



Local Governments Financing in TVET: A Study of Gandaki Province of Nepal

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Abstract

The national policy in Nepal, particularly after the promulgation of a new constitution in 2015, emphasises the role of local government in designing, implementing and monitoring Technical and Vocational Education and Training (TVET). Despite policy priority, households, the private sector and other non-government organizations primarily share TVET costs in Nepal. The contribution from these sources varies from unit to unit, from time to time and from place to place. This variation in financing has often created problems such as a lack of funds and inconsistencies in designing and implementing TVET among different government agencies and tiers. With this context, this study explains how local government is prepared to finance TVET and provide access to it for youth employment. We detail allocation, particularly in their investment in TVET and sources of funding made by local governments in Gandaki Province. This would help in understanding the priority of the local governments in designing, implementing, and monitoring the TVET sector. The data was collected from secondary sources (SUTRA – a financial management system managed by the government of Nepal). This study found that the local governments in Gandaki province allocated a minimal budget from their internal source in three consecutive fiscal years (2019-2021). This shows that local governments has not been giving priority to this as the TVET budget shares only about 5% of the total budget. The findings show that almost all the budget goes to short-term training programmes, ignoring the long term formal TVET. Further, the study also found TVET at local governments are largely financed by external sources.

Keywords: *Local Government, Gandaki Province, TVET financing*

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Introduction

Human resource development generally encompasses the education system. Education, particularly Technical and Vocational Education and Training (TVET), prepares competent human resources (Maclean & Wilson, 2009; Bonvin, 2019). In this case, it is obvious that a country aims to expand quality TVET systems along with general education successfully. Nepal is not exceptional; skills development of youth through TVET has been a long-standing agenda. The Council for Technical Education and Vocational Training (CTEVT), established by its CTEVT Act 1989 under the Ministry of Education, is mandated to govern TVET in Nepal. Diploma and pre-diploma under the CTEVT system and technical stream in 9-12 grades under the Centre for Education and Human Resource Development (CEHRD) are secondary-level formal TVET programmes. Students can choose either the stream general or technical at the lower secondary level (grade 9). The basic and secondary levels of general stream education are provided in community, religious, and institutional schools. The first two type of schools receive regular funds from the government, while the third type of school charges students fees for operational costs. Technical stream education is offered at general schools (such as Technical Education in Community School [TECS]; Technical Stream in General School [TSGS]) and polytechnics (both constituents of CTEVT and affiliated private institutions). CTEVT is the largest institution running formal TVET programmes in over 60 constituent polytechnic schools consisting of over 1000 affiliated private institutions and community schools with partnership modalities across the country. Likewise, over 400 institutions under CEHRD run the technical stream in general schools (CEHDR, 2022). Furthermore, constituent and private institutes also run various non-formal vocational training programmes.

The national policy in Nepal, particularly after the promulgation of a new constitution in 2015, however, shared the roles and responsibilities among three tiers of government (Local, Provincial, and Federal). Despite the change in the governance system, skills development remains a priority as Article 51 of the constitution envisions competent human resources through scientific, technical, and vocational education (Nepal Law Commission [NLC], 2015) for national and economic development. The constitution and the subsequent unbundling reports have defined the roles of three spheres of government. For instance, Education Policy 2019 and the Local Government Operation Act 2017 have envisioned an active role of local government in the management and governance of TVET programmes and activities. In these contexts, the current

TVET system has quite a visible misalignment with the intended mandates envisioned under the federalisation. The CTEVT Act (1988) commenced during the unitary state did not recognize the federal structure and the constitutional provision that has assigned TVET as the responsibility of the provincial and local governance.

