



United Nations  
Educational, Scientific and  
Cultural Organization



Sustainable  
Development  
Goals

**Bangkok Office**  
Asia and Pacific Regional Bureau  
for Education

# Ensuring Adequate, Efficient and Equitable Finance in Schools in the Asia-Pacific Region



# **Ensuring Adequate, Efficient and Equitable Finance in Schools in the Asia-Pacific Region**

Published in 2017 by the United Nations Educational, Scientific and Cultural Organization,  
7, place de Fontenoy, 75352 Paris 07 SP, France  
and  
Unesco Bangkok Office

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ISBN: 978-92-9223-575-8 (Electronic version)



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# Acronyms

<b>BOET</b>	Bureau of Education and Training
<b>BOS</b>	Bantuan Operasional Sekolah (School Operational Assistance)
<b>DOET</b>	Department of Education and Training
<b>EFA</b>	Education for All
<b>GDP</b>	Gross Domestic Product
<b>IDR</b>	Indonesia rupiah
<b>IIEP</b>	International Institute for Education Planning
<b>KHR</b>	Cambodia riel
<b>LAK</b>	Lao kip
<b>MDGs</b>	Millennium Development Goals
<b>MEXT</b>	Ministry of Education, Culture, Sports, Science and Technology (Japan)
<b>MoEYS</b>	Ministry of Education, Youth and Sport (Cambodia)
<b>NEP</b>	NGO Education Partnership
<b>NGO</b>	Non-governmental organization
<b>NPR</b>	Nepal rupees
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PKR</b>	Pakistan rupees
<b>SDGs</b>	Sustainable Development Goals
<b>SEQAP</b>	School Education Quality Assurance Program
<b>SLIP</b>	School Level Improvement Plan
<b>UIS</b>	UNESCO Institute for Statistics
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>UNICEF</b>	United Nations Children's Fund
<b>UPEP</b>	Upazila Primary Education Plan
<b>USD</b>	United States dollars
<b>UZS</b>	Uzbekistan som
<b>VND</b>	Viet Nam dong
<b>VNEN</b>	Viet Nam Escuela Nueva

# Acknowledgements

The report is a synthesis of country case studies of school finance in the Asia-Pacific region. The regional study of school finance on which this report is based was led by Lina Benete (UNESCO), and Keiichi Ogawa (Kobe University). Many UNESCO staff and interns contributed to the preparation of the report. Satoko Yano provided overall guidance. Akemi Ashida supported the development of research design and the coordination of the publication process. Najung Kim prepared a review of relevant statistics, and Katsuki Sakaue provided feedback and assistance in the final stage.

The regional study and subsequent report could not have been completed without the contributions of many people. Special thanks are extended to the experts who prepared the country reports: Happy Kumar Das (Bangladesh), Karma Thinley (Bhutan), Bin Huang, Wang Dong and Mao Cuiying (China), Keiichi Ogawa and Win Pe (Myanmar), Binay Kumar Kushiyait (Nepal), Habib ur Rehman (Pakistan) and Pardaev Sherzod Čulievič (Uzbekistan), Keiichi Ogawa, Viriyasack Sisouphanthong, Phal Chea, Nguyen Thi Thanh Huyen, Truong Thu Ha, Lina Benete and Akemi Ashida (Cambodia, Lao PDR and Viet Nam). Thanks also go to the UNESCO field offices in Bangladesh, China, Viet Nam, India, Myanmar, Nepal, Pakistan, Cambodia and Uzbekistan for their support to the process of preparing the country case studies.

We would also like to thank the experts in the field of education finance, including Kobe University and UNESCO experts: Pham Vu Thang (Viet Nam), Saint Kizito Omala, James Wokadala (Makerere University, Uganda), Hamoud Al-Seyani (Yemen) and Andrew Crow (Nascent Voices), for their constructive feedback on the first draft of the report during the Joint Seminar on School Finance, which was organized by Kobe University and UNESCO Bangkok and held in February 2016.

We also appreciate the insightful comments from the experts who participated in the Regional Meeting on School Finance, 'Ensuring Adequate, Effective and Equitable Financing in Schools' held in Bangkok, Thailand, on 31 March and 1 April 2016, and from the participants of the country workshops held in Cambodia, Lao PDR and Viet Nam in November and December 2015.

Thanks are also extended to the peer reviewers, including Gwang-Chol Chang (UNESCO Dakar), Jandhyala B. G. Tilak (National University of Educational Planning and Administration, New Delhi), Yulia Makarova (Global Monitoring Report), James H. Williams (George Washington University), James Wokadala (Makerere University, Uganda) and Shiro Nakata (World Bank).



Particular thanks go to Anton De Grauwe and Candy Lugaz from the UNESCO International Institute for Education Planning (IIEP) who shared the IIEP research framework on school grants.

This synthesis report was prepared by Maxwell Stamp Limited (drafting team led by Manzoor Ahmed) under contract with UNESCO.

Finally, we are grateful for the financial support provided by the Ministry of Education, Culture, Sports, Science and Technology (MEXT) of Japan and the Government of Malaysia.

## Foreword

The Education 2030 Framework for Action stipulates that achieving the 2030 targets will require, enabling financing strategies; sustained, innovative and focused education financing; and efficient implementation arrangements. Accordingly, to ensure the targets are reached, it is crucial to understand how countries are currently allocating resources to schools and to identify what changes are required.

Recognizing this need, in 2015 the UNESCO Bangkok office undertook a regional study on school finance, building on the school grants work undertaken by the UNESCO International Institute for Education Planning (IIEP) and UNICEF in Indonesia, Mongolia, Timor-Leste and Vanuatu. The 2015 regional study covered ten countries: Bangladesh, Bhutan, Cambodia, China, Lao PDR, Myanmar, Nepal, Pakistan, Uzbekistan and Viet Nam.

As this report shows, education financing systems in the Asia-Pacific region are varied and complex. In recent years, we have witnessed decentralization reforms in the Asia-Pacific region, shifting responsibility for the provision of basic education from the central level to local governments and to schools. Current trends in the Asia-Pacific region suggest that there is a need to strengthen school finance policies to ensure the efficient and equitable use of resources to deliver high quality education.

The report provides a regional overview of school financing pattern, practices and issues, and provides policy options and evidence to strengthen management and performance of finance at school level. I trust that this report will be a key resource for countries in the region to push for policies that ensure adequate, efficient and equitable financing in schools.



Gwang-Jo Kim  
*Director*  
*UNESCO Bangkok*

## Executive Summary

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In 2015, the World Education Forum, held in Incheon, Korea, launched the Education 2030 agenda. This new agenda is captured in Sustainable Development Goal 4 (SDG4) and its corresponding targets. Key among the education targets is: to ensure all girls' and boys' complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes by 2030 (United Nations, 2015, Goal 4.1). According to the Education 2030 declaration, achieving the targets will require enabling financing strategies, as well as sustained, innovative and well-targeted financing and efficient implementation arrangements.

With the goal of assessing the current situation in the Asia-Pacific region with regard to school finance, the UNESCO Bangkok office launched a study in ten countries: Bangladesh, Bhutan, Cambodia, China, Lao PDR, Myanmar, Nepal, Pakistan, Uzbekistan and Viet Nam. The study aimed to compile evidence regarding finance management at the school level and to identify policy options to strengthen such management.

The study had three main parts: 1) a review, at the regional level, of school financing patterns, practices and issues; 2) country case studies in ten countries to illustrate and explain the prevailing pattern and practices; and 3) analysis of the data, resulting in conclusions and recommendations, and leading to a learning module for strengthening school finance management.

The study focused on school grants as a major financing and management reform strategy, and examined three aspects of school financing: adequacy, efficiency and equity, taking into account Education for All (EFA) progress and the implications of SDG4 and the Education 2030 agenda and indicators.

### ***Adequacy of resources***

The study examined the adequacy of financial resources in primary and secondary schools and assessed the quality of information regarding resources. Conclusions were then drawn and criteria were set for assessing resource adequacy in primary and secondary education. Overall, the study found that resources for school education are not adequate in the developing Member States of the Asia-Pacific region covered by the study. For example, while Uzbekistan has allocated significant budgetary resources to primary and secondary education, the resources are not adequate in view of higher aspirations regarding quality and equity in education.

On the whole, the study found that education finance is higher in terms of proportion of GDP and the national budget in East, South-East and Central Asia compared to South Asia. Per-pupil public

expenditure ranges from 150 United States dollars (USD) for primary education in Cambodia to over 4,000 USD in Malaysia.<sup>1</sup>

The study found that while schools in the region are referred to as either public or private, their financing and management are mixed, rather than purely public or non-public. Non-government schools serve as many as one third of basic education students in some of the surveyed countries and their appeal appears to be growing. However, there is no good alternative to the public sector provision of basic general education as a right. The private sector and public-private partnership can play a supplementary role but rhetorical hype about such partnership should not ignore the issue of a public good being treated as a tradable commodity.

### ***Efficiency of school finance***

The study examined the efficiency of school finance, including mobilization of financial resources and their efficient management. In particular, the study assessed the structure of financial planning and decision-making in primary and secondary education, and examined the mechanisms for transfer and disbursement of funds to schools. Furthermore, the study reviewed budget planning, management and implementation at the school level and at the supervisory and support level, as well as the monitoring of budget implementation, trends in resource mobilization and budget management, and the availability of necessary tools and data. Subsequently, the needs and potential for improvement were considered in light of the situation in the ten countries covered by the study.

Decentralization is a recurrent theme in school finance reform initiatives as it aims to give greater authority and responsibility to the school level with the goal of achieving better resource efficiency and improved budget management. The study found that, across the region, reforms in school finance have been made through decentralization, leading to an increase in school-level control of resources. Furthermore, school grants have been used, in various forms, for obtaining more resources for schools. However, three quarters or more of recurrent educational expenditure is for teaching personnel, which is generally outside the scope of school grants, along with capital and infrastructure expenditure.

Countries in the region have adopted policies and legal provisions specifying state obligations, which indicate resource needs and possibilities of resource mobilization for education. The results of these policy level steps depend on whether the policy measures and legal provisions are implemented with diligence and determination. With regard to translating policies into meaningful action, country situations vary depending on skills, capacity, political culture and governance patterns, including the level of decentralization of management. While guidelines, procedures and regulations are designed to ensure monitoring and accountability, the outcomes depend on how effectively the rules are applied. Lapses are often due to a lack of skills and capacities of concerned personnel at various levels.

The results of the study suggest that the countries that have emphasized transferring funds to schools through school grants or similar mechanisms have channelled more resources to education, including to school education, in terms of percentage of the gross domestic product (GDP) and the national budget.

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<sup>1</sup> These figures cannot be directly compared, however, due to differences in the real purchasing value of funds across countries. Moreover, these figures do not take into account non-public resources, such as household contributions.

### ***Equity and school finance***

The study also examined the extent to which equity and needs of diverse learner groups are considered in school budget planning and management, and reviewed trends in education equity in relation to school financing. In addition, while keeping in mind the issue of turning a public good into a commodity, the study examined how complementing and supplementing public resources with household and private resources can influence equity. Furthermore, the study sought to gain a deeper understanding of how learning outcomes are influenced by financial and budget processes.

Equity in education has two main dimensions: fairness and inclusion. Fairness refers to ensuring that personal and social circumstances, such as gender, socio-economic status and ethnic origin do not become obstacles to fulfilling one's educational potential. Inclusion refers to ensuring that everyone can participate in learning and achieve at least the minimum standard of learning outcomes.

In considering what is needed and possible in terms of equity and how the school finance process can promote equity in education, systematic attention has to be given to specific contexts. Basic information has to be collected regarding the proportion of children accessing, participating in and completing primary and secondary education, with a breakdown of students by geographic location (urban-rural, remote); socio-economic status (income quintiles); gender; ethnic-linguistic characteristics; and special needs. A useful step would be to introduce tracking of education resource flows to schools and communities under the auspices of the Global Partnership for Education (GPE), the International Institute for Education Planning (IIEP) and the UNESCO Institute for Statistics (UIS).

### ***Outcomes***

It is generally believed that investing a large amount of resources and making substantial budget provisions for improved school infrastructure, feeding programmes, better learning materials and more and better-paid teachers will result in better learning outcomes. The study sought to identify whether there was any evidence in this regard.

The study examined outcomes of the finance and budget processes at the school level, which involve planning, management, implementation, monitoring and assessment, and sought to draw inferences and make recommendations for strengthening the management of school finance. The study also examined the overall resource situation in the region, looked at possible models and mechanisms for school finance, and identified whether monitoring and assessment were part of the school finance systems in the countries studied.

The study found that the desired outcomes are achieved when the resources reach intended beneficiaries in the right way, resources are provided at the right place and time, facilities are improved in appropriate ways, teacher performance standards are established and enforced, and incentive arrangements and structures for teachers and schools are applied.

The ten case studies lend support to the concept of a minimum 'threshold' of inputs and school resources that should be reached in order to achieve the desired results. If the threshold of inputs is not provided, the resources allocated may be mostly in vain and will therefore be wasted. The threshold does not refer to a magic number, but draws attention to how the inputs and processes fit together to make the classroom and the school produce the desired results.

The Education 2030 Framework for Action proposes certain thresholds for GDP share and national budget share for education: between 4 per cent and 6 per cent of GDP and between 15 per cent

and 20 per cent of the national budget. While many countries in the Asia-Pacific region have already reached these thresholds, the study findings suggest that these countries nevertheless do not seem to have met the adequacy requirements in terms of resources for their national education systems.

Of course, resources for education and the budget exercises in schools are not the sole determinants of the results in regard to good quality primary and secondary education with equity for all children. However, the objectives cannot be achieved without adequate and equitable resources and efficient management.

### ***Pros and cons of decentralization***

According to the study findings, decentralization and the devolution of authority for planning and managing education resources have so far yielded mixed results. The deficiencies include lack of capacity at the local and school levels, divided responsibilities without coordination and collaboration, and a lack of effective interplay between actors in delivering services. There are also problems associated with intergovernmental fiscal transfers and how financial autonomy is exercised at the local level. The drawbacks of decentralization call for special efforts to tackle them.

### ***Recommendations***

The analysis of the study findings and subsequent conclusions of the study led to 23 recommendations in four broad categories: (i) resource planning and mobilization; (ii) budget management and execution; (iii) monitoring and assessment of resource use and (iv) skills and capacity building for improved resource management and budget performance in schools.

The analysis of the study findings also led to the proposing of six essential school budget management tasks: (i) Providing adequate financing to ensure basic conditions for learning; (ii) Collecting the required information for effective planning and monitoring; (iii) Managing budgets transparently, to facilitate service delivery; (iv) Managing resources and expenditure efficiently; (v) Providing resources to the students who need these most and ensuring resources are spent where they are most needed and (vi) Monitoring both expenditure and the learning outcomes supported by the school budget.

It is recommended that these tasks be the basis for capacity building and advocacy work for strengthening school finance. To this end, UNESCO plans to prepare a learning module for people involved in the school finance process, with an emphasis on local stakeholders.

### ***Next steps***

UNESCO proposes several follow-up steps to encourage Member States to give priority to strengthening school finance. These include: the synthesis of material as a reader-friendly package of resources; a review of the initiatives for strengthening school finance underway in countries and of whether the materials and resources from UNESCO support such initiatives; identifying a national focal point and supporting that focal point; and an assessment of the capacity and resources of UNESCO Asia-Pacific regional office for moving forward what has been initiated, as a significant contribution to achieving the Education 2030 agenda.

# Introduction

## 1.1 Background

In May 2015, the global education community adopted a comprehensive and ambitious education agenda within the framework of Education 2030, launched at the World Education Forum in Incheon, Korea. The new education agenda is captured in Sustainable Development Goal 4 and its corresponding targets. Chief among the education targets is: By 2030, to ensure all girls' and boys' complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes. Achieving this and other Education 2030 targets will require: enabling financing strategies; sustained, innovative and well-targeted financing; and efficient implementation arrangements (UNESCO, 2015a; United Nations, 2015; UNESCO, 2015b).

Countries in the Asia-Pacific region have committed themselves to ensuring high quality basic education for all children as a matter of right and as an imperative for national development. In the lead up to 2015, countries in the region made significant efforts towards achieving the 2015 Education for All (EFA) and Millennium Development Goals (MDGs). Among the developing Member States, those in East, South-East and Central Asia and in the Pacific Islands made the most progress in terms of increasing access to primary education and expanding secondary education opportunities. South and West Asia also increased access to pre-primary and primary education, by bringing both boys and girls into schools. In 2012, more students who started their primary education tended to complete the full primary cycle, and the pupil-teacher ratio in South and West Asia reached around 35:1, though great variations remained within and between the countries in these sub-regions. Despite their efforts, however, most developing countries fell short of fully realizing the EFA goals and MDGs (UNESCO, 2015).

The 'unfinished business' regarding the EFA goals and education MDGs highlighted constraints and issues with regard to the means for achieving the goals, including issues related to governance, decentralization, stakeholder involvement and accountability (Benete and Ible, 2014). The same concerns have to be addressed in the context of SDG4/Education 2030 agenda and their adaptation and formulation at the national level.

