

A peer-reviewed open access journal indexed in NepJol; ISSN 2542-2596

Published by Molung Foundation, Kathmandu, Nepal

Article History: Received on 19 January 2022; Accepted on 15 May 2022

DOI: <https://doi.org/10.3126/mef.v12i01.45938>

Decentralization of Corruption in the Education Sector: An Analysis of Anti-Graft Reports

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This article is based on work under the "Enhancing Public Finance Dynamics in Education in Nepal" project jointly implemented by Martin Chautari, Kathmandu University, and Aarhus University. The Danish Ministry of Foreign Affairs funded the project with the technical support of the Danida Fellowship Center. I am grateful to them and also to the anonymous reviewers who provided constructive comments.

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Abstract

The Commission for the Investigation of Abuse of Authority (CIAA) annual report points out that complaints related to the education sector for financial misuses occupy the largest share consistently in the past few years. In this context, the paper aims to draw on types and patterns of educational corruption in Nepal in the context of education decentralization since 2000. Further, it interprets how it takes place and its associated factors. Undertaking the qualitative content analysis of annual reports of CIAA and Office of the Auditor General (OAG) of Nepal between 2010 and 2015, this article portrays financial irregularities taking place consistently under construction work, teacher salary, and student-related grants - showing or allocating more funds, releasing additional teacher salary and inflating student numbers. The existing literature on education decentralization and corruption entails various factors for financial mismanagement - lack of local capacity, elite capture of public funds, etc. Using education decentralization as a theoretical lens (McGinn & Welsh, 1999), this paper argues that poor monitoring and lack of policy implementation are major factors for the misuse of education finance in Nepal, coupled with complex procedural aspects of the public fund flow system. Thus, an adequate support system, especially during the early phase, can facilitate the decentralization of education and combat corruption.

Keywords: educational decentralization, corruption, public education finance, support system, qualitative content analysis, Nepal

Decentralization of Corruption in the Education Sector: An Analysis of Anti-Graft Reports

In the past, corruption in the education sector was a huge moral crime because the school was considered a temple of goddess *Saraswati* – the goddess of knowledge and education. Hence, people were ready to donate to educational temples to create a learning environment. However, in recent years, this sacred value attached to educational institutions is gradually declining as people intend to earn money from these institutions abusing the public authority entrusted to them.

As per the annual reports of CIAA⁶ (Commission for the Abuse of Authority), the largest share of complaints about the misuse of public resources as registered is consistently related to the education sector for the last three years (CIAA, 2016, p. 6). In fact, this reality reveals that the corruption cases in the education sector have hardly been reduced over the years despite attempts to curb it. On the contrary, the CIAA report points out that corruption mainly occurs in a mutual understanding between district and school level authorities (CIAA, 2014, p. 139). This happens when Nepal's education sector has been on the verge of decentralization since 2001, conferring different powers, including financial ones, to local stakeholders - the headteacher and school management committee chair assume major roles for managing and mobilizing public funds and resources at the school level. Given this context, what are the forms of educational corruption in the school education sector as portrayed in the annual reports of CIAA and OAG from 2011 to 2015 in the context of education decentralization? And what are the factors behind such acts of education corruption?

⁶CIAA is the constitutional body established in 1991 to curb corruption and its tentacles in the country, investigating corruption cases as per the complaints filed against public authority and then recommending prosecution.

With the growing trend of decentralization of education globally during the last quarter of the twentieth century, there has been an ongoing scholarly debate about its linkages with corruption. The debates point in both directions – some argue decentralizing the education sector will structurally give way for financial misuses (Segal, 1997), while others point out it will reduce the potential for corruption (Grauwe, 2013). In general, it can be observed that the decentralization of education has given way to corruption, mostly in developing countries (Hallak & Poisson, 2007). Yet it is hard to generalize as it is often context-dependent and varies from one context to another.

The experience in other countries shows that strong supreme audit institutions lead to a good perception of corruption and vice versa (Brusca et al., 2017). Brusca et. al (2017) point out:

Moreover, our results evidence that New Zealand, Sweden, Slovenia, Norway, Germany, the US and the UK are countries with the strongest supreme audit institutions (SAIs) and the best perception of corruption. Conversely, Azerbaijan, Republic of Congo, Equatorial Guinea, Timor-Leste, Yemen and Cameroon have the worst audit systems and a bad perception of corruption. In Europe, mainly the North European and Anglo-Saxon countries have a positive score for the TI Corruption Perception Index and strength of SAIs; while the other countries – such as Bulgaria, Italy, Romania, Russia and Spain – are in the opposite situation (p. 13).

