EARLY IMPACT ASSESSMENT OF THE GLOBAL FINANCIAL CRISIS ON EDUCATION FINANCING:
Country Case Studies

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1. Overview

This paper presents key findings from an early impact assessment of the global financial crisis on education. Since 2008, global economic activities have decelerated and many governments face a trade-off between maintaining fiscal balance and expanding spending to counter the economic slowdown. Public education financing, which is key to achieving Education for All (EFA) and human resource development, is also undermined as a result of fiscal constraints.

Case studies are presented in order to understand the effects on the financing of education in selected countries. Because governments are often the primary providers of educational services, an analysis of government financing is important for understanding the change in educational service provision. The presentation of observed impacts on government financing and education financing are separated because they are not necessarily affected in the same way.

The findings are presented in four sections which follow the sequence of the impact of the crisis:

- Section 2: the impact on government financing;
- Section 3: the government response to the crisis;
- Section 4: the government response to financing in the education sector; and
- Section 5: other issues related to the education sector.

The assessment was carried out using a case study approach *(see **Appendix I** for the methodology used)*, with 10 countries representing different regions of the world. The countries include: Bangladesh, Guatemala, Kenya, Namibia, Nepal, Rwanda, Sri Lanka, Swaziland, Timor-Leste and Yemen. The background for each country is presented in ***Appendix II**, and **Appendix III** lists the literature reviewed for the analysis.* The findings are not representative of global trends but rather serve as illustrations of responses to the crisis. The evaluation is designed to be as objective and evidence-based as possible, despite difficulties in obtaining data from many countries. It is also important to note that this situation is in a constant state of change.

Due to a lack of timely, quality data, the impact of the financial crisis on enrolment and household schooling decisions are not addressed in this paper.

2. The impact of the crisis on government financing

In 2008, the world entered into a period of slow economic growth, triggered by food, fuel and financial crises. Countries across the world suffered from increased international food and fuel prices and high inflation during the first half of 2008, while in the second half of 2008, they were hit by an economic meltdown triggered by a global financial crisis. It is expected that the world will enter an era of slower expansion; world economic growth is expected to fall from 3.2% in 2008 to -1.3% in 2009, while growth in developing countries is expected to slow down from 6.1% in 2008 to 1.6% in 2009 (IMF, 2009).

As a consequence, governments are facing severe fiscal constraints due to declining revenue. This, in turn, affects the progress of educational development. The unexpected collapse of the macroeconomic environment has placed national plans for achieving the Millennium Development Goals (MDGs) at risk, especially in many developing countries. The prospect of external aid is also likely to be affected given that the slowdown has impacted many developed countries as well.

The global financial crisis slowed national economic activities, which in turn affect public revenue. While each country in the assessment was negatively affected by the economic slowdown, the impacts were varied depending on existing national economic structure, connections to the global economy, pre-crisis macroeconomic and fiscal conditions, geographical and economic regions, etc. Some economies took a hard hit, while other countries were able to better absorb the external shock.

Overall, countries have been forced to lower their expectations on revenue collection, which is determined by transmission channels of the impact within national economic structures. While not all countries face decreased revenues, the government ordinary (tax) revenues in general are reduced as a result of slowed economies and decreased household incomes.

A widely observed cause of declining public revenue is a sharp drop in the volume of international trade and commodity prices. Between September 2008 and March 2009, the world dollar value of trade goods declined by about 30%. Much of the decline reflected weaker trade in manufactured goods, the dollar value of which dropped 33% over the same period (World Bank, 2009a). Due to decreased external demand, countries exporting manufactured goods, such as Bangladesh, were impacted significantly by the crisis. A combination of weaker external demand and a collapse of international commodity prices also affected commodity exporting countries, such as Guatemala, Timor-Leste and Yemen. The government revenue outlook for tax collection from export industries, as well as sales of resources, were adjusted negatively as a result.

Furthermore, a decline in the volume of international trade has had an effect on import tax revenues. A combination of lowered domestic demands and weak national currencies resulted in a decline in the volume and value of imports, despite a collapse of international commodity prices in mid-2008. Consequently, countries which rely heavily on import taxes for their revenue collection were severely impacted, as observed in Namibia, Sri Lanka and Swaziland.