Under the new Education 2030 agenda, in recognition that efficient and effective school financing ensures that the necessary resources are available for the education system to function, more emphasis is being placed on how financial resources are being used in education. In order to ensure that school financing is efficient and effective, it is essential to examine good practices and understand what the key drivers are. According to the World Bank, however, 'The drivers of a well-functioning school finance system have not been well established' (World Bank, 2013).

In the Asia-Pacific region, countries vary in their approaches to education financing and their sources of education finance, with differing combinations of public and private resources. In general, public education is funded by tax revenues, while private education derives revenues largely from fees and private contributions. Governments often subsidize private education, however, through payment of costs incurred in curriculum development, inspection and teacher training, as well as by supporting operating costs in some instances. Public-private partnerships in education financing are gaining attention. Within this context, it is important to understand the interactions within such partnerships and their impact on access to education and the quality, relevance and equity of such services.

## 1.2 Scope and objectives of the regional study

Against this background, in 2015 UNESCO Bangkok embarked on a regional study of school finance. The study built on the work by the UNESCO International Institute for Education Planning (IIEP) and UNICEF on school grants in Indonesia, Mongolia, Timor-Leste and Vanuatu, as well as on the World Bank's Systems Approach for Better Education Results (SABER) in school finance, and on other research.

The study had three main parts: (1) a regional review of school financing pattern, practices and issues; (2) country case studies to illustrate and explain the prevailing patterns and practices and enrich the regional overview; and (3) analysis of the data to draw conclusions and recommendations, leading to a learning module for stakeholders at the school level for strengthening school finance management.

The study was conducted in ten selected countries in the Asia-Pacific region, in two phases. The first phase involved conducting country studies on school finance, with a focus on school grants, in three countries: Cambodia, Lao PDR and Viet Nam. This phase was managed by Kobe University and UNESCO Bangkok, with financial support from Japan's Ministry of Education, Culture, Sports, Science and Technology (MEXT). For the second phase, the research framework was expanded beyond school grants, and country case studies were undertaken in seven countries: Bangladesh, Bhutan, China, Myanmar, Nepal, Pakistan and Uzbekistan.<sup>2</sup>

The study focused on adequacy, efficiency and equity as key concerns, in the context of decentralized management, resulting in greater authority and accountability at the school and community levels. Closely-related concerns were good governance, corruption and mismanagement, and accountability, transparency and stakeholder participation (see Annex 1).

The study took the Education 2030 targets regarding pre-primary, primary and secondary education and the indicators for quality, equity, resource management and monitoring as points of reference for the review of school finance, while taking into consideration that global targets and indicators have to be adapted to national contexts. Accordingly, adequacy was defined in terms of whether financing was resulting in high quality, equitable educational provision and outcomes. Similarly, efficiency was assessed in connection to equity and quality objectives.

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2 The regional study covered thirteen countries in five Asia-Pacific sub-regions: Cambodia, Indonesia, Lao PDR, Myanmar and Viet Nam (South-East Asia); Bangladesh, Bhutan and Nepal (South Asia); China and Mongolia (East Asia); Uzbekistan (Central Asia); and Timor-Leste and Vanuatu (Pacific islands). Some data was included from India and Malaysia. The Bhutan case study was mainly based on a desk review, without official field visits.



The scope of work of the regional study was as follows:

- Conduct a review of education financing and management at the basic education level (primary and lower secondary) in selected countries of the Asia-Pacific region.
- Identify the sources of education finance in the selected countries and any patterns in the region.
- Clarify the relationship between education planning, management, financing and budgeting.
- Analyse school finance in terms of mobilization, allocation and management of budgets or funds.
- Review the fund allocation mechanisms for capital and recurrent expenditures in schools.
- Assess the impact on outcomes from the perspective of adequacy, equity and efficiency of school finance.

## 1.3 Definitions and methods

### **Definitions**

The study assessed school financing issues from three key perspectives: adequacy, efficiency and equity. These terms were defined and conceptualized in the context of the country circumstances, progress made in the countries with regard to the EFA goals, and the implications of SDG4 and the Education 2030 agenda and indicators.

For the purposes of this study, *adequacy* of financial resources was defined as the resources that are required to provide the essential inputs for ensuring primary and secondary education services are of high quality for all children. Adequacy of resources is linked to the structure of the school system, nationally defined stages of compulsory and universal education and the pattern of resource provision, especially in supplementing and combining public resources with non-public and household resources for education services.

*Efficiency* of school finance refers to ways of mobilizing and managing financial resources to provide good quality and effective education services at the least cost. Elements of efficiency include: the legal structures for policy-making, planning and decision-making regarding school finance, mechanisms for the transfer and disbursement of funds to schools, decisions about capital and operating budgets, and budget planning, management, implementation and monitoring at the school level and at supervisory levels.

*Equity* in education has two main dimensions – fairness and inclusion. Fairness relates to not letting personal and social circumstances become obstacles to fulfilling education potential. Inclusion means everyone participates in learning with equitable opportunities to achieve defined levels of learning outcome. Thus, equity in school finance relates to equitably meeting the needs of diverse learner groups through school budget planning and management, and how complementing and supplementing public resources with household and private resources influence equity.

### **Methods**

The study followed a participatory approach, and therefore facilitated the participation of stakeholders in the study, including in preparing the country case studies. Competent local researchers were selected in the countries participating in Phase II, and inputs were sought from NGOs, donor agencies and development and financial institutions at the country and regional levels. Furthermore, the study was based on country-level evidence, with case studies of school

financing being critical inputs. These were conducted in Bangladesh, China, Myanmar, Nepal, Pakistan and Uzbekistan. Data from other recent studies of school finance in the region were also fed into the regional review. These included a study by the IIEP in Indonesia, Mongolia, Timor-Leste and studies by Kobe University and UNESCO Bangkok in Cambodia, Lao PDR and Viet Nam (during the first phase).

Practical and results-oriented techniques were adopted with the aim of obtaining optimal and useful outcomes within the limitations of time and resources. The regional study employed various data collection methods, as listed below:

- A desk review of literature. This included academic literature; analytical, policy and evaluation documents; and reports and publications by governments, United Nations agencies, NGOs, development agencies, donors and financial institutions (e.g. the World Bank, the Asian Development Bank and the Organisation for Economic Co-operation and Development).
- Field research. Data and information were collected from ministries, education partners, provincial and district offices and schools in the selected countries. The following activities were undertaken:
  - Semi-structured interviews in the local language at the central, provincial, district and school levels.
  - Interviews with development partners and local personnel, including those in UNESCO, UNICEF, donor agencies, and NGOs.
  - Interviews with school level financing staff and parents.
  - Observations in at least two primary and two secondary schools (as samples from the urban and rural areas in the selected countries).

A robust plan was prepared to guide the implementation of the study. The key elements of the implementation plan elements are listed below.

- A detailed desk review. The desk review aimed at documenting the pattern and issues in school financing in the region, especially in the selected countries. The desk review examined available data and identified gaps and discrepancies in that data, including recent and recently completed studies on education finance in the region by UNESCO, IIEP and others. The information collected through the desk review provided background information on which to base the field research. To identify the relevant literature, UNESCO prepared a framework based on the criteria of adequacy, efficiency and equity, presented in the form of guiding questions (as shown in Annex 1).
- Preparatory documents for the country case studies. In addition to a list of guiding questions for the reviews, which could be used as a guide for preparing the country case studies, UNESCO also prepared a country case study outline, and guidelines for a school survey, to facilitate the work of the country researchers.
- Country case studies: The country researchers conducted reviews of school financing in their countries, drawing on available literature; interviews with key informants; and field level studies of a small number of schools. The researchers examined national policies on school finance, observed the degree of decentralization of school financing, and assessed the status of financing at the school and local levels, and they undertook data collection at the national, local and school levels. The country researchers also prepared draft papers describing their reviews. The research team commented on the drafts of the country case studies and the drafts were then revised.

- A synthesis of school financing studies in the Asia-Pacific region: A preliminary overview was constructed based on literature, studies and reports. This was enriched with inputs from the country case studies. The country cases illuminated the key themes and issues and aided in reaching conclusions and making recommendations.
- Recommendations for the way forward: In light of the policies and priorities in each country and the region, and in the context of the Sustainable Development Goals (SDGs) and Education 2030, conclusions and recommendations were prepared.
- Compilation of inputs for a learning module on school finance: Drawing on the conclusions and recommendations of the regional synthesis and the country case studies, inputs were compiled towards a learning module for strengthening school finance policy and practices, with an emphasis on enhancing the adequacy, efficiency and equity of school finance in the Asia Pacific Region. The learning module on school finance is a part of an education micro-planning toolkit series being developed by the UNESCO Regional Office for Education, Bangkok, Thailand.

# Regional context

## 2.1 School systems in the Asia-Pacific region

School systems in the Asia-Pacific region vary in terms of entry ages for primary and secondary education and in the duration of compulsory education, which has been extended in many countries to include several years of secondary education.

The age of entry into primary education varies from 5 years old to 7 years old, but for a majority of the countries in the world, including in the Asia-Pacific Region, it is 6 years old (Table 1). In 2012, the age of entry was 6 in two-thirds (66 per cent) of the countries globally, while in the Asia-Pacific region this was the case in 62 per cent of the countries. Between 2000 and 2012, the duration of primary education increased in some countries, but remained six years in just over 60 per cent of the countries globally and in 62 per cent of the countries in the Asia-Pacific. A slight shift to earlier entry and an increase in the duration of primary education has occurred in countries across the board, including in the Asia-Pacific since 2000 (Tables 1 and 2).

Individual studies in countries in East Asia, South-East Asia and Central Asia found that the entry ages and durations of primary education and compulsory education are similar to those in developed countries globally, whereas those in South Asia are closer to the global averages for developing countries. The commitment by the countries that lag behind in extending compulsory education to include several years of secondary education was given new impetus by the Education 2030 target 4.1 which seeks to ensure the completion of at least nine years of education by all children and aims to achieve a substantial expansion of full secondary education. These objectives call for new thinking about mobilizing adequate resources and using these effectively in the delivery of primary and secondary education.

**Table 1:** Percentage distribution of countries, by category and primary entry age (2000 and 2012)

Entry age	Developed countries		Developing countries		Asia-Pacific		World	
	2000	2012	2000	2012	2000	2012	2000	2012
5 years old	8.9	10.5	13.6	16.1	23.8%	28.6	12.3	14.6
6 years old	51.8	56.1	68.7	69.8	64.3%	61.9	64.0	66.0
7 years old	39.3	33.3	17.7	14.1	11.9%	9.5	23.7	19.4

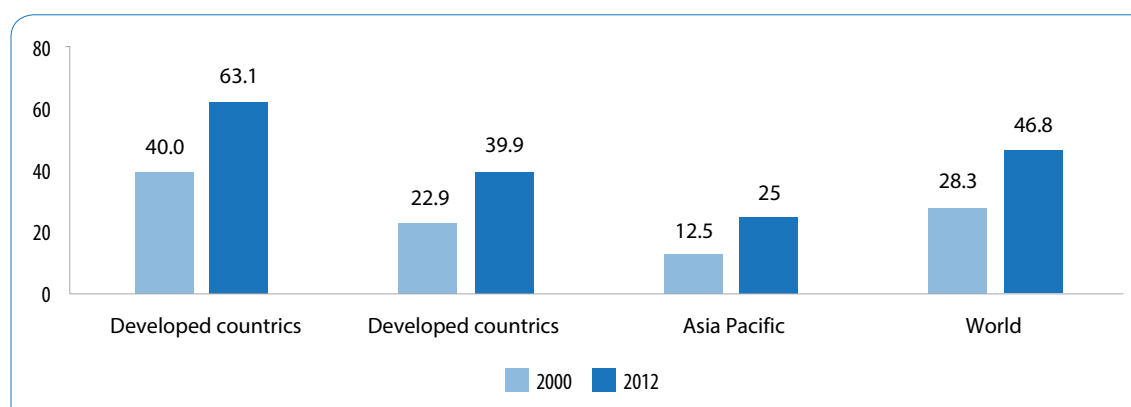
*Source:* UNESCO 2003; 2015 and UIS <http://data.uis.unesco.org/>

**Table 2:** Percentage distribution of countries by duration of primary education (2000 and 2012)

Duration	Developed countries		Developing countries		Asia-Pacific		World	
	2000	2012	2000	2012	2000	2012	2000	2012
3-4 years	46.4	35.1	4.1	2.7	2.4	2.4	15.8	11.7
5 years	10.7	15.8	12.2	14.1	28.6	26.2	11.8	14.6
6 years	37.5	40.4	68.7	67.8	61.9	61.9	60.1	60.1
7-8 years	5.4	8.8	15.0	15.4	7.1	9.5	12.3	13.6

Source: UNESCO, 2003; UNESCO, 2015b

Primary education is not compulsory in every country and is not necessarily of the same duration as compulsory education. Between 2000 and 2012 many countries increased the duration of compulsory education. In 2000, the duration of compulsory education was five to six years in about half of the countries of the world, and ten years in a quarter of the countries. By 2012, about 40 per cent of the developing countries and 63 per cent of the developed countries had at least 11 years of compulsory education (UNESCO, 2003; UNESCO, 2015b). However, in the Asia-Pacific region, the proportion of countries with 11 or more years of compulsory education was significantly lower, at 25 per cent (Figure 1).

**Figure 1:** Percentage of countries with 11 or more years of compulsory education, 2000 and 2012

Source: UNESCO, 2003; UNESCO, 2015b; and UIS <http://data.uis.unesco.org/>

Participation in primary and secondary education has grown in the last two decades. As shown in Table 3, primary level enrolment reached over 90 per cent in the listed Asia-Pacific countries. The percentage of students who complete primary education ranges from 60 per cent to 99 per cent. Participation at the secondary level ranged from around 50 per cent to 100 per cent, but figures relating to the completion of the cohort of entrants was not reliable or consistent enough to be reported by the UIS. The available participation and completion data indicate gaps, which have resource adequacy and efficiency implications. The Education 2030 target of at least 9 years of universal education and the expansion of secondary education substantially up to grade 12 make this a particularly critical concern.

**Table 3:** Participation in primary education, school year ending in 2012

Countries	Primary				Secondary		
	Gross Enrolment Ratio (GER)	Adjusted Net Enrolment Ratio (ANER)	Enrolment in private institutions as % of total enrolment	Cohort Completion rate	Gross Enrolment Ratio (GER)	Enrolment in private institutions as % of total enrolment	Net enrolment rate (adjusted) in lower secondary (ISCED 2) (%)
Bangladesh	114 (2011)	96 (2010)	42 (2011)	60 (2009)	54	94	65
Bhutan	112	92	3	93.4	74	10	53
Cambodia	124	98	2	66-	63	N/A	N/A
China	128	N/A	6	N/A	89	11	N/A
India	113 (2011)	99 (2011)	N/A	N/A	69 (2011)	N/A	66
Indonesia	109	95	17	95	83	42	81
Lao PDR	123	96	4	67.1	47	3	2
Malaysia	N/A	N/A	2 (2011)	N/A	67 (2011)	5 (2011)	91
Mongolia	117	98	5	92.6	103	9	78
Myanmar	114 (2010)	N/A	N/A	68.5 (2009)	50 (2010)	0	51
Nepal	135 (2013)	99	15 (2013)	55	67 (2013)	N/A	46
Pakistan	34	93	72	39.4	37	31	46
Timor-Leste	125 (2011)	92 (2011)	13 (2011)	68 (2010)	57 (2011)	26 (2011)	26
Uzbekistan	93	91 (2011)	N/A	99.8 (2010)	105 (2011)	N/A	93-
Vanuatu	122 (2010)	N/A	N/A	N/A	60 (2010)	N/A	49
Viet Nam	105	98	0.6	98	92	N/A	N/A

**Source:** UNESCO, 2015b; 'Secondary school net enrolment rate' data were from the 2015 national EFA reports (Asia-Pacific Synthesis Report).

## 2.2 Availability of public resources

Basic education includes both primary and secondary education, is an important component of basic public services for citizens and is recognized as being part of citizens' rights in most countries. Accordingly, public resources must be available to meet this state obligation, though complementary resources are also necessary in all countries.

While the importance of public resources for ensuring basic education provision is well-recognized, a complete view of finance for school education must take into account non-public resources, which are discussed in the next section. The Organisation for Economic Co-operation and Development (OECD) suggests a useful conceptual template for reviewing the overall education finance situation, as shown in Table 4.

**Table 4:** Types of spending in education, and funding sources Public sources Private sources Private funds publicly subsidized

■ Public sources of funds   
 ■ Private sources of funds   
 ■ Private funds publicly subsidised

Broad categories of spending	A. Spending through education institutions	B. Spending on education outside education institutions
1. Spending on core educational services	e.g. Public spending on instructional services in education institutions	e.g. Subsidized private spending on books
	e.g. Subsidized private spending on instructional services in educational institutions	e.g. Private spending on books and other school materials or private tutoring
	e.g. Private spending on tuition fees	
2. Spending on research and development	e.g. Public spending on university research	
	e.g. Funds from private industry for research and development in educational institutions	
3. Spending on education services other than instruction	e.g. Public spending on ancillary services such as meals, transport to schools, or housing on the campus	e.g. Subsidized private spending on student living costs or reduced prices for transport
	e.g. Private spending on fees for ancillary services	e.g. Private spending on student living costs or transport

**Source:** Based on OECD, 2015, p. 206.

Table 5 provides an overview of public spending in 16 Asia-Pacific countries. It shows a wide variation in the share of public resources allocated to education: as a share of gross domestic product (GDP) and as a share of the national budget. Government expenditure on education as a proportion of GDP ranges from around 1.6 per cent in Cambodia to over 6.4 per cent in Timor-Leste. Expenditure on education as a share of the total government expenditure ranges from 6.7 per cent in Timor-Leste to 19.9 per cent in Malaysia.

