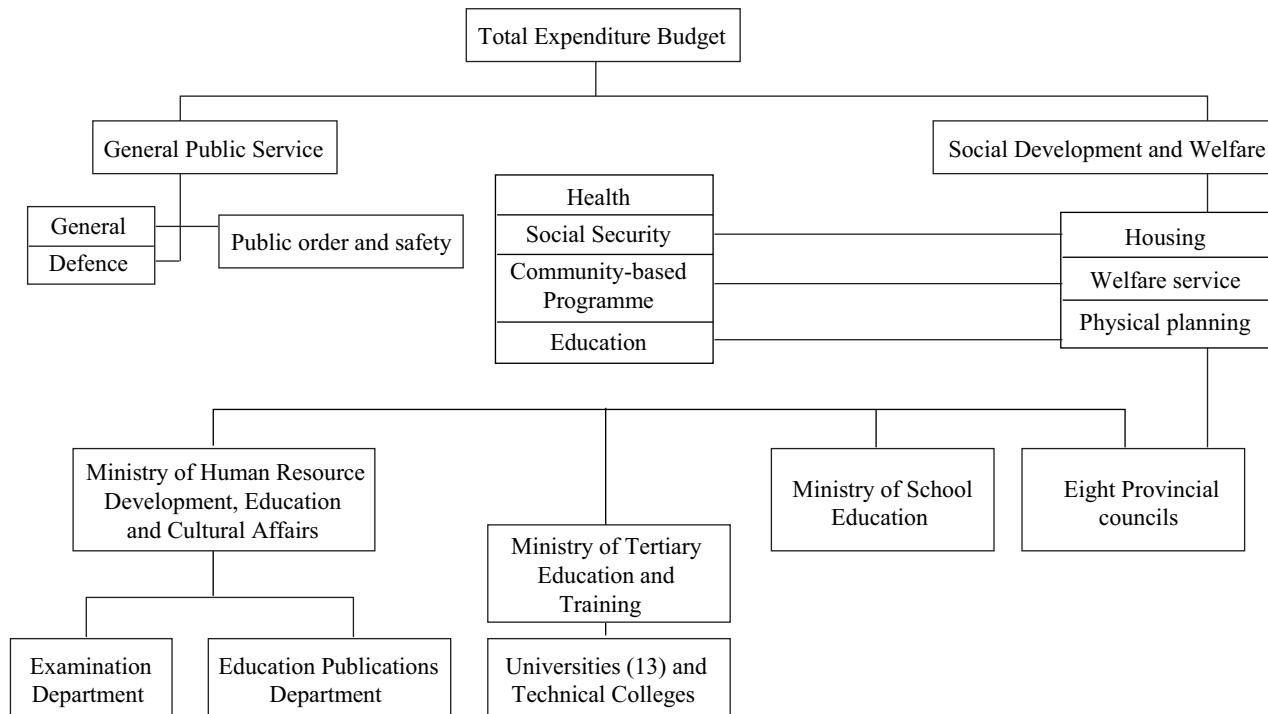


Figure 4.5 The link between the education budget and the national expenditure budget



Budgetary procedures and timeframe

All ministries and departments have to follow the same guidelines and target dates in preparing their budgets, specified by the Treasury circular, issued annually.

Since 2002, the Zero Base Budgeting System has been gradually adopted for budget preparation. The Treasury determines the amount of provision for each ministry and department, separating its capital (development) and recurrent (non-development) expenditure and the foreign-aid projects with this system. Each ministry/department prepares its budget using PBS formats and submits them to the National Budget Department.

Budget preparation steps for the Ministry of Human Resource Development, Education and Cultural Affairs are as follows:

- provincial education offices send their capital (development budget) proposals to the ministry's Planning and Finance Divisions (new proposals have to be approved by the Cabinet of Ministers)
- provincial education offices send their recurrent expenditure data (non-development budget) to the ministry's Planning and Finance Division
- preparation of draft budget estimate for entire Ministry by its Finance Division, using formats introduced by the department of National Budget for capital and recurrent expenditure, in keeping with the enforced ceiling
- review of proposals by the Ministry's Top-level Budget Committee
- discussion between Ministry and Treasury officials on the provision to be included in the national budget for the succeeding financial year
- inclusion of amendments to the draft budget expenditure formats already submitted if changes made to the ceiling are agreed upon at the discussion
- Treasury officials finalize the provision to be included in the national budget, taking into account expected income, from domestic and foreign sources, for the coming financial year under the Ministry head.

The financial year commences on 1 January of each year and ends 31 December of the same year. The normal budget calendar indicating the dates for the report to be submitted is given in *Table 4.10*.

Table 4.10 Budget calendar (for Year t budget)

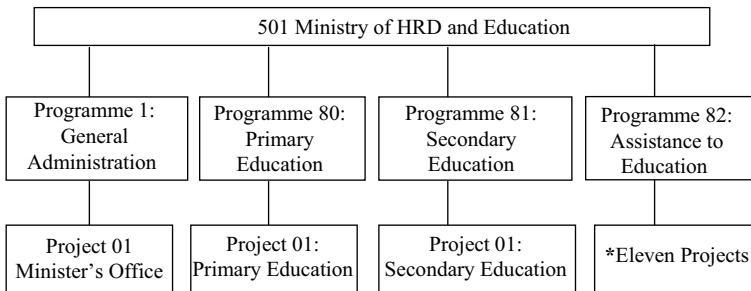
Document/form	To whom and number of copies	Date by which it should be furnished
Government departments:		Year (t-1)
(a) Continuation capital projects (Form C)	One set to Director-General/Budget	30 April
(b) New capital projects (Form D)		30 April
(c) Statement of surpluses and vacant posts	Two sets to Director-General/Budget	15 June
(d) Statement of surpluses and vacant posts and other sources	One set to Director-General/Budget, one set to Director-General/Public Enterprises	15 June
(e) Statement of provision required for repayment of foreign loans (no form)	One set to Director-General of State Account	15 June
(f) Draft estimates proper together with completed Forms B and F	Two sets Director-General/Budget	15 June
(g) Statement on financing details (Form E)	Two sets to Director-General/Budget	15 June
(h) Advance account budgets (Form G)	Two sets to Director-General/public enterprises	15 June
(i) Estimates of revenue, Year t and revised estimates of revenue, Year t-1	Two sets to Director-General/Fiscal Policy and Economic Affairs	30 June
(j) Staff schedule	Two sets typed Director-General/Budget	30 June
Special statutory funds/State corporations and other levels of government		
(k) Continuation and new capital projects where budgetary support is required	One set to Director-General/National Planning, one set to Director-General/Public Enterprises, one set to Director-General/Budget	30 April

Source: Based on example from 1999.

Evaluation techniques for the budget lines

In the case of the Ministry of Human Resource Development and Education, the programmatic structure of the education Ministry Budget is as follows:

Figure 4.6 Programmatic structure of the Education Ministry budget



* Eleven Projects:

1. Ministry Administration
2. Special Education
3. Teachers Collages and Centres
4. Collages of Education
5. Grants and Assistance for Education
6. Second General Education Project
7. Teacher Education and Teacher Deployment Project
8. Secondary Education Modernization Project
9. Donor-funded Capital Projects
10. Transfers to Public Institutions and Enterprises
11. National Action Plan for Children

Box 12. Budget for year t

A. Summary of expenditure by institution (department)

This is a summary statement of budgetary provision for the Ministry of HRD and Education and the institutions and departments within its purview. It shows institutional capital (development) and recurrent (non-development), actual and forecast expenditure for a period of five years normally known as *Medium-Term Expenditure Forecast*. An example of the format is given below:

Table A. A Summary of expenditure by institution

H No	Programme	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000	Year (t+1) projection Rs'000	Year (t+2) projection Rs'000
Recurrent expenditure (non-development budget)						
501	Ministry of Human Resource Development and Education					
712	Department of Examination					
713	Department of Educational Publications					
Capital expenditure (development budget)						
501	Ministry of Human Resource Development and Education					
712	Department of Examination					
713	Department of Educational Publications					
Total expenditure						

B. Summary of expenditure by programme

This statement again shows the classification by programme of total expenditure included in the above Summary of Expenditure by Institution. This covers Ministry expenditure as well as the expenditure of the other departments of the Ministry. An example of the format is given below:

Table B. Summary of expenditure by programmes

Programme	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000	Year (t+1) projection Rs'000	Year (t+2) projection Rs'000
Recurrent expenditure (non-development budget)					
General administration					
Primary education					
Secondary education					
Assistance to education					
Capital expenditure (development budget)					
General administration					
Primary education					
Secondary education					
Assistance to education					
Total expenditure					

C. Summary of expenditure by category

The Statement of Summary of Expenditure by Category shows the categorized classification of total expenditure included in the Department Summary. One column presents the actual expenditure for the previous year (t-2). In the other columns, expenditure estimates for the current year (t-1) and the succeeding year (t) are included:

Table C. Summary of expenditure by category

Category	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000
Recurrent expenditure (non-development budget)			
Personal emoluments			
Travelling expenses			
Supplies			
Maintenance expenditure			
Contractual services			
Transfers			
Grants			
Subsidies			
Other recurrent expenditure			
Capital expenditure (development budget)			
Rehabilitation and improvement of capital assets			
Acquisition of capital assets			
Capital transfers			
Other capital expenditure			
Operation cost of donor funded projects			
Total expenditure			

D. Financing method

A Statement of Financing Method has to be prepared and presented, during budget preparation, for the following four reasons:

1. to show the sources of financing for the total budget pertaining to the Ministry and the departments of the Ministry;
2. to show the sources of financing of the Ministry budget (Accounting Unit);
3. to show the sources of financing of a programme (a component part of the Ministry budget);
4. to show the sources of financing of a project (a component part of the programme).

In addition, as identified, a distinctive financial source number has to be inserted against the object codes in the project expenditure form.

The Statement of Financing Method shows the sources of funds that finance the budget. Each source is assigned a distinctive number. There are seven finance sources, given in the table below:

Table D. Statement of financing method

Financing method	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000
Appropriation Act			
11. Domestic fund			
12. Foreign aid loans			
13. Foreign aid grants			
14. Reimbursable foreign aid loans			
16. Counterpart funds			
15. Reimbursable foreign aid grants			
17. Foreign aid related domestic funds			
Total financing			

E. Statement of Employment Profile

A Statement of Employment Profile is prepared, containing details of personnel deployed to carry out the functions of:

- the Ministry and its departments;
- the Ministry;
- the Ministry's projects.

Types of personnel are categorized into four groups: A, B, C and D.

Group A: Senior Executive Grade. This group comprises senior management positions including officials appointed under the provisions of the Constitution of Sri Lanka or any other statute, such as Secretaries, Additional Secretaries, Heads of Departments and Additional Heads of Departments. Chief Accounting Officers and Accounting Officers appointed under Financial Regulations are also included in this Group.

Group B: Staff Officer Grade. All staff grade officers other than those in Group A are included in this category.

Group C: Subordinate Officer Grade. This category includes all subordinate officer grades as defined in the Establishment Code.

