MASTER THESIS | MASTER‘S THESIS

Titel | Title

Who Is Left Behind? Remittances, Foreign Aid, and Educational Inequality in Nepal, 2000–2024

verfasst von | submitted by

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angestrebter akademischer Grad | in partial fulfilment of the requirements for the degree of

Master of Advanced International Studies (M.A.I.S.)

Wien | Vienna, 2026

Studienkennzahl lt. Studienblatt | Degree programme code as it appears on the student record sheet:	UA 992 940
Universitätslehrgang lt. Studienblatt | Degree programme as it appears on the student record sheet:	Internationale Studien | International Studies
Betreut von | Supervisor:	Dr. Katja Kalkschmied

AI Declaration:

I hereby declare that I have independently completed this master's thesis titled "Who Is Left Behind? Remittances, Foreign Aid, and Educational Inequality in Nepal, 2000–2024". In the course of my work, I made use of artificial intelligence (AI) tools, specifically ChatGPT to:

- Support the literature review process by summarizing statistical/quantitative reports that used complex regression analyses outside my scope of understanding.
- Assist in academic style/writing when some sentences became too wordy.

And Claude to:

- Translate the abstract into German.

Pledge of Honesty: On my honour as a student of the Diplomatische Akademie Wien, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it.

Abstract/Abstrakt

This thesis examines the comparative influence of remittances and foreign aid on educational outcomes in Nepal between 2000 and 2024. Nepal provides a valuable case study because it has experienced both substantial remittance inflows and sustained international assistance to the education sector over the same period. While educational access has improved considerably, with primary enrolment approaching universal levels and gender disparities narrowing, significant challenges remain in educational quality and equity. This study investigates how remittances and foreign aid shape educational outcomes, the mechanisms through which they operate, and their implications for different socioeconomic groups. The research draws on secondary quantitative and qualitative evidence, including data from the Nepal Living Standards Survey, Nepal Rastra Bank, World Bank indicators, aid disbursement records, and evaluations of major education-sector programmes. A comparative analytical framework based on five mechanisms is employed: income and budget-constraint relief, household agency, conditionality, governance and absorption capacity, and equity. The findings indicate that remittances and foreign aid influence different dimensions of Nepal's education system. Foreign aid has played a crucial role in expanding educational access through investments in schools, teachers, and sector-wide reform programmes. However, its contribution to improving educational quality has been constrained by institutional weaknesses and declining aid flows. Remittances provide households with flexible resources that can be invested directly in education, particularly in private schooling, which is often perceived as offering higher-quality learning opportunities. Yet access to migration and remittance income remains uneven, limiting these benefits to relatively advantaged households. The thesis concludes that neither remittances nor foreign aid can replace the redistributive role of a well-funded and effectively governed public education system. As remittances continue to grow while aid declines, Nepal faces the risk of deepening educational stratification unless improvements in public-school quality accompany gains in educational access.

Diese Arbeit untersucht den Einfluss von Rücküberweisungen von Migrantinnen und Migranten (Remittances) sowie öffentlicher Entwicklungszusammenarbeit (Official Development Assistance, ODA) auf die Bildungsentwicklung Nepals zwischen 2000 und 2024. Obwohl Nepal in diesem Zeitraum erhebliche Fortschritte beim Zugang zu Bildung erzielt hat, bestehen weiterhin deutliche Herausforderungen hinsichtlich Bildungsqualität und Chancengleichheit. Die Analyse stützt sich auf bestehende quantitative und qualitative Datenquellen, darunter Haushaltsumfragen, Statistiken zu Rücküberweisungen und Entwicklungszusammenarbeit sowie Evaluierungen zentraler Bildungsprogramme. Im Mittelpunkt steht ein Vergleich der Wirkungsweisen beider Finanzströme anhand der Mechanismen Einkommensentlastung, Handlungsspielraum der Haushalte, Governance und Verteilungsgerechtigkeit. Die Ergebnisse zeigen, dass Entwicklungszusammenarbeit vor allem zur Ausweitung des Bildungszugangs beigetragen hat, während Rücküberweisungen Haushalten zusätzliche finanzielle Ressourcen für

Bildungsinvestitionen bereitstellen. Insbesondere ermöglichen sie vielen Familien den Zugang zu privaten Schulen, die häufig als qualitativ hochwertiger wahrgenommen werden. Gleichzeitig profitieren von diesen Möglichkeiten vor allem Haushalte mit Zugang zu Arbeitsmigration, wodurch bestehende soziale und regionale Ungleichheiten verstärkt werden können. Die Arbeit kommt zu dem Schluss, dass weder Rücküberweisungen noch Entwicklungszusammenarbeit die Funktion eines gut finanzierten und wirksam gesteuerten öffentlichen Bildungssystems ersetzen können. Langfristige Verbesserungen der Bildungsqualität und Chancengleichheit erfordern daher eine Stärkung des öffentlichen Bildungssektors in Nepal.

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Chapter 1: Introduction

1.1 Defining the Puzzle

Since the start of the century, Nepal's remittance-to-GDP ratio has increased from 2 percent in 2000 to 26.2 percent in 2024.[1] By the mid-2010s, remittance inflows had surpassed all other sources of external financial flows, including exports, Official Development Assistance (ODA) or foreign aid, and tourism revenue.[2] Remittances, income originating from abroad, generated by people who move temporarily or permanently to other countries,[3] have become an important source of income for many households and have been associated with poverty reduction and improvements in human capital.[4] At the same time, due to the country's lack of internal savings, ODA has been an important source of financing for key sectors.[5]

Nepal's education sector received hundreds of millions of dollars in such assistance across successive reform programs, from the Basic and Primary Education of the 1990s through to the School Sector Reform Plan (2009–2016) and the School Sector Development Plan (2016–2023), coordinated through a sector-wide approach involving the World Bank, the Asian Development Bank, the UK's Department for International Development, USAID, UNICEF, and the European Union, among others.[6] The education outcomes that have emerged from this environment tell a complicated story. On an aggregate level, primary enrollment has risen substantially, from 72 percent in 2000 to 96 percent in 2019.[7] Across secondary levels, Nepal has increased girls' completion rates faster than other South Asian countries.[8] While these are

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[1] World Bank, "Personal Remittances, Received (% of GDP) – Nepal," World Development Indicators, accessed April 20, 2026, https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=NP&start=2000.

[2] Dilip Ratha, Sanket Mohapatra, and Ani Silwal, eds., *Migration and Remittances during the Global Financial Crisis and Beyond* (Washington, DC: World Bank, 2012), 121, https://documents1.worldbank.org/curated/en/701621468149081927/pdf/693130PUB0publ067926B09780821388266.pdf.

[3] International Monetary Fund, "Appendix 5: Remittances," in B*alance of Payments and International Investment Position Manual* (2009), 272, https://www.imf.org/external/pubs/ft/bop/2007/pdf/appx5.pdf.

[4] Ratha, Mohapatra, and Silwal, *Migration and Remittances*, 122.

[5] Yashoda Karki and Ilias O. Pappas, "Investigating Aid Effectiveness in Developing Countries: The Case of Nepal," in *IFIP International Conference on e-Business, e-Services, and e-Society (I3E 2020)*, ed. M. Hattingh et al., Lecture Notes in Computer Science 12067 (Cham: Springer, 2020), 338, https://doi.org/10.1007/978-3-030-45002-1_29.

[6] Ministry of Finance data, cited in Bidhya Rai, "Nepal's School Education Reliant on Foreign Projects for Past 45 Years," *Nepal News*, January 11, 2026, https://english.nepalnews.com/s/feature/nepals-school-education-reliant-on-foreign-projects-for-past-45-years/.

[7] World Bank, "School Enrollment, Primary (% net) – Nepal," World Development Indicators, accessed April 20, 2026, https://data.worldbank.org/indicator/SE.PRM.NENR?locations=NP&start=2000.

[8] Global Education Monitoring Report Team, *Global Education Monitoring Report 2026: Access and Equity*, Countdown to 2030 (Paris: UNESCO, 2026), 278, https://doi.org/10.54676/JLKL3223.

genuine achievements, several serious challenges remain. There is inconsistent education quality, varying learning outcomes by geography, and low transition and retention of marginalized children after primary level.[9]

Two important external financial flows, operating across the same education context over the same period, appear to have produced gains in access without comparable progress in quality or equity. Understanding why, and whether one flow has been more influential for educational outcomes than the other, is the central problem this research addresses. Foreign aid has historically played an important role in education financing and still accounts for at least 17 percent of public education spending in low-income countries.[10] Most aid to education comes from a small group of donors, with the World Bank being the largest, followed by the United States, Germany, the European Union, and the United Kingdom.[11] But that picture is now changing in ways that matter for Nepal. The volume of programmable aid has decreased over time, and the share of education in sector-allocable aid has fallen on average from around 11 percent to 8 percent among major donors.[12] Education aid is expected to fall by a further quarter by 2027, following a 12 percent drop between 2023 and 2024.[13] Although public funding still comprises most educational investment globally, many governments struggle to meet growing demand because of financial limitations, and private funding from families, businesses, and other sources plays a growing role.[14] Globally, households finance roughly 25 percent of education costs, rising to 44 percent in lower-middle-income countries.[15] This trend suggests that private financial resources are becoming increasingly important for educational participation and investment, raising the question of whether household income from remittances may now exert a greater influence on educational outcomes than traditional ODA flows.

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[9] World Bank, "Nepal Makes Rapid Improvements in Quality and Inclusiveness of Education," September 7, 2023, https://www.worldbank.org/en/results/2023/08/23/nepal-makes-rapid-improvements-in-quality-and-inclusiveness-of-education.
[10] Binay Kumar Kushiyait, *The Financing of Education in Nepal* (Bangkok: UNESCO Office Bangkok and Regional Bureau for Education in Asia and the Pacific, 2022), 2, https://unesdoc.unesco.org/ark:/48223/pf0000386433.
[11] Kushiyait, *Financing of Education in Nepal*, 3.
[12] Kushiyait, *Financing of Education in Nepal*, 5.
[13] UNESCO Global Education Monitoring Report, "Education Finance," accessed April 20, 2026, https://www.unesco.org/gem-report/en/education-finance.
[14] OECD, "Use and Allocation of Public Funds for Education," OECD.org, accessed April 21, 2026, https://www.oecd.org/en/topics/use-and-allocation-of-public-funds-for-education.html; OECD, "Review Education Policies."
[15] Global Education Monitoring Report Team, "Finance," Education Progress, accessed April 21, 2026, https://www.education-progress.org/en/articles/finance.

Unlike ODA, which depend on the priorities and fiscal cycles of donor governments, remittances respond to household need. When COVID-19 disrupted global migration in 2020, remittances fell by 1.6 percent, a far smaller decline than the 4.8 percent recorded during the 2009 global financial crisis and than the 30 percent fall in foreign direct investment over the same period.[16] In Nepal specifically, remittances recovered quickly and continued growing through the post-pandemic period, reaching USD 11.25 billion by 2024.[17] Hence, the boundary between public and private financing of education has shifted markedly over the study period as remittances have grown and aid has contracted, households with access to migration income have increasingly financed their children's schooling privately, while the public system has become more dependent on a source of external financing that is now in structural decline. Resulting from this environment, concerns about who should bear the costs of financing education have become increasingly urgent.[18] As aid declines while remittances continue, growing concern surrounds the children who rely on the schools that foreign assistance once helped establish.

The global development debate offers competing frameworks for thinking about this. Some regard foreign aid as an indispensable instrument for closing the financing gap in poor countries' public services,[19] while others argue it undermines institutional development, creates dependency, and fails to generate sustained improvements in welfare.[20] Separately, research has established that remittances (private, decentralized, and going directly to households) can increase school enrollment and years of schooling in developing countries.[21] Yet these two bodies of literature rarely engage with each other directly. Studies of aid effectiveness tend to

[16] World Bank, "Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis," press release, May 12, 2021, https://www.worldbank.org/en/news/press-release/2021/05/12/defying-predictions-remittance-flows-remain-strong-during-covid-19-crisis.
[17] World Bank, "Personal Remittances, Received (Current US$) – Nepal," DataBank, accessed May 24, 2026, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=NP.
[18] OECD, "Review Education Policies," OECD Education GPS, accessed April 21, 2026, https://gpseducation.oecd.org/revieweducationpolicies/#!node=41707&filter=all.
[19] Jeffrey D. Sachs, "The Case for Aid," January 21, 2014, https://www.jeffsachs.org/newspaper-articles/6xkmz5ftcdx926xwgggywhn2rh35h9.
[20] Raghuram G. Rajan and Arvind Subramanian, "What Undermines Aid's Impact on Growth?" (IMF Working Paper WP/05/126, International Monetary Fund, June 2005), 22, https://www.imf.org/external/pubs/ft/wp/2005/wp05126.pdf.
[21] Rajan and Subramanian, "What Undermines Aid's Impact on Growth?," 22; Erkan Duman, "The Impacts of International Remittances on Child Labor and Household Welfare" (working paper, March 21, 2022; last revised July 5, 2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4076493; Andres Cuadros-Menaca and Arya Gaduh, "Remittances, Child Labor, and Schooling: Evidence from Colombia" (working paper, May 2018).

overlook the presence of large remittance flows, and household-level remittance studies rarely focus on the institutional environment shaped by foreign aid. Nepal, where both flows have been substantial and concurrent for more than two decades, offers an opportunity to examine each within the same education context and to compare the conditions they produce.

1.2 Research Question and Methodology

Remittances have arrived through private household networks. On the other hand, ODA has been utilized through government and donor institutions. Understanding the relative influence of remittances and foreign aid on educational outcomes requires looking beyond the aggregate numbers. Nepal's enrollment gains are real, but they have not been matched by improvements in learning quality. This thesis investigates the following question: *how do remittance inflows and foreign aid shape educational outcomes in Nepal, and what mechanisms explain their differing influence on household educational choices and national educational development?*

Three sub-questions structure the analysis. First, *how do households in different socioeconomic and caste groups experience the educational impacts of remittance income and foreign aid?* Second, *through what mechanisms (income relief, household agency, governance capacity, conditionality, and aspiration) do remittances and foreign aid respectively translate into educational outcomes in Nepal?* Third, *what are the equity implications of remittances and foreign aid for educational access and quality in Nepal?*

To answer these questions, this thesis draws on existing household survey evidence from the Nepal Living Standards Survey, independent evaluations of Nepal's School Sector Reform Plan and School Sector Development Plan, aid disbursement data, Nepal Rastra Bank remittance records, and data from the World Bank's development indicators. It analyses quantitative and qualitative literature on remittances and education in Nepal and applies a comparative framework across the mechanisms listed above. Where existing studies examine each flow separately, this thesis examines what happens when both are considered together, tracing how the combination of private household investment and public donor financing has shaped the education landscape over time. The result is a comparative examination that asks not only which flow is larger, but how each flow works, through what institutions or channels it reaches children, and for whom its effects are strongest.