These expenditure figures include operational costs, including salaries and spending for infrastructure and durable equipment and furniture. They do not include private expenditures by households, even those paid to the school, and do not include local level and private contributions to education. For various reasons, external assistance for education is not fully and consistently included in public education budget data.

**Table 5:** Financial commitment to education: Public spending, 2012

Countries	Government expenditure on education as % of GDP	Expenditure on education as % of total government expenditure	Expenditure on primary education as % of government expenditure on education	Government expenditure per primary student in constant PPP USD	Expenditure on secondary education as % of government expenditure on education	Government expenditure per secondary student in constant PPP USD
Bangladesh	2.2	15.6	44.6	206 (2011)	39.1	281
Bhutan	4.7 (2011)	13.1 (2011)	31.5 (2011)	632 (2011)	56.7 (2011)	2,092 (2011)
Cambodia	1.6	7.5	49.2	150	44.1	N/A
China	N/A	N/A	N/A	N/A	N/A	N/A
India	3.9	14.1	27.2	443	38.7	740
Indonesia	3.4	18.1	41.8	1,102	26.0	986
Lao PDR	2.0	8.6	43.6	295	34.2	397
Malaysia	5.7	19.9	33.6	4,056	34.5	4,892

Countries	Government expenditure on education as % of GDP	Expenditure on education as % of total government expenditure	Expenditure on primary education as % of government expenditure on education	Government expenditure per primary student in constant PPP USD	Expenditure on secondary education as % of government expenditure on education	Government expenditure per secondary student in constant PPP USD
Mongolia	4.6 (2011)	12.2 (2011)	32.7 (2011)	1,442 (2011)	30.4 (2011)	1,226 (2010)
Myanmar	N/A	N/A	N/A	N/A	N/A	N/A
Nepal	3.8	17.4	54.2	241	30.4	225
Pakistan	2.1	11.0	N/A	N/A	N/A	N/A
Timor-Leste	6.4	6.7	65.6	416	20.0	280
Uzbekistan	N/A	N/A	N/A	N/A	N/A	N/A
Vanuatu	5.0 (2009)	18.7 (2009)	54.3 (2009)	498 (2009)	29.7 (2009)	N/A
Viet Nam	5.5	18.8	29.8	1048	40.1	N/A

**Source:** UIS <http://data.uis.unesco.org/>

Public education expenditure data are not strictly comparable across countries in some respects. For instance, countries differ in terms of what constitutes the national budget, with a federal structure differing from a decentralized public administration structure. Countries also differ in terms of the amount of education goods and services a unit of currency can buy. When comparing the resource planning and budget management of countries, these factors sometimes have major implications. Nonetheless, education expenditure as a percentage of GDP and as a percentage of the total government budget provides an indication of the level of priority and emphasis given to education in each country.

In the context of Education 2030, the recommended target for education expenditure is between 4 per cent and 6 per cent of GDP and/or between 15 per cent and 20 per cent of the total government budget (UNESCO, 2015b). As seen in Table 5, many countries in the region have achieved or even surpassed these levels. However, they have not necessarily met the criteria of adequacy, efficiency and equity in resource management. It is therefore necessary to assess what resources are needed in each country in terms of their education policies and priorities, and how those resources are allocated.

### **Primary and secondary education shares of national education resources**

Education in many countries now increasingly includes a compulsory element of pre-primary education, and secondary education is being expanded. Given the importance of the primary and secondary levels, it is necessary to examine the share of national resources allocated to these levels and how these resources are managed.

As shown in Table 5, primary and secondary education in the listed countries claim between 70 per cent and 85 per cent of the total public outlay for education, with most countries close to the higher end of the range. Given that these two stages of education have the majority of the total student population, the findings are not surprising.

When the relative proportions allocated to primary and secondary stages are compared across countries, there are no discernible patterns. Allocations are somewhat higher at the secondary level in some countries, similar to primary in other countries, and lower than primary in yet other countries, though per student expenditure is generally higher at the secondary level. The total for each level is partly related to the proportion of the relevant age group enrolled in school. In many countries, the enrolment ratios are lower at the secondary level.

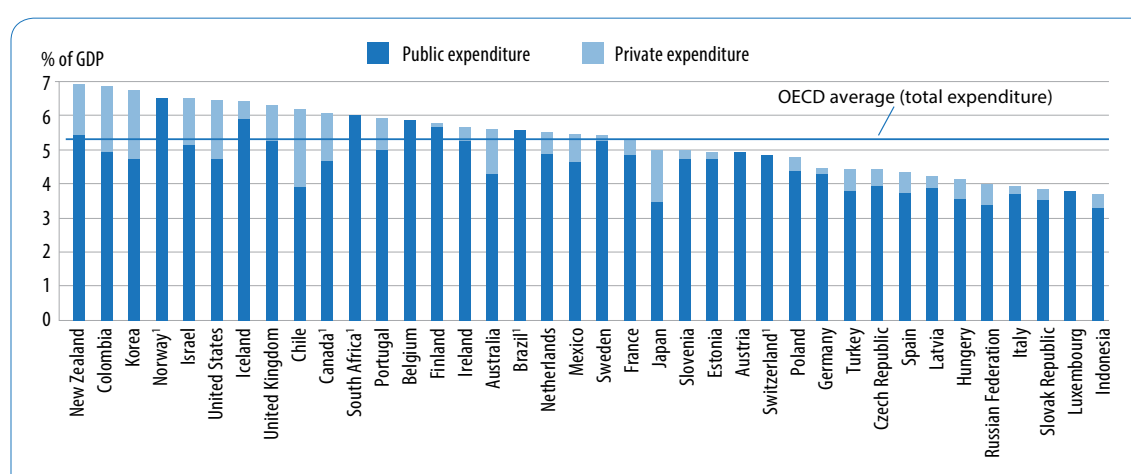


As shown in Table 5, per pupil public expenditure also differs between countries, ranging from USD 150 for primary education in Cambodia to over USD 4,000 in Malaysia. At the secondary level, per pupil expenditure ranges from USD 225 in Nepal to USD 4,892 in Malaysia.

### Education resources in OECD countries

As illustrated in Figure 2, in 2012, OECD countries spent an average of 5.3 per cent of their GDP on education institutions (primary, secondary and tertiary), while 11 countries with available data (Canada, Chile, Colombia, Iceland, Israel, Korea, New Zealand, Norway, South Africa, the United Kingdom and the United States) spent 6 per cent or more.<sup>3</sup> Most Asia-Pacific countries have an education to GDP ratio below the OECD average of 5.3 per cent.<sup>4</sup>

**Figure 2:** Expenditure on education institutions (primary, secondary and tertiary) as a percentage of GDP in OECD Countries, 2012



**Source:** OECD. Table B2.3. See Annex 3 for notes  
StatLink <http://dx.doi.org/10.1787/888933283940>

**Note:** For Switzerland, the figure shows expenditure on tertiary education only; for Norway, expenditure on primary, secondary and post-secondary non-tertiary education only).

No clear trend regarding public expenditure on education as a percentage of GDP can be discerned across all OECD countries for the period between 2000 and 2012. The OECD data indicate that public expenditure on education as a percentage of GDP decreased during this period in around one third of the 27 countries with available data (8 out of 27 countries), and the share of public expenditure devoted to education decreased in about half of the 27 countries. On average, however, expenditure on education as a percentage of GDP increased somewhat (OECD, 2015, p. 253).

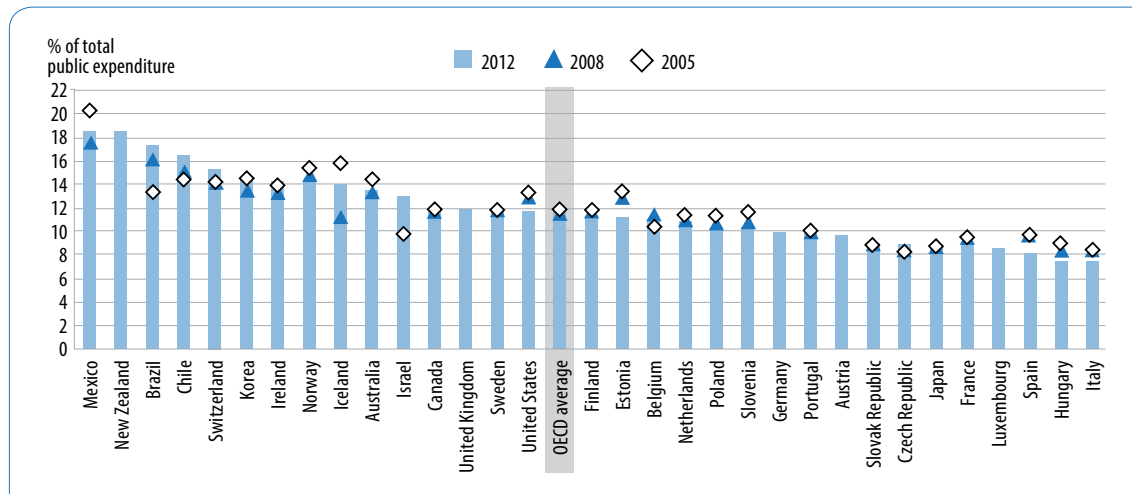
In both the Asia-Pacific and OECD countries, there is no clear pattern regarding education public expenditure as a proportion of total government budget. The range for OECD countries was similar to that for countries in the Asia-Pacific, and the OECD average of 11.3 per cent is likely to be similar to that for Asia-Pacific. An average was not calculated for the Asia-Pacific due to data limitations.

<sup>3</sup> OECD education spending data include non-public spending in schools, which is not the case for Asia-Pacific data cited here. OECD data also include data for selected 'partner' countries, which are not members of OECD. There is no systematic mechanism similar to that of the OECD for collecting comparable data in the Asia-Pacific region. (OECD, 2015). In Figure 2.5, the countries are ranked in descending order of expenditure.

<sup>4</sup> In 2016, the OECD had 34 'economically advanced' members, including three from the Asia-Pacific region: Australia, Japan and Korea.

Figure 3 shows public expenditure for education (primary, secondary and tertiary) as a share of total public expenditure in OECD countries. On average, it ranged from around 8 per cent in Hungary, Italy and Spain to more than 18 per cent in Mexico and New Zealand. In 2012, it was 11.6 per cent of total public spending, on average. The proportion of public expenditure devoted to education (primary to tertiary) decreased between 2005 and 2012 in nearly two thirds of the countries with available data and it remained stable for the other countries except, most notably, in Brazil and Israel, where it increased by 3 percentage points or more (OECD, 2015, p.252).

**Figure 3:** Expenditure on education (primary, secondary and tertiary) as a percentage of total public expenditure in OECD countries, 2005, 2008 and 2012



**Source:** OECD. Table B4.2.

**Note:** Countries are ranked in descending order of total public expenditure on primary to tertiary education as a percentage of total public expenditure in 2012.

Contrary to expectations, the five OECD countries with the highest figures for public expenditure on education as a percentage of total public expenditure in 2012, namely: Brazil, Chile, Mexico, New Zealand and Switzerland, were at the bottom end of the spectrum in terms of the figures for public expenditure on education as a percentage of GDP. Norway is the exception, with high proportions on both counts (OECD, 2015, p. 254).

The size of public expenditure on education in relation to the total government budget depends on the ratio of government revenue to GDP, which differs greatly between countries. In 2012, almost one in five OECD and partner countries with available data reported that total public expenditure was more than 50 per cent of GDP. In France, for example, total public expenditure was more than 55 per cent of GDP. On the other hand, four in five countries had total public expenditure of less than 50 per cent GDP. For example, in Chile it was 24.5 per cent and in Mexico it was 25.3 per cent (OECD, 2015, p.254).

The government revenue share in GDP is an indicator of government capacity to raise funds for education. But the decisions that are actually taken about education budgets are not completely dependent on financial capacity.

In most countries, and in general across OECD countries, more than two thirds of total public expenditure on education (primary to tertiary) was devoted to primary, secondary and post-secondary non-tertiary education. This reflects near-universal enrolment rates at those levels of education in OECD countries and the demographic structure of the population (OECD, 2015, p.254).

Given that OECD countries have comparatively high GDP, a relatively high share of GDP for education and, more importantly, a high GDP share for public revenue, while they might allocate the same proportion of public expenditure to education as countries in the Asia-Pacific do, the total education expenditure and per student expenditure in OECD countries is nevertheless substantially higher than in Asia-Pacific countries.

Recognizing that primary and secondary education consume most of the allocated education resources, it is essential to ensure effective and efficient management of the primary and secondary school budgets and resources. While there is much rhetoric in most countries about the priority placed on education, this not quite matched by public allocations for education; the historical data has not shown an upward shift. Such a shift is vital in Asia-Pacific countries, however, for the Education 2030 agenda to be realized.

Many OECD countries have implemented school grants since at least the 1980s and there has been considerable leeway in their use and management. Developing countries have only adopted this practice relatively recently. It has been linked to the introduction of fee-free education at the primary level. As schools were no longer allowed to charge fees, they were given grants to compensate for the loss of income. School grants were also consistent with the trend towards more school autonomy. Policies relating to school grants represented a reform effort in education management. Schools, which formerly had little or no say in financial management, now received grants directly from central authorities. They were encouraged to plan and use the funds to improve the school's functioning and instructional quality (IIEP, 2011).

### **International aid to education**

Overall, international aid is not a major component of the total resources available for national development and public services in the Asia-Pacific region. However, for the developing countries of the region, aid does represent a significant proportion of the resources for education. As shown in Table 6, the share of education in total aid varies considerably, ranging from 3 per cent in Bhutan to 24 per cent in China in 2012. The shares for basic and secondary education vary, and in some cases have reached 30 per cent to 40 per cent of external aid.

**Table 6:** International aid to education, 2012

Countries	Total aid to education (Constant 2012 USD millions)	Direct aid to education (Constant 2012 USD millions)	Direct aid to basic education (Constant 2012 USD millions)	Direct aid to secondary education (Constant 2012 USD millions)	Share of education in total aid (%)	Share of direct aid to education in Sector-allocable aid (%)
Bangladesh	504	476	265	87	17	16
Bhutan	5	4	1	2	3	2
Cambodia	72	72	15	12	8	8
China	543	543	4	3	24	24
India	257	257	89	15	7	7
Indonesia	410	410	29	21	18	18
Lao PDR	64	63	21	14	14	14
Malaysia	38	38	0	1	15	15
Mongolia	80	76	9	14	16	15
Myanmar	64	64	44	5	12	12
Nepal	157	157	41	28	17	17
Pakistan	421	421	122	27	15	15

Countries	Total aid to education (Constant 2012 USD millions)	Direct aid to education (Constant 2012 USD millions)	Direct aid to basic education (Constant 2012 USD millions)	Direct aid to secondary education (Constant 2012 USD millions)	Share of education in total aid (%)	Share of direct aid to education in Sector-allocable aid (%)
Timor-Leste	35	35	2	7	12	12
Uzbekistan	47	47	2	21	16	16
Vanuatu	22	22	10	3	21	20
Viet Nam	253	235	36	54	5	5

*Source:* UNESCO, 2015b.

The importance of external aid depends on its share in total education spending of each country. For example, while education was the highest share in aid in China in 2012, this aid did not have the same significance as in some other countries, because the aid was miniscule compared to China's national budget and its national education spending.

The value of external aid – from international development institutions and from developed countries – is not just in the amount of funds made available. External aid also brings international experience, lessons-learned and perspectives from other countries, and can support national capacity building when technical expertise is transferred. Partnerships with international development agencies and a strategic use of technical assistance help develop insights into equitable and efficient financing for primary and secondary education. Furthermore, the requirements regarding accounting, reporting and discharging fiduciary responsibilities in relation to external assistance can be a way of promoting efficiency and accountability for education budget and resource management. The demand for fiduciary accountability and reporting has prompted better planning and management of resources and capacity building for this purpose.

## 2.3 Legal and policy framework for education finance

Countries in the Asia-Pacific region have expressed their commitment to good quality basic education as a right and an essential element of national development. This commitment is evident in their national constitutional and legal provisions as well as the international agreements and pledges they adhere to. Each country's expression of commitment and legal obligations provides a positive environment for mobilizing resources for education.