A reversed capital flow is a critical factor that impacts the developmental activities of a country. During the economic expansion, many developing countries relied on capital inflow through direct foreign investment. However, when the global credit crunch occurred, there was a sudden withdrawal of investment funds which paralyzed the account balance of these countries. Capital outflow caused a surge in sovereign bond spread and a sharp deterioration of domestic currency. Many countries, such as Kenya, Rwanda and Sri Lanka, faced the difficult situation of tackling high inflation, protecting currencies and attracting investment at the same time.

In addition to foreign direct investments, the flow of remittances from migrant workers – often thought to be more resilient – was susceptible to decline as well. Latin American countries experienced a sharp fall of remittance flow from expatriates from the United States of America, where the financial crisis originated. However, different impacts were observed in other areas. Flows from the Gulf Cooperation Council (GCC) countries experienced resilient, although lower, levels of growth into South Asian countries, such as Bangladesh and Nepal (World Bank, 2009b).

In summary, while cross-national conclusions cannot yet be drawn from the data currently available, it can be seen that previously-established economic structures, as well as regional and trade links, played a role in the degree of impact on countries. Although the data gathered from the 10 case study countries are not regionally representative, some patterns of the impact have been observed (as in the case of remittances). These global and regional trends need to be evaluated when comparable data on expenditure are available.

3. The government response to the crisis

As a result of decreased revenue collection, governments face a trade-off between maintaining fiscal balance and expanding expenditure. While some countries in the assessment were able to finance the short-term gap through savings, many had to make a decision between increased borrowing to maintain (or increase) the level of public service provision or cutting government spending to maintain the fiscal balance. Thus, responses to the crisis addressed either immediate needs or longer-term debt sustainability.

The 10 case study countries can be grouped into four patterns of government responses to the economic crisis. As such, financing is:

i. relatively unaffected by the crisis: Bangladesh and Nepal;

ii. affected but government continues to finance itself: Namibia, Rwanda and Timor-Leste;

iii. affected and government increased borrowing: Kenya;

iv. affected severely and cuts were unavoidable: Guatemala, Sri Lanka, Swaziland and Yemen.[1]

Note: The months in parentheses indicate the beginning and end of the fiscal year (FY).

i. Countries where financing is relatively unaffected by the crisis

- **Bangladesh** (July-June): The export sector (largely garments) was damaged by diminished external demand. Nonetheless, a continued inflow of remittances from workers in the Gulf region helped maintain the macroeconomic stability and supported domestic consumption.

- **Nepal** (July-June): The financial crisis affected the country by sudden depreciation of the national currency, the Nepalese rupee, vis-à-vis the U.S. dollar. This, in turn, resulted in a 25% growth in exports and 55% increase in remittances from Nepalese working abroad in 2008.

ii. Countries where financing is affected but governments continue on their own resources

- **Namibia** (April-March): Despite a deteriorating outlook for revenue collection for the coming years, the government succeeded in retaining a fiscal surplus during the past few years due to improvement in tax administration, increased revenue from mineral exports and strong import tax performances[2], which enabled the country to launch an expansionary budget with stimulus packages.

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1 This grouping is currently relevant, although the situation is evolving after external financing was made available in some countries.

2 Namibia is part of the South African Customs Union (SACU), and the strong SACU receipts translate into strong domestic demand within the SACU region as a whole.

- **Rwanda** (July-June): Due to robust economic growth and one-off receipts of selling telephone licenses in 2008, the fiscal condition of the Rwandan government is being sustained. The government is drawing down deposits at the central bank to finance moderate stimulus economic activities.