1.3 Time Frame Rationale and Scope

The research studies the period from 2000 to 2024, comprising three phases that reflect Nepal's political and economic trajectory, each of which changed the conditions under which both remittances and foreign aid operated. The first sub-period, 2001 to 2006, covers the intensification and eventual resolution of the Maoist armed conflict. The insurgency disrupted schooling in rural districts. Children were central to the insurgency, as they were used as combatants, spies, and messengers. Hence, schools became central to the conflict.[22] Between this period, remittances as a share of GDP increased from 2.4 percent in 2001 to 16.1 percent in 2006.[23]

During the period from 2006 to 2015 remittances peaked at 27.6 percent of GDP.[24] The Comprehensive Peace Agreement of 2006 guaranteed the right to education and safe learning environments, and ended the use of schools for military purposes.[25] In 2007, the Foreign Employment Act introduced proper regulation of migration, aiming to improve safety by mandating clear contracts and transparency while preventing fraud and illegal recruitment.[26] Combined with ongoing political instability and limited domestic opportunities, more open foreign employment policies contributed to a surge in outmigration, particularly to the Gulf countries.[27] Additionally, the Government of Nepal introduced the School Sector Reform Plan (SSRP), a long-term strategy (2009/10–2015/16) outlining key educational goals, interventions, and required resources.[28] The scale of the plan, costing an estimated US$4.04 billion with a

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[22] Sara Parker, Kay Standing, and Bala Raju Nikku, "Caught in the Cross Fire: Children's Right to Education during Conflict – the Case of Nepal," Children & Society 27, no. 5 (2012): 1, https://doi.org/10.1111/j.1099-0860.2011.00412.x.

[23] World Bank, "Personal Remittances, Received (% of GDP) – Nepal."

[24] World Bank, "Personal Remittances, Received (% of GDP) – Nepal."

[25] Nepal Government and Communist Party of Nepal (Maoist), "Comprehensive Peace Accord," November 22, 2006, https://peacemaker.un.org/sites/default/files/document/files/2024/05/np061122comprehensive20peace20agreement20between20the20government20and20the20cpn2028maoist29.pdf.

[26] Government of Nepal, "Foreign Employment Act, 2064 (2007)," September 5, 2007, https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40asia/%40ro-bangkok/%40sro-new_delhi/documents/genericdocument/wcms_300684.pdf. .

[27] Arjun Kharel, Sanjit Shrestha, and Chhatra Limbu, Status of Remittances in Nepal (Kathmandu: Centre for the Study of Labour and Mobility/Social Science Baha, 2025), 12, https://www.ceslam.org/publication/status-of-remittances-in-nepal.

[28] Government of Nepal, Ministry of Education, *School Sector Reform Plan, 2009–2015* (Kathmandu: Ministry of Education, Govt. of Nepal, 2009), 9, https://stepsinnepal.wordpress.com/wp-content/uploads/2011/01/ssrp-2009-2015.pdf.

significant funding gap partly addressed through donor contributions, illustrates the central role of foreign aid in supporting Nepal's education reforms during this period.[29]

Two major disruptions and one structural shift occurred between 2015 and 2024. The 7.6 magnitude 2015 Gorkha earthquake and its 300 aftershocks caused the widespread destruction of schools, hospitals, land, and roads, and net ODA received reached US$1.22 billion in response, a drastic increase from previous years.[30] During the same period, Nepal also underwent a restructuring of its education governance through the implementation of federalism, where local governments were assigned exclusive responsibility for the implementation and oversight of basic and secondary education, reshaping service provision. From 2018 onwards, they took on key functions such as monitoring and managing schools, overseeing infrastructure, and handling teacher deployment, while the central government retained responsibility for national education policy, standards, and higher education.[31] Finally, the COVID-19 pandemic disrupted schooling for an estimated 8 million students. School closures exposed and deepened existing inequalities, as remote learning remained largely accessible only to wealthier, urban students, while those in rural and low-income communities were left further behind.[32]

Together, the three sub-periods show that the relationship between remittances, foreign aid, and educational outcomes is not static. It has been shaped by conflict, policy reform, natural disaster, and institutional restructuring. Examining the 2000–2024 period allows the research to trace not just the current state of Nepal's educational stratification but the process through which it was produced.

1.4 Structure of the Thesis

The research proceeds in five chapters. Chapter 2 is descriptive, and its purpose is to establish the empirical ground for analysis. It examines each flow and sets out the data on the

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[29] Government of Nepal, Ministry of Education, *School Sector Reform Plan*, 11.

[30] Government of Nepal, National Planning Commission, *Nepal Earthquake 2015: Post Disaster Needs Assessment*, vol. A, *Key Findings* (Kathmandu: National Planning Commission, 2015), xi, https://www.worldbank.org/content/dam/Worldbank/document/SAR/nepal/PDNA%20Volume%20A%20Final.pdf; World Bank, "Net Official Development Assistance and Official Aid Received (current US$) – Nepal," World Bank Data, accessed April 20, 2026, https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?end=2023&locations=NP&start=2000.

[31] Shwetlena Sabarwal et al., "Do Education Systems Trust Decentralization? Evidence from Survey Experiments in Nepal," RISE Programme, June 2021, 4, https://riseprogramme.org/sites/default/files/inline-files/Sabarwal_Do_Education_Systems_Trust_Decentralization_Evidence_Survey_Experiments_Nepal.pdf.

[32] Som Nath Ghimire, "Fighting Nepal's Educational Equity Crisis during the Covid-19 Pandemic," Online Khabar, June 20, 2021, https://english.onlinekhabar.com/fighting-nepal-educational-equity-crisis-during-the-covid-19-pandemic.html.

educational outcomes Nepal has produced across the 2000–2024 period. The evidence in this chapter provides the structural backdrop against which the comparative analysis is later conducted. Chapter 3 is the literature review, where the theoretical and empirical scholarship on how each flow translates into educational outcomes is presented. From this, the chapter derives the analytical framework used in the chapter that follows. Chapter 4 is the core of the thesis, as it presents a comparative analysis and returns to central research question. The thesis concludes with Chapter 5 by restating the puzzle and the approach, identifying the contribution of the comparison, and considering the broader implications of the analysis.

1.5 Limitations

The most fundamental limitation is methodological. This thesis is a comparative analysis built on existing evidence such as household survey data from the Nepal Living Standards Survey, independent evaluations of Nepal's sector-wide education programmes, aid disbursement records, Nepal Rastra Bank remittance data, and the World Bank's development indicators, and secondary quantitative and qualitative literature on remittances and aid in education. Rather than generating new quantitative data or primary fieldwork evidence, it draws on these sources to examine and compare the educational effects of remittances and foreign aid in Nepal. The five-mechanism framework developed in Chapter 3 is a tool for structured comparison rather than measurement. It identifies the channels through which each flow affects education and allows an assessment of which flow is better suited to constraints, but it does not quantify their magnitude. This research acknowledges that remittances and foreign aid did not operate in isolation during the study period. Their effects unfolded alongside armed conflict, the 2015 earthquake, the COVID-19 pandemic, the transition to federal governance, and broader economic and demographic changes. Educational outcomes were shaped by the interaction of these factors, and this thesis does not seek to isolate or measure the independent contribution of remittances and foreign aid from this wider context. Instead, it examines the mechanisms through which the two flows plausibly influenced educational outcomes, while recognizing that these influences were embedded within a complex and changing social, political, and economic environment.

These limitations qualify the thesis's findings without undermining its central purpose. The aim is not to quantify the relative contribution of remittances and foreign aid to educational outcomes, which the available evidence does not allow, but to provide a structured, mechanism-based comparison of how the two flows operate, whom they reach, and how they have shaped Nepal's education system.

Chapter 2: Nepal in Context – Remittances, Foreign Aid, and Education

Remittances arrive privately, moving directly from migrant workers to their families, with no conditions attached and no institution standing between the sender and the recipient. In contrast, foreign aid arrives publicly, shaped by programme objectives and the capacity of the institutions that receive it. Both flows are associated in different ways with improvements in how Nepali children access and experience education. Yet, the educational outcomes that have emerged across the 2000–2024 period are uneven in ways that aggregate enrollment figures do not capture. This chapter examines the two flows to describe what remittances have meant for household income and educational spending, what foreign aid has built and where it stands, and what the data on educational outcomes show. Understanding what each flow has produced individually is necessary before comparing them and examining the kind of education system they have shaped.

2.1 Remittances: Scale, Household Impact, and Unequal Distribution

Nepal's economy is highly dependent on remittances, and this dependence is directly relevant to understanding educational investment. Remittances are not a passive income supplement for many households but the primary mechanism through which consumption, education, healthcare, and poverty reduction take place.[33] Their scale and trajectory therefore matter not just as macroeconomic indicators, but as the structural backdrop to the household-level educational decisions that this thesis examines.

Inflows were modest in the early 1990s, sitting at around USD 50 million in 1993, and grew slowly through that decade before increasing sharply in the mid-2000s as Nepali workers began migrating beyond India to higher-income destinations in the Gulf, East Asia, and beyond.[34] By 2008, remittances had reached USD 2.7 billion; by 2024, they stood at

[33] Raymond Gaspar and Sudyumna Dahal, *Beyond Borders: How Remittances Are Reshaping Asia-Pacific Economies* (New York: UNDP, January 2025), 10, https://www.undp.org/asia-pacific/publications/beyond-borders-how-remittances-are-reshaping-asia-pacific-economies.
[34] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 8.

approximately USD 11.25 billion, representing average annual growth of roughly nine percent since 2008.[35] Figure 1 shows a substantial increase in personal remittances received as a percentage of GDP in Nepal, highlighting the growing importance of remittance inflows to the national economy. Figure 2 reinforces this trend by demonstrating strong growth in remittances measured in current US$ terms, providing further evidence of the significant expansion of remittance inflows over time.[36] India accounted for 91.8 percent of remitters in 1996, and by 2023, that share had fallen to 40.4 percent, with Australia, Japan, South Korea, the United States, and Guld states each contributing substantially.[37] This destination shift has driven up average remittance amounts per sender and has redistributed flows away from the smallest transfers toward larger ones, increasing the capacity of remittance-receiving households to invest in education.[38]

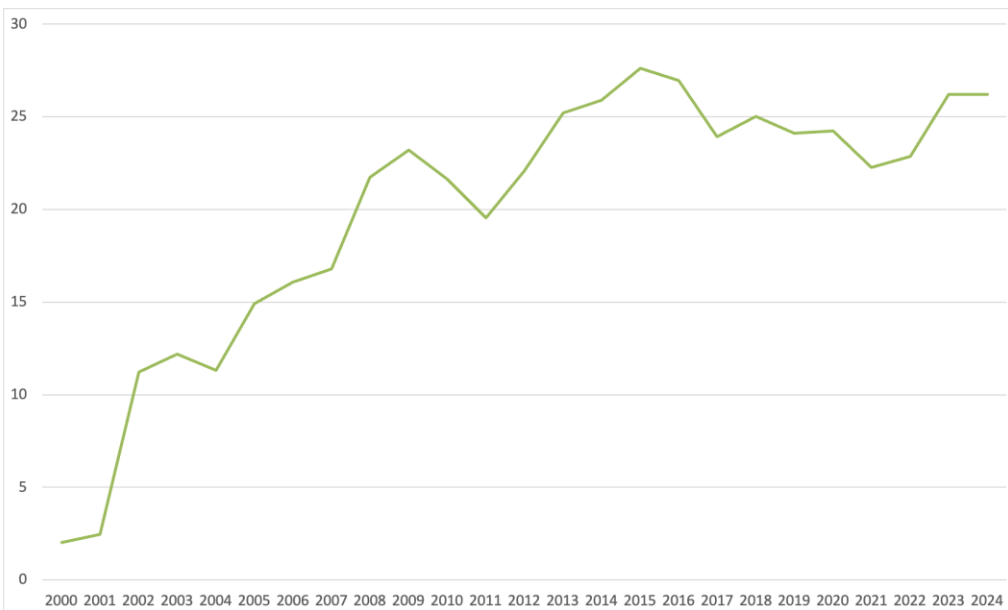

Figure 1: Personal Remittances (% of GDP). Own interpretation based on World Development Indicators.

[35] World Bank, "Personal Remittances, Received (Current US$) – Nepal."
[36] World Bank, "Personal Remittances, Received (% of GDP) – Nepal."
[37] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 28.
[38] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 11.

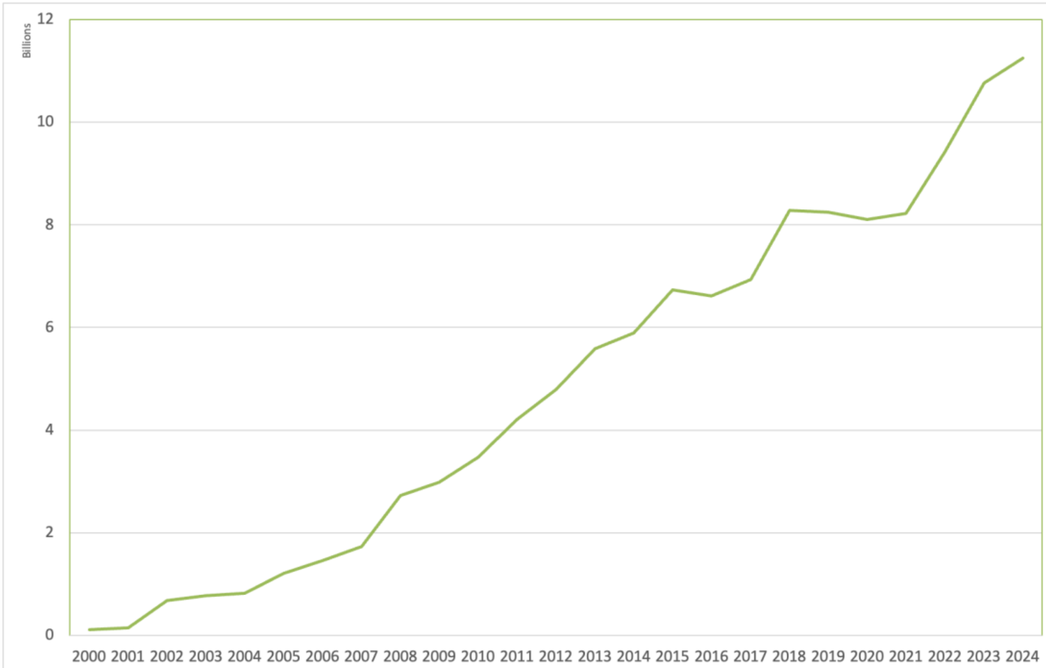

Figure 2: Personal Remittances (current US$). Own interpretation based on World Development Indicators.