In **Bangladesh**, the national constitution includes provision for free, unified primary education and literacy programmes, and in 1990 the nation adopted a compulsory primary education law. The country has pledged its support and ratified international treaties on human rights, including children's rights, which include basic education as a right. Bangladesh has also committed itself to the Jomtien (1990) and Dakar (2000) EFA initiatives, the Millennium Development Goals, the SDGs, including SDG4, and the Education 2030 agenda (Bangladesh Country Case Study). Similar commitments have been made by **India**, along with constitutional amendments, a Right to Education law and Education for All programmes.

In **Pakistan**, the constitution pledges that 'the State shall remove illiteracy and provide free and compulsory secondary education within the minimum possible period'. One key policy reform with major positive implications for education was the eighteenth amendment of the constitution, adopted in April 2010, and insertion of Article 25-A on compulsory education. By these amendments, access to school education was recognized as a constitutional and enforceable right for all children aged 5 to 16. A new education policy, to be established by 2018, seeks to ensure the achievement of the targets set by the sectoral plan (2014-2018).

**Cambodia's** *Education Strategic Plan 2009-2013* emphasizes equitable access to good quality education and promotes institutional development and capacity building for education staff. The *Education Strategic Plan 2014-2018* will continue this focus. Accordingly, Cambodia has established a Capacity Development Partnership Fund (CDPF), supported jointly by external development partners. Budget formulation and execution and procurement are the priority areas of capacity building at the sub-national and school levels. Cambodia also launched a reform plan for basic education titled the Priority Action Programme, which aimed to increase school participation and enhance the quality of education in primary and lower secondary schools through abolishing registration fees and other school charges for parents. A Programme-based Budget (PB) was introduced in 2007, through which the School Operations Budget (SOB) was determined and funds transferred to schools. Under the programme, the salaries of teachers are paid directly from the central government to the personal accounts of teachers (Cambodia Country Case Study).

**Indonesia** has sought to increase access to education through the BOS School Operational Assistance grants programme, which abolished school fees for students. The BOS programme is intended to support the central government's plan to achieve compulsory nine years basic education in both public and private schools. BOS funds are allocated to schools based on student numbers and must be managed in accordance with central government technical guidelines.

In a move to speed up progress towards achieving universal primary education, **Vanuatu** introduced a school grant scheme in 2010 in all government and government-assisted schools. The school grants programme overhauled the former government education funding system whereby the government allocated operational grants per pupil to local education offices. Under the new programme, the school grants are paid directly to the school.

In **Viet Nam**, a school grant programme led to reductions in school contributions by parents and in some cases eliminated this burden. However, the success of this approach depended on the leadership capacity and vision in each school and community. While in some schools, parents were reported to participate less following the introduction of the school grants programme as they considered education to have become entirely the government's responsibility, in other schools the programme was reported to have strengthened the ties between the school and the community and encouraged more parents to volunteer their time in schools (Viet Nam Country Case Study).

In **Nepal**, the school finance policy is incorporated in legal provisions, including in the Education Act 1971 (Eighth Amendment, 2004), the Education Rules 2002 (Second Amendment, 2004) and the annual strategic implementation plan associated with the annual work plan and budget. The guiding principles for school finance in the education sector are included in the five-year development plan and the strategic implementation plan every year, which is based on the decisions of the National Planning Commission, the Ministry of Finance, and the Ministry of Education.

The IIEP examined the school grants programmes of five countries: **Ghana, Indonesia, Lesotho, Nicaragua** and **Sri Lanka**, which were implemented between the late 1990s and the early 2000s. These IIEP studies helped to gain a general understanding of the early school grant concepts and policies in developing countries (Deffous et al., 2011).

Subsequently, IIEP and UNICEF examined the use and usefulness of school grants implemented between 2010 and 2012 in Eastern and Southern Africa; and between 2012 and 2014 in four countries in East Asia and the Pacific (**Indonesia, Mongolia, Timor-Leste** and **Vanuatu**). Conclusions of the draft report (IIEP-UNICEF, n.d.) of these studies provided insight into the factors

that improve efficiency in school finance and corroborated the findings of country case studies undertaken as part of the present study. In the four countries, the school grants were introduced along with fee-free primary education. The grants covered primary and secondary education and sought to increase access to education and improve education quality. In some cases, the grants contributed directly to equity through providing specific assistance to disadvantaged groups, as is the case of **Mongolia** for disabled students and **Indonesia** for students from poor families. Moreover, the grants aimed to increase administrative efficiency as part of the global trend towards decentralization and greater school autonomy.

Specifically, the policy objectives that the four countries pursued were as follows:

- To improve equality in access to school for all children, especially the poorest and the disadvantaged, by reducing the cost of schooling to parents.
- To improve education quality.
- To strengthen school operations and management through greater school autonomy.
- To improve administrative efficiency.

These four countries and others have adopted policies and legal provisions specifying state obligations, which indicate resource needs and the possibilities of resource mobilization for education. The results of these policy-level steps depend, however, on whether or not the policy measures and legal provisions are implemented with diligence and determination. In regard to translating policies into meaningful action, countries vary in terms of their capacity, political culture and governance systems, including decentralization of governance.

# Adequacy of resources

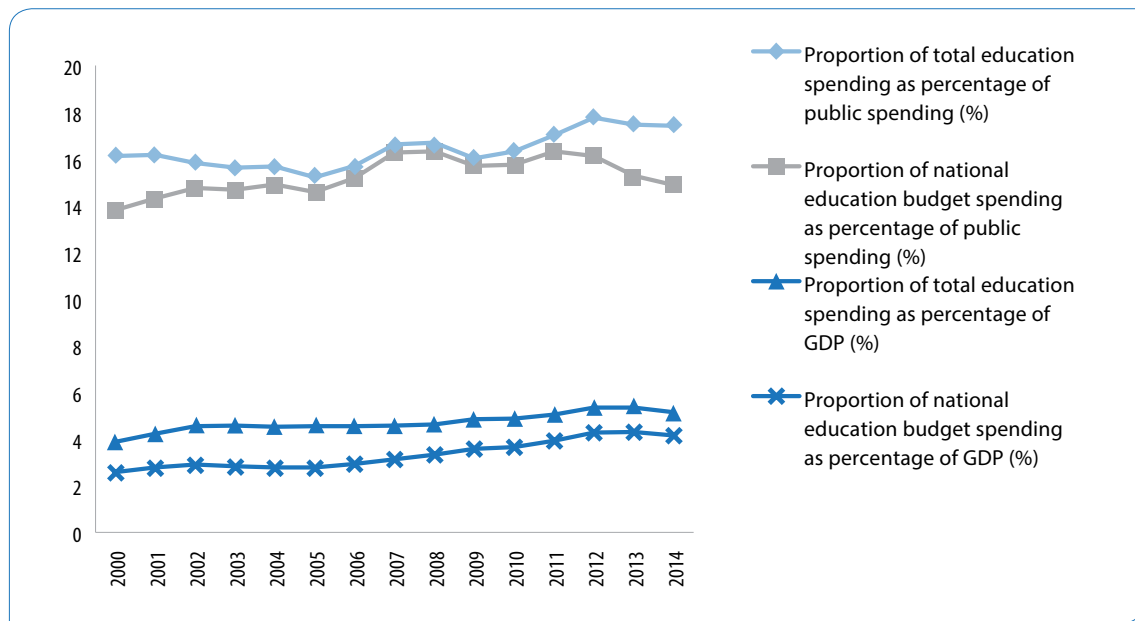
This chapter discusses issues of adequacy of financial resources for primary and secondary schools in the surveyed countries of the Asia-Pacific region. It begins with a description of the overall resource situation in primary and secondary schools and the trends in resource availability. This is followed by a description of non-public and household resources for school education. Next, the chapter discusses the quality and adequacy of information regarding resources. Finally, concluding observations are made about criteria for resource adequacy in primary and secondary education.

## 3.1 Total resource envelope and trends in primary and secondary education

The gaps in terms of EFA 2015 goals that were inherited for the post-2015 era, and the new ambitions for Education 2030 indicate the magnitude of the challenges facing countries in the Asia-Pacific region, for which they will require resources. In this diverse region, it is not possible to discern an overall pattern. The countries in the region differ in the amounts of public and non-public financial resources available to meet their needs. Countries also differ in terms of development levels, as well as in governance and education system structures. These differences must be considered in understanding the state of school financing, budget performance and capacity building.

**China** can be viewed as a class by itself because of the size of its school population and school system, and because of the scale of its effort, the progress it has made and its approach to meeting future challenges. Similarly, **India** must be regarded as a special situation as well. The states (provinces) in India are comparable to or larger than many countries, and show a level of diversity, both in progress and challenges, that can be seen in entire countries.

China's investment in education experienced a steady upward trend from 2000 to 2014, as shown in Figure 4, indicating an advance towards adequacy in basic education funding during that period. However, once the 4 per cent of GDP goal required by government policy was achieved in 2012, growth in investments in education began to show signs of slowing down.

**Figure 4: Education spending in China, 2001-2014**

Incidental to the reform of China's public education financial system, the proportion of non-fiscal funds (national education allocation and other resources) in total education revenue declined after 2006, but started to stabilize at close to 18 per cent after 2012.

**Indonesia**, another high population country, presents a different facet of the adequacy of education resources. The BOS School Operational Assistance programme, which supports the national government's objective of nine compulsory years of basic education at the elementary and junior high school levels, in both public and private schools, was introduced in 2005 in part to reduce the economic burden of education on poor families by abolishing school fees and providing the funds to schools to pay for the costs. The funds are allocated to schools based on student numbers and must be managed in accordance with central government technical guidelines. The value and effectiveness of this initiative, as indicated in the country case study, is not as much in the amount of resources available to schools as in the skills and capacity to manage the resources at the school level and at district and sub-district levels from where support and supervision are expected to be provided.

In **Uzbekistan**, nine years of compulsory education are offered at state cost to all children, and plans are underway to extend compulsory education to 12 years, including senior secondary. In the period 2013 to 2015, the share of education in GDP was around 5 per cent while the share of education in the total state budget was 24 per cent. For school education (K-12), these figures were 3.5 per cent of GDP and 18.5 per cent of state budget, respectively. Parents are required to pay modest fees for state-run residential schools for students with special needs. In order to optimize financing public education, trusts for off-budget funds have been created, such as the Republican Book Trust Fund, the Fund for Development of Children's Sports, and the Fund of Reconstruction, General Overhaul and Equipment. The main concern in Uzbekistan appears to be improving efficiency in budget management rather than increasing the availability of resources. Nevertheless, Uzbekistan has asked for a substantial amount of financial assistance from the Global Partnership for Education. While Uzbekistan seems to have adequate budgetary resources for primary and secondary schools, this is within the current framework of education priorities and quality benchmarks. If Uzbekistan wishes to raise its aspirations regarding quality and equity standards, this is likely to result in changes to its resource needs (Uzbekistan Country Case Study).



As of 2015, the funds allocated by the government to schools in **Cambodia** through programme budgets and grants, such as the School Improvement Grant (SIG), were not sufficient for schools to operate and maintain facilities without seeking other sources of incomes. Schools seek support from local communities, parents and external donors as well as from NGOs to supplement the limited financial resources received from the government. When there are large-scale repairs or construction works to do, such as building fences or adding soil to the school compound, schools normally seek contributions from communities through fundraising events or donations. Nine out of 12 schools interviewed as part of the school finance study reported they had conducted at least one fundraising event during the previous two years. In the same period, four schools also requested contributions from parents on a voluntary basis. The salaries of workers such as cooks (for the school breakfast programme) and cleaners (in the case of schools in Phnom Penh) are not covered by the government's budget as they are not officially employed. Therefore, contributions are sought for their salaries. The most common form of involvement by parents in education activities is by contributing money. Some schools are able to generate extra income by renting spaces for bicycle parking and through operating food shops inside school compounds. Such income-earning opportunities are less viable and therefore less common in primary schools in rural and disadvantaged areas. In nine of the 12 schools interviewed for the Cambodia study, most school building construction and some other activities were supported by private donors and NGOs (Cambodia School Finance Case Study).

In South Asia the situation with regard to resources is more problematic, with more serious access, equity and quality issues in this sub-region. In general, budgetary allocations to education are lower in South Asia compared to the rest of the Asia-Pacific region, both in terms of proportion of GDP and proportion of the total state budget. This is evident in the country cases of **Pakistan, Bangladesh, Nepal** and **Bhutan**.

The **Bangladesh** country case study found that education's low share of funding in terms of GDP and the low allocations to primary, pre-primary and secondary education are inconsistent with the government's goal of achieving quality and equity in education. Substantially greater public resources are necessary to ensure a minimum level of quality and equity in education within the framework of the national five-year development plan and the new education policy the country adopted in 2010. Equally important is the effective use of scarce resources. A case in point would be a *upazila*- (sub-district) based capitation formula for budgetary allocation. This step would help ensure greater fairness and transparency in public allocations, as they would be based on the number of children in the *upazila*, and planning and optimal use of resources, including stipend expenditure, could be at the school level. At the same time, more resources are needed at the school level along with greater discretion with accountability in their use (Litvack and Seddon, 2000). Similar arguments can be made for other countries in the sub-region, including Pakistan, Nepal and India.

In **Timor-Leste** schools, a grant of USD 1 per student per month has been introduced at the primary level to cover the costs of essential operations, such as materials for students and teachers and small repairs and maintenance. Fees have been abolished. The objective of the grants is to improve school performance, but a study of the school grants that had been in effect since 2004 revealed that the formula for the amount paid resulted in insufficient funds to bring about substantial impacts. The study also found deficiencies in participatory planning for the grants at the school level, as well as in maintaining the information system on which the grant amounts are determined, and in proper use of the funds, despite elaborate guidelines, or perhaps because the guidelines are too restrictive (Case Study Timor-Leste, 2015).

Overall, the resources for school education are not adequate or satisfactory in any of the Asia-Pacific developing countries examined in the current study. While some countries have a greater degree of adequacy than others, all need to improve the efficacy of their resource use and develop skills and capacities for this purpose.

## 3.2 Non-government resources for education

The notion of public responsibility for education, especially at the primary and secondary levels, and the perception of education as a public good, have led to the provision of education by governments and a corresponding focus on government expenditure on education. While this is important, public resources are far from the only resources spent on education. Private and household contributions and expenditures must also be taken into consideration as this affects the management of resources. Furthermore, it is not possible to judge the adequacy, efficiency and equity of education resources without a reasonably complete picture of resource availability and use.

### Sources of non-public resources

Sources of non-public financial sources for education include:

- Profit-making businesses
- Social enterprises, which aims to be self-supporting rather than seeking profits, and may include low-cost private institutions.
- Faith-based institutions where ideology rather than profit is the motivation.
- Education services run by non-governmental organizations (NGOs).
- Philanthropic contributions that may include running institutions or assisting public or non-public institutions.
- Corporate social responsibility contributions.
- Contributions in cash and in kind to public sector institutions.
- Public-private partnerships.
- Costs directly borne by households (that do not enter into the school budget).

Table 7 presents the diversity of forms of non-state provisions for the delivery of primary and lower secondary education services.

**Table 7:** Types of providers and forms of non-state school finance provisions

Types of providers	Forms of non-state provision
<ul style="list-style-type: none"> <li>• NGOs</li> <li>• Faith-based organisations</li> <li>• Philanthropic associations</li> <li>• Commercially-driven private entrepreneurs</li> <li>• Spontaneous community-based</li> <li>• Family/household spending</li> </ul>	<p><i>NSP support to government service delivery</i></p> <ul style="list-style-type: none"> <li>• Supply inputs to government schools (e.g. learning materials)</li> <li>• Support to infrastructure development (e.g. school buildings) for government schools</li> <li>• Support in the management of government-run schools</li> <li>• Supply of associated services (e.g. inspections, teacher training)</li> </ul> <p><i>NSP service delivery</i></p> <ul style="list-style-type: none"> <li>• Manage and run government schools</li> <li>• Establish and run non-state schools</li> <li>• Private tuition to supplement government services</li> </ul>

**Source:** Adapted from Rose, 2007.

Table 7 does not list all possible non-public education resources and provisions. In practice, the forms of provision are often mixed and do not fall exclusively into a category. The country case studies give an idea of the extent and nature of non-government contributions rather than a detailed picture.

In **Bangladesh**, the costs of secondary education are reported to be a rising concern for parents. Monthly school fees paid by parents, which represent a small proportion of the total costs of secondary education (excluding private schools), are only one of the types of costs to parents. Three such costs are: i) admission, session and yearly development fees; ii) academic participation fees (for coaching arranged by school); and iii) extra-curricular activity fees. A study found that while the average monthly fee is 117 Bangladesh taka (BDT) in the 45 schools surveyed, the average annual burden of other fees for a secondary student is 2,923 BDT (USD 35), with fees more than double this average in large cities. This amount does not include money spent on private tutors by families (Bangladesh Country Case Study).

Primary education up to Grade 5 is regarded as a government responsibility in Bangladesh, and more and more formal primary schools are being 'nationalized'. As of 2015, government schools served about 80 per cent of primary students. At the secondary level, 99 per cent of schools are 'non-governmental' because they are established and managed by local managing committees. However, the bulk of teachers' salaries are paid by the government, and education authorities are responsible for the regulatory provisions regarding curriculum, learning assessment and staff management in schools that wish to receive government subventions. In general, therefore, secondary schools are public rather than private institutions. In fact, secondary schools in Bangladesh may be better described as public-private partnerships, with considerable government control.