- **Timor-Leste** (January-December): Three-quarters of its revenue comes from oil. Since the country performed exceptionally well due to high international oil prices, its medium-term plan is unaffected by the crisis due to savings and a strictly-managed oil revenue fund. Revenues for 2009 will be much lower than for 2008.

iii. Countries where financing is affected and governments increased borrowing

- **Kenya** (July-June): In 2008, Kenya suffered a sudden break in economic growth as a result of political instability, steep increases in international prices of food, fuel and fertilizers, a drought, and the financial crisis. These negative developments curtailed export growth, tourism receipts, remittances and private cash flows. While revenue growth is expected in 2009, the government requested support from the International Monetary Fund (IMF) as a preventive measure. Due to improved debt conditions in the last decade, the request was approved and the government embarked on a combined measure of a stimulus package through capital spending and a budget cut in non-priority areas for the fiscal year 2009/10.

iv. Countries where financing is affected severely and budget cuts are unavoidable

- **Guatemala** (January-December): Due to strong economic ties with the United States where the financial crisis originated, Guatemala was severely affected through less exports, declining remittances, and contraction of private capital inflow. The government revenue declined by 8% during the first half of FY2009 due to weak import tax collection. As a result, the government decided on budget cuts by setting ceilings for the trimester of May to August 2009. Guatemala requested IMF support to alleviate this short-term fiscal constraint.

- **Sri Lanka** (January-December): The financial crisis had a huge impact on Sri Lanka's economy, causing capital outflow and a sharp depreciation of its currency. In an effort to protect the currency, a significant amount of foreign reserves was used. The estimated import tax collection for the first two months of FY2009 is 50% lower than in the previous year due to depreciation of the currency and weakened domestic demand. While the originally prepared budget for FY2009 was expansionary, the government decided on budget cuts after realizing that the revenue collection was rapidly shrinking. The government also requested support from the IMF.

- **Swaziland** (April-March): The shrinking volume of international trade and weak domestic demands affect the customs revenues of Swaziland from the South African Customs Union (SACU).[3] Even lower revenues are expected in 2010 due to a time lag in the receipts of customs revenues. While the government is addressing the fiscal gap by domestic financing, the nominal value of the initially allocated education budget in FY2009/10 is expected to be lower than the previous fiscal year.[4]

- **Yemen** (January-December): Oil and gas amount to approximately two-thirds of government revenue and 90% of export receipts in Yemen. With a collapse in international oil prices during the second half of 2008, the government's originally positive revenue forecast was revised with negative growth. The delay in the extraction of new gas fields also contributed to a 77% drop in oil revenue during the first five months of FY2009. The country decided on 50% cuts in non-salary spending to lower the total budget by about 20%.

Are there any overarching trends?

According to the country cases, the pre-crisis fiscal and debt conditions influenced the range of options available to governments. Expansionary measures were possible in some countries due to accumulated savings (e.g. Namibia) or positive fiscal balances in the recent past (e.g. Timor-Leste).

Due to the sudden breakout of the crisis, the timing of the fiscal year cycle matters in gauging the reaction of the government in FY2009. In countries where the fiscal year starts in January, the budget was already prepared before the impact of the crisis was known. As a result, the tendency in this limited sample of countries is to make budget cuts in the middle of the fiscal year. In contrast, countries which had fiscal year cycles starting later than January benefited from being able to observe the development of the crisis and prepared more proactive spending plans. Those countries were also able to request external support before the start of the fiscal year.

Countries with relatively stable fiscal conditions introduced stimulus packages to counter the economic slowdown. However, it is a difficult trade-off for a government to introduce such a package when expected revenues are falling, making it difficult to find the financing for it. Common forms of stimulus packages observed in the case study countries were increased capital spending and tax cuts. Many governments introduced capital-intensive, sometimes multi-year, stimulus packages to mobilise domestic economic activities, often in economic development sectors such as infrastructure. Another popular measure was a tax reduction on the price of imports or on household income. Other incentives were found as well: Bangladesh used the package to subsidise export industries, while Kenya used the fund to recruit contract teachers.

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[3] Domestic demand refers to demands within the SACU territory.

[4] Due to limited availability of data, the pattern of budget contraction across different ministries is unknown. Although the nominal value allocated to the education sector is smaller than in previous fiscal years, the total government budget seems to increase, implying the budget cut is not universal for all sectors.

While shifting budget allocations from one sector to another is not easy when administered by different ministries, countries set national priorities for public spending during tight fiscal constraints. Sector prioritization depends on identifying immediate needs in economic recovery, while pursuing a longer-term vision and strategy. In the sample countries, the tendency was to cut spending from capital expenditure, followed by non-salary items. Although cutting salaries is generally avoided, some countries (e.g. Guatemala) froze bonus payments and introduced a temporary freeze on new recruitment.