The lessons learned from other countries – that the existence of strong supreme audit institutions can help reduce corruption, thereby creating positive citizen perceptions – can be examined in the case of Nepal. OAG (Office of the Auditor General)- the supreme audit institution of Nepal that has been in existence since 1958 - undertakes the task of doing final external auditing of public sector

governance up to the district level (now up to local governments in federal structure). Then it presents the status of misuses in/among the parliament, civil society, and stakeholders.

From the very first OAG report of 1963, the issue of misuse of education funds surfaced, such as "more expenses on teacher salary than allocated budget,' 'salary expenses without receipt and appointment letter'" (OAG, 1963, p. 48) and so on. In the past, the scale of reported cases was limited. Whereas, in recent years, the annual reports cover more varied and comprehensive cases of misuses with many subtopics. For example, the sub-topics in recent reports include reconciling quota, extra expenditure, local allowance, per child fund, infrastructure construction, expenses for ghost schools, free education, etc. (OAG, 2015). The gradual increase in corruption cases over the years questions the relevance of the audit institution – whether it has contributed to maintaining financial compliance by pointing out anomalies between the legal framework and its practices. In the annual reports of CIAA and OAG, the terms 'misuse,' 'not abiding by rules,' and 'irregularity' are used, which refer to 'corruption' in one way or another. Hence, the terms are used interchangeably in this article as they point to some form of 'corruption' in general.

Drawing on the patterns/forms of educational corruption as portrayed in the annual reports and critiquing Nepal's education decentralization process, this article argues that lack of policy implementation rather than not having one in place, coupled with poor monitoring mechanisms, gives way to corruption at the local level. It further adds that the lack of adequate preparation and systematization of the decentralization initiatives fails in implementing policy as envisaged at the national level. In addition to the policy framework, a support system is required, especially during the early phase of the decentralization

process, as it often takes significant time to institutionalize and operationalize the system.

The next section of this paper provides a brief description of the research methodology adopted to pursue this research, followed by a review of literature pertaining to education decentralization and corruption. Then, analyses of misuse of public finance taking place in construction work, teacher salary, and student grants are made. It shows that financial irregularities are taking place mainly, inflating the cost of construction-related materials and releasing additional grants for teacher salaries and student-related grants. In the end, it draws some conclusions based on the discussions made in the paper.

Methodology

This research adopts a qualitative research paradigm reviewing and analyzing annual reports of CIAA and OAG to contextualize corruption in the education sector. The context of statements/extracts from annual reports has been critically studied, observed, and interpreted in relation to the existing literature in the domain, attempting to make sense of them. Although corruption cases are a lived reality that exists in our society, it is difficult to undertake research on such issues of ethics and privacy. However, as the object of the study is published reports, the researcher had no obligation to take consent for quoting these statements.

This article is based on the qualitative content analysis of the annual reports of CIAA and OAG between 2011 to 2015. The annual reports are first to read to identify any instances of misuse of public finance in the school education sector, and then such instances are extracted as they are and compiled in a separate word file year-wise. In the next stage, the data as extracted are studied to identify consistent categories for the misuses to further analyze them. In this

sense, this research has adopted a data-driven approach for generating key concepts and categories (Schreier, 2012).

The limitation of this research is its coverage of contents – it intentionally looks at misuses of public finance in the education sector. As a result, the findings and conclusions show corruption in the context of education decentralization as guided by the research question – what the forms of misuse of public finance in the education sector are as portrayed in the annual reports of CIAA and OAG. This is also because the roles and responsibilities of the institution concern auditing, prosecuting, and curbing misuses of the state resources.

The secondary sources related to the research question are used to understand and analyze corruption cases in the education sector. These sources include newspapers, books, reports, gray literature available on google, and journal articles from various sources. The following section discusses the linkages between education decentralization and corruption briefly.

Education Decentralization and Corruption

The term decentralization refers to "the exercise of substantial power at the local level on many aspects" (Florestal & Copper, 1997, p. 1). Globally, there was an upsurge of decentralization around the 1970s, and the reasons for this were the disintegration of centralized governments, financial globalization, and the emergence of new information and communication technologies to control systems (McGinn & Welsh, 1999). In general, the practice of decentralizing power and functions related to financial aspects in the education sector greatly varies across countries (Abu-Duhou, 1999).