The primary schools in Bangladesh represent a purer form of public institution. Although primary education is supposed to be free of any charges, schools collect small amounts as exam fees for each terminal exam (three exams per year) and sometimes charge an admission fee at initial entry. Contributions are also collected from parents to pay extra personnel and other costs that are not covered by the government. The government encourages local level participation in school financing, supplementing the modest School Level Improvement Plan (SLIP) fund. Thus, in spite of the government's obligation to provide free and compulsory education until at least Grade 5, fees are still paid. An *upazila* (sub-district) primary education planning mechanism was introduced as part of a move towards decentralized financial and budget planning and management, but progress in this regard has been limited and slow (Box 1).

**Box 1: School and local level finance programmes in Bangladesh**

The School Level Improvement Plan (SLIP) and Upazila Primary Education Plan (UPEP) were introduced under the second Primary Education Development Programme (PEDP-II), which envisaged decentralization as a means of improving the quality of education and equity in primary education. It sought to encourage the active involvement of stakeholders at the grassroots level in planning, implementing and monitoring educational activities for children. Under this programme, a bottom-up planning process was promoted, via the SLIP and the UPEP. A system of preparing an annual operations plan for primary education was established, reflecting the needs identified through analysis of the SLIP and UPEP outcomes.

The SLIP initiative aims to give schools some authority and responsibility for meeting needs related to learning outcomes and primary school completion. The initiative provides modest funds directly to schools. In the 2012/13 financial year, 31,807 schools were given SLIP grants, totalling 95.5 crore BDT (12 million USD) at the rate of 30,000 BDT (USD 400) for each school, covering 53 districts and 280 of the 500 odd upazila (sub-districts) in the country. Fifty upazila were also provided with training and modest UPEP preparation support totalling 5 lac BDT (6,000 USD) at the rate of 10,000 BDT (120 USD) for each upazila in 26 districts. Monitoring of the SLIP is mainly by the Upazila Education Offices, School Social Audit Committees formed for this purpose, and the District Education Offices.

Evaluation of the SLIP indicates that these grants have enabled schools to plan and implement improvements in their physical environments, towards creating a welcoming learning environment for children. However, the evaluation also found that the SLIP initiative had made very limited progress in supporting a fuller decentralization of education management functions, including those which impact directly on teaching and learning.

UPEP preparation training received by upazila officers was provided by master trainers of the Directorate of Primary Education, who, in general, found it difficult to grasp the issues of UPEP preparation. Master trainers mostly depended on the UPEP guidelines, as the concepts and methods were somewhat new and they themselves had received inadequate training. An analysis of a number of selected UPEPs (submitted to the Directorate of Primary Education SLIP-UPEP Cell) presents a disappointing picture. The upazila provided general information about the upazila along with the data from a situation analysis, rather than providing a well-articulated universal primary education plan for the upazila (Institute of Child and Human Development, 2013).

Results of the school review of Primary School Quality Level, key performance indicators and aggregated SLIP data of the participating schools, which were expected to be incorporated into upazila planning under UPEP, were generally lacking. A rolling plan approach anticipated in the UPEP did not materialize. Few upazila seemed to have a good understanding of plan preparation and budget making. This suggests the need to undertake effective training programmes for all upazila officers, enabling them to eventually develop the UPEP in consultation with other members of the UPEP committee. This has to be preceded by the formation of strong trainers and technical support teams who could work with the upazila.

**Source:** Institute of Child and Human Development, 2013, cited in Bangladesh Case Study of School Finance, 2015.

In Bangladesh and in many other countries, there is widespread and growing private tutoring at both the primary and secondary levels, driven by the need to achieve good results in public examinations at the end of grades 5, 8, 10 and 12. The fees for such tutoring are not paid to schools so therefore do not enter the school budget. Furthermore, it appears that in many countries in the region there is a veritable 'shadow' education system based on private coaching and tutoring, such that the real action is away from schools and is fuelled by household spending (Bray, 2007).

Similarly, in **Bhutan** the number of private schools is growing, with government encouragement as part of a cost-sharing approach, especially for those parents who can afford to pay the fees. This situation appears to have been accepted as necessary in the context of limited overall resources. At the primary level, some parents prefer private schools, as they are seen as providing better care and education. At the secondary level, those students who do not qualify in the competitive exams often enrol in private schools. Private schools in Bhutan generally cater to better-off students, and at the higher secondary level, almost half of the schools are private.

Private schools are likewise seeing rapid growth in **Nepal**, making up 16 per cent of schools at the primary level, 25.8 per cent in lower secondary and 32 per cent at the secondary level (with 15.4 per cent, 15.9 per cent, and 19.1 per cent of total students, respectively). The private schools are mostly concentrated in the urban and semi-urban locations, serving children of relatively privileged families (Nepal Country Case Study).

The government strategy in Nepal is to encourage deliberate complementarities between public and private spending, so as to extend free education services to groups that are marginalized, such as those from the Karnali zone, the Dalit community, other disadvantaged ethnic groups, and the poorest families. Other students, who are not disadvantaged, are expected to pay school fees, as determined by the schools and approved by the district education office (Box 2). Private sources of funding for education in Nepal include support from individual, households, communities, charitable organizations and non-governmental organizations. Moreover, private schools pay a 0.5 per cent social responsibility tax on their total income as a contribution to education for rural development, which promotes equity.

#### **Box 2:** Sources of funding in a Nepalese school

The government is the major source of funding for Sagarnath Secondary School in Sarlahi District. However, the school, in accordance with a general consensus and the consent of parents, also collects development fees (fees for school development) from students, at a rate based on their grade. For instance, 60 Nepalese rupees (NPR) are collected from students in grade six, NPR 70 for grade seven, NPR 80 for grade eight, and so on.

Another source of income for the school is the fish pond that the school created under a government forestry project. The income from the pond is divided, with 60 per cent of the income going to the school and 40 per cent going to the Sagarmatha forest project. A local member of parliament has also provided some funds. Other sources of income include the local bazaar, which provides about NPR 50,000 per year to the school, and the Local Village Development Committee (now a municipality), which provides NPR 50,000 to the school each year. As the school has been performing well and achieving the best results in the district in the School Leaving Certificate examinations in the recent years, it is possible that the municipality will increase this amount.

According to the head teacher of the school and the School Management Committee chairperson, the support of parents is strong. Parental support has helped to achieve and maintain a high pass rate in the school leaving certificate results. However, the school remains under-financed with quite low per-child spending.

**Source:** Country Case Study for Nepal

Most countries' plans and strategies for education financing do not tend to take into account non-government resources, except in terms of rhetorical expressions of support for the general idea of public-private partnerships. For example, **Myanmar's** 'Basic Education Sector National Education Promotion 20-Year Long-term Plan 2011-2031', which reflects the president's 10-point education policy, does not take into consideration private and household contributions to

education, despite the growth in their importance. The plan includes three key policy measures: (i) free, compulsory primary education; (ii) stipends for students from needy families; and (iii) a school grants programme that seeks to increase access to education.

Aside from increasing demand for private tutoring and coaching outside school, demand has risen for private schooling itself, which indicates that people are dissatisfied with the public system, which lacks the necessary resources for quality improvement. Online instruction and private coaching for university entrance examinations are also important segments of private education. According to the business consulting company, Deloitte, China's private education industry was set to surpass the USD 100 billion mark in 2015 (Deloitte, 2012).

The private sector in **Pakistan** caters for the education needs of about one third of children in the country. Children are enrolled in diverse streams, with some following the public sector national curricula, while others opt for curricula under the Cambridge International Examinations. The majority of children reside in rural and semi-urban areas and are from low income families. These students attend public schools that offer free education. Such schools are perceived to offer poor quality education due to a lack of physical facilities, a shortage of teachers and the absence of suitable teaching-learning materials. In Punjab, about 42 per cent of school level students are served by the private sector (55 per cent in urban areas and 34 per cent in rural areas) (Pakistan country study).

The Pakistan study findings suggest that private schools are creating a social divide, with the better-off segments of the population, especially those in urban areas, opting out of the public system and paying for the private education of their children using their own resources. This may also be the case in other countries in the region. This situation reduces the stake in the public education system of the more educated and politically-influential sections of the community, further aggravating the equity in education challenges. It is therefore necessary to examine how financial allocations, management and incentives can address this issue, and to examine the public and private resources for education and use these to promote the national quality and equity objectives.

In **Japan**, compulsory public education, which is six years of primary education and three years of lower secondary education, is free in principle, but parents have to pay for various types of school necessities, including non-textbook materials, school lunches and school trips. In order to ensure access to good quality compulsory education for all children, the municipality implements a student aid programme. Under this programme, the government covers all or part of the household contributions required for compulsory public education, depending on the income levels of parents. The central government contributes half of the aid that children from the lowest-income households receive. In fiscal year 2013, 15 per cent of primary-aged and lower-secondary-aged children became beneficiaries in this programme (MEXT, 2015).

### Private institutions' provision of basic schooling

Reliable data are lacking, but, as noted above, it appears that in many countries in the Asia-Pacific region, the popularity of private education institutions is growing. The numbers of private education institutions and their share of total students are increasing. Private institutions differ, with some offering instruction in languages other than the main national language and others preparing students for external high school certification, such as the international baccalaureate and other external certification. Some are entirely geared towards profit-making and are proprietary, while others are non-profit and low-cost, with partial subsidies and donations. They meet a demand for diversity and services that the public system cannot cater to.

**Bhutan** appears to be relying on private institutions, especially for secondary education, so as to meet the growing demand for education, while public institutions serve those who cannot afford the costs of private institutions. **Nepal's** approach is to allow public schools to charge fees to families that can afford it and to waive the fees for children from poorer families. This serves as a kind of cross-subsidization within public sector institutions. In **Pakistan**, scholarships are offered by the Education Trust Fund that permit children from disadvantaged families to attend private schools.

In **China**, from elementary schools to higher education institutions, the ratio of public education funds decreases progressively with higher levels of education. In 2008, on average, public education funds as a percentage of the budgets of general elementary schools, junior middle schools, senior middle schools, and institutions of higher education were 92.9 per cent, 89.3 per cent, 60.0 per cent and 47.6 per cent, respectively. The number of students in non-governmental schools as a percentage of total enrolment numbers in the same year were 39.7 per cent in kindergartens, 4.6 per cent in elementary schools, 7.7 per cent in junior middle schools, 11.6 per cent in senior middle schools, and 22.8 per cent in general tertiary institutions (China School Finance Case Study).

In **India**, the right to education law adopted in 2009 requires that private institutions reserve 25 per cent of their entry class seats for children for poor families living in the local area surrounding the school. The education sector in India is poised to witness major growth in the years to come in which the private sector will play an increasingly important role. India's private education market in 2015 was estimated to be worth 100 billion USD and was comparable in size to that of China. In 2013, higher education constituted 59.7 per cent of the private market share, school education 38.1 per cent, pre-school 1.6 per cent, and technology and multi-media the remaining 0.6 per cent. (India Brand Equity Foundation, 2015). Similarly, in **Indonesia**, the trend is towards growth of private services at all stages of education. In 2010, private institutions enrolled 17 per cent of the students in primary education, 36 per cent of those in lower secondary, and 50 per cent of those in upper secondary (Clark, 2014).

There is a contradiction when basic general education, a public good that is recognized in national constitutions and legislation, is being offered as a product for sale, but private provisions can be considered necessary in countries that have limited resources and capacity limitations in the public sector that make it impossible to meet the quantity and diversity of education services demanded. The involvement of the private sector in education, including by profit-making institutions, is therefore necessary in some cases to relieve the burden on the public sector. Furthermore, certain qualitative features demanded in education services perhaps should not be offered at public cost, so should be left to the private sector (Tooley and Dixon, 2005; Tooley and Longfield, 2015).

Nevertheless, the provision of compulsory education by the private education sector can create inequity, contribute to divisions in society and deny the passage of all children through a common educational experience in their formative years. It is therefore important to consider mitigating approaches, assess their efficacy and apply the measures that work in each specific context.

## Household contributions

Household contributions to education are often very high. In Bangladesh, for example, the Household Expenditure Survey and Education Watch data indicate that per capita household expenditures on primary and secondary education are, on average, of the same order as per student government recurring expenditures. That is, when household resources spent on education are taken into account, education spending is double that of the government's budget allocations



(Bangladesh Country Case Study). The incidence and burden of household costs, whether these remain on or off the school budget, have obvious policy implications regarding mobilization and effective use of resources as well as equity.

It is necessary to examine whether there is any potential for combining public and other resources to promote equity in education, promote public-private partnerships on policy and programme development as a strategic way to improve quality with equity in education services. Initiatives in this respect have been seen in Nepal and Bhutan as well as in the school grants implemented in South-East Asia.

School grant projects, such as those in **Cambodia, Indonesia, Lao PDR, Timor-Leste, Vanuatu and Viet Nam**, have been justified on the grounds that these serve to eliminate or reduce the household cost burden for basic education and therefore promote equity and quality in education. In practice, the results have been mixed, with the expected reduction in the burden not being achieved in some cases, and families continuing to contribute financially. Moreover, in cases where some reduction in the household spending burden has been achieved, the benefits in terms of equity and quality have not always been realized. In fact, many countries including **Indonesia** and **Uzbekistan**, have retained household payments to cover specific costs, since government grants have not been enough to ensure quality with equity in the education services.

### Summary of findings on non-state school finance

Overall, in many developing countries in the Asia-Pacific public resources and capacity remain inadequate for ensuring basic education of acceptable quality for all, and non-public resources are being relied upon to fill the gap. However, non-public resources are also insufficient, and this situation poses a contradiction regarding state commitments and obligations to fulfil the right to basic education.

## 3.3 Decentralized education finance

Public resources for education are allocated in the national budget and often also in the provincial government budgets and/or other budgets at lower levels of the government structure. Adequate and reliable data about these allocations are often not readily available. Furthermore, contributions from the community, local government and parents are not necessarily accounted for in the formal school budgets.

The country case studies show that decentralization of education management, including of financial and budget management, take different forms in the various countries. Decentralization seems to bring improved access and increased financial resources when certain conditions for success are met. These include ensuring equity and accountability and building local capacity (UNESCO, 2014).

In **Pakistan**, following the eighteenth amendment to the constitution in 2010, education was fully devolved to the provinces, and the federal government is no longer directly involved in the education sector in the provinces. Federal level funds are provided as block grants to the provinces, out of the national exchequer, through the National Finance Commission (NFC) award, according to a set formula mainly based on population but also considering other factors, such as poverty and the development index.

Responsibility for school education was devolved by the provincial governments to the districts in 2001. The provincial governments provide block allocations to the district governments through



the Provincial Finance Commission award, according to a set formula similar to that of the federal government funds transfer to the provinces. At the district level, budgets are prepared with funds received from the provincial government as well as funds collected from the public. The district coordination officer, the administrative head of the district, is supported by the executive district officers for activities in the various sectors, including the education sector. At the school level, the main source of resources other than the allocation from the district government is the non-government parental contribution collected in what is known as the Farogh-i-Taleem Fund, which consists of payments of 20 Pakistan rupees (PKR) per student per month.

Many countries that do not have a federal structure or arrangements that involve a sharing of authority between different levels of government, have likewise adopted a decentralization and have devolved responsibility and authority to the school or institution level, including some financial control. The school grant initiatives examined in this study show that the transfer of responsibility for fund management to the school level has been undertaken in various ways.

In **Indonesia**, BOS School Operations Assistance funds from the central level have become the primary source of funding for schools, since a decentralized approach was adopted in 2005. Additional sources for schools are central government funds other than education allocations, regional government funds, and contributions from parents and other non-government entities. Schools consider the financial contributions from these additional sources to be unreliable as they are in small quantities, and are irregular and voluntary in nature. Furthermore, such funds are not allocated to schools' operational needs, they instead tend to be earmarked for specific, often non-teaching, purposes (IIEP-UNICEF, 2014; Indonesia Country Case Study, 2014).

In 1985, **China** remodelled its basic education management system such that town-level governments, rather than the central government, were given the main responsibility for providing funds to local schools. The period 1980 to 1993 witnessed considerable growth in local authority over education funding, but local governments, especially the lowest-level township governments, came under greater expenditure pressure, which in turn intensified regional inequality in education development. Meanwhile, the devolution of responsibility led to the unintended result of making local education fundraising less responsive to local needs, as fewer and fewer fiscal resources trickled down to meet basic education needs (NGok, 2007). China has made attempts to address the problem of inadequacy and inappropriate allocation of resources. As of 2015, education funds came from two sources, namely: fiscal and non-fiscal. The fiscal (budget) sources are by far the larger of the two. According to the *China Educational Finance Statistical Yearbook*, national fiscal education sources include public budget funds, education taxes and fees imposed by governments at various levels, public sector enterprise education outlays and revenues from school-run enterprises. Non-fiscal education sources include contributions from community groups and individual citizens, social donations and tuition and fee revenue, which vary greatly by location in terms of amounts and contributors.