Similarly, measured in Nepali rupees, the increase is even more pronounced. Between 2014 and 2024, remittances rose fourteen-fold in dollar terms but twenty-four-fold in local currency, as rupee depreciation amplified the domestic purchasing power of every dollar sent home.[39] This exchange-rate effect matters for education as it has made school fees, denominated in local currency, progressively more affordable for households receiving foreign currency remittances.

Remittances are also the repayment leg of a long-term household investment. Families invest in migration costs, and migrants later remit once abroad, effectively converting educational investment into transnational income.[40] This is directly applicable to Nepal's education sector, where remittances have been consistently associated with higher household spending on both food and education.[41] Likewise, recent evidence from rural Nepal finds that households receiving remittances do not reduce consumption in response to adverse shocks,

[39] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 8.
[40] Khushbu Mishra, Olga Kondratjeva, and Gerald E. Shively, "Do Remittances Reshape Household Expenditures? Evidence from Nepal," World Development 157 (September 2022): 7, https://doi.org/10.1016/j.worlddev.2022.105926.
[41] Bhubanesh Pant, "Remittance Inflows to Nepal: Economic Impact and Policy Options," NRB Economic Review 18 (2006): 24, https://doi.org/10.3126/nrber.v18i1.53046.

including natural disasters.[42] Remittances are therefore not simply a source of income, but a reflection of household aspirations and investment priorities.

Beyond impacts on the household-level, remittances are Nepal's single largest source of convertible foreign exchange, surpassing foreign aid, tourism, and export earnings since the mid-2000s. By the early 2020s, they accounted for roughly two-thirds of total foreign exchange inflows, providing critical balance-of-payments support and enabling the central bank to manage currency pressures under Nepal's pegged exchange rate with the Indian rupee.[43] This macroeconomic significance became especially apparent during the COVID-19 pandemic and the inflation spike that followed the Russia-Ukraine war, when tourism collapsed and other income sources fell while remittances continued to rise, financing a large share of Nepal's import bill and stabilizing the external accounts.[44] The macroeconomic scale of remittances matters because it shows that remittances have become a structural feature of the Nepali household economy, not a temporary or marginal supplement.

These aggregate figures, however, do not show the structural inequality that runs through Nepal's remittance economy. Patterns vary substantially by migrant destination, and destination is itself shaped by prior inequality. Migrants from Koshi, Gandaki, and Bagmati provinces are more likely to reach higher-income destinations in East Asia, North America, and Oceania, while households in Karnali, Sudurpaschim, Madhesh, and Lumbini remain heavily concentrated in migration to India, where earnings are comparatively low.[45] The consequence is that remittance amounts vary sharply by province, where households in Gandaki, Koshi, and Bagmati receive roughly double the transfers of those in Sudurpaschim, Karnali, and Madhesh. Lumbini and Bagmati together account for more than two-fifths of total remittance inflows nationally, while the country's two poorest provinces, Sudurpaschim and Karnali, receive only marginal shares.[46] What is perceived in the aggregate as a broadly distributed national resource is, in practice, concentrated among households already better positioned to leverage migration for upward mobility.

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[42] Resham Thapa-Parajuli, Tilak Kshetri, and Sanjit Singh Thapa, "The Role of Remittances in Household Spending in Rural Nepal," Economies 13, no. 6 (June 6, 2025): 12, https://doi.org/10.3390/economies13060163.
[43] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 16, 19.
[44] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 19.
[45] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal,* 39.
[46] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal,* 37.

2.2 Foreign Aid to Education: Composition, Decline, and Limits

Foreign aid is the second of the two flows at the center of this research. Its relationship to Nepal's education system has followed a different trajectory from remittances, one shaped not by household aspiration but by donor priorities, implementation capacity, and the structural gap between what aid can deliver and what educational quality requires. This section describes how that financing has evolved over the study period, what it has built, and where the evidence points to persistent gaps between what aid-funded programmes have achieved and what Nepal's education system continues to need.

Total foreign aid commitments to Nepal reached approximately USD 2.5 billion in 2023/24, of which roughly USD 1.58 billion (63 percent) was disbursed, highlighting persistent challenges in implementation. Infrastructure absorbs the largest share of total commitments, reflecting Nepal's continued dependence on external financing for basic capital formation. The composition has shifted sharply toward debt, where loans now account for 86.85 percent of total aid, with grants comprising only 13.15 percent, a change that has implications for fiscal sustainability and for the conditionality structures through which aid influences domestic policy.[47] Figure 3 represents this shift from grants to loans in Nepal's ODA architecture between 2009 to 2023.[48]

[47] Nepal Economic Forum, "Foreign Aid and FDI in Nepal: A Brief Overview," accessed April 27, 2026, https://nepaleconomicforum.org/foreign-aid-and-fdi-in-nepal-a-brief-overview/.
[48] Nepal Rastra Bank, "Foreign Aid," Excel file, accessed April 15, 2026, https://share.google/jASSUkASUNxvIiZZO.

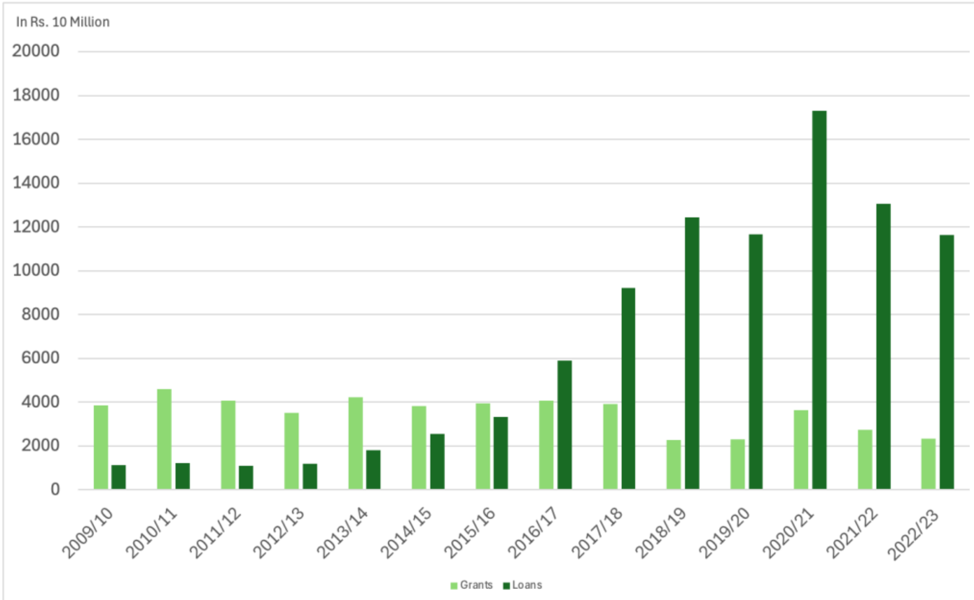

Figure 3: Foreign Aid by Type. Own interpretation of Nepal Rastra Bank data.

As demonstrated by Figures 4 and 5 below, aid to Nepal's education sector has contracted substantially over the past decade. Grants, which once constituted a significant share of external education financing, declined sharply after the mid-2010s and have remained at low levels since. Loans to the sector peaked in the late 2010s resulting from post-earthquake reconstruction support and the start of the School Sector Development Plan (SSDP), before also [49]. The combined effect is an overall contraction in external financial inflows to education[50]Government expenditure on education peaked at around 25.5 percent of total expenditure in 2006 before declining to approximately 11.3 percent by 2024, and multiple assessments have concluded that current funding falls short of what universal free education would require. The decline in ODA has not been compensated for by increased domestic public spending, leaving Nepal's public education system in a more constrained financing position than it was a decade ago.

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[49] Nepal Rastra Bank, "Foreign Aid."; Asian Development Bank, "Nepal Earthquake Rehabilitation Builds Back Better Infrastructure," ADB Results, 2022, https://www.adb.org/results/nepal-earthquake-rehabilitation-builds-back-better-infrastructure.

[50] World Bank, "Government Expenditure on Education, Total (% of Government Expenditure) – Nepal," World Bank Data, accessed April 20, 2025, https://data.worldbank.org/indicator/SE.XPD.TOTL.GB.ZS?end=2024&locations=NP&start=2000; UNESCO, "Financing Education in Nepal: A Path Toward Equity and Resilience," December 9, 2025, https://www.unesco.org/en/articles/financing-education-nepal-path-toward-equity-and-resilience.

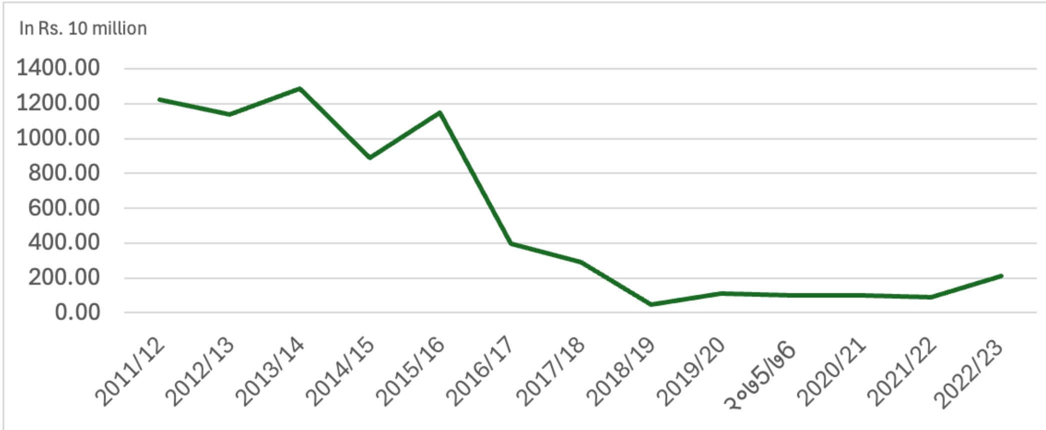

Figure 4: External Grants to the Education Sector. Own interpretation of Nepal Rastra Bank data.

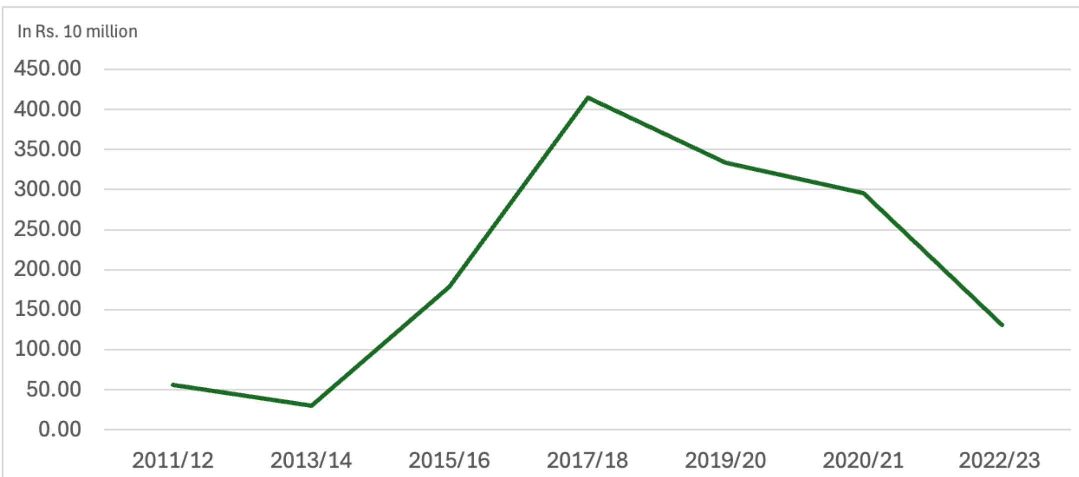

Figure 5: External Loans to the Education Sector. Own interpretation of Nepal Rastra Bank data.

Major aid-funded programs, including the Basic and Primary Education Program (BPEP II) and the School Sector Development Plan (SSDP), succeeded in dramatically expanding enrollment and in supporting equity-oriented interventions such as girls' scholarships, minority-language curricula, and mentorship programs for marginalized communities.[51] The SSDP, introduced by the Ministry of Education in 2016 following the expiration of the School Sector Reform Plan (SSRP), was designed to continue and consolidate ongoing reforms while addressing emerging priorities, including education under Nepal's new federal structure and the reconstruction of schools damaged by the 2015 earthquake.[52] Although the SSDP largely

[51] Peter Frøslev Christensen et al., *Evaluation of the EU's Cooperation with Nepal (2014–2021): Final Report* (Luxembourg: Publications Office of the European Union, 2024), 54–55, https://data.europa.eu/doi/10.2841/08725.
[52] Tirtha Khaniya, "Old Plan, New Plan," The Kathmandu Post, November 20, 2016, https://kathmandupost.com/opinion/2016/11/20/old-plan-new-plan

retained the objectives and programs of the SSRP, it emphasized improving educational quality, restructuring school education, and ensuring equitable access for disadvantaged groups.[53]

Targeted initiatives such as the USDA-supported school feeding programs and capacity-building in technical and vocational education helped address economic barriers to attendance and improved retention.[54] Localized programs such as the Quality Education Program in Solukhumbu demonstrated that combining infrastructure investment with teacher training and community engagement could improve motivation and the learning environment at the school level.[55]

Yet these gains have not translated into substantial improvements in learning quality at the national level. Despite rising enrollment, evidence suggests that educational quality has stagnated or declined in key subjects with persistent weaknesses in teacher accountability and student motivation.[56] This supports broader findings in the aid effectiveness literature that suggest measuring progress through enrollment alone is insufficient, because the children hardest to reach remain excluded, and expanding access to a school is not the same as ensuring that school delivers an education worth attending.[57] International evidence on aid's educational impact highlights why this structural dynamic is difficult to reverse. Aid is effective at delivery tangible inputs, such as classrooms, teachers, textbooks, and infrastructure. However, the determinants of learning quality are less tangible as they are dependent on teacher motivation, curriculum coherence, community engagement, and institutional [58]￼ This pattern is visible in Nepal's experience. The gap between what aid achieves (enrollment expansion) and what the

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[53] "After SSRP, Govt Mulls Plan to Ensure Quality Education," My Republica, accessed June 4, 2026, https://myrepublica.nagariknetwork.com/news/after-ssrp-govt-mulls-plan-to-ensure-quality-education.

[54] World Food Programme, *Endline Evaluation of USDA McGovern-Dole International Food for Education and Child Nutrition Programme in Nepal 2020–2024* (Rome: World Food Programme, 2025), 21, https://www.wfp.org/publications/nepal-endline-evaluation-usda-mcgovern-dole-international-food-education-and-child.