What are the risks for the coming years?

While some countries maintained expansionary budgets for the current fiscal year, there is a risk that the financial commitments will not be met. Many countries have already reported that the first few months of revenue collection was less than originally planned in budget estimates (e.g. Guatemala, Kenya and Yemen). Therefore, the outturns of both revenue collection and expenditure may be much lower than estimated.

While countries are struggling between maintaining the fiscal balance and launching a stimulus package, there are cost implications for both options. By choosing budget cuts to maintain fiscal and debt balances, the economic slowdown will be prolonged. Meanwhile, increasing today's spending by additional borrowing will increase costs related to debt repayment in the future. Therefore, it is important to look at the impact of the crisis with a longer-term perspective and monitor the developments over time.

4. The government response to financing in the education sector

Common responses observed in sample countries

Many of the case countries have successfully contained the negative impact of the crisis on education financing so far. Most were able to maintain the same level of budget allocation to this sector, and some were able to make increases through stimulus packages. Nonetheless, a few countries had to decrease their education budgets.

While countries may succeed in maintaining the same level of resource allocation to the education sector at nominal value, there is a potential drop in the real value spent in comparison to previous years. Due to high inflation recorded in 2008 and the first half of 2009, the real value of the education budget is likely to be lower at a constant price. The review of real spending will be required when the final outturn for this fiscal year and inflation data become available.

The education budget was often more protected than other sector budgets, as seen in the case studies. For example, Guatemala exempted its education and social sector budgets from decreases. While Sri Lanka and Yemen experienced relatively small cuts in the education sector, the focus of decreases was essentially on capital and non-salary spending.

When education budgets were affected, financing for primary education remained most intact while post-primary levels experienced the most cutbacks. This is because technical/vocational and higher education tend to consume more non-salary current and capital spending, which are often the first areas to be cut. Furthermore, educational peripheral goods and services, including research and development (R&D) and national library services, are more vulnerable to budget cuts than core educational services.

The quality of education may be put at risk when non-salary current expenditure is cut. To monitor improvement in education quality, a commonly used indicator is the non-salary proportion of current spending.[5] Developing countries which have not yet achieved Education for All (EFA) tend to under-allocate to these items, so cutting the size of non-salary current expenditure translates to further deterioration of quality. Decreasing this spending could affect student learning directly through the reduction of teaching and learning materials (such as textbooks), operation grants to schools, school maintenance, meal services, health equipment, etc. For higher levels and technical/vocational education, lower allocations could mean reductions in laboratory materials and their frequency of use.

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[5] For instance, the Education for All Fast-Track Initiative (EFA FTI) includes this measure as a proxy for education quality in its indicative framework.

On the other hand, cutting the investment budget may have less immediate impact but longer-term results, as seen in Sri Lanka and Yemen. This could also be linked to a delay in the implementation of long-term education development plans. This delay would impact the opportunities of the next cohort of students. If the original plan was to build new schools, the accommodation capacity will remain low for additional years, according to trends in the sample countries.

In general, decreases in teacher salaries were not reported in the sample countries.[6] However, a lack of sufficient cash flow may constrain timely wage payments, which consequently may impact teacher working conditions and worker strikes. This is an unobserved but common concern for many countries facing lower-than-estimated revenues for the first months of the fiscal year.

Boosting educational development during the crisis

While many countries suffer from budget constraints, some opted to boost educational investment through stimulus packages. For instance, in Kenya and Namibia, the education sector received the largest allocation from their stimulus packages, and a large increase in the allocation to capital spending was observed.

- **Kenya** – The government used the stimulus package to facilitate its medium-term education development programmes at the general education level. In the 2009/2010 budget, an additional KShs. 9.6 billion (US$126 million)[7] are being allocated as part of the stimulus package. Two-thirds of the fund is reserved for the construction of classrooms, especially to accommodate the increasing number of students in secondary education resulting from free secondary education measures introduced in 2008. About 17% of the fund is being allocated to recruit contract teachers to cope with increasing enrolment.