**Viet Nam** divides the financial resources for the national education system in a similar manner to China, with two categories, namely: state budget sources and other sources. The other sources for public schools include tuition fees, admission fees and revenues from consultancy, technology transfer, manufacturing, sales and services by educational institutions, investments and donations by both native and foreign individuals and organizations. Private schools mobilize their own resources at the local level and are not included in the government education finance plan or budget. At community and private schools, the costs of construction of infrastructure, teachers' salaries and other financial resources for school activities are the responsibility of the founders. Such schools are operated on the basis of self-financing and self-balancing of revenues and

expenses, but they must adhere to the national legal audit and accounting mechanism. In profit-making private schools, the surplus after meeting school expenses and payment of government taxes is distributed to shareholders in the school. Furthermore, community and private schools can rent or use government land or infrastructure, if schools undertake tasks assigned by the government. They can also benefit from tax incentives and credits (Viet Nam Country Case Study).

In **Cambodia**, the funds to supplement government budget allocations come from NGOs, private donors, parents, the community and incomes generated locally by schools. It is difficult to estimate the amount of funding from NGOs and private donors and communities, since such funds are not channelled through the government and not well-recorded in school budget records. As most of the government budget is allocated for recurrent expenditures, the resources contributed by NGOs and private donors, including by political figures, are often used for school buildings and facilities. As of September 2015, 52 international NGOs and 85 local NGOs were registered as members of the NGO Education Partnership, an organization aiming to promote active collaboration between NGOs working in the field of education in Cambodia (NGO Education Partnership, 2015; Cambodia Country Case Study, 2015).

In **Japan**, a large proportion of the costs of public basic education are covered by local governments, which have their own tax revenues. Accordingly, the prefecture, which is the highest-level local government, covers two thirds of the cost of teachers' salaries. Half of the facility expenses and the other types of current expenses are covered by the municipality, which is the first-level local government. The central government covers one third of the teachers' salaries, all the costs for textbooks, and half of the facility expenses. (MEXT, 2014).

Three conclusions emerge from the sketch above of sub-national and local level resource mobilization.

- In the public sector, national financial allocations, channelled through and complemented to some extent at the province or state level in a federal structure, are the principal sources of school finance. For private sector institutions, managed directly by non-government providers, resources are mobilized by service providers, depending mainly on cost recovery from the beneficiaries. However, hybrid varieties exist, such as non-government secondary schools in **Bangladesh**, in which the bulk of the resources for teachers' salaries and some of the capital costs are borne by the government. Similarly, in **Timor-Leste**, Catholic schools are seen as part of the national system and are eligible for school grants from the government. In **Vanuatu**, community schools receive grants as government assistance.
- Education institutions continue to rely on a variety of non-governmental funding sources for operations in spite of school grants (that seek to remove or at least reduce household expenditure on children's education). Funding sources include fees paid by parents, contributions from the community, philanthropy and income earned by schools from entrepreneurial or service activities other than their main education programmes. As noted above, these are considered by schools to be unpredictable and they are often not included as part of the regular budget management system, so lack the appropriate records, transparency and accountability.
- Given that there is increasing interest in decentralized management, the mobilization and use of financial resources at the local and school level are likely to grow in importance. The potential of these resources should be better exploited, and stronger management and accountability mechanisms must be applied, beginning with recording and accounting for these resources properly, counting them as part of the total school budget and building capacity at the school level to better manage these resources.

### 3.4 Concluding observations

In the Asia-Pacific region as a whole and in almost every individual country examined under this study, resources for education are inadequate and, consequently, the EFA 2015 goals were not fully met. To avoid a repetition of this scenario in pursuing SDG4 and the Education 2030 agenda, it is necessary to make changes.

The framework for Education 2030 has, as a global guideline, set a target for public education resources of between 4 per cent and 6 per cent of national GDP and/or between 15 per cent and 20 per cent of the national budget. This was a compromise because many government representatives, from both rich and poor countries, balked at more ambitious targets, which were advocated mostly by civil society groups (UNESCO, 2015b).

While many countries in the Asia-Pacific region have already reached the indicated benchmarks for GDP share and national budget share, they nevertheless do not seem to have met the adequacy requirements in resources for their national education systems. Adequacy of resources for education is more than having a sufficient quantity of resources, it is a function of the efficient and effective use of those resources to achieve the desired outcomes.

In the business world, the strategic capability of an organization is considered to depend on the resources and competencies that it possesses. These must reach a threshold level in order for the organization to survive. Organizations that wish to excel must have strategic capabilities that competitors find difficult to emulate, such as unique resources or an organization's core competencies (Innovation for Growth, 2012). This concept of a threshold of inputs and resources to achieve desired results can be transferred to education systems. Without reaching a minimum threshold of inputs and resources the system cannot produce the expected results. Furthermore, if the threshold is not reached, the resources may be spent in vain and wasted. For example, when primary schools lack the funds to pay for a sufficient number of teachers, this results in classrooms being packed with up to 100 students, sitting elbow-to-elbow, which is not likely to lead to any meaningful teaching-learning. Similarly, when schools do not allocate a minimum of 1,000 hours to teaching a curriculum with ambitious learning objectives inspired by international standards, the result will be that teachers merely skim the surface of the lessons, with no attention paid to what the learners' are gaining from it, especially when the class has over 60 students. Unfortunately, such conditions are not rare.

Adequacy, efficiency and equity in resource planning and management have to be viewed and conceived in a holistic way. This study sought to understand the structure of education services, the history and tradition in education administration, the cost patterns, and how the different components fit together in the system to make the classroom and the school function to produce the desired results.

# Efficiency of school finance

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This chapter addresses questions about the efficiency of school finance, including efficient ways of mobilizing financial resources and their efficient management. The chapter examines the structure of planning and decision-making regarding primary and secondary education with reference to financing, and mechanisms for transfer and disbursement of funds to schools. This is followed by a look at budget planning, management and implementation at the school level and at supervisory and support levels. Finally, the chapter considers the monitoring of budget implementation, trends in resource mobilization and budget management, and the availability of necessary tools and data. The specific needs and possibilities for improvement are examined for each of the ten case study countries.

## 4.1 Planning

School financing has to be planned and managed in the context of the overall structure of policy-making, planning and decision-making on education financing in the country, and must be supported by that structure. With the move towards greater decentralization in planning and management of resources, which involves the devolution of certain responsibilities and authorities to the sub-national and local levels, individual schools are being given greater responsibility and control over managing resources and budgets. However, the content and scope of sharing responsibilities between different levels of the governance structure vary considerably across countries. Similarly, the level of devolution of budgetary and financial management to individual institutions also varies.

Decentralization to bestow greater authority and responsibility at the school level, with the objective of improving resource efficiency and budget management, has been a recurrent theme in school finance reform initiatives. Box 3 describes the concept of decentralization in the context of education finance.

**Box 3: What is decentralization?**

**Decentralization** is the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government levels or to the private sector. There are several types of decentralization: political, administrative and fiscal, each with different, but overlapping, characteristics, policy implications and conditions for success.

**Political decentralization** aims to give citizens and their elected representatives more power in public decision-making. It is often associated with pluralistic politics and representative government, but it can also support democratization by giving citizens or their representatives more influence in formulating and implementing policies. Political decentralization often requires constitutional or statutory reforms, development of pluralistic political parties, strengthening of legislature, creation of local political units and encouragement of effective public interest groups.

**Administrative decentralization** seeks to redistribute authority, responsibility and financial resources for providing public services among various levels of government. It is the transfer of responsibility for planning, financing and managing certain public functions from the central government and its agencies to field units, subordinate levels of government, and semi-autonomous public authorities and corporations. Administrative decentralization has three major forms: deconcentration, delegation and devolution.

- **Deconcentration** is the redistribution of decision-making authority and of financial and management responsibilities among different levels of the central government. It is considered by many to be the weakest form of decentralization and is used most frequently in unitary states. Within this category, policies and opportunities for local input vary. Deconcentration can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces and districts, or it can create strong field administration and local administrative capacity under the supervision of central government ministries.
- **Delegation** is a more extensive form of decentralization. Through delegation, central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. For example, governments delegate responsibilities when they create semi-autonomous school districts.
- **Devolution** is the transfer of authority for decision-making, finance and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally-recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underpins most political decentralization.

**Fiscal decentralization:** Financial responsibility is a core component of decentralization. If local governments are to carry out decentralized functions effectively, they must have adequate revenues — raised locally or transferred from the central government — as well as the authority to make expenditure decisions.

**Source:** Litvack, and Seddon, 2000.

Decentralization, both in terms of governance of education and of financial provision and education budget management, presents both opportunities and challenges. In the Asia-Pacific region, the challenges include capacity limitations at various levels, pre-existing disparities in funding patterns, dependence on private financial contributions, and gaps in accountability processes and structures (Table 8).

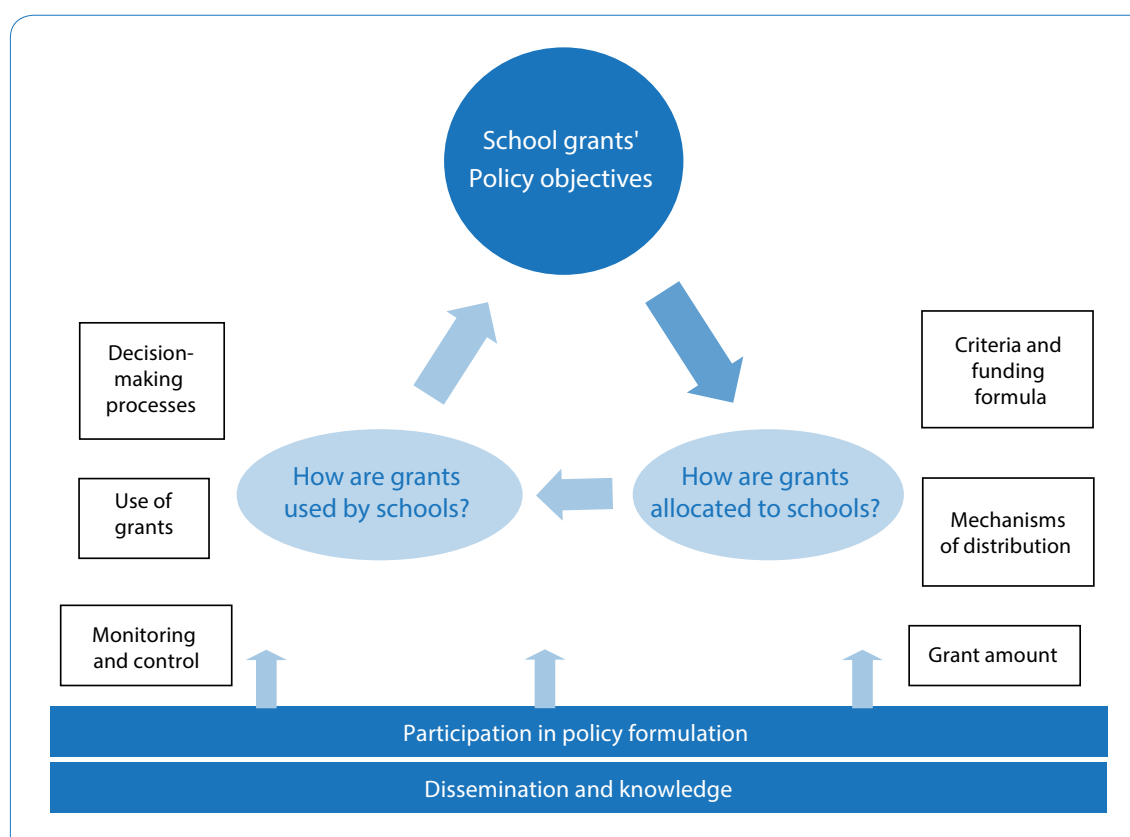
**Table 8:** Challenges faced in the decentralization of basic education financing and delivery in seven Asian countries

Country	Under-funding	Limited local fiscal capacity	Regional disparity in funding	Private financial burden	Roles and responsibilities	Accountability	Local capacity
Cambodia		✓					
China	✓		✓	✓			
Indonesia				✓		✓	
Lao PDR	✓	✓			✓	✓	✓
Nepal	✓	✓			✓		
Pakistan	✓					✓	✓
Viet Nam			✓	✓			✓

Source: UNESCO, 2014.

School grants have been used in some countries with the basic aim of getting more resources to schools and using these more effectively through decentralization of overall educational planning and management. How this aim is served depends on the articulation of the school grant objectives, the design of funds transfers and their use, the effective implementation of the mechanisms of distribution, and whether objectives, design and implementation consistently support each other (Figure 5).

**Figure 5:** Objectives, design and implementation of school grant policies in the context of decentralization



Source: Adapted from IIEP-UNICEF, n.d.

## 4.2 Use of funds at the school level

This section examines the process of preparation and allocation of budgets, along with the criteria and standards, with examples from several countries in the Asia-Pacific region.

### Budget processes

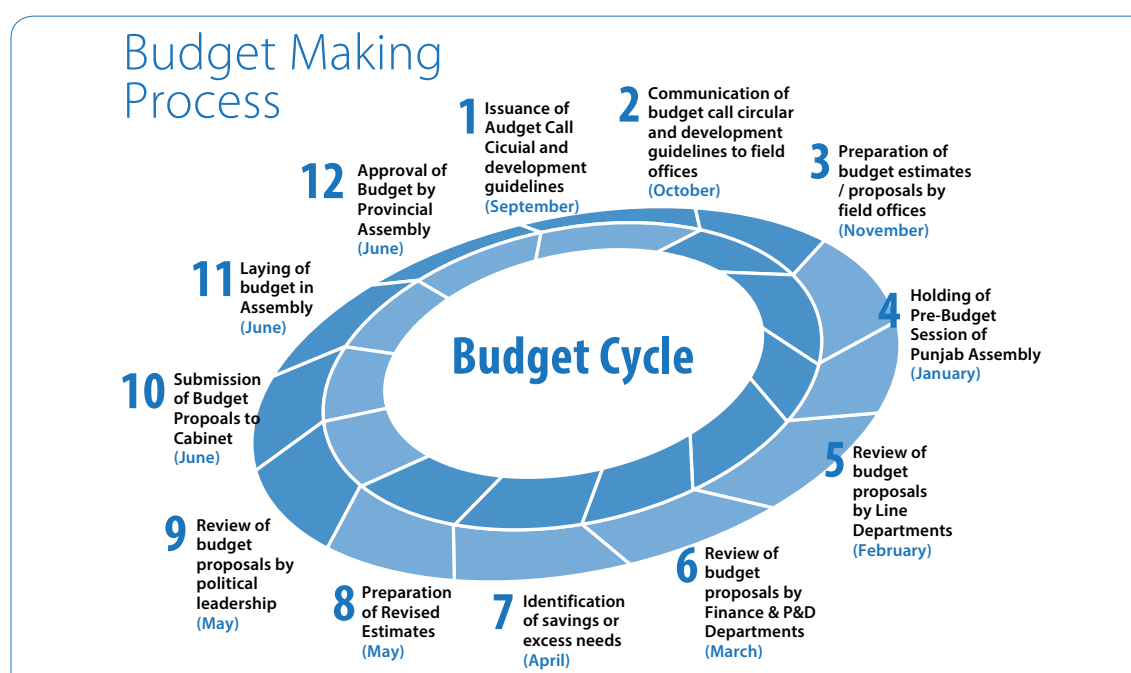
In **Pakistan**, the indicators show a well-defined budgeting process in place within the medium-term fiscal framework (World Bank, 2012). According to the Punjab Budget Manual of 2008, the budget cycle is distinct and the call circular issued annually provides guidelines for the budget process. The process encompasses policy input both in the beginning, through cabinet-approved departmental ceilings, as well as at the end, resulting from a debate in the provincial assembly before the start of the fiscal year.

At the district level, the executive district officer for education is responsible for day-to-day functioning of the education department. The functions of this office include transfers and postings of teachers and other staff, monitoring, general administration, identification of new development needs and overseeing of programmes aimed at improving the quality of services delivered by the education department.

Salaries of all government employees, including teachers, are deposited by the district accounts officers directly into the private bank accounts of the employees. The executive district education officer, who is supported by other officers, prepares a detailed annual budget for all employees every year (based on the requests received from individual schools on an actual basis) and maintains all records of current and development budget allocations and expenditures (City District Government of Rawalpindi website).

While a detailed budget planning process has been put in place (see Figure 6), the complex procedures for releasing budgetary allocations, along with weak financial management capacity in the line agencies, are sources of delays and inefficiencies in budget execution. The study found that gaps in the financial accountability process result in poor delivery of services.