[55] IOD PARC, *Evaluation of the Quality Education Programme in Solukhumbu,* Nepal (November 9, 2024), 3, https://www.mfat.govt.nz/assets/Aid-Prog-docs/Evaluations/2024/QEPS-Evaluation-Report.pdf.

[56] Christensen et al., *Evaluation of the EU's Cooperation with Nepal*, 54–55.

[57] Bisna Acharya et al., "Analysis of Foreign Aid Effectiveness for School Education Improvement and Economic Growth of Nepal," *Nepal Journal of Multidisciplinary Research* 7, no. 4 (December 2024): 31, https://doi.org/10.3126/njmr.v7i4.71672.

[58] Abby Riddell and Miguel Niño-Zarazúa, "The Effectiveness of Foreign Aid to Education: What Can Be Learned?," *International Journal of Educational Development,* 48 (May 2016): 23, https://doi.org/10.1016/j.ijedudev.2015.11.013.

country needs (human capital development adequate to productive futures)[59] is a key part of the context for this research.

2.3 Educational Outcomes: Gains in Access, Stagnation in Quality

Nepal's education system has undergone significant structural change over the past two decades, and the data on enrollment and attainment present a success story. The share of adults aged 25 and over with at least primary education rose from 31 percent in 2001 to 46 percent in 2021, and[60] School enrollment rates improved substantially across[61] These are real gains that should be acknowledged before examining what they do not capture.

Of Nepal's more than 35,000 schools, 77 percent are public or religious, and 23 percent are private.[62] Governance is decentralized across federal, provincial, and local governments, with local authorities primarily responsible for school-level management and supported through fiscal equalization grants and conditional transfers from the Ministry of Education and Science and Technology (MoEST).[63] Budget planning follows a nominally bottom-up approach, but in practice the system has faced persistent coordination challenges, with donor financing (accounting for up to 14 percent of education expenditure in some years) subject to variable disbursement and shifting priorities.[64]

One of the most noteworthy trends in data is the rapid growth of private school participation. Private primary enrollment rose from 6.6 percent in 2001 to 24 percent in 2020, showing almost a threefold increase in two decades.[65] Almost half of all households choosing private schools never consider public options, highlighting a level of abandonment of the public

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[59] Karki and Pappas, "Investigating Aid Effectiveness," 343; Riddell and Niño-Zarazúa, "Effectiveness of Foreign Aid to Education," 31.

[60] World Bank, "Educational Attainment, at Least Completed Primary, Population 25+ Years, Total (%) (Cumulative) – Nepal," World Bank Data, accessed May 24, 2026, https://data.worldbank.org/indicator/SE.PRM.CUAT.ZS?locations=NP&start=2000; World Bank, "Educational Attainment, at Least Completed Lower Secondary, Population 25+ Years, Total (%) (Cumulative) – Nepal," World Bank Data, accessed May 24, 2026, https://data.worldbank.org/indicator/SE.SEC.CUAT.LO.ZS?locations=NP.

[61] World Bank, "School Enrollment, Primary (% net) – Nepal"; World Bank, "School Enrollment, Secondary (% gross) – Nepal," World Bank Data, accessed May 24, 2026, https://data.worldbank.org/indicator/SE.SEC.ENRR?locations=NP.

[62] Edusanjal, "School & Higher Education System in Nepal," March 2, 2020, https://edusanjal.com/blog/education-levels-nepal/.

[63] Kushiyait, *Financing of Education in Nepal*, 3.

[64] Kushiyait, *Financing of Education in Nepal*, 3 & 6.

[65] World Bank, "School Enrollment, Primary, Private (% of Total Primary) – Nepal," World Bank Data, accessed May 24, 2026, https://data.worldbank.org/indicator/SE.PRM.PRIV.ZS?locations=NP.

education system that is unusual among countries with similar GDP per capita.[66] Since 2015, Nepal has closed or consolidated approximately 1,900 public schools in response to declining enrollment. More than 57 percent of the remaining public schools now operate with fewer than 100 students, indicating substantial underutilization of educational infrastructure. Over the same period, the country established more than 2,000 private schools, reflecting a growing demand for private education. Consequently, the private sector's share of student enrollment has risen to over 30 percent nationwide, with high concentrations in the Kathmandu Valley and other rapidly urbanizing areas.[67]

Rural areas consistently lag in educational quality due to inadequate infrastructure, teacher shortages, and insufficient learning materials, conditions that qualified teachers have themselves sought to escape by migrating toward urban centers.[68] Marginalized communities, including Dalits and indigenous populations, face compounding barriers such as poverty, discriminatory treatment, and schools whose under-resourcing tracks their social exclusion rather than offsetting it.[69] Gender gaps in enrollment have narrowed, but socio-cultural barriers, such as early marriage, child labor, and household expectations, continue to constrain girls' participation, and scholarship programs and awareness campaigns, while helpful, have not yet secured sustained retention.[70] Geographic fragmentation, with over 120 languages and mountainous terrain creating logistical barriers to qualified teacher deployment, further compounds the equity problem.[71] Political instability has further emphasized all these challenges. Frequent government changes have disrupted long-term policy goals and investment plans, and income inequality has forced many children (especially those in rural areas) to leave school to support their families.[72]

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[66] Edusanjal, "CEHRD Report: Nepal's Private Schools Expand While Community School Enrollment Drops," May 27, 2026, https://edusanjal.com/news/cehrd-report-nepals-private-schools-expand-while-community-school-enrollment-drops/.
[67] Binod Ghimire, "Exemplary Public Schools," The Kathmandu Post, January 1, 2025, https://kathmandupost.com/national/2025/01/01/exemplary-public-schools.
[68] Shunsuke Sato, "Educational Inequality in Rural South Asia: Barriers to Quality Education in Bangladesh, Bhutan, and Nepal" (preprint, October 29, 2024), 1, https://d197for5662m48.cloudfront.net/documents/publicationstatus/229670/preprint_pdf/e5d6b5cb6564dea9a959b0e6232b0fd7.pdf.
[69] Suruchi Lal, "Nepal's National Education Policy: Challenges, Progress and Future Directions," *Political Science Journal* 3, no. 1 (April 2025): 100, https://doi.org/10.3126/psj.v3i1.77458.
[70] Lal, "Nepal's National Education Policy," 100.
[71] Lal, "Nepal's National Education Policy," 103.
[72] Lal, "Nepal's National Education Policy," 102.

Reaching universal enrollment is more difficult as the country approaches full coverage, because the remaining out-of-school population, children in remote areas, in marginalized communities, and in households where the opportunity cost of schooling remains prohibitively high, are the hardest to reach.[73] This is precisely the group for whom the stakes of quality education are the highest. Whether the presence of remittances and foreign aid in Nepal's economy has improved their situation, left it unchanged, or made it structurally worse by concentrating quality improvements in the private track while public school quality stagnates, is the core equity concern that the following analysis addresses.

Chapter 3: Literature Review on How Remittances and Foreign Aid Shape Educational Outcomes

This chapter reviews the theoretical and empirical literature on how remittances and foreign aid each translate into educational outcomes. It establishes the analytical foundation for the comparative analysis that follows in Chapter 4. The two flows are not simply different quantities of money since they reach different people, travel through different channels, and create different incentives for households, schools, and governments. The literature has examined each flow extensively, but rarely in the same study and almost never with specific attention to how their simultaneous presence shapes the overall education landscape.

3.1 Remittances and Educational Investment

While the literature on remittances and education is informed by multiple theoretical approaches, this study focuses on two complementary frameworks that are especially relevant to the research question. Human capital theory, associated with Becker and Schultz, establishes that households make forward-looking investments in children's education when expected future returns exceed current costs.[74] In low-income settings, this logic is frequently blocked by liquidity constraints. Households that would willingly invest in schooling at prevailing rates of return cannot do so because the upfront costs exceed available financial resources. Hence, any

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[73] A Riddell and Niño-Zarazúa, "Effectiveness of Foreign Aid to Education," 23; Bisna Acharya et al., " Acharya et al., "Analysis of Foreign Aid Effectiveness," 31.

[74] Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education* (New York: Columbia University Press for NBER, 1964), 2, https://www.nber.org/books-and-chapters/human-capital-theoretical-and-empirical-analysis-special-reference-education-first-edition/introduction-human-capital-theoretical-and-empirical-analysis-special-reference-education-first.

income transfer that relieves this constraint should, in theory, increase educational investment.[75] In line with economic theories, the New Economics of Labor Migration (NELM) treats the family rather than the individual as the central decision-making unit and views remittances as the repayment stretch of a collective household investment strategy.[76] Under this framework, families invest in migration costs and migrants remit once established abroad. This converts migration into a source of household income for longer-term investment in human and physical capital. As established in Chapter 2, these theories hold true in the Nepalese context.

Another important evidence for the remittance-education link comes from natural experiment studies that isolate the causal effect of remittance income from selection effects. Yang, using exchange rate shocks in the Philippines as an exogenous source of variation in remittance values, finds that households receiving larger positive income shocks enrolled children at higher rates, reduced child labor, and increased educational expenditure.[77] Edwards and Ureta find similar effects in El Salvador, where remittance income significantly reduces school dropout rates, with the largest effects among households in the lowest income quintile.[78] Furthermore, research done by Calero, Bedi, and Sparrow corroborate these findings, as they highlight that in Ecuador, remittances increase enrollment and reduce child labor, with stronger effects at secondary school age when direct costs are highest.[79] These findings are important for this research because they establish that remittances ease household liquidity constraints across a range of country contexts, creating more space for educational investment.

Another consistent finding across the remittances–education literature is that remittance-receiving households actively decide where to allocate their income, rather than merely increasing existing household expenditures. Mansuri, studying Pakistan, finds that migration positively affects educational outcomes where children from migrant households are more likely

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[75] Hanan G. Jacoby and Emmanuel Skoufias, "Risk, Financial Markets, and Human Capital in a Developing Country," *Review of Economic Studies* 64, no. 3 (1997): 311–35, https://doi.org/10.2307/2971716.
[76] Oded Stark and David E. Bloom, "The New Economics of Labor Migration," *The American Economic Review* 75, no. 2 (1985): 173–78, http://www.jstor.org/stable/1805591.
[77] Dean Yang, "International Migration, Remittances and Household Investment: Evidence from Philippine Migrants' Exchange Rate Shocks," *The Economic Journal* 118, no. 528 (2008): 591, https://doi.org/10.1111/j.1468-0297.2008.02134.x.
[78] Alejandra Cox Edwards and Manuelita Ureta, "International Migration, Remittances, and Schooling: Evidence from El Salvador" (NBER Working Paper No. 9766, National Bureau of Economic Research, June 2003), 2, https://www.nber.org/system/files/working_papers/w9766/w9766.pdf.
[79] Carla Calero, Arjun S. Bedi, and Robert A. Sparrow, "Remittances, Liquidity Constraints and Human Capital Investments in Ecuador" (IZA Discussion Paper No. 3358, Institute of Labor Economics, February 2008), 18, https://docs.iza.org/dp3358.pdf.

to attend and remain in school, attain more years of education, and are less likely to engage in child labor or work long hours than those from non-migrant households.[80] The literature has also begun to document cases in which remittance income is directed toward private schooling rather than simply toward increased enrollment in public systems. This pattern is most visible in contexts where public school quality is perceived as inadequate, and private alternatives are accessible.[81] The implication is that the educational effect of remittances may depend not only on how much income households receive but on the range of educational choices available to them in their local context.

The literature does not show a unanimously positive picture of remittances and education. Haas argues that while emigration can lead to the loss of skilled workers, the prospect of migrating may also encourage greater educational investment among those who remain. However, in migration systems dominated by low-skilled migration, incentives for education investment may weaken, limiting potential benefits[82] Pfeiffer and Taylor find supporting evidence in Mexico, where international migration was associated with lower educational investment, as migration into predominantly low-skilled jobs in the United States may signal to households that the returns to formal schooling are limited[83] Hence, the direction of the migration and aspiration appears to depend on the type of migration dominant in a community and on whether the labor market destinations available require educational credentials.

In terms of equity, Lokshin, Bontch-Osmolovski, and Glinskaya, studying Nepal, find that migration is not equally accessible across the household income distribution. poorer

[80] Ghazala Mansuri, "Migration, School Attainment and Child Labor: Evidence from Rural Pakistan" (Policy Research Working Paper No. 3945, World Bank, June 2006), 22, https://documents1.worldbank.org/curated/en/105331468285045459/pdf/wps3945.pdf.

[81] Chad Bansak, Brian Chezum, and Anubha Giri, "Remittances, School Quality, and Household Education Expenditures in Nepal," *IZA Journal of Development and Migration* 4, no. 1 (2015): 1, https://izajodm.springeropen.com/articles/10.1186/s40176-015-0041-z; Bisna Acharya et al., "Remittance-Driven Educational Choices: Trends in Nepal's Private School Enrollment," *Interdisciplinary Journal of Management and Social Sciences* 6, no. 1 (January 2025): 60, https://doi.org/10.3126/ijmss.v6i1.75382.

[82] David J. McKenzie, "Beyond Remittances: The Effects of Migration on Mexican Households," in *International Migration, Remittances, and the Brain Drain*, ed. Çağlar Özden and Maurice Schiff (Washington, DC: World Bank; Palgrave Macmillan, 2006); Hein de Haas, "Migration and Development: A Theoretical Perspective" (COMCAD Working Paper No. 29, Center on Migration, Citizenship and Development, Bielefeld University, 2007), 59, https://heindehaas.org/wp-content/uploads/2015/05/de-haas-2007-comcad-wp-migration-and-development-theory.pdf.

[83] L Lisa Pfeiffer and J. Edward Taylor, "Gender and the Impacts of International Migration: Evidence from Rural Mexico," in *The International Migration of Women*, ed. Andrew R. Morrison, Maurice Schiff, and Mirja Sjöblom (New York: Palgrave Macmillan and the World Bank, 2007), 101, https://documents1.worldbank.org/curated/en/099042723135539629/pdf/P17456909414590250907f0334d02fd1be1.pdf. .

households are more likely to access lower-return migration destinations and to generate smaller remittance surpluses available for educational investment.[84] Adhikari and Hobley find that very poor households are less able to use migration as a strategy for improving their wellbeing because low initial education, weaker skills, and less effective social networks mean they are more likely to secure lower-paying, higher-risk jobs, and they are less able to send as many migrants overseas to increase remittance flows.[85] Similarly, Kharel, Shrestha, and Limbu find that migration destination choices reflect prior wealth, with poorer households concentrated in low-income destinations such as India while middle-income households access the Gulf and Malaysia, and the highest-return destinations remaining accessible mainly to wealthier households.[86] The implication is that the educational gains from remittances are likely distributed unevenly, with non-poor households benefiting more than the poorest. This distributional question is one of the central equity concerns the literature raises, and one that Chapter 4 examines in the Nepal context.