The change in the governance system caused a shortage of skilled human resources. Along with the modern education system that also started in the early 50s, skill development in Nepal formally began to fulfil the demand. The governance of TVET was unitary and financed directly by the governments. A vocational training programme ranging from 39 to 1500 hours, as a non-formal TVET, is also provided under CTEVT. However, besides CTEVT, short-term vocational training programmes are also run parallelly by over ten other ministries, including the Ministry of Education, Science and Technology. Among others, few non-formal vocational training programmes lead to skills tests conducted by the National Skill Testing Board (NSTB) under CTEVT. Non-formal training programmes run fragmentedly, as they are run by many actors, leading to issues such as duplication of the programmes. It has also become difficult to trace how many of them actually go through certification (Bhattarai et al., 2020). Furthermore, several informal skills learners have yet to be connected with a formal TVET system (Baral, 2023).

Public financing is the largest funding source; however, households, the private sector and some other non-government organizations also largely share TVET costs in Nepal (Aryal, 2020). The contribution from these sources varies from unit to unit, from time to time and from place to place. This variation in financing has often created problems such as a lack of funds and inconsistencies in designing and implementing TVET among different government agencies. With this context, this study explains patterns of TVET financing by local governments. Specifically, this study also discusses from where the fund for TVET comes and where it goes. Under the source we discuss internal and external sources and under the allocations we discuss in terms of areas and types. We begin, however, discussing the constitutional provision for inter-governmental fiscal transfer in Nepal.

Local Government and Intergovernmental Fiscal Transfer in Nepal

Nepal was declared a federal state in 2015, restructuring the unitary system into 753 local and seven provincial governments (Constitutional Assembly of Nepal [CAoN], 2015). The new federal governance system decentralized the unitary governance system and emphasised

equitable distribution of resources at sub-national levels. The three levels of government (federal, provincial, and local) are ascribed roles and responsibilities with both self-governance and shared governance (NLC, 2015). They coordinate with other levels of government and are free to execute their jurisdiction according to constitutional mandate. The federal government is responsible for the national policy, standards, and framework at the national level. The provincial governments are responsible for executing these responsibilities at the sub-national levels, whereas local governments are at the municipal level. The constitution in Article 60 also directs the federal government to distribute revenue equally to the provincial and local governments on the basis of their need and capacity. Furthermore, Article 228 provides the authority to impose taxes and access loans at their level from other institutions prescribed by the law (NLC, 2015). This gives a basis for the local governments to plan, implement, and regulate the programs and activities in their jurisdiction. In the following paragraphs, we define main basis of our analysis budgetary allocation in TVET. We discuss allocations in terms sources, areas, and types.

Sources for Budget Allocations

The local government raises the funds from internal sources within their jurisdiction. It includes the resources they generate through tax, revenues, and grants (donations from local organizations and individuals), and people's participation. The external fund is grants received by local governments from provincial and federal governments and non-government organizations. According to the provision of the Intergovernmental Fiscal Arrangement Act, 2017, federal and provincial grants to the local level come in four different forms: i) fiscal equalization grants, ii) conditional grants, iii) complementary grants, and iv) special grants. The other important source of resources is the local government, which may obtain the internal loan with the federal government's consent.

Fiscal equalization grants are provided by the federal and provincial governments to local governments "on the basis of their need for expenditure and revenue capacity" (Ministry of Finance [MoF], 2017), and local governments are free to allocate it as their budget in different sectors. Generally, the local governments do not return the amounts if they remain unspent within the fiscal year and transfer to the next fiscal year. Local governments generally use such transferred amounts as their internal source for the subsequent fiscal year. Similarly, local governments receive an amount in their treasury through conditional grants. The conditional grants come from the federal and provincial governments with "terms and conditions in relation

to the implementation of the project” (MoF, 2017). All the local governments “shall abide by such terms and conditions” to spend the received grant (MoF, 2017). Hence, the local governments are obliged to return the grant or unspent amount to grant providing organizations/agencies.

A complementary grant is a third source, the local government, that receives funds in its treasury. Local government can get complementary or matching grants “to implement any project related to infrastructure development” (MoF, 2017). This grant is provided based on the local government’s cost-sharing and need. However, the fourth source of the special grant does not demand such assurance and sharing from the local government. Generally, local governments receive special grants from the federal and provincial governments to conduct specific projects to develop and deliver basic services such as education, health, and drinking water (MoF, 2017). The treasury of local government is also complemented by revenue sharing. Occasionally, local governments receive grants from external sources such as national and international non-government organizations through the federal government. Moreover, the District Coordination Committee, which coordinates the village bodies and municipalities within the district, can also contribute to the local government's treasury (Nepal Law Commission, 2015).