Group D: Minor Officer Grade. This category includes all minor grade officers as defined in the Establishment Codet

Table E. Ministry employment profile

Position	Year (t-2) estimate	Year (t-1) estimate	Year (t) estimate
Permanent			
Group A	Senior Executive grade		
Group B	Staff Officer grade		
Group C	Subordinate Officer grade		
Group D	Minor Officer grade		
Temporary/Casual			
Group B	Staff Officer grade		
Group C	Subordinate Officer grade		
Group D	Minor Officer grade		

F. Advance accounts limits

This particular accounting system is used by the public sector to account for activities of a commercial nature. It is common practice for ministries and departments to grant loans to Public Officers. The format used is given in the table below:

Table F. Advance accounts limits

Item	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000
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Advances to public officers
 Maximum limit of expenditure
 Minimum limit receipts
 Maximum limit of debit balance

G. Summary of expenditure by programmes and projects

This format includes project costs classified under separate programme heads (a head is an accounting unit). This column-based format is designed to show the capital (development) and recurrent (non-development) expenditure of a project separately over a five-year period.

The format used by the Ministry of HRD and Education is given in the table below:

Table G. Summary of expenditure by programmes and projects

Programme/project title	Year (t-2) actual Rs'000	Year (t-1) estimate Rs'000	Year (t) estimate Rs'000	Year (t+1) projection Rs'000	Year (t+2) projection Rs'000
-------------------------	--------------------------------	----------------------------------	--------------------------------	------------------------------------	------------------------------------

Recurrent expenditure
 (non-development budget)

01 General Administration

01 Minister's Office

80 Primary Education

- 01 Primary Education
- 81 Secondary Education
- 01 Secondary Education

82 Assistance to Education

- 01 Ministry Administration
- 02 Planning and Programming of Education
- 03 Special Education
- 04 Teachers Colleges and Centres
- 05 Colleges of Education
- 06 Grants and Assistance for Education
- 07 Second General Education Project
- 08 Teacher Education and Teacher Deployment Project
- 09 Secondary Education Modernization Project
- 11 Transfers to Public Institutions and Enterprises

Capital expenditure (development budget)

01 General Administration

- 01 Minister's Office

81 Primary Education

- 01 Primary Education
- 81 Secondary Education
- 01 Secondary Education
- 82 Assistance to Education
- 01 Ministry Administration
- 02 Special Education
- 03 Special Education
- 04 Teachers Collages and Centres
- 05 Collages of Education
- 06 Grants and Assistance for Education
- 07 Second General Education Project
- 08 Teacher Education and Teacher Deployment Project
- 09 Secondary Education Modernization Project
- 10 Donor-funded Capital Projects
- 11 Transfers to Public Institutions and Enterprises
- 12 National Action Plan for Children

H. Project

This format presents object-related expenditure for an entire project. It also provides details for when the necessity arises for expenses to be incurred separately, and where to charge them.

4. Appropriation Bill

According to the Constitution, it is prohibited to withdraw monies from the Consolidated Fund without the prior approval of Parliament. The Passage of Appropriation Bill in Parliament (subsequently called the Appropriation Act) fulfils this legal requirement. Treasury official can make adjustments to the draft estimates of ministries and departments to tally estimated figures with the total for expenditure in the draft budget. Treasury officials have the authority to do so as they act on instructions from the Finance Minister. However, it is legally possible to introduce new proposals for draft estimates at the Committee Stage of Parliament for the line Minister, if the activity is considered an urgent matter in the public interest. The process for approval of the bill consists of the following steps:

- first reading of the Appropriation Bill (national budget) by the Honourable Minister of Finance in Parliament
- Committee stage reading of the Appropriation Bill and ensuing debating
- third reading and passing of the Appropriation Bill with a majority vote, receiving consent of the Speaker and the President.

(a) Foreign-aided projects of the Ministry of Human Resource Development, Education and Cultural Affairs

The Ministry of Education oversees a few foreign-funded projects. These three projects represent a large portion of the education budget, and are rated the most important among the projects:

- Teacher Education and Teacher Deployment Project (TETD)
- Second General Education Project (GEP2)
- Secondary Education Modernization Project (SEMP).

The specific objectives of these projects are indicated in *Boxes 13, 14 and 15*.

Box 13. Teacher Education and Teacher Deployment Project (TETD)

Sri Lanka and the International Development Association (IDA) entered into a Development Credit Agreement (Credit Number 2881 CE) for the Teacher Education and Teacher Deployment Project on 3 July, 1996. The total credit amount was SDR 44 million (US\$64.1 million).

Objectives of the project

Project objectives, based on policy initiatives agreed between the government and IDA, are to improve the quality, cost-effectiveness and coverage of education in Sri Lanka, in the following ways:

- improving education attainment and equity by making better-trained teachers more widely available in schools – particularly in disadvantaged schools – thereby improving teaching/learning, reducing repetition and drop-out rates, and consequently reducing the cost of the education cycle and making the system more equitable
- making the system more efficient by rationalizing teacher recruitment, deployment and training policies, making them demand-driven to provide the effective and equitable allocation of teachers to address national, district and school-level needs, and reduce salary costs
- making more effective use of education expenditure through rationalization of teacher numbers and their deployment, thus reducing total salary costs and freeing funds for quality expenditure
- improving the quality of teacher education through measures to enhance the coordination, quality and certification policies of teacher education, and improve teacher training programmes to increase responsiveness, reduce duplication, and improve quality and cost-effectiveness
- making the teacher training system more cost-effective through rationalization of the number and geographical distribution of teacher training institutions, maximizing their utilization and multifunctionality, upgrading the content knowledge and pedagogical skills of the teacher trainers/educators and strengthening management capacity.

Box 14. Second General Education Project (GEP2)

This foreign aid project functions on a credit agreement to the value of SDR 57.4 million between Sri Lanka and the International Development Association. The objective of the project is to improve the quality, access, management and financing of Ministry education programmes. The project consists of the following parts, subject to such modifications thereof as the Ministry and the Association may agree upon from time to time to achieve its objectives.

A. Curriculum development

Preparing a national strategy for and implementing a sequential and cyclical curriculum in all subjects for the junior cycle (Grades 1 to 9) and improving management of the curriculum process, through the provision of technical assistance and training.

B. Textbooks/education publications

Improving the quality and content of textbooks to match the curriculum needs by:

- (i) upgrading their physical condition (paper, cover and binding);
- (ii) increasing their life expectancy; and
- (iii) allowing the introduction of a re-use policy and multiple textbook options.

C. School facilities rationalization

Increasing equitable and cost-effective allocation of education facilities and libraries through the development of zonal and provincial plans to match the proposed National Education Commission's (NEC) new education system structure of junior (Grades 1 to 9) and senior schools (Grades 10 to 13).

D. Quality inputs

Supplying sufficient quantities of educational materials and equipment matching the curriculum and syllabus needs on a per capita basis annually.

E. Libraries

- (i) Developing three types of library (according to school sizes) and providing these with adequate books, shelves, furniture and staff trained in library management.
- (ii) Establishing the National Institute of Library and Information Science at Colombo University through the carrying out of civil work and the provision of equipment.

F. Education management and planning

Strengthening education management, by rationalizing roles and functions and training staff in these new roles, exercised by:

- (i) the central and provincial authorities
- (ii) the National Institute of Education, and
- (iii) the University Grants Commission.

G. Education financing

Implementing an equitable norm-based unit cost formula to improve resource allocation and assist with the sustainability of quality inputs and school maintenance, through the provision of technical assistance and staff training.

H. Studies

Carrying out studies for impact analysis of GEP inputs, to monitor project inputs and assess the education sector's future investment needs.

Box 15. Secondary Education Modernization Project (SEMP)

The Secondary Modernization Project (SEMP) which came into effect as a sequel to ADB Loan No. 1756 SRI (SF) was implemented with effect from 1 January 2001 with the financial assistance of the Asian Development Bank (ADB) and the Nordic Development Fund (NDF). The total amount earmarked for the project was US\$ 76M. The ADB and NDF contributions were US\$50M and US\$7M respectively, whereas the Sri Lanka Government commitments and beneficiaries' contributions were US\$17M and US\$2M respectively. The project period was five years, running from 2001–2005.

The objectives of the project were:

1. to improve the quality of secondary education by making education more relevant to the labour market, establishing 1,000 Computer Learning Centres (CLCs) and 2,400 Multimedia Rooms, providing training to teachers and raising national examination results and improving classroom learning
2. to ensure access to quality improvements for disadvantaged students by setting up fully equipped Science Laboratories in 100 Secondary Schools, improving the curriculum for the benefit of students, and also providing financial assistance (stipend programmes) to under-privileged students (30,000 students in Grants 10 to 11 and 12 to 13) and providing necessary training to teachers in Career Guidance
3. to improve efficiency in management and supervision by undertaking capacity building of key educational institutions, such as the Ministry of Education, Department of Examinations and the National Institute of Education, providing necessary training to those involved in educational activities, carrying out curriculum material development and provision of equipment to develop new technology syllabi.

Behaviour of the actors involved

The actors involved in budget preparation at the Ministry of HRD and Education can be grouped as follows.

(a) Provincial level

There are eight constitutionally accepted provincial councils in Sri Lanka. These effectively constitute semi-governments with authority over devolved subjects within their jurisdiction.

Two groups of schools can be identified in the area of the provincial council:

- national schools: schools under the authority of the central government;

- provincial council schools: schools under the provincial council.

A sizeable number of small schools situated in provincial areas are run by a particular provincial council, with a few leading schools in the provinces run by the central government. No central government administrative mechanism exists to exercise direct authority over schools and other education institutes in the provinces. Instead, the government uses the provincial set-up, which consists of the Provincial Education, Zonal Education and Divisional Education Offices for the operation of national schools in the provinces. These offices play a dual role in the preparation of the national budget as indicated in *Figure 4.7*.

All policy matters are subject to central government. National education policy is determined by the Ministry of HRD and Education. The provincial councils must follow ministry work norms, rules and regulations and instructions. Therefore, provisional councils follow the same procedure for budget preparation.

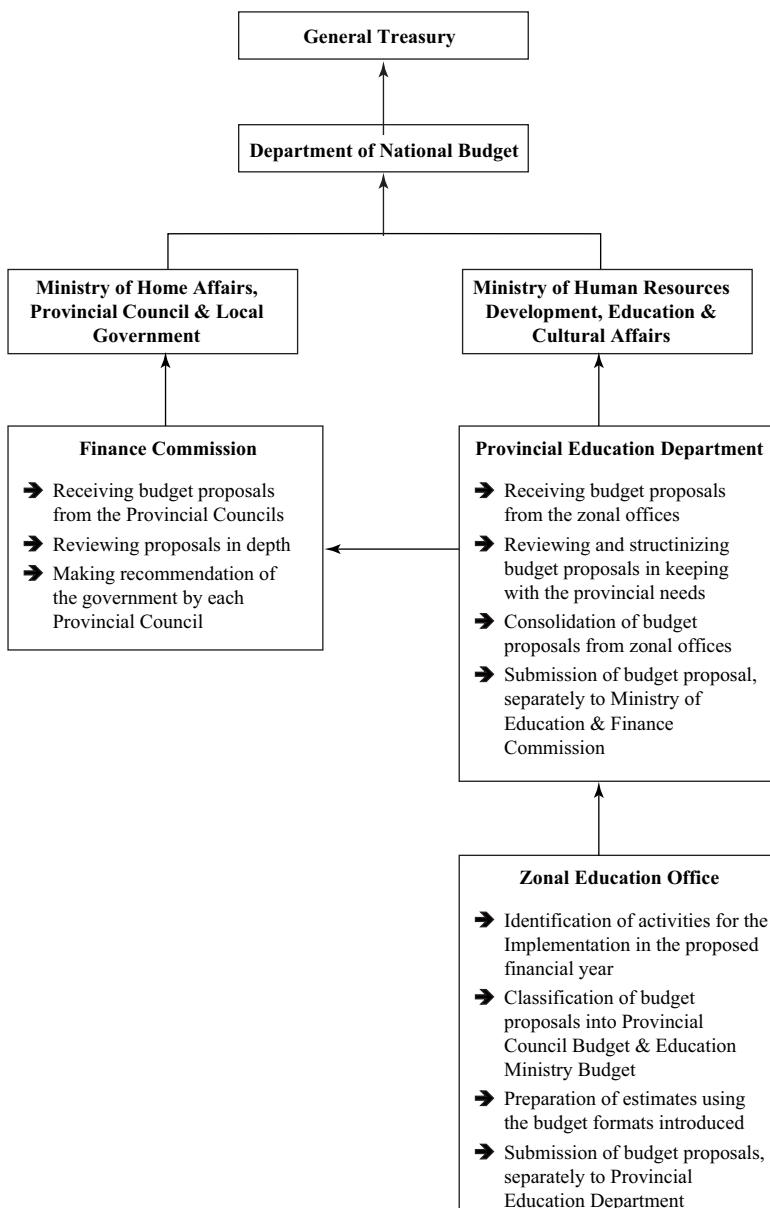
The Ministry of HRD and Education includes the following subject directors:

- Director (national schools);
- Director (Science and Technology);
- Director (Sports and Physical Education);
- Director (Aesthetic Education).