- **Namibia** – The education sector will benefit from N$908 million (US$121 million)[8] additional funding over three years under the stimulus package. While the largest part of this additional resource will be directed to the construction of new classrooms and student hostels for primary and secondary schools, the country is planning to use the fund to establish new faculties and programmes at the University of Namibia and Polytechnic University.

While stimulus packages for the education sector were implemented, no specific government responses aimed at increasing food subsidies or other stipends for the purpose of protecting vulnerable populations during the crisis were observed. While many countries in the sample continued with existing programmes aimed at protecting vulnerable segments of the population, no particular top-up of such grants were observed in the analysis of budget documents. These types of programmes may see increases in the next budget as there is often a time lag between the incidence of the crisis, its impact on the marginalised, and the initial policy response by the government.

[6] This statement refers to the case studies covered by the UIS only. Other published studies cite countries which implemented budget cuts, for instance in East Europe.
[7] At an exchange rate of US$1=KSchs. 76.0 (Central Bank of Kenya, September 10, 2009)
[8] At an exchange rate of US$1=N$7.50 (Bank of Namibia, September 10, 2009)

5. Other issues related to education financing

Donor financing: A decline in foreign aid as a result of the crisis is not evident yet. Unlike the flow of private investment, foreign aid did not dissipate immediately after the crisis. Many countries, especially those which cut capital expenditures, have increased reliance on external funds or capital projects. Some countries received additional funding commitments from bilateral donors to deal with the crisis situation. However, the unpredictability of foreign aid makes it difficult for countries to develop prudent medium-term education plans during a crisis. Predictability is especially important for countries that suffer from declining revenue prospects and budget constraints.

Lagged impact of the crisis: Despite a growing international sentiment that the economic slowdown will soon hit the bottom and recover in 2010, some countries may actually face more severe budget constraints than in 2009. Countries that launched tax cuts as part of the stimulus package will likely face lower revenue collection next year, and many countries may need to adjust their fiscal scenarios according to a more realistic assessment of the economic conditions after the crisis. The impact of the crisis will probably be felt after a time lag. For instance, Swaziland – which relies on SACU receipts – estimates lower revenue for 2010 because there is a two-year lag between the collection of customs and distribution to member countries.

Impact on households: Commonly, the poor are the hardest hit by the economic crisis. When households lose stable income, they may no longer be able to afford the direct cost of schooling (such as tuition, uniforms, stationery, etc.) and increased opportunity costs mean that children may have to work to support their family. Consequently, there is a rise in dropout rates and delayed entry into schools. While it is too early to assess the situation beyond anecdotal cases at this time, it is a priority area for analysis when enrolment data, as well as more detailed household-level information, become available.

Institutions that rely on fees: Educational institutions, especially private and post-primary ones, may face a shortfall in operational resources if students are unable to pay tuition or related fees. Further analysis should review if there is a consequent shift from enrolment in private to public institutions.

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Appendix I

Methods of data collection and limitations of the study

1. **Objective and scope of the study**

The objective of this exercise is to provide a rapid overview of the current situation of public education financing in the context of the global financial crisis. The study aims to examine changing policies and priorities in selected countries. This report is based on a country case study approach and it does not intend to provide a global or regional overview.

2. **Analytical framework and limitations**

The analysis focused on assessing the economic situation, overall government financing and funding of the education sector in the sample countries. The assessment was conducted mainly through the review of publicly available government documents, including budget documents, budget speeches, official decrees and circulars, as well as press releases from national governments, central banks and development partners. These were collected by UIS field coordinators through direct contact with government officials and official government websites. Reports from other organizations were also examined.

Nonetheless, the global economic situation is in a constant state of change. Due to a lack of comparable data of quality, the impact of the financial crisis on school enrolment and household schooling decisions is not addressed in this report.

3. **Selection of sample countries**

The case study countries for this report include: Bangladesh, Burkina Faso, Cameroon, Central African Republic, Guatemala, Kenya, Kuwait, Mali, Namibia, Nepal, Niger, Rwanda, Sri Lanka, Swaziland, Timor-Leste and Yemen. Countries were selected to capture diversity across regions, income levels and economic structures. The availability of detailed budget data was also considered.