Areas of Budget Allocation

The local governments allocate their budget into five broader sectors: Administration and institutional development, economic development, infrastructure development, social development, and forest, environment and disaster management (National Planning Commission, 2021). The first area is related to managing regular administrative services that includes salary, allowances, and others. Economic development is the second category, which incorporates areas related to supporting income generation and engaging people in various sectors such as agriculture, industry, tourism, cooperatives, etc. Infrastructure development is the third area that covers physical facilities such as transport infrastructure, housing, urban development, energy, information, communication technology, science and technology, and cultural heritage. Similarly, the fourth area is social development related to the welfare of the people, such as social security and conservation, youth and sports, drinking water and sanitation, education, health, gender equity, and social inclusiveness. The final areas in which the local government allocates the budget are forest, environment, and disaster management.

Generally, in financing these five broader areas, local governments classify the source of their budget into two broad categories: internal and external. The internal is local government's revenue generation, while the external are grants from external sources, including federal and provincial governments. Local governments are entitled to different types of grants from the federal and provincial governments. Federal fiscal laws such as the National Natural Resources and Fiscal Commission Act 2017, the Intergovernmental Fiscal Arrangement Act 2017, and the Economic Procedure and Fiscal Responsibility Act 2021 provide the legal base for resource sharing and generation at the local government level. The local government is responsible for planning the budget for every fiscal year. Nevertheless, local government mainly has two sources: internal and external funding, financing their programme and activities.

Types of TVET Budget Allocations

A critical problem in carrying out TVET budgetary analysis is that Nepali public sector budgetary practice does not give a specific code or identification to budget allocation to TVET. It has added a challenge to arrive at the actual public investment that goes to TVET in a given fiscal year. The problem further compounds as investments in TVET go from five broad sector budgetary areas: education, health, labour, agriculture, industry, etc. In such a situation, the only option for us was deciding whether a particular budget item was a TVET budget based on the classification. For this, we first reviewed relevant literature to define the categories. However, we were aware that assumptions might lead us to faulty generalization and, thus, misrepresentation of data. To reduce the error in our estimation, we intensively interacted with professionals and practitioners of the relevant fields. Mainly, in the financial management part, we consulted with officials from three spheres of the government. Defining TVET-related terminologies, we consulted with officials from CTEVT and independent TVET researchers.

Direct and indirect

Given the nature of TVET budget allocations, we categorized the budget allocation as either direct or indirect. Direct TVET budget allocations are those used to conduct or develop facilities for conducting some TVET programs directly. For instance, the budgets for establishing/constructing a vocational training center or a school, for carrying out some research as part of the preparation of beginning a training program, for curriculum development for a long-term program, or for organizing the training/degree programs, etc. are direct TVET budget allocations.

The indirect TVET budget allocations are directly not related to TVET programs but somehow, they contribute to TVET activities indirectly. These programmes contribute to enhancing aspects like employability, entrepreneurship, etc., through loans, equipment, and infrastructure support. These include components of vocational skills/competencies enhancement related activities but are not named as training programs.

Formal and non-formal/informal

The Convention on Technical Education and Vocational Training agreed on the definition of TVET that all forms and degrees of education that involve the study of technology and other sciences for the practical skills and knowledge required for the different occupations (International Centre for Technical and Vocational Education and Training of the United Nations Educational, Scientific and Cultural Organization [UNESCO-UNEVOC], 1996). TVET encompasses both formal (secondary schools and technical colleges), non-formal (short-duration training which may not lead to academic qualification) and informal (learning at the workplace) (Maclean & Lai, 2011). TVET is embedded in education and training from the perspective of employment and lifelong learning (UNESCO & ILO, 2002).