3.2 Foreign Aid and Educational Outcomes

The scholarly debate on foreign aid effectiveness provides an important basis for assessing aid's educational impact. Sachs argues that aid is indispensable for breaking the poverty trap that prevents low-income countries from self-financing public service development. He states that ODA primarily finances public investment through government budgets. When sustained at sufficient levels, it can increase capital accumulation, help households escape poverty, and support self-sustaining growth through higher savings and tax-funded public investment.[87] Burnside and Dollar argue that while this may be true, effectiveness depends on sound fiscal, monetary, and trade policies.[88]

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[84] Michael Lokshin, Mikhail Bontch-Osmolovski, and Elena Glinskaya, "Work-Related Migration and Poverty Reduction in Nepal," *Review of Development Economics,* 14, no. 2 (2010): 18, https://documents1.worldbank.org/curated/en/287551468053374058/pdf/wps4231.pdf.

[85] Jagannath Adhikari and Mary Hobley*, Everyone Is Leaving — Who Will Sow Our Fields?* The Effects of Migration from Khotang District to the Gulf and Malaysia (Kathmandu: Swiss Agency for Development and Cooperation / Helvetas, 2011), 6, https://digitalcommons.macalester.edu/himalaya/vol35/iss1/7/.

[86] Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 39.

[87] Jeffrey D. Sachs, "Making the Investments Needed to End Poverty," in *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin Press, 2005), 246, https://www.economia.unam.mx/cedrus/pdf/jeffrey_sachs_the_end_of_poverty_economic_possibilities_for_our_time__2006.pdf.

[88] Craig Burnside and David Dollar, "Aid, Policies, and Growth: Revisiting the Evidence" (Policy Research Working Paper No. 3251, World Bank, March 2004), 19, https://documents1.worldbank.org/curated/en/992381468780325835/pdf/wps3251Aid.pdf.

In contrast, Easterly challenges these positions by documenting repeated failures of large-scale aid programmes to generate sustained improvements in welfare and arguing that aid creates dependency rather than development. He argues that large aid inflows do not automatically generate development or sustained growth. Despite trillions of dollars in aid over several decades, he states that aid has often failed to produce lasting improvements because of weak accountability, poor incentives, and limited feedback mechanisms within aid systems. Rather than breaking poverty traps through large-scale investment, he suggests that aid effectiveness depends on targeted interventions, independent evaluation, and institutional accountability.[89] This debate on ODA has relevance for education, where the question is not just whether aid reaches intended recipients but whether it builds the institutional conditions for sustained improvement after donor withdrawal.

The literature on education aid distinguishes between what aid has achieved in expanding access and what it has failed to achieve in improving quality. Riddell and Niño-Zarazúa find that aid is most effective at delivering tangible inputs such as school construction, teacher recruitment, textbook provision, and WASH facilities. These supply-side interventions reliably increase enrollment when physical access is the binding constraint.[90] The evidence from WASH investment and girls' enrollment is particularly consistent, shown by how the provision of sanitation facilities in schools is associated with significant increases in girls' attendance across multiple country studies.[91] Demand-side mechanisms such as conditional cash transfers, scholarships, meal programmes, are also documented as effective for raising enrollment among economically constrained households.[92]

[89] William Easterly, "Why Doesn't Aid Work?," Cato Unbound, April 2, 2006, https://www.cato-unbound.org/2006/04/02/william-easterly/why-doesnt-aid-work/.
[90] Riddell and Niño-Zarazúa, "Effectiveness of Foreign Aid to Education," 23.
[91] Bronwen Magrath and Ignacio Torrano, "Prospective Evaluation: Nepal" (Global Partnership for Education, 2020), 132, https://assets.globalpartnership.org/s3fs-public/document/file/2020-04-country-level-prospective-evaluation-nepal-year-2.pdf?VersionId=y.756acwqv_U2zda7reM.ahWnLCKpflW.
[92] Independent Evaluation Group, World Bank, *Nepal: Education for All* (IDA-39560 IDA-H3400), Project Performance Assessment Report (Washington, DC: World Bank, December 22, 2015), 13, https://documents1.worldbank.org/curated/en/258151468196129867/pdf/101692-PPAR-P074633-P150605-IDA-SecM2016-0010-OUO-9.pdf; Mamta Pradhan, "Social Assistance Program for Education in Nepal" (MC Research Brief No. 30, Migration for Development and Equality (MIDEQ) Hub, University College London, February 2020), 2, https://discovery.ucl.ac.uk/id/eprint/10169437/1/Pradhan(2020)MCResearchBrief30_English.pdf; World Food Programme, "WFP Receives US$33 Million from USDA for School Meals in Nepal," September 23, 2024, https://www.wfp.org/news/wfp-receives-us33-million-usda-school-meals-nepal.

An important limitation shown by research is the gap between access gains and learning quality. Distributing tangible resources like textbooks is relatively easy, but addressing motivation, teaching quality, and effective learning is far more difficult.[93] Glewwe and Muralidharan, by analyzing various developing country studies, find that governments and international development organizations have heavily prioritized education because it is expected to foster both economic growth and more inclusive development. While these efforts have led to significant increases in school enrollment and completion rates, often exceeding those achieved by today's high-income countries at similar income levels, the evidence suggests that additional years of schooling do not always translate into the expected gains in human capital.[94]

Additionally, Hanushek and Wößmann argue that educational quality, reflected in what students actually learn, has a strong influence on individual earnings, income distribution, and economic growth. They find that learning outcomes in developing countries are often far weaker than enrollment and attainment figures suggest, and that simply increasing school resources is unlikely to improve results without a greater focus on raising the quality of education.[95]

However, quality is more difficult to achieve than access. Andrews, Pritchett, and Woolcock s argue that many public-sector organizations in developing countries engage in isomorphic mimicry, adopting the appearance of internationally recognized best practices and reforms without improving their actual functionality or performance. As a result, organizations, leaders, and front-line workers often prioritize compliance with formal processes over achieving meaningful outcomes, leading to persistent capability traps and limited improvements in public-sector effectiveness.[96] Moss, Pettersson, and van de Walle suggest that heavy dependence on foreign aid may reduce governments' incentives to strengthen domestic revenue collection, since aid can provide resources that would otherwise need to be raised through taxation. They argue

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93 Riddell and Niño-Zarazúa, "Effectiveness of Foreign Aid to Education," 24.
94 Paul Glewwe and Karthik Muralidharan, "Improving School Education Outcomes in Developing Countries: Evidence, Knowledge Gaps, and Policy Implications" (RISE Working Paper Series No. 15/001, Research on Improving Systems of Education, October 2015), 85, https://riseprogramme.org/sites/default/files/2020-11/RISE_WP-001_GlewweMuralidharan.pdf.
95 Eric A. Hanushek and Ludger Wößmann, *Education Quality and Economic Growth* (Washington, DC: World Bank, 2007), 1, https://hanushek.stanford.edu/sites/default/files/publications/Hanushek%2BWoessmann%202007%20Education%20Quality%20and%20Economic%20Growth.pdf.
96 Matt Andrews, Lant Pritchett, and Michael Woolcock, *Building State Capability: Evidence, Analysis, Action* (Oxford: Oxford University Press, 2017), 40, https://library.oapen.org/bitstream/id/bb540dab-9bbb-45ea-8ef1-4843b24dd432/624551.pdf.

that this dependence can weaken governmental accountability, as political leaders may focus more on satisfying donor requirements than on securing support from citizens and legislatures through effective tax systems.[97] These concerns are particularly relevant to Nepal, where, as discussed above, donor financing has played a significant role in the education sector, raising questions about the extent to which reforms have improved educational quality and institutional capacity, rather than simply increasing access and adherence to externally prescribed reform agendas.

3.3 The Financing of Education: Public Provision, Private Provision, and the Determinants of Quality

The two flows examined in this thesis do not act on educational outcomes directly. They act through the institutions and markets that provide schooling. Remittances, as private income received by households, influence the demand side of the education market. When public education is perceived as low quality, households may use remittances to access private schools rather than increase participation in public education. In this way, remittances function as a private resource that enables alternatives to the public system rather than directly supporting it.[98] In contrast, foreign aid operates on the supply side of the education system by financing schools, teachers, learning materials, and scholarships. Its effectiveness depends on the ability of public institutions to translate funding into educational outcomes. As an external source of finance for public education, aid supports the public sector, while remittances increasingly fund private educational opportunities. Understanding the implications of this public–private divide for educational quality is therefore essential when comparing the effects of these two financial flows.

A central distinction in the economics of education is between the quantity of schooling (enrolment, attainment, years completed) and its quality, understood as what students actually learn.[99] Hanushek and Woessmann argue that it is cognitive skills, rather than years of schooling as such, that drive individual earnings and national economic growth, and that enrolment and

[97] Todd Moss, Gunilla Pettersson, and Nicolas van de Walle, "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa" (Working Paper No. 74, Center for Global Development, January 2006), 14–15, https://www.cgdev.org/sites/default/files/5646_file_WP_74.pdf.
[98] Bansak, Chezum, and Giri, "Remittances, School Quality, and Household Education Expenditures in Nepal," 1; Acharya et al., "Remittance-Driven Educational Choices," 60.
[99] Eric A. Hanushek, "Why Quality Matters in Education," *Finance & Development* 42, no. 2 (June 2005), https://www.imf.org/external/pubs/ft/fandd/2005/06/hanushek.htm.

attainment figures routinely overstate the human capital a system is producing.[100] This distinction matters because it shows how expanding access is not equivalent to improving education, and a system can show substantial gains in the former while stagnating in the latter.

The question regarding who should finance and provide education, the state, the market, or a combination, is a prominent debate in education policy. Peterson argues that markets improve education by making schools responsive to parental preferences, since schools that must attract students (like private schools) have incentives to provide what families want, such as smaller schools and smaller class sizes, whereas publicly funded schools are less responsive because they do not depend directly on parental choice or satisfaction.[101] Additionally, Shakeel et al. argue that private schooling is on average slightly but positively associated with better civic outcomes, such as political tolerance, civic knowledge, participation, and voluntaries, compared to public schooling.[102] Similarly, Hanushek argues that private schools may achieve better educational outcomes and greater efficiency than public schools because competition and parental choice create stronger incentives for schools to perform well.[103] In this view, competition among schools for students raises quality more reliably than centralized public provision, because it ties a school's survival to its performance as judged by those it serves.

Similarly, Ashley et al. state that private schools in developing countries are associated with improved learning outcomes compared with state schools, with potential links to stronger teacher presence, more structured instructional activity, and teaching approaches that support more effective learning. Parental preference is strongly driven by perceptions of higher quality, including better teaching, greater discipline, smaller class sizes, and improved academic progression and future opportunities, with these perceptions largely shaped through informal community networks. However, they note that regulatory oversight is often limited or inconsistently applied, and while private schooling can offer efficiency advantages at the system

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[100] Hanushek and Wößmann, *Education Quality and Economic Growth*, 1.
[101] Paul E. Peterson, "The Theory and Practice of School Choice" (paper presented at the Federal Reserve Bank of Dallas Conference on "The Economics of For-Profit Education," Dallas, TX, 2003), 39, https://www.dallasfed.org/-/media/Documents/research/pubs/ftc/peterson.pdf.
[102] M. Danish Shakeel et al., "The Public Purposes of Private Education: A Civic Outcomes Meta-Analysis," *Educational Psychology Review* 39, no. 2 (2024): 40, https://doi.org/10.1007/s10648-024-09874-1.
[103] Eric A. Hanushek, "Publicly Provided Education," in *Handbook of Public Economics*, vol. 4, ed. A. J. Auerbach and M. Feldstein (Amsterdam: Elsevier Science, 2002), 2107–14, https://hanushek.stanford.edu/sites/default/files/publications/Hanushek%202002%20HbPubE%204.pdf.

level, it typically involves higher direct costs for households due to fees and associated schooling expenses.[104]

In contrast, against this market-efficiency argument stands a body of theory emphasizing education as a public good. Nazukova argues that strong public investment in education is essential for improving educational quality and human capital development, as it provides the resources needed to create effective learning environments and reduce financial barriers to access.[105] Similarly, the Right to Education Initiative argues that public education is closely connected to the social, cultural, and economic realities of a society, serving both as a reflection of its context and a driver of social change, highlighting that achieving high-quality education requires sustained public investment, with many successful education systems meeting international benchmarks for education funding.[106] Sibanda finds that adequate funding is a key driver of educational equity and that strategies such as free and compulsory education, support for disadvantaged learners, improved teaching quality, equitable resource allocation, and inclusive learning environments are essential for ensuring fair access to quality education.[107] Additionally, the Global Campaign for Education found that even low-fee private schools are often unaffordable for poor families, can exclude disadvantaged groups such as girls and children with disabilities, and do little to expand access for those who are already out of school, whereas publicly funded fee-free education has been shown to significantly increase enrolment and promote more equitable access to learning.[108]

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[104] Laura Day Ashley et al., *The Role and Impact of Private Schools in Developing Countries* (London: Department for International Development, April 2014), 12, https://assets.publishing.service.gov.uk/media/57a0898aed915d3cfd000321/Private_schools_literature_review.pdf.
[105] Nataliia Nazukova, "Public Funding of Education as a Factor of Economic Growth," *Economy and Forecasting,* no. 2 (2020): 86, https://hdl.handle.net/11159/6949.
[106] Global Initiative for Economic, Social and Cultural Rights, Oxfam, Right to Education Initiative, and VAHA, "Public Education Works: Lessons from Five Case Studies in Low- and Middle-Income Countries," research brief, September 2021, 10, 12, https://www.right-to-education.org/sites/right-to-education.org/files/resource-attachments/PEHRC_Research%20Brief_Public%20education%20works_Sept21_EN.pdf.

[107] Lwazi Sibanda, "Strategies for Achieving Equity-Based Education: Towards an Equitable Education System," in *Social Justice and Culturally-Affirming Education* in K-12 Settings, ed. Jonathan Chitiyo and Zachary Pietrantoni (Hershey, PA: IGI Global, 2023), 150, https://doi.org/10.4018/978-1-6684-6386-4.ch007.

[108] Global Campaign for Education, *Private Profit, Public Loss: Why the Push for Low-Fee Private Schools Is Throwing Quality Education off Track* (Johannesburg: Global Campaign for Education, 2016), 6–7, https://www.right-to-education.org/sites/right-to-education.org/files/resource-attachments/GCE_Private_Profit_Public_Loss_2016_En.pdf.