The relationship between education decentralization and corruption is little coherent and generalizable as it manifests differently depending on the society, culture, time, and opportunity-specific contexts. As the degree and types of decentralization vary from one context to another, it is important to look at what

kind of decentralization will impact corruption, how, etc. Thus, contextualization of the nature and scale of the decentralization process is necessary before deriving any conclusions on the effects of decentralization and corruption.

Several studies have been undertaken in relation to education and corruption, but there is little focus on the linkages between education decentralization and corruption. As Fjeldstad (2004) opines, "While the literature on corruption has boomed, relatively few studies have been carried out that explicitly focus on the linkages between decentralization and corruption" (p. 2). This points out that the co-relationship between education decentralization and corruption remains to be an under-researched phenomenon. This is also true in the case of Nepal.

However, some scholars have documented that decentralization of education structurally gives way to corruption. Segal (1997), making reference to New York City public schools, argues:

Decentralized programs provide the tools for corruption: virtually unfettered control over large amounts of money and different levels of jobs. Such benefits offer high stakes to those interested in power or money, especially in areas where alternative routes to these amenities are limited. Because decentralized programs are a form of governance established in reaction to rigid central control, they tend to maximize local discretion and minimize oversight, making corruption easy to engage in and conceal (p. 143).

The decentralization process confers control over resources to the local actors, which could potentially be misused. Because decentralization emphasizes 'local discretion and minimizes oversight' (Segal, 1997, p. 143), it creates ground for corruption.

Nonetheless, in theory, the decentralization of education should contribute to decreasing corruption partly because the decision-making process is likely to be 'transparent' at the local level, as Graue (2013) states:

Arguably, decentralization will lead to less corruption: closer contacts between decision-makers and beneficiaries allows the latter more control and leads to stronger accountability on the part of the former, while at the local level decisions are made in a more transparent manner than in central ministries (p. 27).

Although the theory is such that it should have positive outcomes, it has both dimensions as an effective and ineffective tool to curtail corruption. In practice, there are a number of other constraints, practicalities, etc., which often make decentralization result in diverse manifestations in reality (McGinn & Welsh, 1999).

In many countries, financial mismanagements seem to be taking place more in non-wage or discretionary funds in the decentralized financing systems. For instance, it is uncovered that frauds occur on the voluntary funds even in England (Hallak & Poisson, 2007, p. 138-139), while the rate of misuse of non-wage funds is sixty-six percent higher than the fixed school grants in Zambia (Hallak & Poisson, 2007, p. 110). Although misuses occur even in teacher salary funds in Nepal, it seems to take place more on non-wage funds in line with the international experiences (Hallak & Poisson, 2007, p. 110), although no comparative study has been conducted in this area to date.

Financial Irregularity in Construction Work

This section brings in different facets of financial misuses taking place in construction-related funds. In particular, showing or allocating more funds, violating the procurement act in purchasing goods, failing to prepare and submit a monitoring plan to higher levels/authorities, disbursing funds without construction

work, and not submitting the completion report for auditing indicate financial irregularities. The problems are compounded by the fact that the construction fund is released in the last trimester (during the last four months of the fiscal year), making it susceptible to misuse. Therefore, the process for the flow of funds functions poorly in Nepal, causing a risk for public finance.

During construction work- beginning from preparing cost estimates to other processes - the amount is exaggerated, pointing toward financial irregularities as in the annual report of CIAA (2012):

In preparing cost estimates for construction work, keeping details in record file after measurements, evaluating the work completion and preparing report, it is found that the sub-engineer of Rautahat Prem Chandra Jha, and engineers Dipendra Prasad Yadav and Binod Kumar Thakur has inflated amounts and rates, etc. To take departmental action against them, the commission has recommended District Development Committee/District Technical Office of Rautahat as per the decision of 18 May 2012 (p. 147).

Even though it is recommended to take departmental actions against such people involved in unethical acts, it is unclear in the report whether it is executed or not, thereby exposing the possibility of financial misuse.