These directors are directly responsible to the Secretary of Education for each subject assigned to them, and ensure that their subjects are taught in national schools without interference or interruption.

This same set-up prevails in the education department of the provincial council. Subject directors sometimes report to the Chief Secretary of the Province as well as to the Secretary of Education. At the zonal office level, established below the provincial education departments, subject directors may be responsible for several subjects. They hold monthly meetings with school principals in their locality to remain informed of the prevailing situation in each school. Provincial Education Department subject directors are expected to participate in these meetings.

Upward Flow of Education Budgetary Process



Once the budget circular has been sent out, the Ministry of Education's accounts department requests each Ministry subject director to submit budget proposals on their subjects for inclusion in the following year's budget.

These head office officials contact provincial education subject directors and then provincial directors, in turn, contact zonal directors, if necessary. All are given the deadline for submission of proposals, which is determined by the Ministry of Education's Finance Division.

Provincial education directors, with the help of zonal directors, prepare budget proposals separately: the proposal concerning national schools in the province is submitted to the central Ministry of Education; the proposal concerning provincial schools in the province is submitted to the provincial Ministry of Education. Subject directors from the Ministry coordinate this process to ensure that proposals on all subjects are received from all provinces. After all proposals have been received, the head subject director at the Ministry prepares a fresh statement that orders the proposals by priority; this is then sent to the Director of Planning with a copy to the Finance Division. This statement should be accompanied by a justification for the proposals and a cost estimate for each proposal.

(b) Central Ministry level

In order to coordinate and finalize the budget of the Ministry of HRD and Education, the Secretary appoints a Budget Committee comprising the following top-ranking Ministry officials:

- | | |
|--|----------|
| • Additional Secretary (Planning) | Chairman |
| • Additional Secretary (Edu. Department) | Member |
| • Chief Advisor (Edu.) | Member |
| • Chief Accountant | Member |
| • Director (Planning) | Member |
| • Accountant (Finance) | Member |
| • Accountant (Misc. Acct.) | Member |
| • Deputy Director (PPR) | Member |

When the budget proposals are received by the Ministry's accounts department, the Accountant (Finance) consolidates the recurrent (non-development) budget, and the Accountant (Misc. Acct.) consolidate the

capital (development) budget, in consultation with the Chief Accountant and the Director (Planning). Thereafter, the consolidated budget is submitted to the Budget Committee. The Budget Committee reviews the draft budget, paying attention to both the budget ceiling specified by the National Budget Department and the priorities specified by the proposals. The Committee suggests the amendments it deems necessary and tentatively finalizes the Ministry's budget before forwarding it to the Department of National Budget.

The Department of National Budget, upon receipt of the draft budget, calls a meeting with the Secretary of the Ministry of Education to discuss the draft budget for the coming financial year. The Secretary attends this meeting with the members of the Budget Committee, heads of Ministry institutions and Ministry subject directors. At this discussion on the proposed draft budget, both parties explore the possibility of increasing the budget ceiling to accommodate all high priority areas, and reducing provisions under low priority areas. Finally, both parties at this negotiation meeting agree on a certain figure, and the draft budget is amended as agreed and included in the national budget.

1. Link between educational plans and budget

The foremost activity based on budgeting is planning. Accordingly, planning is considered at both the provincial and national levels in budget terms. There is a prevailing tendency toward strategic planning, with respect to the basic preparation of requirements.

2. Link between provincial level plans and budget

The Annual Implementation Plan of the Development Plan, which is prepared at various zonal levels for all provincial schools, forms the basis for preparation of the budget for each province.

Annual Budget Estimates relating to each project leading to qualitative and quantitative development are prepared by the Planning Divisions of the Provincial Department of Education (PDE). The Financial Division of the PDE prioritizes the projects and, thereafter, prepares those items with higher provincial requirements. The Annual Budget Estimate, prepared in accordance with Provincial Level Planning, is subjected to Middle Level Coordination in all provinces. It is then compared with the Finance Commission's statement on

provisions allocated for education in provincial schools, and the appropriate provincial council authorities allocate funds to the various divisions, based on their priorities.

3. Link between National Level Plans and budget

The preparation of the budget at the national level is made based on the needs expressed in the Action Plans prepared annually by the institutions and national schools under the Central Ministry of Education.

Here, a calculation is made regarding national school requirements for the next five years. Requirements relative to building construction, maintenance and equipment for each school are made according to national norms. Taking into account additional requirements as well as the difference between the cost of requirements and the resources available, object codes are prepared quantitatively for the year under a phased-out three-year programme. Accordingly, budgeting takes into account expenditure for projects aimed at quality improvement.

In addition to this, the necessary financial provision will be decided based upon the Annual Action Plans of the institutions under the purview of the Ministry, including its various divisions and the National Institute of Education.

The budget estimate is prepared accordingly and submitted to the Ministry's Budget Committee for further action. After approval, the estimate will be submitted to the National Budget Department and to the National Policy Planning Department.

In this manner, the budget estimate will be prepared based on the annual Action Plan, derived from the national and provincial level Middle-Term Development Plans.

Officers at provincial and central Ministry levels need further training on planning and monitoring. Such training is essential to strengthen skills essential to the process of budget preparation.

(c) *Treasury level*

1. Budget discussion with Treasury officials

After draft estimates for each Ministry and department have been submitted to the National Budget Department, the Secretary of the General Treasury calls a meeting with the Ministry secretary and heads of departments concerned. The purpose of this discussion is to explore the possibility of adjusting provisions that should be included in the draft estimates under their heads.

The Treasury departments involved in budget discussions at the Treasury level are as follows:

- the National Budget Department
- the National Planning Department
- the External Resources Department
- the State Accounts Department.

Draft estimates normally include provisions for all activities that need to be implemented during the coming financial year. Since ‘a government’s agency is a determined criterion for provisions to be made for an activity included in the national budget, it is discussed at length at this meeting. The final figure for provision is reached in keeping with the availability of funds authorized by Treasury officials.

Finally, the Department of National Budget prepares the Appropriation Bill.

Budget approval and passing

As mentioned earlier, according to the Constitution, it is prohibited to withdraw monies from the Consolidated Fund without the prior approval of Parliament. The Passage of Appropriation Bill in Parliament (subsequently called the Appropriation Act) fulfils this legal requirement. Treasury official can make adjustments to the draft estimates of ministries and departments to tally estimated figures with the total for expenditure in the draft budget.

(a) *Vote on Account*

There are instances when it becomes impossible to obtain the approval of Parliament for the draft budget (Appropriation Bill) before

its dissolution. In such cases, a Vote on Account system is adopted to withdraw funds from the Consolidated Fund in order to maintain public services.

Vote on Account is a system under which Parliament gives its consent for a temporary budget, which normally covers a maximum period of three months. It also includes the minimum funds required to maintain public services during that short period. The present Parliament, if dissolution is imminent, passes the Vote on Account before dissolution, leaving budget approval to the future government. Failing that, the President, under the Constitution, can authorize the withdrawal of funds from the Consolidated Fund for a period of three months, to maintain public services. The future Parliament will approve the Vote on Account to cover such withdrawals. Any Vote on Account is included in the budget drafted for the next financial year.

(b) Budget ceiling and additional provision

The overall budget ceiling depends on the estimated total receipts of the government for the financial year, which cannot be exceeded. Therefore, it is not always certain that all budget proposals will be accommodated within the budget ceilings specified for each Ministry. However, the recurrent (non-development) expenditure ceiling set for the Ministry is sufficient to meet needs of a recurrent nature, with some restrictions. Capital proposals beyond the capital (development) expenditure ceiling can be postponed until the next financial year.

The followings are the ways in which additional provision may be obtained during the financial year:

- transferring provision by applying the virement procedure (when savings of provision are available from the provision already provided under the Ministry head).
- by making a special request to the Secretary of the Treasury for release of additional allocations from the miscellaneous vote of the Treasury
- by submitting supplementary estimates to Parliament (allowed only on limited occasions).
- by requesting an advance from the Treasury under the Contingency Fund (only in the event of an urgent and unforeseen situation).

4.4 Implementing the education budget

The stages of implementation of the education budget are as follows:

- The Honourable Minister of Finance signs the General Warrant after the President gives consent to the national budget.
- The Ministry of HRD and Education prepares its annual cash requirement and submits it to the State Accounts Department in the General Treasury to obtain imprest. The cash imprest required by the Ministry is facilitated in three ways by the Treasury:
 - a bank facility system for recurrent expenditure (non-development budget); the bank is advised to honour up to the limit pre-determined by the Treasury
 - by direct cash release to the Ministry bank account in the State Bank for capital expenditure (development budget) and the payment of loans to public servants in the Ministry
 - cash is released directly to each bank account opened separately for each foreign-aided project.
- Officers involved in implementing the Ministry's Annual Action Plan are informed of the approved budgetary provisions, so that they can take action.
- Ledgers are opened for the new financial year.
- Cash imprest and allocations are released to colleges of education, provincial departments of education and then on to zonal education offices.
- The above-mentioned offices submit summaries of expenditure and receipts after making payments for services, procurement and civil works.
- Monthly summaries are consolidated into a single summary and submitted to the State Accounts Department.
- Monthly printouts are received from the Department of National State Accounts. Ministry figures are reconciled with the Treasury printouts.
- The Annual Appropriation Account is prepared and submitted to the Treasury through the Auditor General.
- Public Accounts are published.

Reasons for differences between actual expenditure and estimates

The preparation of draft estimates for a particular financial year commences during the first quarter of the previous financial year. Expenditure figures are estimated on the assumptions based on prevailing conditions of the previous year. In the succeeding year, when the budget comes into operation, the conditions assumed may change. Actual expenses differ from the original estimates as a result of these changes.

4.5 Monitoring, control and audit

Monitoring

The Ministry of HRD and Education schedules a Technical Sub-Committee Meeting once a month. Directors, engineers and accountants from the provincial level and the relevant officials from the central office participate in this meeting, in addition to representatives from the National Budget Department. The main purpose of the meeting is to review the physical performance of the education sector in the provinces. Allocations granted, actual expenditure incurred, possible savings and the possibility of over-expenditure are some of the other topics addressed. If one province has managed to save some of its provision and those funds are requested by another province, the Ministry's accounts department takes action to transfer funds to the province in need.