In a low-income country context, Musah et al. find that increased public education funding in sub-Saharan Africa improves educational quality by reducing pupil–teacher ratios across primary, secondary, and tertiary education. Their findings highlight the importance of sustained public provision and government investment in education as key drivers of improved learning conditions and educational outcomes across the region.[109] Similarly, Boissiere argues that public investment in primary education is justified not only by its social and equity benefits but also by evidence that literacy and numeracy improve individual productivity, earnings, and economic growth. She also states that credit constraints, poverty reduction goals, and the broader societal benefits of universal education provide a strong rationale for sustained public funding of education.[110]

3.4 An Analytical Framework: Five Mechanisms for Comparison

The three sections above reveal recurring tensions in the literature on remittances and foreign aid. Rather than describing separate financial flows, they highlight important differences in how each flow operates, who controls resources, the institutions involved, and who benefits. The five mechanisms used in the comparative analysis in Chapter 4 are derived from these differences. Each mechanism represents a dimension along which the literature consistently distinguishes the two flows and is linked to one or more of the thesis's research sub-questions. The first mechanism is income and budget constraint relief. This comes from the theoretical frameworks reviewed in section 3.1. Both Becker and Schultz's human capital theory and the New Economics of Labour Migration show that household liquidity is a fundamental barrier to educational investment in low-income settings. The studies reviewed in the same section, by Yang in the Philippines, Edwards and Ureta in El Salvador, and Calero, Bedi, and Sparrow in Ecuador, all confirm that income transfers relieve this constraint and increase educational expenditure. The aid literature in section 3.2 shows that foreign aid attempts to address the same constraint, but through the indirect route of reducing the cost of public schooling rather than

109 Abubakar Musah, Godfred Aawaar, and Godwin Musah, "Effect of Public Education Financing on Educational Quality in Sub-Saharan Africa: An Autoregressive Distributed Lag Approach," *Cogent Education* 11, no. 1 (2024): 1, https://doi.org/10.1080/2331186X.2023.2295166.
110 Maurice Boissiere, "Rationale for Public Investments in Primary Education in Developing Countries" (Background Paper for the Evaluation of the World Bank's Support to Primary Education, Operations Evaluation Department, World Bank, 2004), 18–19, https://ieg.worldbankgroup.org/sites/default/files/Data/reports/education_public_investments_wp.pdf.

augmenting household income directly. Because both flows operate through this mechanism but in different ways, it provides a basis for comparison.

The second mechanism is household agency. The literature on remittances consistently shows that households actively determine how resources are allocated, including investments in education and the choice between public and private schooling. Foreign aid, by contrast, is distributed through government planning processes rather than household decision-making. This contrast in who controls resource allocation is one of the clearest structural differences between the two flows and therefore warrants separate consideration as a mechanism.

In contrast to household agency, the third mechanism is conditionality. While the remittances literature emphasises the freedom of households to allocate resources according to their own priorities, the foreign aid literature highlights efforts to shape household behaviour through formal conditions attached to educational support. Section 3.2 showed that demand-side aid programmes, particularly conditional cash transfers and scholarship schemes, seek to increase school enrolment and attendance by linking benefits to specific educational outcomes. Evidence suggests that these programmes can be effective, but their success depends on the institutional capacity to monitor and enforce compliance. Remittances, by contrast, carry no formal conditions and rely instead on household discretion. This difference between externally imposed incentives and voluntary household decision-making represents a distinct dimension of divergence between the two flows and therefore constitutes a separate mechanism.

The fourth mechanism is governance and absorption capacity. As discussed in Section 3.2, the aid literature argues that large and sustained external financial flows can weaken institutional effectiveness through problems such as isomorphic mimicry and aid dependency. These dynamics may reduce accountability and limit the impact of educational investments. Remittances, by contrast, largely bypass state institutions and are therefore less exposed to such governance constraints. Governance and absorption capacity therefore represent a distinct point of divergence between the two flows and warrant separate consideration as a mechanism.

The fifth mechanism is equity and access. As discussed in Sections 3.1 and 3.3, access to both migration and private education is unevenly distributed. The remittances literature shows that poorer and lower-caste households are less likely to participate in migration and therefore less likely to benefit from remittance income. Similarly, while private schooling is often associated with better educational outcomes, its costs can exclude the poorest households. Foreign aid, by contrast, is typically intended to reach disadvantaged groups through publicly funded provision. These differences in who benefits from each flow make equity and access a distinct mechanism for comparative analysis.

Together, these five mechanisms provide a framework derived from the literature reviewed in this chapter. While not exhaustive, they represent the most consistent and significant points of divergence between remittances and foreign aid. Chapter 4 applies this framework to the Nepalese case, drawing on the evidence presented in Chapters 2 and 3 to assess the educational effects of each flow individually and in combination.

Chapter 4: Comparative Analysis – Remittances and Foreign Aid in Nepal

In 2023, Nepal received USD 10.76 billion in remittances.[111] In the same year, ODA totaled approximately USD 1.17 billion.[112] Remittances were roughly nine times larger than foreign aid. Yet, the question this thesis asks is not which flow is larger, but which has done more for the educational outcomes of Nepali children, and through what mechanisms. The preceding chapters have established the context and the analytical framework. Chapter 2 described the scale, distribution, and trajectory of each flow, alongside the educational outcomes Nepal has produced across the 2000–2024 period. Chapter 3 reviewed the theoretical literature on how each flow translates into educational outcomes and introduced five mechanisms for comparison. This chapter applies that framework to Nepal's evidence directly, working through each mechanism in turn and building toward a comparative assessment of what the two flows have and have not delivered.

4.1 Budget Constraints and Income Relief

The first mechanism is the most straightforward which looks at the extent to which each flow increases the resources available for educational investment, whether at the household level through income or at the system level through public provision. Established earlier, both flows can operate through this mechanism but through structurally different channels.

[111] World Bank, "Personal Remittances, Received (Current US$) – Nepal."
[112] World Bank, "Net Official Development Assistance and Official Aid Received (current US$) – Nepal."

The costs of schooling in Nepal are not limited to formal fees. The Rukmini Foundation documents that public schools routinely charge additional fees under headings such as school repair, extracurricular activities, examination fees, uniforms, and textbooks. Beyond financial costs, the opportunity cost of children's time in agricultural work, domestic labor, and care responsibilities, represents a real and binding constraint for many low-income households.[113] Therefore, relieving the budget constraint requires either income transfers that compensate for the opportunity cost of schooling, or a reduction in the direct costs of school attendance.

Remittances are disbursed to families, directly augmenting household income. Adhikari and Hobley's fieldwork in Khotang district shows that a household receiving NRS 10,000 to 12,000 per month could allocate income to education immediately once the initial migration loan was repaid, a process typically taking one to two years.[114] At the national level, Mishra, Kondratjeva, and Shively find that increases in remittance income are associated with an additional 8 percent spent on education, with the effect holding across multiple waves of NLSS data.[115] This income relief is immediate and flexible as it responds to the specific cost a given household faces rather than addressing a generalized access barrier. At the global level, the evidence confirms this pattern. Remittance flows are consistently associated with increased household expenditure on essential categories including education, in ways that go beyond consumption smoothing.[116]

In contrast, foreign aid operates differently. As discussed in the preceding chapters, ODA has played a role in building schools, paying teachers, subsidizing materials, and providing scholarships, reducing the costs associated with access. Where the binding constraint was physical access (no school within reach), supply-side investment in infrastructure has been effective, as the primary enrollment gains of the SSRP era demonstrate. Similarly, when the constraint was financial limitations, demand side mechanisms such as scholarships are beneficial. But as Chapter 2 documented, the quality of the schooling accessed through these supply-side investments has not improved substantially. National assessments show that grades

[113] Nabin Aryal, "Not So Free Education: The High Costs of Free Education in Government Schools of Nepal," Rukmini Foundation, January 6, 2012, https://www.rukminifoundation.org/2012/01/06/not-so-free-education/.
[114] Adhikari and Hobley, "Everyone Is Leaving," 67.
[115] Mishra, Kondratjeva, and Shively, "Do Remittances Reshape Household Expenditures?," 2.
[116] United Nations Capital Development Fund, Nepal Country Assessment: *Report on Inclusive Innovation Strategies in Migrant Remittances and Financial Services* (New York: UNCDF, February 2023), 14, https://migrantmoney.uncdf.org/wp-content/uploads/2023/02/Nepal-Country-Assessments.pdf.

3, 5, and 8 revealed consistently low learning outcomes across reading, mathematics, and science, with fewer than 20 percent of students demonstrating capabilities in problem-solving, reasoning, and other higher-order skills.[117] While the budget constraint has been partially relieved through ODA, the investment has not produced the learning outcomes it was designed to generate.

The comparison along this first mechanism points to a clear structural difference. Remittances relax the budget constraint directly, flexibly, and at the household level, responding in real time to what individual families need. Aid relaxes it indirectly, through public provision designed around aggregate programme targets rather than individual household constraints. At the current margin where physical access has been largely achieved but quality remains the binding problem, the income mechanism of remittances is better matched to what Nepali households need than the supply-side instruments through which aid has primarily operated.

4.2 Household Agency Versus Conditionality

The second and third mechanisms concern who controls how resources are spent on education. This is the dimension on which the structural difference between the two flows is most fundamental, and it has direct implications for the quality of educational investment each flow produces.

Remittances are unconditional private transfers. Households decide how to spend them, based on their own knowledge of local school quality, their children's needs, and their long-term household strategy. Adhikari and Hobley document that one of the primary stated reasons for migration among the households they studied was to provide better education for their children.[118] Similarly, Acharya and Leon-Gomez found that in poor households remittances increase school enrollment, but non-poor households tend to use the additional income to invest in quality education (private schools).[119] They also note that remittance-receiving households increase educational investment through two simultaneous channels. First, the relaxation of liquidity constraints and second, the use of information gained through the migration experience

[117] World Bank, "Nepal School Sector Development Program (SSDP) Program-for-Results," Implementation Completion and Results Report No. ICR00006032 (Washington, DC: World Bank, March 14, 2023), 2, https://documents1.worldbank.org/curated/en/099033023181034515/pdf/BOSIB04a1a3d2f02409415085713f1db822.pdf.
[118] Adhikari and Hobley, "Everyone Is Leaving," 8.
[119] Chakra P. Acharya and Roberto Leon-Gonzalez, "How Do Migration and Remittances Affect Human Capital Investment? The Effects of Relaxing Information and Liquidity Constraints," *Journal of Development Studies* 50, no. 3 (2014): 447, https://doi.org/10.1080/00220388.2013.866224.

about the returns to education.[120] These findings suggest that remittance-receiving households are active decision-makers rather than passive recipients as they adjust their educational spending base on their own assessment of what will produce the best outcome for their children.

On the other hand, foreign aid is dependent on conditionality rather than household agencies. ODA is allocated on a macro-level based on donor priorities such as infrastructure development, enrollment metrics, and equity concerns, and schools are built in locations determined by government planning processes rather than by household demand mapping.[121] Teachers are posted according to seniority and administrative allocation rather than school-level needs or community preferences.[122] The household receiving aid-funded educational services has no meaningful agency over what those services look like or whether they meet its children's needs. Aid attempts to compensate for the absence of household agency through conditionality by attaching behavioral requirements such as school attendance to scholarship transfers. But as the GPE evaluation of Nepal's SSRP documents, conditionality enforcement has been weak due to the absence of functioning monitoring systems and the communication gap between local and federal government structures.[123]

The implications of this difference extend beyond individual households. When remittance-receiving families direct income toward private schools that have better outcomes, they create a fee-based accountability relationship between themselves and the school. They are paying customers who can withdraw their children if quality falls. This form of market accountability while imperfect, is more direct than the accountability relationship between aid donors, government ministries, and the schools that ultimately receive aid-funded resources. The weakness of the latter is documented across successive evaluations of Nepal's sector-wide programmes as discussed above.

4.3 Governance and Absorption Capacity

The fourth mechanism concerns the institutions that stand between a financial flow and the educational outcome it is intended to produce. Where the first two mechanisms turned on the

[120] Acharya and Leon-Gonzalez, "How Do Migration and Remittances Affect Human Capital Investment?," 458.
[121] Arun Bhandari, "Building an Educational Mapping System in Nepal" (Daayitwa Nepal Public Service Fellowship, Summer 2014), 4, https://www.daayitwa.org/storage/archives/1582519628.pdf.
[122] Democracy Resource Center Nepal, "Contemporary Debates on Teachers and Party Politics in Nepal," Political Situation Update No. 18 (Kathmandu: Democracy Resource Center Nepal, September 2024), 1, https://www.democracyresource.org/wp-content/uploads/2024/09/DRCN-PSU-13-Contemporary-Debates-on-Teachers-and-Party-Politics-in-Nepal_English-Version-September-2024-1.pdf.
[123] Magrath and Torrano, "Prospective Evaluation: Nepal," 28.

resources available and on who controls their allocation, this one turns on capacity. Namely, the ability of the institutions receiving funds to convert them into functioning schools, deployed teachers, and improved learning.

The evidence that absorption capacity constrains aid in Nepal is direct. Of the approximately USD 2.5 billion in total aid commitments in 2023/24, only around USD 1.58 billion (roughly 63 percent) was disbursed. This gap highlights difficulties in moving committed funds through the implementing system.[124] The implication is that the headline figures for aid to education overstate the resources that reach schools, because a portion of what is committed is never absorbed.

The restructuring of education governance under federalism increased this challenge. From 2018, local governments assumed responsibility for basic and secondary education, taking on the monitoring and management of schools, infrastructure, and teacher deployment, while the center retained policy and standards.[125] Although decentralization aimed to improve local education provision, it distributed responsibilities across local governments with differing capacities, creating coordination and monitoring challenges. In Nepal, weakened communication between local and federal authorities hindered programme implementation and efforts to improve teacher competencies despite continued education reforms.[126]

These findings reflect a broader pattern identified in the aid-effectiveness literature, where public institutions in low-capacity states often adopt formal reform structures to meet external expectations without developing the capacity needed to achieve meaningful outcomes, resulting in limited implementation and persistent capability constraints.[127] Aid is less likely to support sustainable development when institutions lack the accountability and feedback processes needed to ensure effective implementation.[128]

On the other hand, since remittances go directly from migrants to households, they do not depend on state institutions or administrative capacity. Unlike aid, they are not affected by weak monitoring, staffing shortages, or coordination problems, which helps explain why aid can struggle to improve outcomes as its success depends on the state's ability to effectively use the

[124] Chaulagain, "Foreign Aid and FDI in Nepal."
[125] Sabarwal et al., "Do Education Systems Trust Decentralization?," 4.
[126] Magrath and Torrano, "Prospective Evaluation: Nepal," 28.
[127] Andrews, Pritchett, and Woolcock, *Building State Capability*, 40.
[128] Easterly, "Why Doesn't Aid Work?"

resources provided. This does not mean remittances are better, as they cannot strengthen public institutions or reach households without migrant connections. However, it shows that remittances and aid operate under different conditions, so comparing them by funding levels alone overlooks the institutional challenges that affect how aid is used in Nepal.