Public funds are also misused in the process of construction work inflating expenditure amounts. The HT and SMC chair of Rautahat, for example, has shown extra - expenditure for construction materials. As reported in the CIAA report of 2012:

It is found that in constructing building instead of using six rods four rods are used and while leveling the school ground the rates are shown maximum high in comparison to the previous year. The extra expenditure shown for inadequate rods of 216.36 Kg at the rate of Rs. 64 per Kg

amounted to Rs. 13,847.04 and while leveling the school ground of 352.12 square kilometer with the difference of Rs. 122 amounted to Rs. 42,958.64 (p. 158).

This shows the irregularities in public funds occurring in the absence of effective supervision and monitoring mechanisms. In most cases, it is the HT and SMC chair who are involved in such misappropriations (Yadav et al., 2015). In Saptari district alone, sixty-five complaints are registered against HTs that shed light on this point (Dev, 2012).

Moreover, schools have violated the procurement act⁷ while undertaking construction work. According to the CIAA (2015) annual report, to build a hall in a school in Kathmandu, the proposals had been called pasting news on the school's notice board instead of publishing news in the newspaper. As some of the schools did not follow the instruction of abiding by the public procurement act and law, DEOs are asked to draw the attention of the concerned HT and SMC chair. However, no information has been received about the execution of such recommendations. The existing provision envisions that direct procurement requires the formation of a construction committee, but more than one-fifth of schools did not form it for their construction activities (The World Bank, 2013). This means due processes are not followed, and hence there are possibilities for misuse of public finance.

Similarly, many DEOs have not submitted completion reports of construction work while doing auditing. The OAG reports of 2011, 2013, 2014, and 2015 consistently report that many DEOs have not submitted the completion report of construction work for a huge amount of public funds. This means construction work may not have occurred even if funds are disbursed. This again

⁷The paper fixing takes place for procurement and construction work subverting the formal guidelines at the local level. This is done especially by the HT and SMC chair in most cases. See for example, The Asia Foundation (n.d.).

indicates the possibility of financial irregularity. In this way, although a huge amount of money is released for construction purposes, the work has not been accomplished accordingly, and the provisions to be followed during the construction work have not been observed duly. The complex procedure of the fund flow system seems to aggravate the construction work. More specifically, the construction budget is released towards the end of the fiscal year, which results in ineffective use of public finance (Ministry of Foreign Affairs of Denmark, 2009). This also leads to problems such as not submitting the completion report, inflating the rates for construction work, and so on (The World Bank, n.d.). Therefore, it is necessary to look at the procedural aspects of construction work to examine how it occurs.

As discussed above, local powerholders in terms of construction-related activities, such as headteacher, SMC chair, engineers based at DEO, etc., are involved in corruption. In fact, they are the frontline service providers as per the current education policy. Thus, corruption has resulted primarily from public authority/power abuse, as in many other social and political sectors. As part of the decentralization process, powers and functions are conferred to local actors assuming that they understand the local context better than those in the center. However, this positive intention may hardly result in positive outcomes if local actors exercise a transparent and accountable decision-making process.

The Government of Nepal initiated the education decentralization process during the 2000s by introducing several policies and conferring several powers and functions to school-level stakeholders. As indicated above, school stakeholders often misuse their powers, which is in line with the argument of Segal (1997) in the context of New York City Public School. In the context of Nepal, on the one hand, the institutional capacity is still to be improved to make it more accountable, fair, and transparent, while citizen engagement in the issues of

public concern should be increased to maintain checks and balance. Doing this is likely to hold local stakeholders accountable and transparent and potentially decrease corruption cases.

Financial Irregularities Related to Teacher Salary

This section provides various ways in which misuse of teacher salary funds takes place. In particular, financial misuses have occurred by not passing teacher salary reports and releasing additional, double, and ghost teacher salaries. The total number of cases of financial misuse related to teacher salary, as mentioned in the annual reports of CIAA and OAG, was fifty-eight between 2011 and 2015⁸. In fact, teacher salary⁹ represents about eighty percent of the total education budget annually (Ghimire, 2019); hence, misuse of this significant chunk of the budget is a huge loss.

DEOs should pass a teacher salary report through the school-teacher's record office as per the policy. The salary report shows the details on the total number of teachers and total salary in the district. However, this has not been followed properly, pointing toward irregularities. According to the OAG report of 2014, "In the past, teacher salary reports had been passed for the permanent teachers working in the nineteen districts, but this year none of the districts have passed the teacher's salary report" (p. 232). Compared to the previous year, a decrease in the number of districts submitting salary reports to zero suggests possibilities for an increase in financial mismanagements. This means legal procedures are hardly followed in practice.