Provincial Departments of Education send their monthly expenditure summary to the accounts department and details of expenditure are recorded from this monthly summary statement against the allocations granted to the province. The Ministry's accounts department uses this procedure to ascertain, at any time, any excess or anomaly.

(a) Procedure adopted for assurance of the implementation of educational policies based on provincial level

At present, authority for implementation of the many functions of the Ministry of HRD and Education has been entrusted to the provincial councils. It is essential to enforce a methodology for the purpose of

ascertaining progress achieved in implementation of policy decisions taken by the line ministry, and to compensate for any shortcomings or effect any changes therein.

For this purpose, Education Development Committee meetings are held between provincial level authorities. At these meetings, problems and issues are discussed and decided upon while a monitoring process relating to provincial level educational activities is maintained. Through this process, the standard relating to the implementation of provincial level educational policies is assured. Meetings of the Technical Sub-Committee are also held on a monthly basis, to ascertain the progress of annual activities required by the Annual Capital Expenditure Provisions. These methodologies ensure the implementation of provincial level education policies.

(b) Development of performance indicators for the education budget in Sri Lanka

Sri Lanka's education budget incorporates ten projects. Performance indicators have been developed to identify objectives of expenditure for the projects. Furthermore, any allocation request for educational projects included in the budget must be justified. The education budget's performance indicators are used for the purpose of monitoring the education budget in order to evaluate the attainment of the desired objectives. The performance indicators (for measuring outputs, outcomes and efficiency) for the ten projects of Sri Lanka's education budget are listed in *Annex 18*.

Control and audit

A number of methods and techniques, listed below, have been adopted to ensure the safe custody of public funds and accountability.

- Financial Regulations: the Financial Regulations code is issued under signature of the Finance Minister. Regulations of this code apply to every public servant who handles public funds and government assets.
- Establishment Rules and Regulations: these rules and regulations mainly concern with personnel Administration of the Public Service

- circular instructions: these are issued by the Treasury and the Ministry of Public Administration
- circulars issued by the Ministry of HRD and Education, manual prepared on colleges of education
- internal audit
- external audit (Auditor General): the Auditor General, an independent entity, reports to Parliament on ministerial matters deemed unsatisfactory.
- Parliament's Public Accounts Committee: this high-level parliamentary committee is constitutionally established to review matters arising from the Auditor General's reports.

4.6 Conclusions and recommendations

After consideration of the overall education budget procedure, the following recommendations aim to improve budgetary procedure in the future.

(a) Strengthening coordination

Although a number of divisions are involved in budget preparation for the education sector, their actual contributions towards the formulation of a realistic budget are not satisfactory. The field of education planning and budgeting is particularly weak, resulting in inadequate reflection on the needs of the education sector identified during the planning process. The budget committee must strengthen its role to ensure closer coordination between all divisions, paying special attention, in particular, to the field of education planning.

(b) More flexibility in budget preparation

In practical terms, budgetary ceilings for government ministries are made somewhat arbitrarily. The Ministry of HRD and Education is not exempt from this practice. When given a budgetary ceiling to adhere to, the Ministry is forced to prioritize its projects and programmes financed from domestic and foreign sources. Officials involved in education budget preparation should, therefore, be allowed to determine priority and explore the feasibility of new projects capable of fulfilling the education sector's urgent needs.

(c) *Adherence to a norm-based unit cost resource allocation mechanism*

There are considerable disparities in the process for allocating resources to schools. As a result, available facilities differ significantly from one school to the next. The availability or lack of budget resources is a factor of great importance to each school, but this remains unaccounted for in school administration reports, indicating the absence of a proper mechanism for education resource allocation in Sri Lanka. In order to ensure the fair and equal distribution of resources among schools, it is recommended that a 'Norm-based unit cost resource allocation mechanism' be adhered to.

(d) *Establishment of a separate, single authority on education budgetary provision*

Eight provincial councils handle education in Sri Lanka. Responsibility for school administration is a matter for the Ministry of HRD and Education in each provincial council. At present, however, there are two categories of schools in the school administration system, national schools and provincial schools. Provisions are made separately for these two categories of schools in the national budget: through the Finance Commission for provincial schools and through the National Ministry of HRD, Education and Cultural Affairs for national schools. The intervention of provincial councils in the administration of national schools creates numerous problems and disturbs the harmony of school administration. Therefore, it is proposed that responsibility for preparation of the school education budget is passed to provincial ministries of education and that the whole budgetary process be regulated through a separate authority.

(e) *Maintenance of the proper relationship between capital (development) provision and recurrent (non-development) provision*

There is no proper relationship between capital (development) provision and recurrent (non-development) provision in the education budget. This disparity is due to the involvement of separate agencies in the budget preparation process. These agencies exist at national as well as sectoral levels. Officials from different divisions at the national level

decide, in isolation, on the level of capital and recurrent allocation. For example, at the Finance Ministry level, the Department of National Budget decides upon the recurrent component of the education budget while the Department of National Planning is responsible for the capital component of the education budget. Interaction between these two departments is not up to the expected standard. Every year, considerable savings in capital provision and a shortage of recurrent provision occur. It is recommended that coordination between these two departments at the National Level be strengthened to overcome this problem.

(f) Relaxation of rules and regulations

Delays and inefficiency occur on a frequent basis during the course of budget implementation. This a particular common drawback with regard to the tender procedure public sector officials are obliged to follow in procuring goods and services. The tender procedure was introduced in the public sector with the intention of maintaining transparency in public sector dealings. Its objectives are the highest possible gain for government and with the removal of fraud and corruption. Rules and regulations are dominant features in public sector management. Their violation by an officer during the performance of his/her duties leads to disciplinary procedures. Officials are therefore reluctant to take decisions relevant to their normal operations. This situation is quite contrary to private sector management.

‘Management by objectives’ is the principle adopted by the private sector. The responsible authorities should strike a proper balance concerning management models adopted by the government (the public sector) and the private sector.

ANNEXES

Bangladesh

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2. Distance for equal type of non-government educational institutions
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Bangladesh

Annex 1. Type and number of educational institutions (2002-2003)

Type of schools	Government	Non-government	Total
Primary schools	37,671	40,692	78,363
Junior secondary schools	-	3,287	3,287
Secondary schools	317	12,958	13,275
Intermediate colleges	10	1,178	1,188
Degree (Pass) colleges	143	768	911
Degree (Honours) colleges	55	22	77
Master's colleges	43	44	87
Madrasah (Kamil)	3	144	147
Madrasah (Fazil)	-	1,032	1,032
Madrasah (Alim)	-	1,105	1,105
Madrasah (Dakhil)	-	5,536	5,536
Independent ebtedayee	-	6,423	6,423
Universities	Public 17	Private 41	58
Polytechnic institutes	20	56	76
Vocational training institutes	64	-	-
Commercial institutes	16	-	-
Glass and ceramic institutes	1	-	1
Graphic arts institutes	1	-	1
Survey institute	2	-	2
Technical training centers	13	-	13
Textile vocational centers	28	-	28
SSC (vocational) schools	-	862	862
HSC (business) management	-	475	475
Leather technology	1	-	1
Textile technology	1	-	1
Art college	-	3	3
Primary training institutes	53	1	54
Teacher training colleges	11	42	53
Technical teacher training college	1	-	1
Vocational teacher training institutes	1	-	1
Physical education colleges	2	12	14
HSTTI	5	-	5

Source: BANBEIS.

Annex 2. Distance for equal type of non-government educational institutions

Institutions	1980	1988	1989-1990	1997
Degree college	-	-	-	-
Intermediate colleges	10 miles	8 miles	-	6 km.
Secondary schools	4 miles	3 miles	-	4 km.
Junior secondary schools	3 miles	-	-	3 km.
Kamil madrasah	4 miles	One in each district	One in each district	-
Fazil madrasah	4 miles	10 miles	10 miles	-
Alim madrasah	4 miles	8 miles	8 miles	6 km.
Dakhil madrasah	4 miles	4 miles	4 miles	4 km.
Ebtedayee madrasah	-	1 mile	-	2 km.
Primary schools	-	-	2 miles	2 km.

Source: BANBEIS.

Annex 3.

(a) Teacher-student ratio and gender ratio

Type of school	Teacher-gender ratio (M/F)	Student-gender ratio (M/F)	Teacher-student ratio
1. Government primary	1.99	1.00	1:64
2. Registered non-government	2.69	1.03	1:53
3. Non-registered non-government	1.00	1.10	1:56
4. Attached to secondary schools	1.00	0.95	1:37
5. K.G. Schools	0.83	1.63	1:13
6. Independent ebtadayee madrasah	12.00	1.09	1:45
7. Attached to high madrasah	14.00	1.46	1:41
8. Community schools	0.83	1.00	1:48
9. Secondary schools	4.97	0.87	1:44
10. Colleges	4.12	1.56	1:23
11. Madrasah	20.91	1.25	1:30

Source: BANBEIS.

(b) Teacher-student ratio in general education by location (urban-rural)

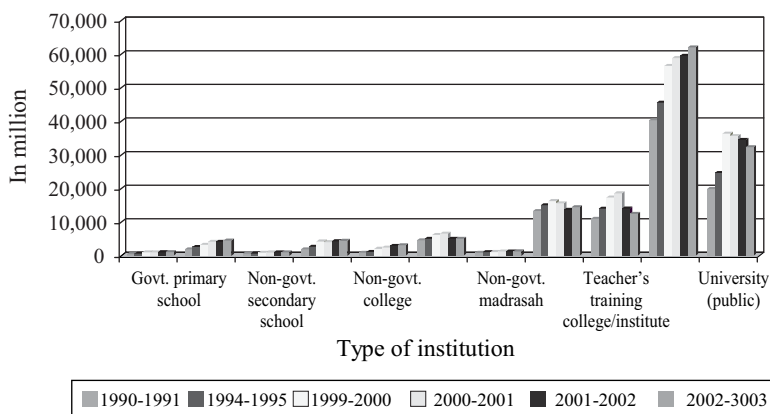
Sl. No.	Types of institutions	Urban	Rural	Year
1.	Primary schools	1:49	1:61	2002
2.	Secondary schools	1:39	1:45	2002
3.	Colleges	1:31	1:18	2002
4.	Madrasah	1:29	1:30	2002

Source: BANBEIS.

Annex 4.**(a) Per student (capita) recurring cost by type of institution (in taka)**

Type of institutions	1990-1991	1994-1995	1999-2000	2000-2001	2001-2002	2002-2003
Govt. primary schools	499	665	1,031	1,055	1,078	1,127
Govt. secondary schools	1,940	2,658	3,288	4,203	4,196	4,551
Non-govt. secondary schools	706	707	940	1,017	1,050	1,044
Govt. colleges	1,952	2,704	4,285	4,093	4,348	4,470
Non-govt. colleges	903	1,197	2,103	2,444	2,971	3,185
Govt. madrasah	4,639	5,075	6,259	6,608	5,060	5,084
Non-govt. madrasah	897	1,129	1,146	1,309	1,323	1,339
Technical and vocational	13,318	15,058	16,305	15,657	13,683	14,466
Teacher's training colleges/ institutes	11,052	14,046	17,377	18,623	14,077	12,513
Cadet colleges	40,367	45,571	56,537	58,865	59,566	62,018
University (public)	19,892	24,676	36,381	35,688	34,515	32,357

Source: BANBEIS.