To see the priority of local government in the types of TVET programs by examining their investment in different types of TVET, we categorized the TVET budget allocations of local government into two types: formal and non-formal/informal TVET programs. The formal TVET budgets are funds that are provided to educational institutions (schools and colleges) that offer degree-oriented long-term TVET programs that offer academic degrees. However, some of these schools, particularly, constituent schools under CTEVT, also receive fund for running non-formal short-term trainings. The main purpose of formal TVET programs is to prepare people for the labour market who, once in the employment sector, could work competently in their area of education or training. Secondary, pre-diploma, or diploma-level programs are the three-degree-oriented TVET programs offered in Nepal. Secondary-level programs (grades 9 to 12) are offered in some selected general schools but as a separate stream. So, they are known as TVET Stream in General School (TSGS). However, some TVET institutions, particularly, constituent and private, might also provide short-term non-formal courses.

Non-formal TVET budget goes to non-formal types of TVET that are generally offered as short-term training programs that do not lead to some academic degree but generally provide

some certification. Offered by various training agencies that are not necessarily education institutes, these programs are often less structured and might be flexible in their design, curricula, learning objectives, outcomes, etc. These programs are also offered to prepare people for the job market or to re-skill and up-skill those who already have some skills or knowledge in a particular trade.

Finally, Informal TVET budgets are funds allocated by local government to the informal type of TVET programs that are often run as very short-term programs and are referred to as experience-based learning. These types of programs aim to support the participants in acquiring or enhancing some skills so that their work efficiency could be improved and productivity raised. These programs often have no specific curricula, timing, learning objectives, outcomes, etc. There might not be any training agency involved, and even if there are some, they might only be in the background. There is generally a facilitator who might even be locally skilled or knowledgeable. However, it became difficult to distinguish between informal and non-formal TVETs as the informal skilling process remains no longer informal once they enter the formal process of local government. Hence, we consider both non-formal and informal TVET in a group.

Study Method

We used secondary sources to collect the data - the annual budget allocations of all 85 municipalities and rural municipalities of Gandaki Province. We obtained the data from Sub-national Treasury Regulatory Application (SuTRA), an online financial management system for budgeting, accounting, and reporting. The SuTRA was developed and managed by the Government of Nepal. Data on the budget sources/allocation, nature of municipality, geographical regions.

Three fiscal years were assessed to generate the results from fiscal year (FY) 2076/77 to FY 2078/79 B.S., representing the Nepali fiscal year adjacent to 2019 to 2022. We began with fiscal year 2019/2020 because this is the first year of the federalized budget system. In this study, the budget allocated to TVET encompasses different sectors within TVET that can directly enhance or indirectly support skill development, employment prospects, and income generation for individuals. Meanwhile, non-TVET is explained as all the remaining areas for which the budget is spent such as admin expenses, development expenses, miscellaneous expenses, etc. Here, non-TVET does not mean general education but everything else.

Descriptive statistical tools were used for data analysis. To ensure the quality of the data and analysis, appropriate data analyses tools were used, such as Microsoft Excel and Statistical Package for Social Sciences (SPSS). Research ethics were strictly maintained, ensuring confidentiality, not revealing any municipality's identity, and only using the data set for research purposes.