Appendix II

Country case studies

Bangladesh

Bangladesh is one of the countries that have shown resilience to the global economic slowdown. Despite a modest deceleration from the pace recorded in recent years, real GDP is expected to grow by 5.9% in FY2008/09. One of the contributing factors to sustaining economic growth is lower international food and fuel prices, which contributed to mitigate the reduction of net imports. Domestic consumption, which has driven domestic economic growth, continues to be strong due to a continuous inflow of remittances from migrant workers.

The government is expected to maintain an expansionary fiscal policy stance as it attempts to tackle domestic and external challenges. Two economic stimulus packages for FY2008/09 have been announced, as well as an increase to government spending in 2009/10. While the package comprises largely of subsidies for agriculture, export industries, electricity and social safety net programmes, the budgeted capital expenditure for 2009/10 increases by 34% from the previous year.

The commitment to education, as observed through the government education budget for FY2009/10, remains relatively high. The education sector budget increases by 15% between 2008/09 and 2009/10, and maintains the approximately 7.5% share of the total government budget. There is an increase of 28% from the previous fiscal year in the development budget for the entire education sector.

Guatemala

The recently-recorded strong economic growth (6.3% in 2007), reflected in an increased inflow of private investments, suddenly reversed after the financial crisis. Because the crisis originated in the United States, Guatemala’s main economic partner, its economy was hit by a combination of declined exports, remittances and private capital inflows. The government tax revenue dropped by 7.8% by the end of the first half of 2009, due mainly to falling import taxes. As a result, the government issued a decree to announce a budget ceiling for each ministry for the period of May-August. In April 2009, Guatemala received from the IMF an 18-month stand-by arrangement with total access to about US$951 million.

Despite an overall government budget plan of setting spending ceilings, the government exempted key social development sectors. Therefore, the education sector was protected from cuts and hiring freezes, and can continue its planned programme of “Education Policy 2008-2012”. Based on the plan, the primary education budget in 2009 rose by 21%, with the largest increase occurring to support the activities related to quality improvement and targeted support for disadvantaged groups. While this is not a response to the crisis, it will help to keep students in school. In 2009, the share for education in the total government budget was 20%, which could be larger in subsequent years if cuts are implemented in other sectors.

Kenya

The Republic of Kenya experienced strong economic growth from 2004 to 2007, when real GDP growth averaged 6% as a result of sound economic policies and a favorable external environment. However, the economic growth decelerated to around 1.7% in 2008 as a result of political instability during the first quarter, followed by steep increases in the prices of international food, fuel and fertilizers in the second quarter, and a drought and the onset of the global financial crisis in the third quarter. The series of domestic turmoil and external shocks curtailed export growth, tourism receipts, remittances and private cash flows. It caused depreciation of the currency and capital outflow, in addition to weakening domestic demand.

With the aim of recovering its economic growth, Kenya embarked on a combined measure of a stimulus package through capital spending and a budget cut of non-priority areas in FY2009/10. Despite an ongoing economic slowdown, this expansionary measure was realized by the improvement of the debt-sustainability outlook as a result of a reduced debt-GDP ratio since 2000. The country was able to receive an emergency fund from the IMF to fill in the short-term fiscal gaps.

The stimulus package is effectively linked to the national medium-term priorities in social development. The education sector received an allocation of KShs. 9.6 billion (approximately US$126 million) that would be used to accelerate their development programmes under the Medium-Term Plan 2008-2012 of "Vision 2030". The stimulus package fund for the education sector is channeled through the development of educational infrastructure and teacher recruitment, which have been identified as the flagship activities of the medium term. Two-thirds of the fund is to be used for classroom construction, especially to accommodate an increasing number of secondary students since Kenya launched an initiative for free secondary education in 2008. About 17% of the fund is allocated to recruit contract teachers to cope with the increasing enrolment.