(b) Per student (capita) recurring cost by type of institution (in taka)

Source: BANBEIS.

Annex 5. Primary and university education

(a) The structure of primary schooling, 2000

Type of school	Number of schools	% of total	Teachers	% of total	Students	% of total	% female students
Government primary school	37,677	49.1	154,216	51.1	10,832,476	61.3	49.5
Experimental schools	53	0.1	259	0.1	11,482	0.1	47.0
Registered non-government primary school	19,253	25.1	76,267	24.7	4,170,925	23.6	47.5
Community school	3,061	4.0	4,949	2.9	454,905	2.6	51.6
Satellite school	3,884	5.1	6,123	2.0	209,238	1.2	52.2
Primary school attached to high school	1,220	1.6	7,971	2.6	499,353	2.8	40.1
Non-registered non-government primary school	2,126	2.8	8,603	2.8	307,867	1.7	47.9
Kindergarten	2,296	3.0	13,507	4.4	345,088	2.0	47.7
Ebtedayee madrasah	3,710	4.8	14,760	4.8	417,411	2.4	46.1
Ebtedayee madrasah attached to high madrasah	3,437	4.5	14,318	4.6	403,621	2.3	44.0
NGO-operated full primary school	92	0.1	364	0.1	15,619	0.1	47.5
Totals	76,809	100	309,341	100	17,667,985	100	48.0

Source: BANBEIS.

(b) Number of primary-level education institutions, 1996-2000

Number of institutions					
Types of institution	1996	1997	1998	1999	2000
Government primary school	37,710	37,710	37,710	37,709	37,677
Experimental school	52	52	53	53	53
Registered non-government primary school	19,683	19,529	19,658	19,553	19,253
Community school	2,759	1,962	2,989	3,107	3,061
Satellite school	200	1,042	2,822	2,945	3,884
Primary school attached to high school	2,579	1,292	1,582	1,230	1,220
Non-registered non-government primary school	3,963	3,472	3,177	2,632	2,126
Kindergarten	1,434	1,545	1,691	1,940	2,296
Ebtedayee madrasah	9,499	8,231	7,173	6,404	3,710
Ebtedayee madrasah attached to high madrasah	2,759	2,850	2,948	3,253	3,437
NGO-operated full primary school	0	0	0	14	92
Totals	40,818	77,685	79,803	78,840	76,809

Source: BANBEIS.

(c) University education

Year	Number of universities			Budget (2000-2001)
	Public	Private	Total	
2000	13	19	32	2913.5 million Tk.

Source: BANBEIS.

Annex 6. Government revenue budget by type of education (in millions of Tk.)

Type of education	1990-1991		1994-1995		2000-2001		2001-2002	
	Budget	%	Budget	%	Budget	%	Budget	%
Primary education	5,289.3	44.7	8,430.1	42.0	13,591.4	37.8	13,480.5	36.6
Secondary education	2,492.1	21.1	4,149.5	20.7	8,514.6	23.7	9,007.2	24.5
College (general) education	1,184.8	10.0	2,254.3	11.2	5,022.5	14.0	5,175.1	14.0
Madrasah education	953.3	8.1	2,146.3	10.7	4,108.3	11.4	4,395.5	11.9
Technical education	266.9	2.3	395.5	2.0	441.1	1.2	439.3	1.2
University education	1,030.0	8.7	1,533.0	7.6	2,919.1	8.1	2,913.5	7.9
Teacher training	92.3	0.8	156.9	0.8	234.1	0.6	211.4	0.6
Cadet college education	120.9	1.0	142.5	0.7	168.0	0.5	NA	NA
Other administrative and subsidiary departments	390.5	3.3	869.2	4.3	965.5	2.7	1,222.8	3.3
Total	3770,995	2026.0	3512,512	2035.0	1867,154	135.0	718,192	135.0

Source: BANBEIS.

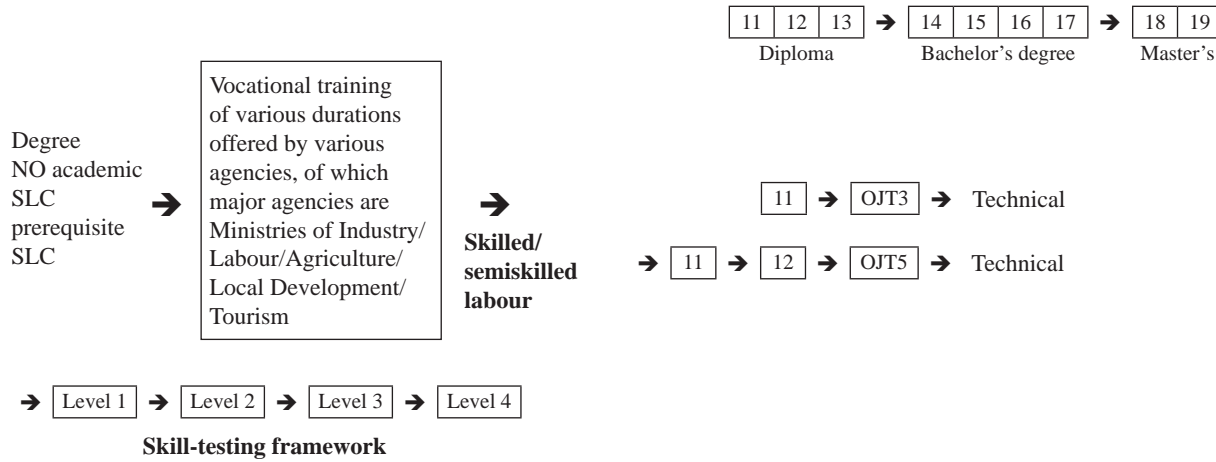
Annex 7. Composition of the Resource Committee (RC)

1	Finance Minister	Chairman
2	Finance Secretary	Member
3	Chairman National Board of Revenue	Member
4	Member GED, Planning Commission	Member
5	Governor, Bangladesh Bank	Member
6	Secretary, Ministry of Commerce	Member
7	Secretary, Ministry of Industries	Member
8	Secretary, Ministry of Food	Member
9	Secretary, Planning Division	Member
10	Secretary, Economic Relations Division	Member
11	Chairman, Tariff Commission	Member
12	Member, Programming, Planning Commission	Member
13	Additional Secretary, Finance Division	Member-Secretary

General education

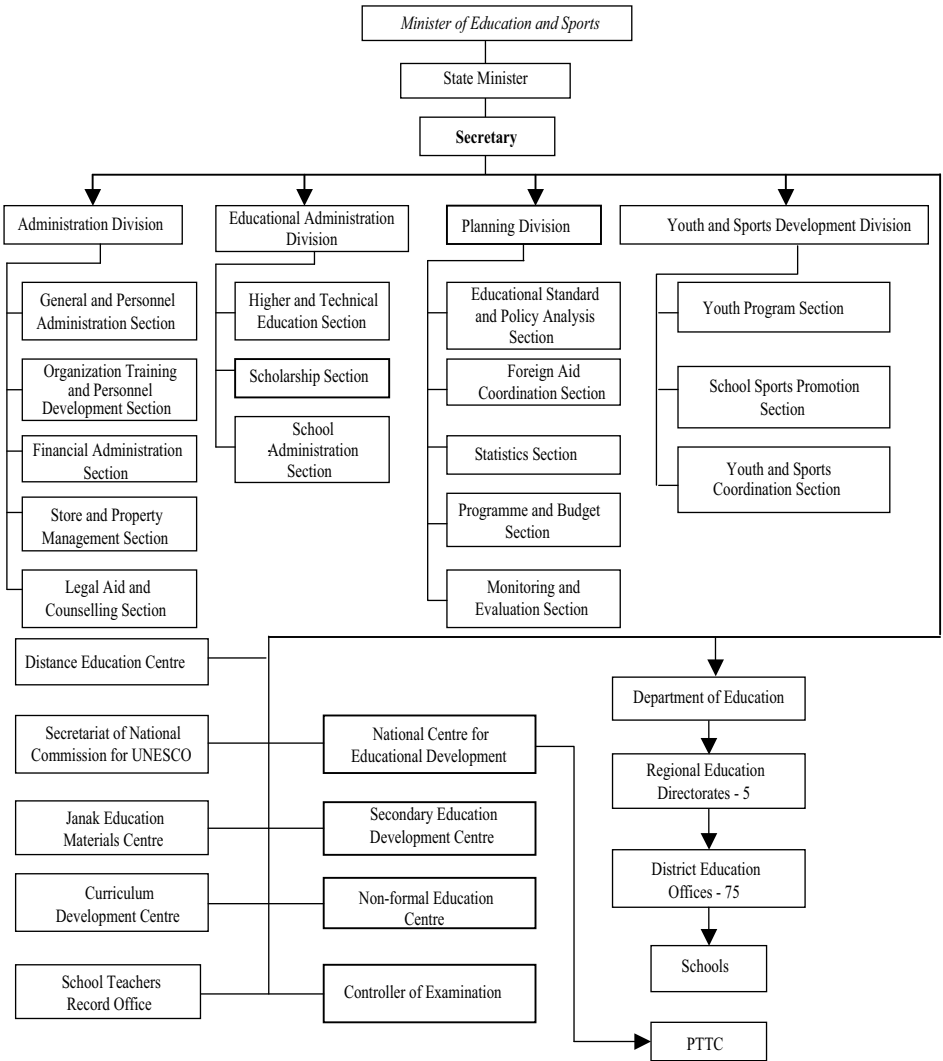


Technical education and vocational training



Source: Ministry of Education and Sports (Nepal)

Annex 9. Organizational Structure of the Ministry of Education and Sports



Source: Ministry of Education and Sports, Government of Nepal.

Annex 10. Classification of budget expenditure by nature

- **Operating expenses/current expenditure⁷**

1 Consumption expenditure

Salary
 Allowances
 Transfer travelling and daily allowances
 Dress
 Food and fodder
 Medical expenses
 Retirement benefits
 Staff training programme expenses

2. Office operation and service expenses

Water and electricity charges
 Communication charges
 General office expenses
 Rent
 Repair and maintenance
 Fuel for vehicle and fuel for other purposes
 Consultancy and other service fee
 Miscellaneous expenses

3. Grants and subsidies (current transfer)

Operating subsidy to public enterprises
 Operating subsidy to local government
 Subsidy to non-profit institutions
 Grants to social security

4. Service and production expenditure

Production materials services
 Purchase of medicine
 Books and materials
 Programme supplies and expenses
 Programme traveling expenses
 Operation and maintenance of public property

7. Since the FY 2004/05, it has been defined as recurrent expenditure.

9. Contingencies

Contingencies

10. Payments of loan principal⁸

Principal repayment: domestic

Principal repayment: foreign

11. Interest payments

Interest repayment: domestic

Interest repayment: foreign

12. Refunding expenditure

Refunding expenditure

• **Capital expenditure**

5. Capital transfer expenditure

Land acquisition

Building purchase

6. Capital formation expenditure

Furniture

Vehicles

Machinery and equipment

Building construction

Public works expenditure

Capital Formation

Research and consultancy service fees

7. Investment

Investment shares

Investment loans

8. Capital grants

Capital grants to public enterprises

Capital grants to local bodies

Capital grants to non-profit institutions

Source: Ministry of Education and Sports (Nepal).