Findings and Discussion

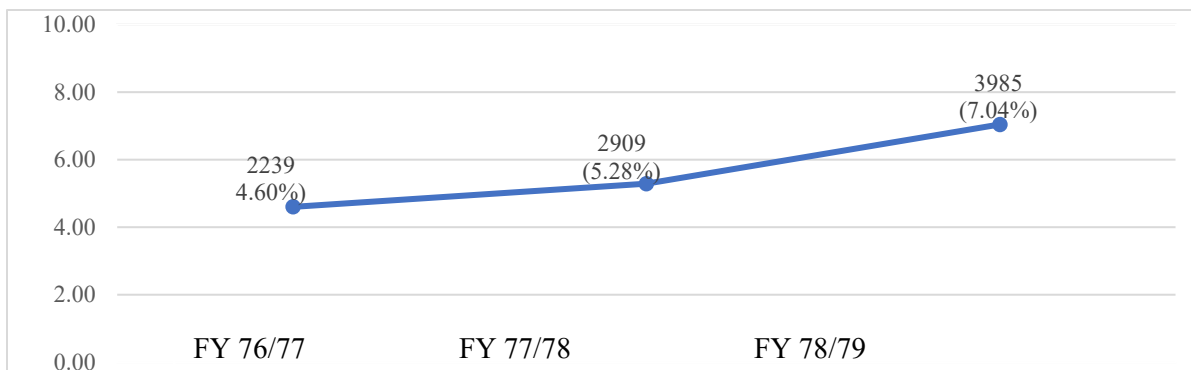
The development of competent human resources is predicted by an efficient skills development programme that encompasses sustainable financing through sufficient and predictable sources to run. More importantly, it is also about how financing mechanisms are strongly linked to national policies for making TVET systems more accessible, equitable, and responsive (Palmer, 2017). We present the findings of our study and discuss them in the following sub-sections.

TVET at Local Level: Largely Financed through External Sources

This study found that the budget allocation on TVET is steady and gradually increasing. Overall, on average, about 5% of the local government's total budget was allocated to TVET-related programmes and activities in three consecutive fiscal years in Gandaki province. In the Figure 1, we present the share of the budget in total budget of local government.

Figure 1

Share of TVET budget in total budget



* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

Figure 1 shows that the allocation inclined (4.60% to 7.04%) between the fiscal year 2018 and 2021. This indicate that TVET sector in local government remains similar priority as the federal

government, as a study conducted by Parajuli et al., 2012 found only about 3% of the education budget was allocated to the TVET sector. According to Busemeyer and Trampusch (2011), the public sector's commitment correlates with its financing readiness. In this context, local governments in the Gandaki province are gradually executing their roles in TVET governance. Nevertheless, there was no such variation in the rural and urban local government context.

Table 1

TVET Budget Allocated across Rural Municipalities and Municipalities/Metropolitan City

Share of Budget Allocated in TVET in Total	Rural Municipality (%)	Municipalities/Metropolitan City (%)	Total (%)
FY 2076/77	4.56%	4.67%	4.60%
FY 2077/78	5.23%	5.40%	5.29%
FY 2078/79	7.00%	7.19%	7.04%

* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

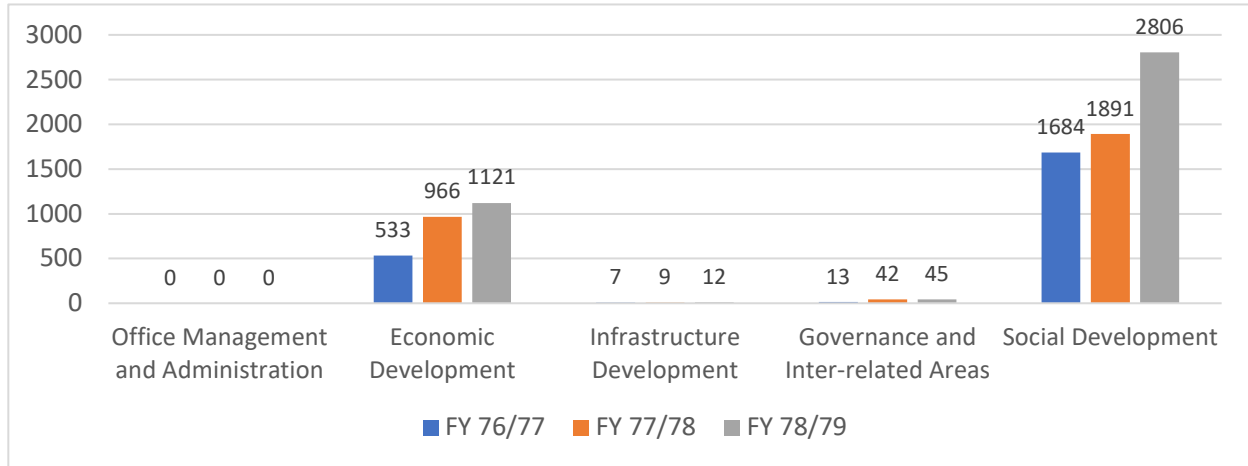
Table 1 shows the budget allocated in TVET in total in the three fiscal years 2076/77, 2077/78 and 2078/79 B.S for both RMs and municipalities/metropolitan city. It reveals that the shares of these two categories are similar, and their increase across the years is consistent in all three fiscal years. It also shows that the share of TVET in municipalities/metropolitan city are slightly higher constantly, but the differences are not notable. Meanwhile, the minor differences help analyse the fact that the share of municipalities is relatively low, considering their access to all the facilities compared to the RMs. The grave concern is raised for municipalities/metropolitan cities because this category represents urban areas with greater facilities, awareness and access. Hence, consistency in the budget allocation mechanisms is alarming and highlights the need to promote TVET stream through direct budget allocation.