Namibia

With the onset of the global financial crisis in mid-2008, strong economic performance supported by high international prices for minerals was reversed, and the GDP growth rate is expected to fall from 5.9% in 2007 to -1.7% in 2009. However, as a result of the last four years of increased revenue collection realized through strengthened tax administration, increased mineral export and strong SACU receipts, the government of Namibia had enough resources to launch counter-cyclical expansionary budgets despite its weaker outlook in revenue collection in the coming years. The budget is expected to increase by 13% between the 2008/09 and 2009/10 periods. While the main aim of the stimulus package is to sustain its economic growth, the largest portion is allocated to the human development sector – especially education – largely in the form of capital budget.

Historically, the education sector receives the largest budget allocation in Namibia, and this trend continues despite the fiscal constraints during the economic downturn. The education sector receives 21.4% of the budget allocation in 2009/10, including the allocation of N$908 million (US$121 million) for the stimulus package over three years. Since the stimulus package is provided largely in the form of capital budget, the education sector will construct schools for the general education level (primary and secondary) and invest in new programmes. The government aims to double the technical/vocational training enrolment between 2005 and 2011, so infrastructure development and new equipment will be needed. The University of Namibia and Polytechnic University are taking advantage of these investments to open new courses in more capital-intensive engineering faculties.

Nepal

Despite the global economic slowdown, Nepal experienced fairly strong growth in 2008 (increasing from 3.2% in 2007 to 4.7% in 2008). In fact, the positive growth was attributed to the global financial crisis, because the sudden depreciation of the Nepalese rupee vis-à-vis U.S. dollars helped the country to expand its exports, resulting in a 25% growth in exports. The country relies on remittances from workers abroad, and a 55% increase in 2008 helped to develop a solid foundation for foreign reserves. The government expects a nominal 24% growth in revenue during FY2009/10 due to a successful introduction of tax reform measures.

While the government intends to expand resource allocations for peace-building and infrastructure development in 2009/10, the education sector remains the top priority, receiving 16.3% of the budget in 2009/10. Nepal has embarked on an ambitious system reform, which aims to restructure primary and lower secondary education into a basic education concept, in addition to consolidating upper secondary-level education. An Education Sector Plan for 2009-2015 has been completed, and Nepal will apply for EFA-FTI Catalytic Fund support. The country's reform programme is well-supported by external donors, and the education sector expects increased donor financing in the medium term, ranging from 20% to 27% of total education spending.

Rwanda

While the global economic slowdown had a limited effect on the Rwandan economy initially, the impact has become more visible in early 2009 through three distinct channels, including i) a declining external demand for Rwandan goods and services, particularly for tourism and mineral exports; ii) slumping commodity prices, particularly for minerals; and iii) scarcer financial inflows.

The government of Rwanda received revenues in 2008 that were much higher than expected, largely supported by one-off receipts, amounting to almost 2% of GDP from sales of telephone licenses. The nominal expansion of FY2009/10 spending is designed to accommodate some economic stimulus and is financed by a draw down of government deposits.

As a result of introducing a stimulus package to economic development sectors, including infrastructure and the economic production sectors, the education budget as a proportion of overall budget slightly declined from 18.5% in 2007 to a projected 16.6% for FY2009/10. The government is allocating a higher portion to secondary and higher education, while the share of the primary education budget is declining from 68% in 2007 to 60% in 2009.

Sri Lanka

Sri Lanka was one of the hardest-hit countries by the crisis. Economic growth is expected to drop from 7.7% in 2006 to 2.5% in 2009 due to slowing economic activities, especially in international trade. While the Sri Lankan banking sector was relatively free of toxic assets, the global financial crunch resulted in a sudden withdrawal of foreign funds. This resulted in a quick deterioration of the current account balance and, moreover, hit the fiscal sector hard which relied heavily on international borrowing. In mid-2009, the country received a US$2.6 billion stand-by arrangement from IMF, thus the investment sentiment and the foreign exchange are expected to gradually recover. Yet, the negative outlook in revenue for 2009 forced the government to place a spending freeze on 2% of the current expenditure and 15% of the domestically-financed capital expenditure.

The education spending in Sri Lanka could not avoid the negative impacts of the financial crisis. The freeze on capital spending will impact post-secondary education, including higher education and vocational training, which were targeted as part of an ambitious expansion under the ten-year development framework, "Mahinda Chintana", for 2006-2016. As a result, the share of foreign financing is estimated to decline from 11% in 2007 to approximately 9% in 2009 in the education sector.