4.4 The Two-Track Education System

The preceding mechanisms, income relief, household agency, conditionality, and governance, show how remittances and foreign aid reach households differently. This section turns to what those differences have produced at a systemic level. A central finding of this research is the growing privatization of education and the resulting division between public and private schools, which operate under different financing models and produce differing educational outcomes. The expansion of private schooling is not merely a background trend but a central feature of Nepal's educational landscape and directly relevant to this research question. Over time, the public and private sectors have developed parallel trajectories, characterized by different sources of financing, student populations, and educational outcomes. Understanding how this divergence emerged, and who occupies each track, is the foundation for the equity analysis that follows.

For-profit private schooling is a relatively recent development in Nepal. While private and community involvement in education has a long history, the modern model of fee-charging, company-registered private schools expanded significantly during the 1990s. This growth coincided with the country's shift toward neoliberal economic policies, which encouraged greater private-sector participation in education.[129] Between 2005 and 2015, the share of students enrolled in private schools increased from 6 percent to 15.3 percent at the primary level, from 7.6 percent to 16.2 percent at the lower secondary level, and from 9.7 percent to 19.3 percent at the secondary level. At the higher secondary level, private enrolment reached 29 percent.[130] As established in Chapter 2, private primary enrolment continued to increase to 24 percent by 2020 and the private sector’s overall share of national enrollment now exceeds 30 percent.[131] The growth of private education has been accompanied by a consolidation of the public school

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[129] Pramod Bhatta and Tejendra Pherali, *Nepal: Patterns of Privatisation in Education. A Case Study of Low-Fee Private Schools and Private Chain Schools* (Brussels: Education International, September 2017), 9, 21, https://www.ei-ie.org/en/item/25710:nepal-patterns-of-privatisation-in-education.
[130] Bhatta and Pherali, *Patterns of Privatisation in Education*, 9, 27.
[131] World Bank, "School Enrollment, Primary, Private (% of Total Primary) – Nepal"; Ghimire, "Exemplary Public Schools."

system. In response to falling enrolment, around 1,900 public schools have been closed or merged since 2015, while the number of private schools has increased by more than 2,000.[132]

Rather than representing separate trends, these changes reflect a broader shift in student enrolment from public to private schools. The two tracks are not just separate but unequal in measured performance. Private schools have consistently achieved higher levels of student performance than public schools in both annual board examinations and national assessments conducted at grades 3, 5, and 8.[133] Although the enrolment gains achieved during the SSRP era, financed largely through foreign aid, expanded access to public education, they did not produce corresponding improvements in quality, resulting in an education system in which access to higher-performing schools increasingly depends on attendance at private institutions.

The composition of each track follows directly from this. Participation in private schooling is sharply stratified by income and geography. Data from the Nepal Living Standards Survey indicate a substantial disparity in private school attendance across income groups. Among students from the wealthiest income quintile, 60.1 percent were enrolled in private educational institutions, whereas only 6.4 percent of those from the poorest quintile attended private schools or colleges. The urban–rural divide is also reflected in patterns of private school attendance. While 56.1 percent of students based in urban areas were enrolled in private institutions, the number for rural students was just 19.6 percent. Private education is concentrated in the country's more accessible and economically developed regions, particularly the Kathmandu Valley, the Tarai, and the Western Hills. This concentration is especially pronounced in Kathmandu district, where roughly 78 percent of schools are private and around 70 percent of students attend them, whereas the Mountain region accounts for only about 3 percent of total private school enrolment[134] Therefore, the private track should not be understood as a neutral alternative available to all families, but rather as one that is disproportionately concentrated among wealthier, urban, and more advantaged households.

The consequence is what Bhatta terms the ‘pauperisation’ of public schools.[135] As more advantaged households shift toward private schooling, public schools are increasingly reconstituted as residual institutions that disproportionately serve students who are unable to exit

[132] Ghimire, "Exemplary Public Schools."
[133] Bhatta and Pherali, *Patterns of Privatisation in Education,* 28.
[134] Bhatta and Pherali, *Patterns of Privatisation in Education*, 28.
[135] Bhatta and Pherali, *Patterns of Privatisation in Education*, 28.

the system, especially those from poorer, rural, and marginalized communities.[136] Chapter 2 noted that almost half of all households choosing private schools never consider public options at all, a level of disengagement from the public system that is unusual among countries with comparable income levels.[137] Rather than merely producing different average outcomes, the two tracks function as a stratifying mechanism that sorts students by socio-economic background and amplifies these inequalities through unequal school quality, with private schools effectively reproducing social inequality through fee-based access within a system intended to provide free and universal public education.[138]

The mechanisms outlined in Sections 4.1 and 4.2 correspond closely to the two educational tracks, suggesting a structured rather than incidental relationship. Foreign aid, channelled through public provision and aggregate programme targets, has primarily financed the public track by supporting school construction, teacher salaries, and scholarship schemes that expanded access without resolving underlying quality constraints. In contrast, remittances function as flexible household income shaped by family decision-making. The literature reviewed in Section 4.2 indicates that remittance-receiving households do not merely increase enrolment, but increasingly allocate educational expenditure toward the private sector, which is perceived to offer higher-quality outcomes. Acharya and Leon-Gomez find that while poorer households use remittances to raise enrolment, non-poor households tend to use the additional income to invest in quality education through private schooling.[139] The exchange-rate dynamics described in Chapter 2 reinforce this pattern. As the rupee depreciated, school fees denominated in local currency became increasingly affordable for households receiving foreign-currency remittances, thereby lowering the financial threshold for entry into the private education track.[140]

The implication is that the two-track system is not solely an educational arrangement but also a financial one, shaped by the uneven reach of two major funding flows. The public track, reliant on a shrinking and increasingly loan-based aid stream, expands access while its quality remains largely unchanged. The private track, accessed by households with disposable income partly generated through remittances, offers higher measured outcomes and English-medium

[136] Bhatta and Pherali, *Patterns of Privatisation in Education,* 4, 30, 47.
[137] Edusanjal, "CEHRD Report."
[138] Bhatta and Pherali, *Patterns of Privatisation in Education*, 9, 47.
[139] Acharya and Leon-Gonzalez, "Migration and Remittances," 447.
[140] Kharel, Shrestha, and Limbu, Status of Remittances in Nepal, 8.

instruction that families associate with better opportunities. In this sense, the division between the two tracks closely reflects differences between households with access to migration income and those without.

This sets up the central tension addressed in the next section. If access to the higher-performing track is largely determined by private income, and if that income is unevenly distributed, then the two-track system does not merely mirror existing inequalities but may also reinforce them. The issue is no longer whether remittances and foreign aid have improved access to education but whether their combined effects have channeled improvements in quality into a sector that is inaccessible to the poorest, while leaving the public track to those without viable alternatives. This raises a broader question of whether the system has become structurally stratified, a distributional concern explored in Section 4.4, particularly in relation to households excluded from the private track.

4.5 Equity and Equality: Who is Left Behind?

The fundamental equity problem with the remittance channel is structural exclusion from migration itself. The upfront costs of international labor migration from Nepal are substantial: recruitment fees, visa processing, medical examinations, pre-departure training, travel, and informal broker payments collectively amount to several months of a rural household's income, with the average cost of migration reaching USD 1,373 and 87 percent of households taking on debt to finance it.[141] These costs must typically be financed through informal borrowing at high interest rates, creating a debt burden that absorbs remittance income for one to two years before any surplus is available for household investment.[142] Very poor households have limited access to migration opportunities. With lower education, skills, and weaker networks, they are more likely to secure low-paying, high-risk jobs and face exploitation. They also lack the financial means to send many migrants abroad, reducing potential remittances.[143]

Although access to migration has become more equal in recent years, financial constraints still limit who migrates and where they go. Migration choices depend on wealth, social group, and location, where poorer households tend to choose low-cost, low-return destinations like India, while middle-income households favor moderately costly options such as

[141] Bronwen Maher, "Remittances and Migration: The Case of Nepal," Devpolicy Blog (Development Policy Centre), November 29, 2018, https://devpolicy.org/remittances-migration-the-case-of-nepal-20181129/.
[142] Adhikari and Hobley, "Everyone Is Leaving," 67.
[143] Adhikari and Hobley, "Everyone Is Leaving," 6.

the GCC and Malaysia. The most expensive, high-return destinations remain accessible mainly to the wealthy. Regional patterns reflect this, with poorer provinces sending more migrants to India and wealthier ones to premium destinations. As a result, richer households receive remittances more often and in larger amounts, averaging over five times more than the poorest.[144] The destination country is therefore a reflection of household wealth, and per capita remittance income correlates strongly with the wealth of the sending household.

Remittance patterns in Nepal show clear provincial disparities. Lumbini has the highest share of remittance-receiving households (44.5 percent), while Bagmati has the lowest at just over a quarter. However, the size and distribution of remittances are uneven: households in Gandaki, Koshi, and Bagmati receive the highest average amounts (around US$ 2700), whereas those in Sudurpaschim, Karnali, and Madhesh receive roughly half that. In total flows, Lumbini and Bagmati account for over 20 percent of each remittances, while Sudurpaschim and Karnali receive the smallest shares. These poorer provinces also not only have fewer remitters but also lower average remittance transfers per migrant.[145] The explanation is destination, where most migrants from poor provinces work in India, a low-income destination, while migrants from Koshi, Gandaki, and Bagmati are disproportionately employed in the United States, Australia, Japan, South Korea, and Canada.[146]

For Dalit households specifically, the barrier is emphasized by structural marginalization. Approximately 42 percent of Nepal's Dalit population lives below the national poverty line compared to 25.2 percent of the total population. While remittances are an important poverty reduction tool, high migration costs limit this group from migrating.[147] Migration outcomes are shaped by both caste/ethnicity and class. Hill Dalits and Tarai Janajatis receive the lowest remittances, while Mountain and Hill Janajatis receive the highest. Similarly, lower-income households earn the least, and higher-income households the most. These gaps are partly due to differences in destination and duration of migration: a higher share of Mountain and Hill

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144 World Bank, *Unlocking Nepal's Growth Potential: Nepal Country Economic Memorandum 2025* (Washington, DC: World Bank, 2025), xii, https://documents1.worldbank.org/curated/en/099032125103030263/pdf/P179761-430153ad-672c-4418-89c5-ef3740c65113.pdf.
145 Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 37.
146 Kharel, Shrestha, and Limbu, *Status of Remittances in Nepal*, 39.
147 Dinesh Babu Thapa Magar, Ram Pandit, and Maria Fay Rola-Rubzen, "Drivers of Overseas Labour Migration, Migration Intensity, and Destination Choice among Farming Households in Nepal," *Journal of Ethnic and Migration Studies* 50, no. 18 (2024): 4473, https://doi.org/10.1080/1369183X.2024.2373311.

Janajatis migrate to better-paying countries like South Korea, Western nations, Israel, Iraq, and Japan, while Hill and Tarai Dalits are largely absent from these destinations.[148]

Against this backdrop, the educational outcomes data reveal persistent and deep inequalities that neither remittances nor foreign aid has resolved. National Assessment of Student Achievement data across multiple rounds consistently show that students from Dalit and Janajati communities perform significantly below those from other caste groups.[149] While the national average literacy rate was 65.9 percent, it was nearly half (33 percent) for the Dalit population.[150]

In 2018, only 17.6 percent of Dalits in the Madhesh Province had completed basic education (grade 8), the lowest among all groups.[151] These disparities reflect broader structural barriers faced by Nepal's most marginalized communities, which continue to limit their access to development benefits. Dalits and Janajatis experience persistent exclusion rooted in caste-based restrictions, geographic isolation, language barriers, and limited access to education and information.[152] Hence, as the metrics show, Dalit and Janajati students underperform in education, with lower literacy and completion rates compared to other groups, indicating that interventions such as scholarships and remittances have not yet translated into educational parity for these historically disadvantaged populations.

The gender dynamics further exasperate these inequalities. Research based on the 2003/04 survey found that while remittances were often used to support children's education, spending tended to favor boys' schooling. Girls received higher educational investment mainly

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[148] Jeevan Baniya, "Labour Migration and the Remittance Economy: The Socio-Political Impact" (research study, Kathmandu: Social Science Baha, 2016), 9, https://www.academia.edu/25134277/Labour_Migration_and_the_Remittance_Economy_The_Socio_Political_Impact.

[149] Government of Nepal, Ministry of Education, Science and Technology, Education Review Office, *National Assessment of Student Achievement (NASA) Report 2077 (2020)* (Sanothimi, Bhaktapur: Education Review Office, 2020), 209, https://giwmscdnone.gov.np/media/pdf_upload/1614876114_221299301_nasa%20report%202077%20for%20web_2zfvqc8.pdf.

[150] Elina Maharjan and Subhechchha Shrestha, "Structures of Marginalization: Examining Nepal's Class, Caste, Gender, and Regional Inequalities," *Panauti Journal* 3, no. 1 (August 2025): 70, https://doi.org/10.3126/panauti.v3i01.83981.

[151] Yogendra B. Gurung, Meeta S. Pradhan, and Dhanendra V. Shakya, "State of Caste, Ethnicity and Gender: Evidence from Nepal Social Inclusion Survey 2018" (research report, SOSIN Research Team, 2020), 42, https://anthropologytu.edu.np/summary-state-of-social-inclusion-in-nepal/.

[152] Asian Development Bank, *Nepal: Gender Equality and Social Inclusion Diagnostic* (Manila: Asian Development Bank, 2020), 8, https://www.adb.org/sites/default/files/publication/646661/nepal-gender-equality-social-inclusion-diagnostic.pdf.

in higher-income households.[153] A 2011 survey, found that discrimination in school participation remains a key driver of gender inequality in Nepal. Although girls' enrolment has improved across all grade levels, disparities persist. This study found that parental spending patterns reflect this inequality, with boys more likely to attend private schools while girls are more often enrolled in public schools, highlighting a significant form of educational discrimination.[154] Additionally, Dalit women's illiteracy rate stood at 90 percent.[155] Dalit and Janajati girls scored significantly lower in assessments compared to male students and higher-caste groups.[156] These patterns suggest that increased resources alone are insufficient to overcome entrenched social norms, as gender and caste continue to shape how educational opportunities and outcomes are distributed.