Similarly, teacher salaries are released for more than the actual number of teachers working in schools. According to the OAG report of 2012, "This year, thirty-nine DEOs have released Rs. 3,29,55,000 more than the approved teacher's

⁸In order to extract the total number of cases of financial misuses, the reports were studied thoroughly, counting the numbers when there were such references related to teacher salary.

⁹The irregularities related to teachers have occurred even while appointing teachers. The head teachers are involved in such cases. See for example, Sah (2010) and Dev (2012).

quota and without subtracting the salary of retired teachers," (p. 318). This sort of story is also repeated in the OAG report of 2013 and 2014 with similar length and intensity. The MoE is asked to take departmental action against the DEO of Rukum for releasing more funds than the teacher quota (CIAA, 2012). This kind of misuse also occurs in other countries (Hallak & Poisson, 2007). Thus, the release of additional funds for teacher salary in CIAA and OAG reports show serious cases of financial misuse.

Financial misuse has also occurred as teachers draw double salaries remaining in two institutions at a time. The same management committee has appointed the same person in school and campus, giving double salary and allowance. In this case, CIAA has drawn the attention of the management committee not to repeat the same mistakes (CIAA, 2014). A similar story has occurred in the Tanahun district as it was found that a teacher was drawing a double salary at a time from school and higher secondary level (CIAA, 2015).

In some cases, DEOs have released a teacher's salary from the office itself without any teaching. According to the OAG report of 2011, "Against the article 133 of education regulation 2001, DEO of Bara has made payment of Rs. 11,03,000 for twelve teachers as salary instead of releasing it in the school's name," (p. 310). Releasing salary from DEO without any teaching is unethical and is the clear example of corrupt practices. The salary has been transferred for non-existent teachers in other countries as well.¹⁰ This is partly because of insufficient data on the one hand and lack of transparency and corrupt practices on the other hand.

In some schools, the HT and others have worked as management heads and coordinators even after retirement and have enjoyed salary, allowance, and

¹⁰For instance, five percent of the payroll of teachers went to ghost teachers in Honduras in 2000 and twenty percent of the salaries in Uganda in 1993 (Hallak and Poisson 2007, 110).

benefits. According to the CIAA report of 2015, "With regards to have received a regular allowance of forty thousand rupees as a management head even after retirement, DEO Kathmandu is asked to recover Rs. 3,72,225 additional amounts from Surya Raj Shakya within a month," (p. 470). This sort of action is against the existing education policy, and it is unreasonable to create a new position in the school and receive a salary and other benefits. This increases the risks of financial irregularity.

In conclusion, irregularities under teacher salary are repeated consistently over the years, and the major reason for such misuses is the lack of accurate data on teachers. This task falls under the jurisdiction of DEOs and now EDCU (Education Development and Coordination Unit) during the time, but they have failed to undertake this responsibility. In addition, teacher salaries are disbursed in the trimester, and the process of transferring funds follows different steps per the teachers' types and levels. This means the procedural aspect of releasing teacher salaries is complex and often makes public finance susceptible to misappropriations.

The cases of over-expenditure at the district level from DEOs to schools for teacher salary in various ways suggests that there exists a nexus between/among the local stakeholders for the repeated misuses because in the absence of their close relationship and mutual understanding, it is unlikely that the release of extra – public money would take place. As a significant proportion of expenditure on public finance takes place at the school level, corruption cases also occur at this level. Given the fact that school stakeholders seem to be having close cooperation for the misuses, it is partly decentralization of corruption in some ways in the context that citizens are hardly proactive to contribute for accountable and transparent public governance.

Although the basic purpose of decentralizing the education sector is to curb such practices because citizens and stakeholders know their context better and contribute to good governance, it little appears to translate in the contexts where social and economic context is poor. This is mainly because developing societies may have a web of social problems that may hinder even decentralization initiatives. And this should be the reason why developing countries encounter similar challenges in the decentralization process – that most of them have experienced undergoing misuse of public finance, unlike developed countries (Hallak & Poisson, 2007).

Misuse of Funds released based on Student Numbers

The financial misuses also occur in the funds released based on student numbers. Specifically, PCF, textbook, and scholarship funds are misused, inflating student numbers, and in the name of ghost school (a school that does not exist), textbook, scholarship, and salary funds are transferred and misused repeatedly over the years. Repeating such acts over the years indicates that the system functions poorly.