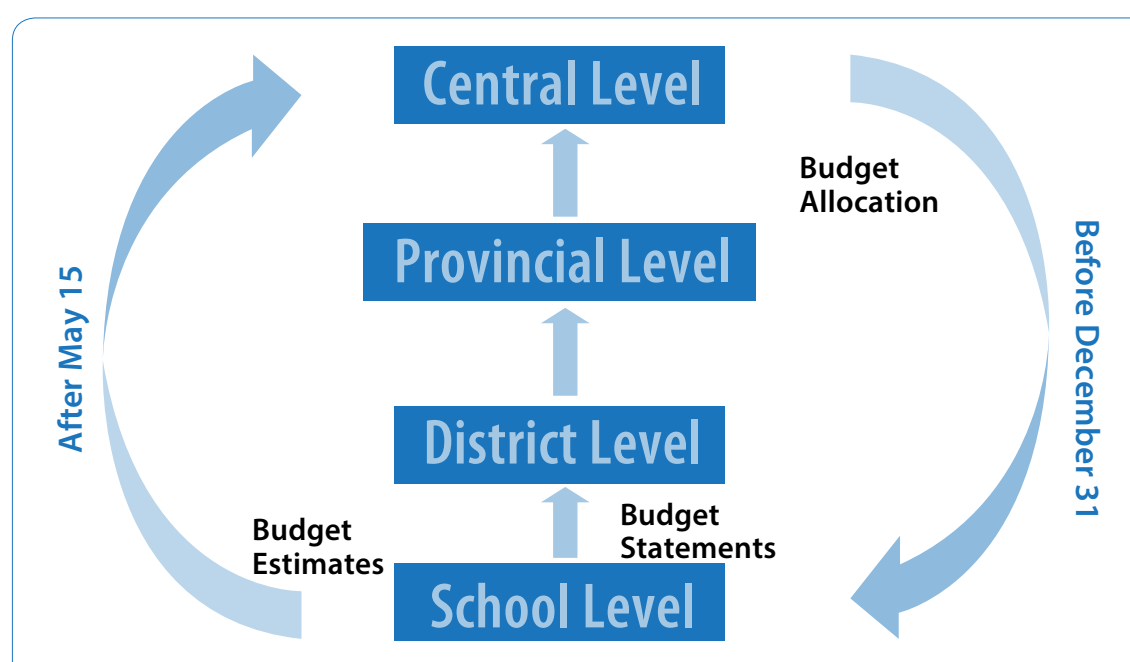
**Figure 6:** Provincial education budget-making process in Pakistan



In **Viet Nam**, social and economic reforms (Doi Moi), launched in 1986, have changed the economy from being centrally planned to being market based. In 2006, Viet Nam launched a policy on the autonomy of public administrative units, which was revised in early 2015 and stipulated a mechanism for exercising the autonomy of public administrative units, including public schools. Based on a new law, public schools have autonomy not only in terms of organizational management but also in terms of finance planning, use and management.

To prepare the annual national budget plan, due at the end of each academic year,<sup>5</sup> the lower levels of government and the schools prepare financial plans for the upcoming school year and they submit these plans to the next-highest level of government (e.g. schools submit to districts and districts submit to provinces). During July and August, a meeting about the annual national budget plan is held at the Ministry of Finance. In September, the ministry reports to the central government and a decision is taken on how to balance the budget. Then the budget is presented at the national assembly meeting in October. Once the budget is approved by congress, it is implemented, re-tracing the steps that were followed for its preparation and approval, this time going from the central to the local level. The procedure for budget preparation and allocation is illustrated in Figure 7.

**Figure 7:** Budget preparation and allocation mechanism for schools in Viet Nam



**Source:** School Finance System in Viet Nam, 2015

According to Article 102 of the Viet Nam Law on Education, financial agencies are responsible for allocating the education expenditures for the school year, while education management agencies are responsible for managing the allocated budgets and other incomes as regulated by laws.

The main sources of school funding, according to representatives of primary schools visited for the study, are: the state budget, the community, parents and grants. At the end of each academic year, schools prepare and submit to the district finance division their financial plans for the upcoming school year. These plans are based on the real budgets of previous years and the expected

<sup>5</sup> An official school year or academic year starts on 5 September and finishes by the end of May the following year. Summer holiday last for three months, from June to August.



requirements of schools in the following year. The budget plans can be changed in accordance with the number of pupils enrolled and any additional activities being implemented.

The state budget goes from the provincial people's committee to the district people's committee and then to the schools' provincial exchequer accounts, which are in the names of the principals. Teachers' salaries are usually deposited directly into teachers' bank accounts. When schools have procurement contracts, the money is transferred directly to the accounts of the providers. Pupils' extracurricular activities are also paid for in this way. For expenditures over 100 million Viet Nam dong (VND), schools need to get approval from the district finance division.

Under pilot reform activities, greater authority and autonomy are being vested in schools. For example, each school participating in the pilot project Viet Nam Escuela Nueva, (VNEN), which is modelled after the Columbia Escuela Nueva for individualized and multigrade instruction, has a bank account in the name of the principal. VNEN schools can also use the state budget for their activities, such as for buying VNEN textbooks for the school library. Principals interviewed for the study have not seen any delays in the payment process from the treasury to schools. For schools that do not have autonomy yet, teachers' salaries are paid through the Bureau of Education and Training (BOET) under the Ministry of Education. When schools give rewards to teachers for good performance, they first get approval from the head of the district people's committee.

### School grants to promote greater school autonomy

School grants (also known as 'block grants') are increasingly being used as one of the policy options for improving the management of school finances. The UNESCO Asia-Pacific regional office, in collaboration with UNICEF, IIEP, Kobe University and others, examined the school grant experience in several countries in the region.

As of 2015, primary and secondary schools in **Cambodia** received at least two types of school grants, namely: the School Operations Budget and School Improvement Grants. The latter is a project-based approach supported by SIDA and is not part of the regular budget. In addition, some selected lower secondary schools are funded by the Asian Development Bank's School Improvement Grants as part of the third Education Sector Development Programme. After the completion of the School Improvement Grants, the Ministry of Education, Youth and Sport (MoEYS) may combine the School Operations Budget and the School Improvement Grant to form the School Improvement Fund.

In **Viet Nam** there are three main initiatives relating to the provision of school grants: (i) Viet Nam Escuela Nueva supported by the Global Partnership for Education; (ii) the School Education Quality Assurance Program (SEQAP) funded by the World Bank; and (iii) the Lower Secondary Education for the Most Disadvantaged Regions Project by the Asian Development Bank. All three projects focus on extending education access and quality to disadvantaged children and adopt direct school grants as a strategy. Reaching and serving those in remote, mountainous and border areas as well as island terrain in Viet Nam is considered particularly difficult (NAPEA, 2012; SEDP, 2006-2010; and EDSP 2001-2010 and EDSP 2008-2020, cited in Viet Nam Country Case Study).

Schools receiving school campus and satellite support grants choose, from an eligible expenditure list, how to spend the grant funds. The list includes learning materials, school furniture, small repairs, teaching assistants and food for students in satellite campuses. The schools have to follow the procedures mentioned in the project implementation manual to withdraw cash from the bank account or pay for a contract. Documentation necessary for the release of funds include: a plan, receipts, minutes of meetings and procurement contracts. School communities are expected to be

able to participate in preparing the grant proposals and oversee grant implementation to ensure that the funds are used as stipulated in the grant contracts.

Both the Viet Nam Escuela Nueva and the SEQAP provide subsidies for school lunches to students from poor families. The subsidies for lunch were increased from 10,000 VND per lunch in 2014 to 15,000 VND in 2015. As of 2015, the funds from VNEN covered 20 per cent of the pupils' lunch in schools while SEQAP covered 40 percent.

### A pragmatic financial decentralization approach

While Viet Nam is undertaking trials to decentralize and to devolve greater responsibility to schools, in **China** attempts are being made to find a balance between authority and accountability across different levels of government, rather than cede direct responsibility to the school or the local level. Due to the limited fiscal capacity of town-level governments in China, the public funds for basic education were inadequate, and students' families undertook a large economic burden for their children's education. Insufficient government investment led to some serious problems for rural schools, including a shortage of recurrent funds, comparatively low salaries for teachers, insufficient teachers and a downward trend in teaching quality.

In 2001, China changed its education finance system from being 'township-based' to being county-based. The county governments took over the duty of providing funds for primary and secondary schools. However, many counties with low fiscal resources were nevertheless unable to break away from the dilemma of inadequate investment in basic education. Consequently, a new basic education fiscal system was introduced in 2006, under which the funding was to be provided fully from public finances. In this way, the burden on families was relieved. Moreover, a clear-cut assignment of responsibility among different levels of government was determined in a pragmatic way. Thus, compulsory basic education financing is shared between the central and local governments. The provincial governments are in charge of funding the plan as a whole and the responsibility of fund management falls to county-level governments.

China's education finance system has experienced a transformation from being a highly concentrated authority with financial responsibilities at the central government level to having a multi-level funding model. China's reform path led from centralization to decentralization and then returned to a middle ground half-way between the two extremes. Through a series of reforms and change, the responsibility for education funding and government obligations at all levels have been better defined. The prevailing system of financing basic education is based on the governmental mainstay role and the fact that families and communities supplement government funds (China Country Case Study; NGok, 2007; see Box 4).

**Box 4: China: Assessing the efficiency of fund use**

China has many institutions and laws to regulate the use of public education funds, such as the education law, public budget law and the compulsory education law. Strong management approaches are in place that foster the efficient use of funds for primary and secondary education, such as the national treasury's centralized payment system and public purchase system, and external supervision systems exist to support efficiency, such as the accountability system, regular and non-regular auditing activities, and performance evaluation by public financial departments. Furthermore, China also has an internal supervision system.

In evaluating the efficiency of China's basic education funding, it is necessary to first determine what type of efficiency is in question. There are three types of efficiency: economic efficiency, management efficiency and institutional efficiency. The first type is usually defined as the ratio of inputs to outputs. Measuring the outputs of basic education is a challenge, and conclusions vary from case to case. Low efficiency in the use of education funds is a global issue and China is no exception. The second type of efficiency stems from the approach and results of fund management, and the third type relates to the practices of relevant institutions and the process and rationality in their use of funds.

Large differences were seen between the sampled schools in their efficiency in terms of the use of public education funds. Overall, however, the interviewees at the sampled schools and local officials felt that useful mechanisms were in place for ensuring economic efficiency. Such mechanisms include funds for enhancing school infrastructure and facilities, meal subsidies for students in need, school grants, improved learning materials, and the transfer payment system to increase teachers' wages.

**Source:** China Country Case Study of School Finance, 2015

**Per capita funding**

The recent introduction of systems of per capita financing in Eastern Europe and Central Asia, justified in part on the grounds of decentralization, was an important departure from the way in which most education systems had been financed previously. Per capita financing is seen as a transparent and fair modality for fund allocation to schools. It is a means of determining the amount of funds to be made available while giving greater authority to the school level, and can be applied to block grants or to specific-purpose allocations. Per capita funding is also viewed as a means of improving efficiency in education spending, increasing competition among schools, increasing school autonomy and improving the accountability of expenditure, with the overall goal of improving the quality of education and increasing equity in the system.

World Bank country studies in Eastern Europe and Central Asia (Armenia, Estonia, Georgia, Lithuania, Poland and the Russian Federation) illustrate how countries transitioning from a communist system undertook financing reforms and moved to per capita financing. Decentralization of responsibility to either local governments or directly to schools features prominently in such reforms (World Bank, 2011).

Variations of per capita funding, often in combination with other criteria, have been applied in the Asia-Pacific region when resources have been transferred to the school level through the school grant mechanism. The nature, level and impact of decentralization of basic education financing and provision vary greatly between countries, as these depend on the circumstances and institutions in each country. In some circumstances, decentralization has contributed to improving, even if only slightly, the performance of education systems. However, there are many countries with centralized, predominantly publicly-delivered education that have well-performing education systems, as indicated by their results in international tests of academic performance such as the Programme for International Student Assessment (UNESCO, 2013).

## Decision-making process for the use of the school funds

In **Viet Nam**, schools hold general meetings at the start of the school year. At these meetings the teachers and staff decide their priorities and the budget expenditure rate for each item. The school budget is then used in accordance with financial regulations. In most of the interviewed schools, only the school management committee was found to be actively involved in the management of state-provided funds.

For school grants, such as the VNEN, the Department of Education and Training (DOET) holds a dissemination workshop for principals and key school staff in each province to explain the benefits, the eligibility criteria and the responsibilities of the participating schools. If schools are successful in getting a grant, the schools each establish a grant management unit, which includes the principal, vice principal, accountant and representatives of the teachers and parents. The unit assigns responsibilities to each of the members. For example, the principal is put in charge of the overall grant implementation, while the accountant prepares the documents related to expenditure for school activities. The representatives of the teachers and parents cooperate with the unit in implementing activities and verify whether the grants are used appropriately. In addition, schools follow other requirements according to the guidelines provided by the provincial grant management committee.

VNEN grants can be used for teachers' professional activities and training and also for the purchase of materials. For the first category, teachers in VNEN schools can, through the teachers' representatives, suggest to the school grant management unit the types of professional training they would like to have. For the second category, procurement of three types of items is permitted: printed materials such as training materials and learning guides; equipment for schools (e.g. computers, photocopy machines and digital cameras); and furniture for classrooms in the VNEN model and minor repairs or renovations. The first two types of items are procured by the provincial project management unit. Decision-making for the last type is made at the school level, involving head teachers, the physical infrastructure committee and the accountant. Parents' associations may also be consulted. Schools then submit their plan to the provincial project management unit. After receiving approval, schools must implement the activities as submitted in the plan.

Decision-making at the school level for the use of school grants requires setting up a mechanism involving the stakeholders at that level, as illustrated by the case of Myanmar (see Box 5).

**Box 5: Myanmar: Decision-making for the use of school grants**

In the decision-making process for the use of school grants, the key mechanism is the school grant committee at the school level. The committee consists of the head teacher, who serves as the chairperson, one member from the local authority or community, two parents (one male and one female) from the parents' association, two parents from the local Build-Operate-Transfer body of the local authority, one teacher from primary level, one teacher from middle school and another teacher, who serves as the secretary. This committee performs the following activities:

- Publicize the implementation activities of the school grant to the parents and community.
- Develop a school improvement plan.
- Prepare a budget plan based on the amount of grant funding received.
- Submit both the school improvement plan and the budget plan to the respective township office for grant approval and withdrawal.
- Make decisions on the use of the school grant in accordance with the budget plan.
- Supervise the use of the school grant in accordance with the departmental account codes that are allowed by the Department of Basic Education.
- Fill out the relevant forms, keep accounts as instructed and publicize them for transparency purposes.
- Submit reports for the period between 1 April and 31 March.

Local stakeholders have the opportunity to offer their opinions and suggestions freely through the Parents and Teachers Association and the Build-Operate-Transfer body, or in person to the committee or the head teacher. The committee has to strictly follow the guiding principles in the operational guidelines. Sometimes problems arise from differences between proposed and actual prices of items. The head teacher has to confirm with the committee the activities to be undertaken under the school grant and report them to the committee.

Regulations do not permit expenses to be incurred between the end of March and the end of June. There may be difficulties about securing the grant funds during this period as many schools are situated far from banks. In this case, the head teacher or a responsible person in the community serves as the treasurer to ensure that grant funds are kept secure.

*Source:* Myanmar Case Study of School Finance, 2015

**4.3 Criteria for the distribution of school budget and grants**

When making decisions regarding financial allocations to schools, consideration is given to which schools and students should receive government financial support and for what activities. Objectives and expenditure items are then decided accordingly. Then decisions are made regarding how much should be allocated for each of these items.

In Viet Nam, provinces and centrally governed cities allocate a budget to each school according to the provincial people's committee decision, which is normally based on the number of pupils enrolled, applying a per capita formula. This varies depending on the local cost of living and the size of the school. For example, Lao Cai, a rural location, spends about 2.5 million VND per primary student while in Hanoi per student spending is about 3 million VND. The money is deposited into schools' accounts under the names of the principals. When schools withdraw cash or make payments for procurement contracts, they need to submit documents to the treasury. School construction and major restoration contracts funded by provincial budget are managed at the provincial level. Money is transferred directly from the school account to the suppliers based on submitted documents from schools.

**VNEN.** Schools are selected in 20 priority provinces across the country based on four major criteria: (i) percentage of students classified as belonging to poor families; (ii) the percentage of children belonging to ethnic minority groups; (iii) the distance of the school from the district centre; and (iv) the percentage of students whose performance is judged as 'average' or 'poor' by Vietnamese student achievement measures (World Bank, 2012).

**SEQAP.** Schools participating in SEQAP are mostly located in disadvantaged provinces that have half-day or mixed-day schooling. For the Viet Nam study, only one SEQAP school was included in the sample. This school had a high proportion of disadvantaged students. Most of its pupils were ethnic minorities. The school needs to provide students with lunch twice a week and a full day of schooling for the whole week to satisfy the criteria of SEQAP.

In **Pakistan**, some districts are disproportionately disadvantaged in terms of their share in education expenditure. District expenditure accounts for about two thirds of total education expenditure in the provinces. By and large, it consists of salary and non-salary expenditure for primary, middle and secondary schools. Development expenditure is planned and executed by the provincial tier. In Punjab in 2012/13, three districts (Faisalabad, Gujrat and Lahore) out of a total of 36 districts accounted for 18 per cent of total district education expenditure, in part because of their large student population. With over three quarters of the total education funds spent on personnel, little is left for allocation at the school level following the needs-based rational criteria for allocation and use of funds.

The school grant initiative in **Vanuatu** follows a similar method of transfer of funds to schools through provincial and district level intermediary layers. The grant criteria (Box 6) illustrate the efforts to ensure expenditures are made for the permitted purposes. The grant is designed to cover the operational costs of schools, so only applies to certain authorized items.