The geographical dimension adds another layer to the problem. Data reveals provincial inequalities in literacy across Nepal. Overall literacy rates are highest in Bagmati (82.1 percent) and Gandaki (81.7 percent), while Madhesh (63.5 percent), Sudurpashchim (76.2 percent) and Karnali (76.1 percent) fall behind. The gender gap in education is especially wide in Madhesh, Karnali, and Sudurpashchim, where female adult literacy remain particularly low.[157] As the middle class expands, many families choose to send their children to Kathmandu or other urban centers in pursuit of better education and living standards. This trend has led to declining enrolment in rural schools, resulting in closures and widening disparities between rural and urban education systems.[158] Rural and economically disadvantaged children consistently show lower educational completion rates than the national average, whereas urban and wealthier children perform above average. The disparity is particularly emphasized at the upper secondary level, where only 10 percent of children from the poorest income quintile complete their education, compared with 59 percent from the richest quintile. Moreover, these inequalities become

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[153] Ann Vogel and Kim Korinek, "Passing by the Girls? Remittance Allocation for Educational Expenditures and Social Inequality in Nepal's Households 2003–2004," *International Migration Review* 46, no. 1 (2012): 61, https://doi.org/10.1111/j.1747-7379.2012.00881.x.

[154] Shaleen Khanal, "Gender Discrimination in Education Expenditure in Nepal: Evidence from Living Standards Surveys," *Asian Development Review* 35, no. 1 (March 2018): 170, https://doi.org/10.1162/adev_a_00109.

[155] Maharjan and Shrestha, "Structures of Marginalization," 71.

[156] Pramila Neupane, "Barriers to Education and School Attainment—Evidence from Secondary Schools in Rural Nepal," *International Education Studies* 10, no. 2 (2017): 80, https://doi.org/10.5539/ies.v10n2p68.

[157] National Statistics Office, *Education and Inclusion in Nepal* (Kathmandu: National Statistics Office, 2025), 61, https://nsonepal.gov.np.

[158] First Steps Himalaya, "The Widening Rural-Urban Gap in Education," July 16, 2023, https://www.firststepshimalaya.org/blog/2023/thewideninggapbetweenruralandurbanschools.

increasingly obvious as the level of education rises.[159] Karnali province, one of the poorest regions in the country, has the highest drop out rate.[160]

The 2015 earthquake deepened these geographic disparities, destroying thousands of rural classrooms and leaving many rural schools reliant on temporary structures long after urban schools had been rebuilt.[161] The COVID-19 pandemic compounded the effect, where 8 million students were affected by school closures, and the impact fell most heavily on low-income and marginalized children who were unable to access the online learning alternatives that urban, wealthier students could use.[162] Decentralization aimed to reduce inequality but has not closed existing divides. Per-student spending can be up to three times higher in urban areas than in remote rural municipalities, as wealthier local governments can supplement federal grants through stronger tax revenues, while poorer rural areas cannot.[163]

The equity failure of remittances is structural. Remittances do not reach the households that need educational investment most because those households are excluded from migration by the very poverty and marginalization that makes educational investment urgent for them in the first place. The flow that is largest in aggregate is smallest in impact precisely where the need is greatest. Dalit girls in remote provinces, Janajati children in low-income rural households, and families without the capital or connections to access high-return migration destinations do not benefit from the remittance economy in the ways that aggregate data on poverty reduction might suggest. While the educational opportunities that remittances produce are substantial, they are primarily available to households already positioned to leverage migration. As a result, remittances cannot correct existing inequalities in the education system and are a private solution to a structural problem.

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[159] Jimmy Oostrum et al., "2022 MICS-EAGLE Nepal Education Fact Sheets: Analyses for Learning and Equity Using MICS Data" (Kathmandu: UNICEF Nepal, 2022), 7, https://www.unicef.org/nepal/education.

[160] Oostrum et al., "2022 MICS-EAGLE Nepal Education Fact Sheets," 36.

[161] Abishek Thapa, "Nepal's Deep Educational Divides: Rural and State-Run Schools in Nepal Must Catch Up with Urban and Private Ones," D+C – Development + Cooperation, March 31, 2021, https://www.dandc.eu/en/article/rural-and-state-run-schools-nepal-must-catch-urban-and-private-ones.

[162] Lina Gurung and Prakash Kumar Paudel, "Digital Divide in the COVID-19 Context: A Case of Nepal," *Journal of Education and Research* 11, no. 2 (2021): 1, https://doi.org/10.51474/jer.v11i2.554; Saraswati Dawadi, Ram Ashish Giri, and Padam Simkhada, "Impact of COVID-19 on the Education Sector in Nepal: Challenges and Coping Strategies" (2020), 1, ERIC, ED609894, https://eric.ed.gov/?id=ED609894.

[163] Himalayan Geographic, "Decentralisation in Education Nepal: 5 Hard Truths About the Federal Shift No One Talks About," December 26, 2025, https://himalayangeographic.com/decentralisation-in-education-nepal.

This is the double deprivation at the center of this research. The households least able to benefit from the remittance economy, owing to migration barriers such as poverty, caste discrimination, and geographic isolation, are frequently the same households that depend most on public education financed through foreign aid. And that system, as the evidence in Chapter 2 and throughout this chapter has shown, has expanded its physical reach without delivering the learning quality improvements that would make it a meaningful alternative to private schooling. These households are enrolled but not learning, targeted by scholarships but not reached by quality, counted in enrollment statistics that record progress while their actual educational experience reflects stagnation.

Remittances, private and structurally regressive in their reach, flow to households already positioned to leverage migration, and their educational benefits compound existing advantages. Foreign aid is declining in volume and grant share, disrupted by institutional weakness and federalization, and has not translated access gains into quality improvements. This equity finding does not resolve the comparative question by declaring one flow superior to the other. Both flows have produced genuine gains for some households, and both have failed to reach the most disadvantaged. What it does establish is that neither flow, operating as it currently does, can substitute for the redistributive function of a well-financed and well-governed domestic public education system.

4.6 Synthesis: Answering the Research Question

The preceding sections have examined remittances and foreign aid across five mechanisms. This section draws those findings together. The first sub-question asked how the educational effects of remittances and foreign aid differ across socioeconomic and caste groups. The findings show clear inequalities, with access to migration income being the main factor shaping households' experiences. Households that can send migrants to higher-paying destinations (typically wealthier, non-Dalit households in Koshi, Gandaki, and Bagmati) are able to use remittances to support private education, which is often seen as providing better quality. In contrast, households that cannot participate in migration, or whose migrants work in lower-paying destinations, more commonly poorer, Dalit and Janajati households in Karnali, Sudurpaschim, and Madhesh, receive limited or no remittance income. As a result, their children's education depends largely on the aid-supported public school system. Although foreign aid is intended to benefit all households, for these groups it is often the only available source of educational support rather than a matter of choice. Consequently, most households do not experience remittances and aid as alternative sources of educational investment. Instead, their access to each flow is largely determined by their socioeconomic position before either source of funding is used.

The second sub-question concerned the mechanisms through which each flow translates into educational outcomes. The analysis shows that the two flows operate through structurally distinct channels, and that those differences are not incidental but explain the divergent results each produces. Remittances relieve the household budget constraint directly and flexibly, responding to the specific cost a given family face.[164] The spending decisions are left to households exercising agency informed by knowledge of local school quality and the returns to education by bypassing the governance and absorption constraints that limit public provision.[165] Foreign aid addresses this constraint indirectly through public programmes aimed at broad policy goals. Rather than allowing households to decide how resources are used, aid often links transfers to specific conditions and behaviors. Its effectiveness also relies on strong institutional capacity, which evaluations of Nepal's sector-wide programmes have repeatedly found to be limited.[166] Across different mechanisms, a consistent pattern emerges. Foreign aid is effective in providing the tangible resources required to expand access, whereas remittances enable households to invest in aspects of educational quality that are not guaranteed by the public system. However, these advantages are available only to households that receive remittance income.

The third sub-question investigated how each financial flow affects equity in educational access and quality. Remittances are structurally unequal in their educational reach. They tend to flow to households that already have access to migration networks, financial resources, and social advantages that poorer and marginalized households often lack. As a result, remittances are more likely to reinforce existing inequalities than to reduce them.[167] Foreign aid is designed to target the disadvantaged and has expanded their access to schooling, but it has not converted

[164] Mishra, Kondratjeva, and Shively, "Do Remittances Reshape Household Expenditures?," 2; United Nations Capital Development Fund, *Nepal Country Assessment*, 25.
[165] Acharya and Leon-Gonzalez, "Migration and Remittances," 447.
[166] Magrath and Torrano, "Prospective Evaluation: Nepal," 28.
[167] Adhikari and Hobley, "Everyone Is Leaving," 6, 67; Kharel, Shrestha, and Limbu, "Status of Remittances in Nepal," 37, 39; World Bank, *Unlocking Nepal's Growth Potential*, XII; Maher, "Remittances and Migration"; Thapa Magar, Pandit, and Rola-Rubzen, "Drivers of Overseas Labour Migration," 4473.

that access into quality, leaving the households most dependent on the public track enrolled but not learning.[168] The result is the double deprivation identified in Section 4.4, where the households least able to benefit from remittances are frequently the same households most dependent on a public system that aid has been unable to lift to a quality comparable with the private alternative.

Taken together, these findings answer the central research question by showing how remittance inflows and foreign aid shape educational outcomes in Nepal and by identifying the mechanisms through which they influence household educational decisions and national educational development. The two financial flows influence educational outcomes not by supporting the same students, but by funding different parts of the education system. Foreign aid helped build and sustain the public education sector and was well suited to addressing Nepal's earlier challenge of expanding access during the SSRP period. However, as access has improved and educational quality has become the main challenge, aid's focus on supply-side interventions and its reliance on weak domestic institutions have limited its ability to meet the system's current needs. By contrast, remittances are better suited to addressing the current challenge of educational quality because they provide households with flexible resources that can be used to access higher-performing schools. However, these benefits are distributed unevenly and are available only to families with access to migration and remittance income.

This is the central comparative finding of the thesis. Rather than suggesting that one flow is superior to the other, the analysis shows that each has distinct strengths and limitations. Remittances, the larger financial flow, enable households to invest in educational quality but do little to promote equity as they are private income. Foreign aid, although smaller in scale, has been more effective at expanding access but has had limited success in improving quality. Neither flow, in its current form, performs the redistributive role needed to reduce the gap between different parts of the education system.[169] That role depends on a well-funded and effectively governed public education system. The comparative analysis suggests that the continued growth of remittances alongside declining aid is moving Nepal further away from, rather than closer to, this goal.

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168 World Bank, "Nepal SSDP PforR ICR," 2.

169 The comparison here is mechanism-based, drawing on existing survey evidence and programme evaluations rather than on new causal estimation; it does not claim to measure the relative magnitude of each flow's effect.

Chapter 5: Conclusion and Directions for Future Research

This research began with a puzzle. Over the past two decades, two external financial flows operated in Nepal's education sector in parallel. On one hand, Remittances, arrived privately through household networks. On the other, foreign aid, was channeled through public and donor institutions. While aggregate enrolment data suggested strong progress, they hid uneven underlying educational outcomes. Nepal achieved near-universal primary enrolment and reduced gender gaps faster than many neighboring countries, but improvements in learning quality and equity did not keep pace. The analysis sought to explain this pattern by examining why these outcomes emerged and whether one flow had been more influential than the other. The central question was not which flow was larger, but how each shaped children's education in Nepal and the mechanisms through which this occurred.

Chapter 2 established structural conditions. Remittances have grown into the dominant household income source for a large share of the population, but their distribution is concentrated among households able to access higher-return migration. Foreign aid expanded the public system substantially during the SSRP era but is now contracting and shifting toward loans, with domestic spending not filling the gap. The educational outcomes that resulted combine rising enrolment with a near-tripling of private participation, stagnant public-school quality, and deep inequalities by geography, caste, and gender. Chapter 3 reviewed the theoretical literature on how each flow translates into educational outcomes and derived the mechanisms (income relief, household agency, governance and absorption capacity, conditionality, and equity) for comparison. Chapter 4 applied that framework to Nepal's evidence, working through each mechanism and assembling the results into a comparative analysis.

The central contribution of this research is the argument that remittances and foreign aid influence educational outcomes through different parts of Nepal's increasingly stratified education system rather than by competing to support the same students. Foreign aid helped expand and sustain the public education sector and was well suited to the main educational challenge that defined much of the study period, improving access to schooling. However, access has improved and educational quality has become the primary concern. ODA's focus on supply-side interventions and its reliance on weak and recently federalized institutions have limited its ability to improve learning outcomes. Remittances, by contrast, are better aligned with the current challenge of educational quality. They provide households with flexible financial resources that can be used to access higher-performing private schools. Yet these benefits are distributed unevenly, as only families with the resources, social networks, and opportunities required for high-return migration can take advantage of them. The mechanisms that explain each funding source's influence also reveal its limitations. Foreign aid reaches a broad population but relies on institutions that often struggle to improve quality, while remittances expand access to quality education but primarily benefit already advantaged families. The equity analysis shows a double deprivation. The households least able to benefit from the remittance economy are frequently the same households most dependent on a public system that aid has expanded in reach but not in quality. These children are counted in enrolment gains but continue to experience limited improvements in educational quality and learning.

The implication is that neither remittances nor foreign aid can substitute for the redistributive function of a well-financed and well-governed domestic public education system. This is not an argument that either flow is without value, but a recognition of what neither can do. A private flow distributed by migration access cannot deliver equity, and an aid flow channeled through under-capacitated institutions and in structural decline cannot deliver quality at scale. The evidence presented in this thesis suggests that, in the absence of substantial improvements to the public education system, the continued expansion of remittances alongside the contraction of aid will further entrench educational stratification in Nepal.

The most analytically promising question this thesis raises is one it cannot answer at present: do the two flows interact rather than operating in parallel? The comparative analysis has treated remittances and foreign aid as distinct channels reaching different populations, but their coexistence over more than two decades suggests that each may shape how the other is experienced and utilized. First, if households with access to migration income can exit toward the private track when public schools underperform, the availability of remittances may reduce the political pressure that would otherwise be exerted on the state to improve public provision. Second, aid-financed "free" public schooling lowers the direct cost of basic education, and for a remittance-receiving household that would otherwise have paid those costs, the saving is fungible. Aid may therefore free up remittance income that households then redirect toward private fees, private tutoring, or the additional costs of the private track. Both propositions are hypotheses, not findings. Establishing either would require household-level data linking migration status, remittance receipt, school choice, and engagement with public-school governance. This data is not provided by existing surveys do not combine, and that future research would need to generate directly.

Yet, the questions matter because they bear on whether remittances and aid are, in combination, better or worse than the sum of their parts. If they interact in the ways suggested here, then the parallel operation this thesis has documented understates the problem: the two flows would not simply be failing to reach the most disadvantaged separately but reinforcing one another in ways that deepen the divide. Testing that possibility is, in the view of this thesis, the most important next step for research on external financing and education in Nepal.

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