Swaziland

Swaziland is adversely affected by the global financial crisis, albeit to a lesser extent than similar small open economies. While the projected real GDP growth in 2009 remains positive, it is expected to decelerate by 0.4%. The government revenue at current price is expected to fall in FY2009/10, and the government plans to fund the gap between the budgeted spending and expected revenue mostly with domestic financing, expecting E 1.98 billion from the domestic financial market. As a result, the fiscal position, which recorded a surplus in FY2008/09, is expected to swing into a deficit during FY2009/10. The government expects the total spending to remain expansionary after the finance gap is filled.

Given the deteriorating outlook in tax revenues, the government of Swaziland proposes a conservative contracted education budget for the FY2009/10 as compared to the previous year. Due to the nominal allocation to the Ministry of Education, recurrent spending for FY2009/10 is 1.2% lower than in the previous year. Since the government is aiming to introduce Free Primary Education to Grades 1 and 2 in the 2010 school year, the primary education budget is on the rise. Swaziland achieved budget cuts by dropping ministry administrative costs by 48%, freezing allocations to the national library and reducing grants to post-secondary students by 36%. The Ministry of Finance is currently trying to pass a supplementary budget and increase social spending.

Timor-Leste

The Democratic Republic of Timor-Leste has experienced both political turmoil and economic development since its independence in 2002. GNI per capita increased from US$460 in 2004 to US$1,728 in 2007 as a result of increased oil production. The government revenue from petroleum amounted to about three-quarters of the country's total income in 2007 and positioned Timor-Leste as one of the most oil-dependent countries in the world.

While oil revenue is expected to decline from 2008, the global crisis has had no major impact on the domestic economy, given limited external linkages via trade, investment or finance. Due to the government's high spending, the non-oil GDP growth rates were recorded at 8.4% and 12.8% in 2007 and 2008 respectively. The government budget was increased by 60% in 2009 in an effort to boost the economic growth rate to 10%. The government foresees the 2009/10 period as a time for investment operations.

The education budget, financed by domestic sources, grew 22% between 2008 and 2009. The major increases were observed in capital expenditure (44% growth) and salary spending (54% growth) as a result of civil service reform and new staff recruitment. The massive investment plan between 2009 and 2011 benefits the primary education subsector by increasing the number of primary schools and upgrading the existing school buildings. Timor-Leste is an EFA-FTI country, but at the end of ongoing projects, the education sector will have less donor support forecasted for the medium term.

Yemen

Supported by high international oil prices, the economic performance of Yemen witnessed a moderate 4.4% growth in 2008. However, due to Yemen's heavy reliance on oil and gas revenues, which comprise 90% of export receipts and two-thirds of government revenues, the country faced a hard fiscal constraint when oil prices collapsed.

While the originally prepared budget for FY2009 was expansionary, the government faced a significant drop in the oil revenue in the second half of 2008 and decided on a 50% budget cut to non-salary items across all public sector spending. The share of crude oil exports during the first five months of FY2009 decreased by 48% in quantity and 77% in value, compared to the same period in the previous year. Despite a recent upturn in international oil prices, the crude oil revenue for 2009 is expected to represent less than one-half of the oil revenue in FY2007, if the trend of the first five months continues.

Despite the country's high commitment to educational development, the education sector was impacted by the global financial crisis and the collapse of oil prices. Although the final impact on education expenditure is not yet known, the 50% budget cut decision will downsize the overall education sector budget by 17%. The cut is relatively small in the education sector due mainly to a smaller portion of non-salary expenditure in general education. Because the spending on general education is mostly related to the wage bill, the impact on the budget for general education could be contained at 10%.

In contrast, technical and vocational education and the training budget will be cut by 43% and higher education will be cut by 30%, because they originally received a large portion of non-salary budgets. Albeit a relatively small impact on the Ministry of Education budget on the surface, this cut could potentially risk the quality of education by further downsizing the already-low level of non-salary current expenditure, which would finance various teaching and learning materials, textbooks, maintenance work, etc.

Appendix III

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