8. Since the FY 2004/05, it has been defined as capital expenditure.

Annex 11. Unit costs (in Rupees)

(a) Distance Education Centre

SN	Name of programme/project	Average unit cost
1	330 hours primary teacher training third package (per teacher)	3,040
2	360 hours primary teacher training second package (per teacher)	5,610
3	Interactive radio instructions (per school)	3,704
4	Radio lesson developing and recording (per lesson)	8,000
5	Effectiveness study	700,000
6	Prepare TV lesson and recording	60,000

Source: Ministry of Education and Sports (Nepal).

(b) Programme/project: basic and primary education programme II (Department of Education)

SN	Name of programme /component	Average unit cost
School physical facility improvement		
1	Classroom rehabilitation	25,000
2	NCR construction	275,000
3	NCR furniture	12,000
4	Water supply	6,000
5	Toilet construction	15,000
6	Compound protection	10,000
7	Construction of RC	900,000
8	RC furniture	35,000
9	Construction of DEO building (not more than)	10,000,000
10	DEO Furniture	10,000
Alternative schooling		
10	Out of School Programme (OSP) I	16,340
11	Out of School Programme (OSP) II	15,260
12	School Outreach Programme	30,500
13	Flexible Schooling Programme	34,400
Women's education		
14	Scholarship for primary girls (per year per student)	250
15	Secondary girls' scholarship (per year per student)	1,200
16	Feeder hostel programme (per year per student)	1,000
17	Scholarship for top 10 girls (per year per student)	1,000

SN	Name of programme /component	Average unit cost
Education for focus group		
18	Scholarship for disadvantaged children (per year per student)	250
Special education		
19	Management of resource classes	166,000
20	Residential facility for handicapped students	12,000
Early childhood development		
21	Remuneration for facilitator (per month)	500
22	Allowance for focal person/ facilitators' salary (per month)	1,000
23	Establishment of ECD and matching fund (one time)	10,000
24	Basic training for newly established ECD facilitator (per person)	2,000
25	Recruitment training for facilitator (per person)	2,000
26	Distribution of learning materials (per class one time)	2,000

Source: Ministry of Education and Sports (Nepal).

SN	Programme/component	Average cost
Community mobilization		
1	Awareness workshop	10,000
2	Street drama	10,000
3	Folk song competition	5,000
4	Video demonstration	1,000
5	Mothers' gathering	1,000
6	Speech competition	2,000
7	Children's rally	2,000
Women's literacy		
1	Women's education programme I	15,068
2	Women's education programme II	10,452
Recurrent teacher training		
1	Whole school training (per teacher)	1,314
2	Module-based training (per teacher)	1,314
3	English training (per teacher)	1,314
4	Math training (per teacher)	1,314
5	Strengthening RC's (per RC)	3,000

SN	Programme/component	Average cost
Certificate teacher training		
1	2.5 month training I package	1,314
2	2.5 month training II package	1,314
3	2.5 month training III package	1,314
4	2.5 month training IV package	1,314
5	IRI Teacher training	-
Strengthening district education planning		
1	Computer training for two people per district	10,000
Local Capacity Building		
1	HTs management training	1,280
2	SIP training (Management, EMIS, SIP)	660
3	Prepare SIP	1,000
4	Funding A	2,000
5	Funding B	11,000
6	Funding C	15,000
7	Matching Fund	3,000

School improvement plan-based programme

1	Funding to SIPs on the basis of per child allocation (Rs.150/170/200 per student for Terai, Hill and Himalayan Districts respectively)	173
2	Partnership with VDCs for universal access of children within catchment area	20,000

(c) Unit cost of human resources development and training
(in Rupees)

Ministry of Education and Sports

SN	Types of training	Actual total programme cost of output Average cost/trainee
1	Agriculture JTA	14,215.97
2	Automobile	19,140.08
3	Con. Civil Dip	10,725.04
4	Construction	14,262.90
5	Electrical	15,094.12
6	Electrical Dip	18,211.53
7	Electronics	16,351.35
8	Health ANM	12,937.07
9	Health assistant	14,919.05

SN	Types of training	Actual total programme cost of output Average cost/trainee
10	Health CMA	11,955.61
11	Agriculture JT	22,665.01
12	I.SC. Agriculture	11,579.21
13	Mechanical	23,562.75
14	Ref. and Air Cond.	10,454.23
15	Sanitation	30,187.78
16	Secretarial	16,390.65

Note

a) Per unit cost per year per head.

b) Short-term training cost is not included.

c) Services provided by the training institutions such as animal health services, vaccination campaign, farming advice, public health service etc, have not been included here.

(d) Unit cost (per class) of non-formal education in different regions

(In NRS)

Programme	Region			Average cost/ Class (Rs.)
	Himalayan	Hill	Terai	
Adult literacy programme	11,923	11,823	11,533	11,759.66
Women's literacy programme I	14,668	15,068	15,278	15,004.66
Women's literacy programme II	10,552	10,452	10,162	10,388.66
Out-of-school programme	16,530	16,430	16,140	16,366.66
Out-of-school programme	15,368	15,268	14,978	15,204.66
Flexible schooling programme				34,400.00

Training cost (per trainee):

(a) Per unit cost of 9 days district level adult literacy

Facilitator (Sahayogi Karyakarta) training: Rs. 1,736.67

(b) Per unit cost of 12 days district level non-formal child

Education facilitator training: Rs. 2,084.00

(c) Per unit cost of 3 days district level non-formal post

Literacy facilitator training: Rs. 746.67

(d) Per unit cost of 7 days adult, child and women post

Literacy local supervisor training: Rs. 1,482.00

Cost per class: Rs. 74.00

(e) Per unit cost of 12 days district level non- formal

Women's literacy, first programme facilitator training: Rs. 2,374.00

(f) Per unit cost of 6 days district level non-formal

Women's literacy –Second programme facilitator training: Rs.1,262.00

(g) Per unit cost of 6 days district level non-formal child

Education –Second programme facilitator training: Rs. 1,262.00

(i) Per unit cost of 3 days refreshments (child and adult) facilitator training:Rs. 746.66

(j) Per unit cost of one-day awareness seminar: Rs. 150.00

(e) National Centre for Educational Development**Name of programme/project: certification training/BPEP II**

SN	Name of programme	Average unit costs
Pre Service		
1	TOT package (per package)	200,000
2	Trainers' manual (per lesson)	1,670
3	Self-instruction material (per lesson)	1,670
Training cost		
	2.5 months in service teacher training	10,280
	Teacher training	
	In service TOT	
	Advance MTOT	
	FOE/HSS capacity empowerment	
	Printing	
	Delivery / T.A.D.A	
	Examination	
	Training certification	
	Training follow up and supervision	550,000
	Second phase training (per trainee)	5,610
	Scholarship distribution (per person) (disadvantaged group)	2,500
Management training		
	Gazetted first class seminar	
	Gazetted second class refreshment training	
	Gazetted third class (30 days) (per person)	40,000
	Non-gazetted first class (30 days) (per person)	40,000
	Material development and modification (per person)	40,000

(f) Unit cost of teachers' salary and other budget heads

SN	Particulars	Numbers	Unit cost	Remarks
Primary level				
1	Teachers	78,922 teachers	4,100.00	Starting scale per month
2	Stationary		300.00	Per teacher yearly
3	Administrative cost	20,423 schools	11,000.00	Per school yearly
4	H.M. allowance	20,423 HMs	200.00	Per month

SN	Particulars	Numbers	Unit cost	Remarks
Lower secondary level				
5	Teachers	16,213 teachers	4,900.00	Start scale per month
6	Stationary		500.00	Per teacher yearly
7	Administrative cost	4,354 schools	13,000.00	Per school yearly
8	H.M. allowance	4,354 HMs	300.00	Per month
Secondary level				
9	Teachers	12,718 teachers	7,500.00	Start scale per month
10	Stationary		500.00	Per month
11	Administrative cost	4,284 schools	21,000.00	Per school yearly
12	H.M. allowance	4,284 HMs	500.00	Per month
Higher secondary level				
13	Remote district allowance for teachers			Only in remote districts, but not equal, as per rules
14	School sports	75 districts	50,000.00	Per district
15	Extra curricular activities	75 districts	31,000.00	Per district
16	Higher secondary schools	402 schools	100,000.00	Per school, block grant (only for public schools)

Salary scale of administrative staff of all institutions (Higher Secondary Education Council, Centre for Technical and Vocational Education, Ministry of Education and university teachers).

There are mainly two categories of service: 'Gazetted' (Officer level) and 'non-Gazetted' (non-Officer level).

Both non-teaching (managerial staff) and teaching staff are categorized into four different classes with different names as per the nature of service.

The basic scale of the 'Gazetted' level is as follows:

Gazetted special class: 14 000.00 per month per person.

Gazetted class I: 10,500.00 per month per person.

Gazette class II: 8,650.00 per month person.

Gazette class III: 7,500.00 per month per person.

This is the starting scale. The salary goes up according to level (class) and period of service. Salary for all is given for 13 months.

The salary of 'non-gazetted' staff can be calculated as 4,100.00 per month per person on average, which is also allocated for 13 months.

Source: Ministry of Education and Sports (Nepal).

Annex 12. Budget Book (Red Book) 2002/2003 Rs. in '000 Ministry of Education and Sports

SN	Budget Code Number	Budget heading	Actual expenditure			Allocation for 2002/03			Source		
			2000-2001	2001-2002	Total	Staff	Other	Capital	HMG	F. Grant	F. Loan
		Primary education	5,965,072	7,025,675	8,524,844	273,757	7 173,228	1,077,589	5,963,968	1,928,596	632,280
		<i>Central Level</i>	<i>757,172</i>	<i>927,851</i>	<i>948,751</i>	<i>167,622</i>	<i>680,800</i>	<i>100,329</i>	<i>82,589</i>	<i>658,533</i>	<i>207,629</i>
1	65.3.180	Distance Education Centre	8,654	9,595	9,170	3,808	5,312	50	9,170	0	0
2	65.3.240	National Centre for Educational Development	7,106	10,714	17,286	14,113	3,173	0	17,286	0	0
3	65.4.410	BPE Project (including child ed. dev.)	0	0	11,695	0	8,295	3,400	900	10,795	0
4	65.4.411	Basic and Primary Education Programme	214,575	92,156	250,977	11,785	145,464	93,728	8,683	185,447	56,847
5	65.4.415	Physical Facility Improvement Project	459,227	480,534	0	0	0	0	0	0	0
6	65.4.421	Teacher Education Project	0	0	159,982	137,916	18,915	3,151	9,200	0	150,782
7	65.4.620	Primary School Nutrition Food Programme	48,901	320,517	498,291	0	498,291	0	36,000	462,291	0
8	65.4.690	Quality Improvement including Computer Ed.	18,709	14,335	1,350	0	1,350	0	1,350	0	0
		District level	5,207,900	6,097,824	7,576,093	106,135	6,492,428	977,530	5,881,379	1,270,063	424,651
9	65.3.140	Primary education	4,503,864	5,344,000	5,831,000	0	5,831,000	0	5,831,000	0	0
10	65.5.411	Basic and Primary Education Programme	694,586	746,379	1,745,093	106,135	661,428	977,530	50,379	1,270,063	424,651
11	65.5.750	Quality Improvement in Public School	9,450	7,445	0	0	0	0	0	0	0
		Women's education	48,885	195,444	180,506	0	180,506	0	180,506	0	0
12	65.5.710	Women's education	25,544	176,451	180,506	0	180,506	0	180,506	0	0
13	65.5.711	Primary Girl's Scholarship Programme	23,341	18,993	0	0	0	0	0	0	0
		Scholarships and student welfare	45,806	39,418	103,103	0	103,103	0	56,553	0	46,550
14	65.3.190	Scholarships	16,665	17,287	20,500	0	20,500	0	20,500	0	0
15	65.5.712	Scholarship Programme for Martyr's Children	1,000	808	900	0	900	0	900	0	0
16	65.5.720	Deprived Student Scholarship Programme	28,141	21,323	0	0	0	0	0	0	0