Social Development and Economic Development: Key Areas receiving TVET Attention

Among the five areas, social development and economic development were identified as the areas in the major budget sources for TVET were made available. These areas, for which the local government budget should be allocated, received constantly higher budget sources than other areas, as shown in the figure below.

Figure 2

TVET budget across five areas (in million)



* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

Figure 2 displays two major areas in which budget were available. It shows that, on average, the budget sources were above 10 million. Among them, budget for social development were constantly higher than those for economic development. The figure illustrates that the highest budget availed about 30 million for social development in the FY 2021/22 while about 12 million for the economic development area in the same fiscal year. It reveals that for both areas, budget gradually increased with time, with the increase in the area of social development being relatively higher.

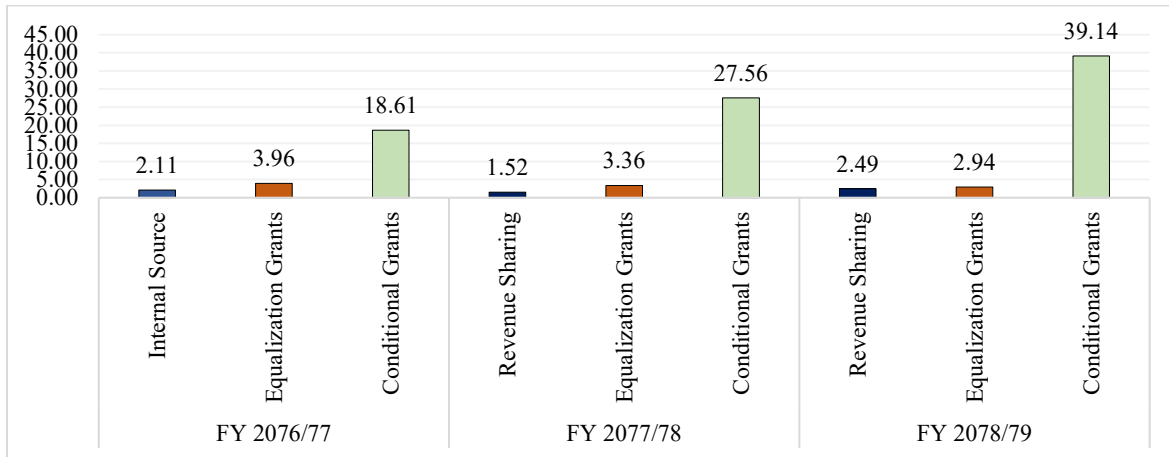
Local level Planning Guideline 2021 includes decent work and gainful employment under economic development. Similarly, social development includes education and programmes for target groups, among others. Practically, TVET schools are not yet in the governance of local government. In this case, the allocated budget in TVET under the social development area is for targeted groups, including women, youth, and other underprivileged groups. On the contrary, the related budget is allocated less to economic development than social development. This also implies that both formal and non-formal/informal TVET in local government is linked with social aspects rather than economic ones. Furthermore, there is also a weak relationship between TVET and work and employment.