According to the policy provision, salary and non-salary funds should be released based on the Flash Report. However, many DEOs release funds without it. According to the OAG report of 2011, "As DEOs of Rautahat, Dang, Mahottari, and Bara have not submitted social audits citing the unavailability of Flash Report, it is hard to believe that the funds released by them are accurate" (p. 311). This means the system does not have updated data, which is important for effective governance. Spending funds without determining student numbers is a serious issue because such expenses may not be accurate.

Some DEOs have released more funds under the PCF grant. DEO, Bajhang has released an additional amount of Rs. 44,50,000 for 55330 students and has released Rs. 11,01,000 for five schools for the second time after having

already released the money as per the policy (OAG, 2012). This sort of misuse of the PCF grant was found to have been made consistently in the years 2012, 2013, and 2014 in different districts. Inflating the number of students, textbooks, and scholarship grants have been misused (CIAA, 2014). The OAG reports of 2010, 2011, 2013, and 2015 consistently show that additional grants for textbooks have been released over the years. Thus, it is necessary to examine the effect of 'ghost' enrollments and 'ghost' teachers and leakage in PCF-based funds such as textbooks and scholarships (The World Bank, 2014, p. 15).

The CIAA and OAG reports show financial irregularity taking place for the ghost school¹¹ in the name of textbooks, scholarship, salary, allowance, and so on continuously over the years. According to the CIAA report of 2015 in the ghost schools of Terai districts, "The government aid is received for salary, allowance, administrative expenses, student scholarship, and physical construction and has been misused" (CIAA, 2015, p. *jha*). In such misconduct, it is found that MoE, DoE, RED, and DEOs have not fulfilled the responsibility of doing regular monitoring and supervision. DEO, HT, and Resource Persons, including SMC authorities, have been found involved in such irregularities. The pertinent question is why such acts occur continuously even after national monitoring agencies disclose them and why remedial measures are not taken up appropriately.

As discussed above, the lack of real-time data is one of the factors for misuse under student-related grants. The primary responsibility of maintaining data is of schools and DEOs and disburse funds accordingly and doing this could easily check fraudulent acts. Although the funds have to be released as per the Flash Report , it has not been done so. Therefore, the actors need to fulfill their

¹¹There are a lot of media reports about the ghost school scandal in Nepal. See for example, Biswakarma and Yadav (2010).

roles and responsibilities to translate policy into practice. There are examples that school finance is misused, inflating student numbers in other decentralized contexts of developing countries (Hallak & Poisson, 2007). Thus, the Nepal case is not a unique phenomenon.

The irregularity taking place consistently over the years, as presented and discussed above, indicates the institutionalization of corruption in Nepal's education sector. The systemic corruption is partly because bureaucracy has missed its roles and responsibilities and partly because of failure to implement policy. Further, this instance indicates how entrenched corruption is in our social, cultural, political, and administrative processes, and hence, it is difficult to root it out immediately, but it requires a long-term strategy for the purpose.

Conclusion

With the decentralization of the school education sector in Nepal, corruption has also been decentralized over the past two decades. The district and school stakeholders have maintained close cooperation and linkages to abuse power conferred to them with the good intention that they would work to improve the existing condition. In doing this, the discretionary power given to local stakeholders is misused and abused instead of using it creatively based on their local context that would potentially contribute to better outcomes. This conclusion aligns with Segal (1997) that public authority is misused in the decentralized context in New York City Public School in the US.

The early years of the decentralization process are relatively confusing because the frontline authorities have little idea about doing things, which is a new experience for them. In this context, they need systematic support to bring them into the process, which is often missing in developing countries. Instead, the institutional process of the education sector is often found to be weak in the developing countries, which hinders smooth operationalization of the

decentralization process leading to the poor implementation of the system.

Although there is a huge body of literature on the poor implementation aspects of the decentralization process, there is little discussion on how government structures that exist for a longer period hinder or obstruct the decentralization process. That is what happened in Nepal.

Financial mismanagement has occurred in Nepal as legal/policy provisions are not followed by the concerned authority rather than not having a policy in place. This points out the need to enable local bodies/authorities to implement the existing policies effectively, including sanctions on those who do not follow policy provisions. In this way, decentralization on its own is unlikely to be systematically effective or ineffective. Instead, the stakeholders, actors, and their roles determine the nature and function of decentralization. Therefore, it is important to contextualize the decentralization process based on country-specific situations.

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