SN	Budget Code Number	Budget heading	Actual expenditure			Allocation for 2002/03			Source		
			2000-2001	2001-2002	Total	Staff	Other	Capital	HMG	F. Grant	F. Loan
17	65.5.721	National Scholarship Programme	0	0	81,703	0	81,703	0	35153	0	46,550
		<i>Secondary education</i>	<i>2,345,067</i>	<i>2857,627</i>	<i>3,017,096</i>	<i>10,866</i>	<i>3005,855</i>	<i>375</i>	<i>3,015,096</i>	<i>0</i>	<i>2,000</i>
		Central level	97,468	103,164	77,096	10,866	65,855	375	75,096	0	2,000
18	65.3.130	Office of the Controller of Examinations	44,946	48,106	63,411	5,972	57,439	0	63,411	0	0
19	65.3.205	Secondary Education Development Centre	4,880	9,013	10,560	4,894	5,666	0	10,560	0	0
20	65.4.430	Secondary Development Project	46,642	45,295	2,750	0	2,750	0	750	0	2,000
21	65.4.681	Budhanilkantha School	1,000	750	375	0	0	375	375	0	0
		District level	2,247,599	2,754,463	2,940,000	0	2,940,000	0	2,940,000	0	0
22	65.3.150	Secondary and Lower Secondary Education	2,247,599	2,754,463	2,940,000	0	2,940,000	0	2,940,000	0	0
		Higher Secondary Education	28,450	39,119	47,083	0	47,083	0	12,083	35,000	0
23	65.3.210	Higher Secondary Education	10,600	12,200	10,980	0	10,980	0	10,980	0	0
24	65.4.440	Higher Secondary Education	17,850	26,919	36,103	0	36,103	0	1,103	35,000	0
		Non-Formal Education	121,671	99,716	70,395	0	70,395	0	15,395	55,000	0
		Non-Formal Education and National Campaign	79,247	58,743	70,395	0	70,395	0	15,395	55,000	0
25	65.4.600	National Literacy Programme	42,424	40,973	0	0	0	0	0	0	0
		Curriculum, textbook and education materials	236,375	193,392	89,507	6,596	82,861	50	39,507	50,000	0
27	65.3.160	Curriculum Development Centre	6,485	7,717	8,401	6,596	1,755	50	8,401	0	0
28	65.3.170	Physical ed. and extra-curricular activities	2,879	3,693	4,106	0	4,106	0	4,106	0	0
29	65.4.610	Free textbooks	227,011	181,982	77,000	0	77,000	0	27,000	50,000	0
		Education administration	213,537	405,781	516,383	47,248	469,135	0	516,383	0	0

SN	Budget Code Number	Budget heading	Actual expenditure			Allocation for 2002/03				Source	
			2000-2001	2001-2002	Total	Staff	Other	Capital	HMG	F. Grant	F. Loan
30	65.3.110	Ministry of Education and Sports	14,294	22,934	22,132	12,594	9,538	0	22,132	0	0
31	65.3.115	Department of Education	6,291	8,011	8,519	8,239	280	0	8,519	0	0
32	65.3.120	Regional Education Directorates	13,659	16,903	22,114	19,079	3,035	0	22,114	0	0
33	65.3.201	National Teacher Service Commission	8,784	6,540	7,980	3,602	4,378	0	7,980	0	0
34	65.3.206	Non-Formal Education Centre	0	3,529	3,918	2,450	1,468	0	3,918	0	0
35	65.3.220	School Teacher's Record Office	170,509	347,864	451,720	1,284	450,436		451,720	0	0
		District level	147,394	176,404	168,151	158,915	9,236	0	168,151	0	0
36	65.3.121	District Education Offices	147,394	176,404	168,151	158,915	9,236	0	168,151	0	0
		Higher education	1603,790	1,714,322	1,471,090	0	1,364,490	106,600	1,390,590	0	80,500
37	65.3.200	University Grants Commission	999,500	1,450,000	1,362,690	0	1,362,690	0	1,362,690	0	0
38	65.4.460	Tribhuvan University Central Office	449,638	231,736	33,410	0	0	33,410	13,410	0	20,000
39	65.4.461	Institute of Engineering	27,033	0	0	0	0	0	0	0	0
40	65.4.462	Institute of Medicine	50,250	0	0	0	0	0	0	0	0
41	65.4.463	Institute of Agric and Animal Science	6,550	0	0	0	0	0	0	0	0
42	65.4.464	Faculty of Law (LLM Programme)	33,300	0	0	0	0	0	0	0	0
43	65.4.465	Institute of Science and Technology	6,170	0	0	0	0	0	0	0	0
44	65.4.466	Centre for Nepal and Asiatic Studies	700	0	0	0	0	0	0	0	0
45	65.4.467	Faculty of Edu (Dadeldhura campus)	450	0	0	0	0	0	0	0	0
46	65.4.468	Faculty of Hum and Social Sciences	5,000	0	0	0	0	0	0	0	0
47	65.4.480	Mahendra Sanskrit University	12,100	9,375	10,300	0	1,800	8,500	6,300	0	4,000
48	65.4.490	Agriculture and Forestry University	133	225	90	0	0	90	90	0	0
49	65.4.500	Eastern University	6,500	9,750	35,600	0	0	35,600	3,600	0	32,000

SN	Budget Code Number	Budget heading	Actual expenditure			Allocation for 2002/03			Source		
			2000-2001	2001-2002	Total	Staff	Other	Capital	HMG	F. Grant	F. Loan
50	65.4.510	Pokhara University	6,000	9,000	19,100	0	0	19,100	1,100	0	18,000
51	65.4.520	Open University Study Programme	466	4,236	9,900	0	0	9,900	3,400	0	6,500
		Technical and vocational education	125,679	181,387	93,296	0	80,796	12,500	46,756	46,540	0
52	65.3.300	Sanothimi Technical School	799	840	756	0	756	0	756	0	0
53	65.4.450	CTEVT (including Special prog.)	124,880	180,547	92,540	0	80,040	12,500	46,000	46,540	0
		Sports	108,546	99,865	93,000	0	93,000	0	75,000	0	18,000
54	65.3.320	National Sport council	45,000	47,250	65,000	0	65,000	0	65,000	0	0
55	65.4.691	National Sport council	56,800	45,000	24,000	0	24,000	0	9,000	0	15,000
56	65.4.697	Sports Development Programme	3,746	4,615	3,250	0	3,250	0	250	0	3,000
57	65.4.700	Stadium construction (E & FW Region)	3,000	3,000	750	0	750	0	750	0	0
		Youth	1,371	580	750	0	750	0	250	0	500
58	65.4.699	Youth Activities Programme	1,371	580	750	0	750	0	250	0	500
		Others	35,498	35,806	27,217	3,172	24,045	0	27,217	0	0
59	65.3.230	Special Education Council	15,963	20,900	17,000	0	17,000	0	17,000	0	0
60	65.3.290	Libraries	3,832	4,561	4,830	3,172	1,658	0	4,830	0	0
61	65.3.310	Nepal Scout	5,700	5,387	5,387	0	5,387	0	5,387	0	0
62	65.4.630	Population Education	10,003	4,958	0	0	0	0	0	0	0
		Grand total	11,027,141	13,064,536	14,402,421	500,554	12,704,483	1,197,384	11,507,455	2,115,136	779,830
		Total National Budget	79,835,098	82,400,515	96,124,796	21,713,358	47,747,831	26,663,607	69,150,170	14,564,410	12,410,216
		Non-development	42,769,195	49,149,525	57,445,121	20,073,629	36,142,980	1,228,512	57,445,121	0	0

SN	Budget Code Number	Budget heading	Actual expenditure			Allocation for 2002/03			Source		
			2000-2001	2001-2002	Total	Staff	Other	Capital	HMG	F. Grant	F. Loan
		Development	37,065,903	33,250,990	38,679,675	1,639,729	11,604,851	25,435,095	11,705,049	14,564,410	12,410,216
		Budget for Ministry of Education	11,134,195	12,878,961	14,402,421	500,554	12,703,733	1,198,134	11,507,455	2,115,136	779,830
		Non-development	8,285,375	10,775,500	11,055,611	244,718	10,810,793	100	11,055,611	0	0
		Development	2,848,820	2,103,461	3,346,810	255,836	1,892,940	1,198,034	451,844	2,115,136	779,830
		Central Level	2,060,438	1,604,611	1,338,608	149,701	968,403	220,504	184,906	845,073	308,629
		District Level	788,382	498,850	2,008,202	106,135	924,537	977,530	266,938	1,270,063	471,201

Source: Ministry of Education and Sports Government of Nepal.

Sri Lanka**Annex 13. Summary education data (year 2000)**

Number of government schools	10,338
Student population in all government schools	4,190,657
School availability	Per 6.7 Sq. km.
Number of teachers	191,322
Student teacher ratio	22
Number of Pirivena schools	561
Number of students in pirivena schools	51,122
Number of private schools	78
Number of students in private schools	95,410
Number of international schools	95
Number of students in international schools	60,000
Number of out-of-school children aged 5 to 14 (1.4% in the age group)	61,000
Number of national universities	13
Number of students in national universities	69,007
Number of technical colleges	36
Number of students enrolled in technical courses	17,310

Source: Ministry of Education. Government of Sri Lanka.

Annex 14. Expenditure on education and unit costs by level

Expenditure on Education – 1992-2002

Year	Education expenditure Rs. Mn.	Total no. of students	% of Total government expenditure	% of GDP	Average unit cost (Rs.)
1992	14,084	4,159,313	8.89	3.30	3,386
1993	16,050	4,172,897	8.65	3.00	3,846
1994	16,628	4,194,448	8.39	2.87	3,964
1995	20,926		8.03	3.11	
1996	23,410	4,119,627	8.76	3.06	5,683
1997	25,694	4,124,108	8.76	2.90	6,230
1998	30,027	4,134,838	8.28	2.98	7,262
1999	33,697	4,134,082	9.23	3.07	8,151
2000	36,445	4,193,908	7.23	2.89	8,690
2001	42,222	4,187,146	7.99	3.06	10,084
2002	44,568				

Education Expenditure (in constant price)

Year	Education expenditure Rs. Mn.	Education expenditure Rs. Mn. (constant price)
1992	14,084	14,084
1993	16,050	14,591
1994	16,628	13,742
1995	20,926	15,722
1996	23,410	15,989
1997	25,694	15,954
1998	30,027	16,949
1999	33,697	17,292
2000	36,445	17,002
2001	42,222	17,906
2002	44,568	17,183

Discounting Rate = 10%.

Source: Ministry of Education. Government of Sri Lanka.