Conditional Grants as the Major Grants for the TVET Budget

The conditional grants were ranked as the highest budget source in all the studied fiscal years.

Figure 3

Budget Sources for TVET in the Three Fiscal Years (in Million)



* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

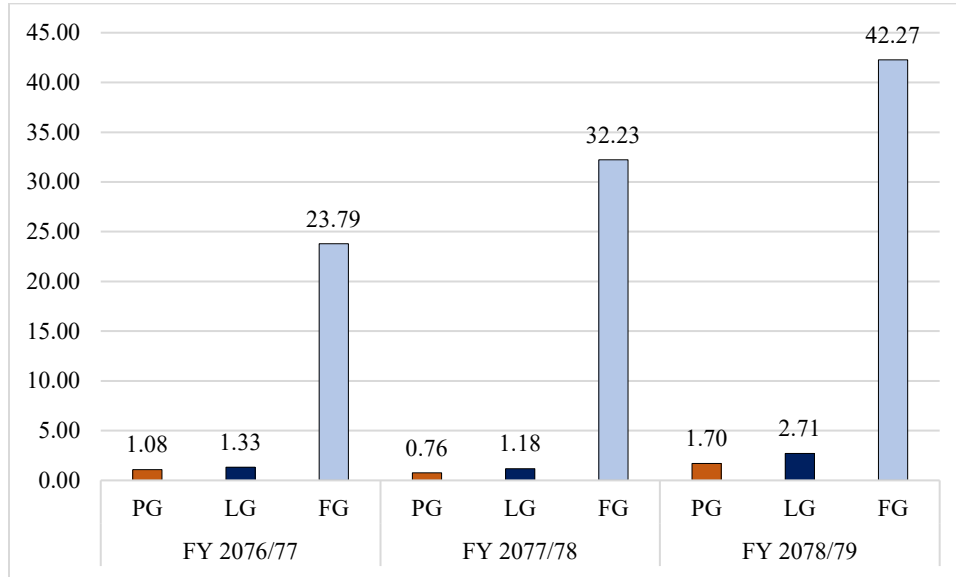
Figure 3 displays top three grants among all the identified grants. It shows that conditional grants have consistently been the highest budget sources in the three fiscal years. Other grants looked petty compared to the conditional grants. Moreover, the figure provides insight into the fact that these grant amounts steadily rose yearly, meaning budget sources through conditional grants were the highlight for TVET financing. Intergovernmental Fiscal Arrangement Act, 2017 defines local governments receiving conditional grants according to the basis of prescribed terms and conditions by either federal or provincial governments. It also indicates that the federal government directs TVET in local government as the primary budget in TVET is bounded by federal directives.

Federal Government: Major Source of Budget for TVET

Among various governments and agencies, the federal government, as the national level government, was the major budget source through which major grants were availed to the local governments.

Figure 4

Budget Sources for TVET in the Three Fiscal Years (in million)



* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

Figure 4 shows the top three governments or agencies as the budget allocation for TVET. Among them, the federal government, which provides most of the grants to the sub-national governments, is ranked as the highest budget source for TVET. The highest budget observed was NRs. 42.27 million in the FY 2078/79, which was higher than the total budget allocation for TVET in the FY 2076/77 or 2077/78. Compared to the federal government, allocation from other governments looked too small to notice. Besides, the contribution of the budget through FG consistently rose yearly.

The Constitution of Nepal has clarified the policy-level functions of the federal government (Nepal Law Commission, 2015) in which FG is responsible to transfer fiscal equalization grants to the sub-national governments (National Natural Resources and Fiscal Commission [NNRFC], 2018). Moreover, the provincial governments are responsible for coordinating the FG and the LGs. Hence, the budget from PGs are expected to be lower comparatively. More to this, the exclusive powers of subnational governments are conditional to federal laws, and provincial governments were not fully functional in the studied years (Acharya et al., 2020).