1. School Census - 2. Budget estimates.

Education expenditure: unit cost

Year	Education expenditure (R.M.)			Student population			Unit cost		
	Primary cycle	Secondary cycle	Collegian cycle	Primary (1-5)	Secondary (6-11)	Collegian (1-13)	Primary	Secondary	Collegian
1999	13,478	12,805	7,414	1,797,854	2,053,462	282,766	7,496.72	6,235.81	26,219.56
2000	14,578	13,849	8,018	1,775,700	2,015,760	402,448	8,209.72	6,870.36	19,923.07
2001	16,889	16,044	9,289	1,767,650	1,996,110	423,386	9,554.49	8,037.63	21,939.79

Source: Ministry of Education. Government of Sri Lanka.

Annex 15. Summary of national budget

Rs. Mn

	1997	1998	1999	2000	2001 provisional
Total revenue	164,870	175,032	195,905	211,121	231,463
Tax revenue	142,429	147,368	166,028	181,657	204,723
Non tax revenue	22,441	27,664	29,877	29,464	26,740
Total expenditure and net lending	-234,900	-268,182	-279,160	-335,662	-383,682
Recurrent	-184,749	-199,650	-207,272	-254,117	-300,436
Public investment	-51,445	-68,278	-71,436	-80,956	-82,743
Restructuring	-2,193	-3,688	-4,556	-4,159	-4,694
Other	3,487	3,434	4,104	3,571	4,191
Current account surplus/deficit (-)	-19,879	-24,618	-11,367	-42,996	-68,973
Budget deficit	-70,030	-93,150	-83,255	-124,541	-152,219
Financing	70,030	93,150	83,255	124,541	152,219
Grants	7,500	7,200	6,761	5,145	5,500
Foreign borrowing	9,721	10,199	1,484	495	14,538
Domestic borrowing	30,275	71,362	74,876	118,500	123,592
Divestiture proceeds	22,535	4,389	134	401	8,589

Source: Ministry of Finance. Government of Sri Lanka.

As a percentage of GDP

	1997	1998	1999	2000	2001 provisional
Total revenue	18.5	17.2	17.7	16.8	16.5
Tax revenue	16.0	14.5	15.0	14.4	14.6
Non-tax revenue	2.5	2.7	2.7	2.3	1.9
Total expenditure and net lending	-26.4	-26.3	-25.2	-26.7	-27.3
Recurrent	-20.8	-19.6	-18.7	-20.2	-21.4
Public investment	-5.8	-6.7	-6.5	-6.4	-5.9
Restructuring	-0.2	-0.4	-0.4	-0.3	-0.3
Other	0.4	0.3	0.4	0.3	0.3
Current account surplus/deficit (-)	-2.2	-2.4	-1.0	-3.4	-4.9
Budget deficit	-7.9	-9.2	-7.5	-9.9	-10.8
Financing	7.9	9.2	7.5	9.9	10.8
Grants	0.8	0.7	0.6	0.4	0.4
Foreign borrowing	1.1	1.0	0.1	0.0	1.0
Domestic borrowing	3.4	7.0	6.8	9.4	8.8
Divestiture proceeds	2.5	0.4	0.0	0.0	0.6

Note: Details may not add up to totals due to rounding.

Source: Ministry of Finance. Government of Sri Lanka.

Annex 16 Revenue and expenditures estimates

Financing of the budget deficit (economic format)

Rs. Mn

	1997	1998	1999	2000	2001 provisional
Financing	70,030	93,150	83,255	124,541	152,219
Grants	7,500	7,200	6,761	5,145	5,500
Foreign borrowing	9,721	10,199	1,484	495	14,538
Project loans	15,015	19,477	12,676	15,210	
Commodity loans	(2,194)	(2,490)	(3,596)	(5,140)	14,538
Other loans	(3,100)	(6,788)	(7,596)	(9,575)	
Domestic borrowings / Additional resources	30,275	71,362	74,876	118,500	123,592
Non-bank borrowing	41,816	53,338	49,722	61,935	74,294
Bank borrowing	(2,171)	18,954	25,995	53,389	48,554
Central bank	(13,991)	5,609	20,807	44,840	(6,434)
Commercial bank	11,820	13,345	5,188	8,549	54,988
Other non-market borrowing	(9,369)	(930)	(842)	3,175	747
Divestiture proceeds	22,535	4,389	134	401	8,589

Source: Ministry of Finance, Government of Sri Lanka.

Budget outturn

Rs

	2004	2005	2006 Est.
Govt. revenue	312	380	484
Govt. expenditure	477	585	732
Revenue deficit	-78	-64	-25
Budget deficit	-165	-205	-247
	<i>As a % of GDP</i>		
Gov. revenue	15.4	16.1	17.8
Gov. expend.	23.5	24.7	26.9
Revenue deficit	-3.9	-2.7	-0.9
Budget deficit	-8.2	-8.7	-9.1

Source: Ministry of Finance, Government of Sri Lanka.

Annex 16. (continued) Revenue and expenditures estimates Government expenditure (economic classification)

	Rs. mn		
	2004	2005	2006
Current expenditure	389,678	437,280	503,106
1 Purchase of goods and services	164,529	202,492	238,359
Salaries and wages	106,187	140,517	168,570
Other goods and services	58,343	61,975	69,789
2 Interest payments	119,782	119,409	151,259
3 Subsidies and transfers	105,367	115,379	113,488
Capital expenditure	83,807	107,144	158,265
1 Acquisition of fixed assets	40,449	59,804	70,406
2 Capital transfers	43,359	47,340	87,859
3 Tsunami-related expenditure	-	12,000	37,000
Lending minus repayments	3,420	9,845	10,046
Total expenditure (excluding tsunami expenditure)	476,905	554,269	671,417

Source: Ministry of Finance. Government of Sri Lanka.

Annex 17. Expenditure classification by object

Standardized object details

Object code	Category/object title
	Recurrent expenditure
	Personal emoluments
1001	Salaries and wages
1002	Overtime and holiday pay
1003	Other allowances
	Travelling expenses
1101	Domestic
1102	Foreign
	Supplies
1201	Stationery and office requisites
1202	Fuel and lubricants
1203	Uniforms
1204	Diets
1205	Medical supplies
1206	Mechanical and electrical goods
1207	Other
	Maintenance expenditure
1301	Vehicles
1302	Plant, machinery and equipment
1303	Buildings and structures
1304	Other
	Contractual services
1401	Transport
1402	Telecommunications
1403	Postal charges
1404	Electricity and water
1405	Rents and hire charges
1406	Rates and taxes to local authorities
1407	Other
	Transfers
1501	Transfers to household through welfare programmes
1502	Pensions, retirements and gratuities
1503	Transfers to public institutions
1504	Transfers to public enterprises

Source: Ministry of Finance. Government of Sri Lanka.

Annex 17. (continued) Expenditure classification by object

Object code	Category/object title
	Capital grants
2301	Capital grants to non-public institutions and private individuals
2302	Grants to provincial councils
	Acquisition of financial assets
2401	Equity contribution by the government
2402	Loans outlay
2403	On-lending
2404	Other
	Other capital expenditure
2501	Other
	Restructuring expenditure
2601	Restructuring and reforms
	Donor-funded capital expenditure
2701	Rehabilitation and improvement
2702	Procurement
2703	Construction
2704	Consultancies
27 05	Human resources development
2706	Development assistance
2707	Land development
2708	Loans outlay
2709	Operation maintenance and others
	Public debt amortization
	Repayments
3001	Loan repayments: domestic
3002	Loan repayments: foreign
3003	Other repayments

Source: Ministry of Finance, Government of Sri Lanka.

Annex 18. Performance indicators

Programme	Project	Performance indicators		
		Output indicators	Outcome indicators	Efficiency indicators
General administration	Minister's Office	No. of progress review meetings held with additional secretaries No. of staff meetings	Percentage of issues treated	Utilization rate of Ministry budget
	Ministry administration	Percentage of National School Principal vacancies filled within one month	Percentage of disciplinary actions taken	Unit cost to maintain infrastructure facilities Minimum facilities provided for staff officers Utilization rate of budget
Primary education	Primary education	Number of schools providing quality inputs No. of class rooms refurbished No. of schools supervised Dropout rate Unit cost per student (primary)	Primary cycle completion rate	Utilization rate of budget Student-teacher ratio/primary
Secondary education	Secondary education	Percentage qualified for O/L Percentage qualified for university admission science/commerce/art	Dropout rate Internal efficiency rate Unit cost per students (Secondary) or 6–13 Student-teacher ratio	Percentage of expenditure utilized for quality inputs Utilization rate of project funds

Programme	Project	Performance indicators		
		Output indicators	Outcome indicators	Efficiency indicators
Assistance to Education	Education Planning and Programming	Updated databases on schools, teachers and students Annual Statistical Report Updated Ministry website No. of analytical reports produced Quarterly Progress Report	No. of education development indicators produced	Funds utilization rate of foreign funded projects No. of EDC meetings (project co-coordinating) No. of TC meetings
	Special Education	Number of teachers trained for special education No. of units established special education	Enrolment rate of student with special education needs	Percentage of students passed in GCE 'A' and 'O' level examinations Utilization rate of budget
	Teachers Colleges and Teachers Centres	Student-trained teacher ratio	No. of teachers trained in teachers colleges No. of training sessions conducted in teacher centres	Qualified teacher ratio Utilization rate of budget Percentage of teachers entering teacher training who complete it
	Colleges of Education	Number of teachers graduating annually Percentage of placement in difficult areas	Percentage of shortage of teachers in difficult areas	Utilization rate of budget Average annual capital cost per teacher trainee

Programme	Project	Performance indicators		
		Output indicators	Outcome indicators	Efficiency indicators
Assistance to Education	Transfers to public institutions	No. of national libraries established and bibliographies published No. of training workshops held for ISAs No. of researches carried out related to the national curriculum No. of bhikku graduated from Buddhist and Pali University No. of sessions held for monitoring the plans/programmes	Rate of readers increased No. of teachers trained by the ISAs No. of presentations held to discuss research findings	The rate of budget utilization per annum
Grants to non-public institutions and individuals			No. of study tours made by the officials in educational and cultural sectors with the sponsorship of UNESCO Number of individuals participating in study tours	The rate of budget utilization Number of study tours (participants per ministry employee)
Assistance to Education	Welfare Programmes	Number of students (million) receiving free text books No. of bursary holders (Grade 5 scholarship) Distribution of uniform Providing midday meals for low-income Grade 1 students	Participation rate (ages 5–14) Completion rate Participation rate of the students in selected project schools	Funds utilization rate

Programme	Project	Performance indicators		
		Output indicators	Outcome indicators	Efficiency indicators
	General Education Project 2	No. of trained teachers in IT education	Enrolment rate in conflict-affected areas Establishment of IT centres Percentage of teachers using computers as a teaching/learning tool Percentage of students using computers within school hours Percentage of students passed English at GCE (O/L) and (A/L) Examinations Percentage of schools with IT education facilities	Funds utilization rate
Assistance to Education	Teacher Education and Teacher Deployment Project	Rate of disbursement No. of IT centres established	No. of teacher centres functioning	Percentage of teachers trained Percentage of teachers entering teaching training who complete it
	Secondary Education Modernization Project	No. of computer learning centres established No. of multi-media centres established No. of science laboratories established Rehabilitation of central colleges No. of on-site environmental laboratories established	Enrolment rate of Grade 6 scholarship holders in central colleges	Funds utilization Completion rate (secondary cycle)

Source: Ministry of Education, Government of Sri Lanka.

ADDITIONAL READINGS

Chapter 1.

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