Indirect Budget Allocation Prevails both in Rural and Urban Municipalities

While assessing the categorized data across RMs and municipalities/metropolitan cities, it was found that their budget sources and allocation, along with the channel and types, were similar to the total budget, as shown below. Despite the consistent rise in the share of TVET in the budget allocation, the allocation was still found to have followed indirect channels.

Table 2
Channel and Types of Budget Allocation in TVET in Three Fiscal Years

Fiscal Year	Channel of Budget Allocation	NRs. (in Million)	Percent
FY 2076/77	Direct Budget Allocation	2.43	9.21%
	Indirect Budget Allocation	23.93	90.79%
	Total	26.36	100%
FY 2077/78	Direct Budget Allocation	3.89	11.39%
	Indirect Budget Allocation	30.27	88.61%
	Total	34.16	100%
FY 2078/79	Direct Budget Allocation	6.27	13.35%
	Indirect Budget Allocation	40.69	86.64%
	Total	46.97	100%

* Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

Table 2 displays one of the channels of budget TVET budget allocation for direct and indirect budget allocation. The table reveals that in each fiscal year, the share of direct budget allocation has only remained around 10 percent. Most notably, above 85% of the share is shown through indirect budget allocation. Besides, the means of budgeting were found to be carried out in formal/informal TVET, as shown below.

Table3

Means of Budget Allocation in TVET in Three Fiscal Years

Channel→ Types ↓	FY 76/77				FY 77/78				FY 78/79			
	DBA	I-BA	Total	Percent	DBA	I-BA	Total	Percent	DBA	I-BA	Total	Percent
	NRs	NRs	NRs		NRs	NRs	NRs		NRs	NRs	NRs	
Formal	0.63	8.44	9.07	34.41%	0.54	8.64	9.18	28.55%	2.82	12.85	15.67	42.44%
Non-Formal/Informal	1.80	15.22	15.29	65.59%	3.35	21.62	24.97	71.43%	3.45	27.85	31.30	57.57%
Total	2.43	23.93	26.36	100%	3.89	30.27	34.16	100%	6.27	40.69	46.97	100%

DBA = Direct Budget Allocation; I-BA = Indirect Budget Allocation * Fiscal year 2076 to 2079 BS is adjacent to 2019 to 2022AD

Table 3 continues to extend the substantiation of the above theme. It shows that budget allocation in non-formal/informal TVET had been prevalent over three consecutive years. The share of budget allocation for non-formal/informal TVET has comfortably exceeded 50 percent in all the studied fiscal years. Another observation that can be made is that formal means of budget allocation had risen in the FY 2078/79 with a share of 42.44 percent, nearing half of the share. However, the growth is not steady, making it difficult to remark its inclination. Non-formal and informal TVET are usually clustered as the opposite polar to the budget allocation to formal TVET, making it necessary to bring the budget allocation process through direct channels.

Conclusion

TVET financing has received the required attention of certain areas, such as economic and social development, among the five major areas where budget sources are to be provided to a local government. Conditional grants as the uniformly highest sources of TVET budget indicates that the budget flow is determined by their performance and related criteria for budget allocation on TVET. On the other hand, the federal government, as the primary source for TVET budget, indicates the predominant hands of the national level government in availing TVET budget, which is justified for it functions as the policy level government. However, the negligible share of provincial government among the three tiers of government and that of DCC raises questions about their effective functioning in promoting TVET.

TVET budgetary allocation have been uniformly rising in the three fiscal years studied. A share of above 7 percent of the total budget represents a fair share for the uplifting of TVET. However, budget allocation for TVET has been done more indirectly than directly. This issue is more pertinent for municipalities/metropolitan cities since non-formal/informal TVET budget allocations are prevalent. Therefore, it is also imperative that the budget allocation for TVET are allocated directly and the allocation process is formally channelized in the mainstream, such as structured academic programs and programs that are recognized through certifications. In the limelight of federal contexts, the roles of local governments are paramount. Hence, sufficient funds for TVET and carefully carried out local-level TVET financing are the cruxes for increasing the reach and quality of TVET.

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