**Box 6:** Items authorized and not authorized for school grants in Vanuatu

Authorized items	Items not authorized
<ul style="list-style-type: none"> <li>• Electricity, kerosene, oil, fuel for use in school buildings.</li> <li>• Transport for head of school or bursar to visit the bank in the provincial centre for school banking, or to undertake shopping for school needs, and other essential school related activities.</li> <li>• Rations for students.</li> <li>• Boarding supplies for students.</li> <li>• Teaching materials and stationery.</li> <li>• Photocopying.</li> <li>• Administration costs.</li> <li>• Freight.</li> <li>• Books.</li> <li>• Desks, chairs, school furniture.</li> <li>• Maintenance of school buildings.</li> <li>• Maintenance of school vehicles and equipment.</li> <li>• Wages and VNPF contributions for ancillary staff.</li> </ul>	<ul style="list-style-type: none"> <li>• Loans, advances and gifts.</li> <li>• Wages and salaries for non-certified and or unqualified teaching staff.</li> <li>• Maintenance of school houses.</li> <li>• Expenditure of over 500,000 Vanuatu vatu (VUV) per item (e.g. new permanent classrooms, large generators), unless approved in writing by the MoE.</li> <li>• Daily transport to or from school for students and staff.</li> <li>• Entertainment, hospitality, alcoholic beverages and kava.</li> <li>• Subsidies for establishing a commercial activity within the school.</li> </ul>
<p><i>Source:</i> IIEP-UNICEF, 2014. pp. 67 and 71</p>	

In 2006, **China** initiated a new mechanism to ensure funding for rural compulsory education and exempting parents from paying tuition for compulsory education. In 2008 this was extended to cities and towns. Basic education financing was gradually fully integrated into the scope of the public budget. A new compulsory education fund guaranteed the sharing of funding responsibilities pro rata according to different education development projects among government agencies at the central and sub-national levels. Accordingly, governments at different levels shared the funding burden by way of general transfers and earmarked transfers for specific purposes. The former consist of general public funds for schools and salary transfer payment for teachers from regular budgetary funds. The latter include funding projects, such as the 'two exemptions and one subsidy' project (free tuition, free textbooks and living allowances for students from rural areas and poor families). Other examples are special funds for building maintenance and renovation of rural primary and secondary schools, subsidies for rural schools, subsidies for nutritious meals for rural students and the National Compulsory Education Project subsidy in poor areas.

China's broad criteria, based on education priorities, are determined at the national level and are applied, with discretion, across the diverse circumstances in the country, rather than relying wholly on a formula-based transfer payment system. Each government level determines its basic education funding criteria on the basis of its own financial capacity and education development objectives, rather than by a resource allocation formula. The education funding criteria of a lower level of government are expected to comply with relevant requirements and regulations of governments at higher levels. For example, in 2014 the central government required that the total public fund per pupil at all levels of governments in the middle and western regions would be 600 China yuan (CNY) per primary school student and 800 CNY per junior secondary school student. In the eastern region it was set at 650 CNY per primary school student and 850 CNY per junior secondary school student. The corresponding funds were still pro-rated among central and local finance providers, applying different proportions for regions of the country according to their economic development status. In the western and middle regions, the proportions were 8:2 and 6:4 respectively, between the central and sub-national governments, while in the eastern areas, the sharing proportions between central and local finance varied depending on the province.

Governments at the sub-national level complied with this pro-rating mechanism. For instance, Guangdong Province divided all the counties under its jurisdiction (including cities and districts) into five grades, depending on their economic conditions, and then determined the provincial share ratios for compulsory education funds as 100 per cent, 80 per cent, 56 per cent, 40 per cent and 20 per cent, respectively. The funding needs were calculated by multiplying the total number of enrolled students with the public funds allocated per pupil. However, the actual budgets and transfers of fund per pupil were still determined through negotiations between the fiscal and education departments, using the formula as a guideline. The same mechanism was also applied to various types of project-specific school grants.

In **Mongolia**, where the move towards decentralization of educational management and school finance began in the 1940s, the funding formula is adjusted in light of schools' profiles and characteristics. The process is similar to that in China. School funds, allocated from the government, have a 'variable' and a 'normative' (or fixed) component. The variable costs are calculated on the basis of an index that includes teacher salary items (base salaries and benefits) and other operational expenses such as stationery, books, periodicals and postage and communication costs. The school location (central or remote) and the number of students are taken into account. An additional index was introduced in 2007 to provide services to children with special needs. The local cost of living is also taken into account. Each year, the government determines the amount



of variable cost per student. The fixed costs are meant to pay for the school running costs such as heating, water, electricity and sewage. These costs are calculated based on the schools' past expenditures. A base of fixed costs for an institution, complemented by an allocation for variable items, represents a pragmatic approach, which can be responsive to the local context and the specific profile of a school. This is a need identified in many country cases (IIEP-UNICEF, n.d.).

Certain countries, such as **Bangladesh** and **Nepal**, apply an incremental approach: adding a small increase over the previous years' allocation rather than applying specific criteria or a formula. Although the government schools at the primary level and heavily government subsidized schools at the secondary level in Bangladesh cater to the large majority of the student population of the relevant age, an area-based assessment of the potential clientele and planning for them is not undertaken systematically. An annual census of primary age children is undertaken, but this is carried out for a notional school catchment area for government schools by teachers in the respective community, mainly to track and encourage student enrolment. It tends to be incomplete and may not be wholly reliable, mainly because of the existence of diverse non-government providers of education in the 'catchment' area. The assumption appears to be that some provider will take care of the children. In practice, a significant number of children are likely to be left out.

In Bangladesh, government allocations of inputs and budgets without clearly stated criteria and standards result in great variations between school facilities, teaching staff, and student outcomes, even for the same types of schools, including those fully supported by the government. Over recent decades, the sector wide approach to primary education development in Bangladesh has brought about some general improvement in provisions, but the issue of rational and effective use of resources remains a challenge (MoPME, 2011). At the secondary level, a government subvention to schools seems to operate on the basis of providing a minimum amount of support rather than adequate support based on objective criteria (Bangladesh Country Case Study).

#### **4.4 Mechanisms for transfer and disbursement of funds**

Public funds are transferred from the national and provincial levels to schools in various ways. In some cases, the funds are transferred directly to schools from the central level but, more often, especially in countries with large populations and dispersed geographic areas, schools receive funds through intermediaries at the provincial and/or district level.

Three quarters or more of expenditure on schools' recurrent operational costs is for teaching personnel. In general, salary costs at the primary level are transferred directly to the personal bank accounts of teachers, either from the central government or, in a federal structure, via the provincial government or the district government.

Governments generally pay teachers directly, rather than diverting the funds through schools, because this system relieves the school head and school management of the burden of managing such a major budget item. A consequence, however, is that schools have no control over this major cost item and schools cannot use teacher remuneration as an incentive and reward for performance. It therefore compromises, to some extent, the schools' ability to manage the teaching personnel for better learning results and school performance.



Mongolia, with a long history of decentralized fund and budget management, illustrates the evolution of the transfer mechanism to improve efficacy and budget performance in schools (see Box 7).

#### Box 7: Reforms in the mechanisms for transferring state funds to schools in Mongolia

Three reforms have taken place since schools began receiving funds directly from central and local authorities in the 1940s.

In 2002, a new funding mechanism was introduced so as to regulate the funding of schools more effectively. Under this mechanism, funds were allocated, based on variable and fixed costs, and were transferred to a State Fund in the provinces (aimag) and to a similar fund in the capital city, Ulaanbaatar, (and then, in the case of Ulaanbaatar, to the city districts).

In 2008, provincial and district education offices were established, and were staffed with budget officers. They were given a role in the fund allocation process, in collaboration with the State Fund. Under this mechanism, the district education office received and approved the budget plans of schools and allocated funds to schools, as they were more aware of schools' needs, while the State Fund was responsible for approving school expenditures and making payments.

This system was changed with the budget law of 2012, under which the Ministry of Education transferred budget responsibility to local elected bodies. Aimag and capital city governors were given responsibility for carrying out the government's duties concerning management of general secondary education.

Under this new framework, governors manage their budgets through city and provincial State Funds. The financial responsibilities of the city and provincial education offices have been limited, while the role of the State Fund has been increased. However, governors in some provinces have decided to involve education offices in the process of budget implementation. For schools, this latest reform has not made much difference; they still implement the budget planned by authorities above the school level.

*Source:* IIEP-UNICEF, 2014.

The picture is generally more mixed at the secondary level than at the primary level. In many countries the secondary level is not yet part of compulsory education, so the government does not have the same sense of obligation to provide for universal secondary education and take responsibility for paying for teachers directly. However, governments in many countries where nine or more years of education are compulsory, such as **China, Indonesia** and **Malaysia**, have taken responsibility for universal secondary education. In **Bangladesh**, although compulsory education extends only to Grade 5, the government, through a public-private partnership mechanism, pays the basic salaries of teachers in most secondary schools in the country by enlisting teachers in a 'monthly pay order' roll. The salaries are directly transferred to the teachers' bank accounts.

As noted above, several mechanisms have been devised to make resources available directly to the school, with the aim of promoting greater responsibility, authority and accountability for the use of resources, so as to improve student and school performance. Some funds are transferred to schools as block grants, some as earmarked funds, and some payments are made directly to students as stipends or conditional cash transfers.

Each of the various modalities has pros and cons relating to how they are planned and managed and whether a threshold of resources is made available to make a difference. Direct transfers to schools, block or earmarked, have become a favoured modality on the premise that funds available closer to where the beneficiaries are and where the decisions should be made are likely

to produce better results. The questions regarding good planning, good management, fairness of criteria and how they are applied are not necessarily resolved by the transfer of funds to schools, however. As countries, school personnel and communities accumulate experience with these modalities and learn how best to manage them, the outcomes are likely to be better.

At present, concerns about capacity of school staff to handle the tasks of managing resources have produced two consequences. First, there seems to be a reluctance to commit more than paltry amounts, no more than one US dollar per student per month in most cases, for transfer to schools. And in some countries it is much less: only about a dollar per child *per year* in Bangladesh under the SLIP grant. This is no doubt also a function of the total availability of education resources, the first call on which are teachers' salaries (handled directly by the government). A second consequence is that the lack of confidence in the ability of schools to handle the funds has resulted in a plethora of guidelines, instructions and regulations about how the funds can be accessed and used, and how accounts should be kept and how reports should be submitted. These have encumbered the fund provision. The lack of confidence and trust means that the procedures, regulations and instructions for fund use at the school level are often too burdensome. Often the teachers, head teacher and school management committee have to spend an inordinate amount of time managing the small amounts made available (out of proportion to the funds offered), taking time away from their teaching tasks. Arguably, a balanced, more pragmatic approach and greater trust in teachers and the local community are necessary.

Stipends and conditional cash transfers are being used in several countries as an incentive for families to send their children to school, as they reduce the opportunity cost of attending school for children from poor families. This serves as an equity measure. Questions can be asked, however, as to whether these payments are targeted enough to serve the intended beneficiaries, whether they are managed efficiently and honestly, and whether incentives of this kind are better than simply providing good services in schools to attract children. As the UNESCO EFA Global Monitoring Report 2015 notes, demand-side approaches such as stipends are popular, but may not be cost-effective. Furthermore, demand side finance may not be sustainable or effective in improving equity and efficiency in education, raising the need to consider alternative and potentially more cost effective supply side support options (GPE, 2014). Supply-side intervention, ensuring improved service provision, has increased access to primary school and improved the quality of education (UNESCO, 2015). Nevertheless, analysis is needed on which approach is the most effective for each country and local context and whether a combination of the two would overcome the obstacles.

Direct in-kind support to schools, with procurement at the central level, is another way of augmenting school resources. Textbooks and learning aids are cases in point. Provision of textbooks to all students is regarded as essential for improving teaching and learning. Several countries with large populations, including **Bangladesh, China and Indonesia** produce and distribute millions of textbooks to schools and students all over the country – a huge logistical concern and a large cost item. These countries have decided that this is a worthwhile effort to promote participation in quality education at the basic level. Textbooks may not necessarily address key issues, however. For example, it can be argued that official textbooks discourage students and teachers to read and use other materials besides the textbook and textbooks may promote the tendency for rote learning. The quality of the textbooks is another issue. Instead of printing textbooks every year on cheap paper and with shoddy production to save on costs, perhaps textbooks could be printed on stronger paper, produced more attractively and used for three years. This would also save paper and therefore reduce deforestation. **Uzbekistan** uses an alternative approach: textbooks are made available to students each year for a small rent. They are then re-used the following year.

Another form of direct support to students is school meals. This is known to have important positive effects on children's learning, attention spans and nutrition. India has introduced hot school meals for all primary school children as part of implementing the right to education law. Bangladesh has initiated pilot programmes and expects to expand them to serve more primary school children. Furthermore, lunch is subsidized for children from poor families through school grant projects.

Other measures include offering cash vouchers to students and subsidized student loans, enabling students to attend private schools. These measures are cost effective when public school facilities cannot be provided in certain locations, and are also seen as a means of encouraging diversity and competition in schooling, which may contribute to improving the quality of education. These practices do not seem to be used on any scale in the Asia-Pacific region, however.

## 4.5 Planning and managing capital budgets

Capital budgets, sometimes also described as development budgets, though they may not be exactly the same, are critical components of a school's resources. A school cannot function without capital assets and these account for substantial financial investments. Efficient and effective planning and management of the capital budget is important for successful overall resource management.

Capital expenditure represents the value of education capital acquired or created during the year. That is, the amount of capital, regardless of whether it was financed from a government allocation, the school's revenue or by borrowing. It includes expenditures for construction, renovation, major repair of buildings, new equipment and replacement of equipment. A capital investment requires a relatively large initial expenditure, but the plant and facilities have a life that extends over many years (OECD, 2002).

The country case studies undertaken as part of this study show several similarities across countries relating to the handling of schools' capital budgets.

- The amortized annual value (the total cost spread over the number of years in which the building or equipment is assumed to be useful) of capital investments for primary and secondary school is relatively small – typically in the order of 10 per cent or less (see Table 9 for India, Figure 8 for OECD countries, and Box 8 for Pakistan).
- In public sector schools, capital budgets are often managed at the central or provincial level rather than by the schools themselves. In federal systems, such as Pakistan's, the responsibility for allocations and budget implementation lies at the provincial level, though districts may be delegated the task of implementing construction efforts and larger renovation and repair jobs.
- Procurement of equipment is also managed by the education authorities rather than by schools. Equipment and consumable items (which are not part of the capital budget) are often supplied to the schools by the education department without the school handling the cash and actual purchase.
- Capital expenditures appear to remain unaffected by the movement to provide school grants and allowing schools to take responsibility for at least a part of the operating budget other than the salary of the teaching personnel, which is mostly handled at the central level.
- Overall, the inadequacy and shortage of resources for school operating expenses in recurrent budgets is reflected in funding for capital investments, for education infrastructure and equipment such as laboratories, libraries, computers and communication equipment.

Several of the country studies noted inadequacies in school infrastructure, including insufficient numbers of classrooms and poor condition of buildings, learning facilities, toilets and sanitation, lack of computers and a limited supply of electricity. Traditionally, in many of the Asia-Pacific countries, especially in South Asia and South-East Asia, the community and local philanthropists have contributed land and buildings for local schools, but this role has gradually been taken over by the government. Nevertheless, some schools still rely on local contributions, which are complemented by public allocations. The consequence is a varied picture in each country with regard to the adequacy and quality of the capital infrastructure of schools.

In India, overall, the revenue budget for education is 12.41 per cent of the total revenue budget, while the capital budget for education is less than 2 per cent of the total capital budget. Table 9 shows the revenue and capital budgets.

**Table 9:** Revenue (recurrent) and capital budgets for education in India, 2012-2013 (billions INR)

Indian education budget items	Total National Revenue Budget	Education Revenue Budget	% Edn. Revenue Budget /Total	Total Capital Budget	Education Capital Budget	% Edn. Capital/ Total
States and Union Territory	13,238	2,431	18.87	2,374	60.9	2.56
Centre	12,961	740	5.76	1930	-	-
Grand Total	26,199	3,238	12.41	4,378	676	1.54

*Source:* MOHD, 2014

Punjab Province of Pakistan illustrates the division of funding between capital and operating or recurrent budgets and the complexities in their management. As explained in Box 8, the relatively small amount of capital funds available adversely affects infrastructure provisions. The limited resources and the difficulties of making rational and fair choices in a context of scarcity are evident in this situation.

**Box 8: Expenditure on education in Punjab**

In Punjab 95 per cent of expenditure is of a current nature while only 5 per cent is of a development nature, leaving little or no room for improvement of infrastructure, physical facilities and other important items.

**Distribution of education expenditure (actual), by current and development (2012/13)**

	Actual expenditure (Rs m)			Distribution of proportions of education expenditure	
	Current	Development	Total Expend.	% Current	% Development
Punjab	186,763	9,323	196,086	95	5

**Source:** EFA 2015 Review, Pakistan

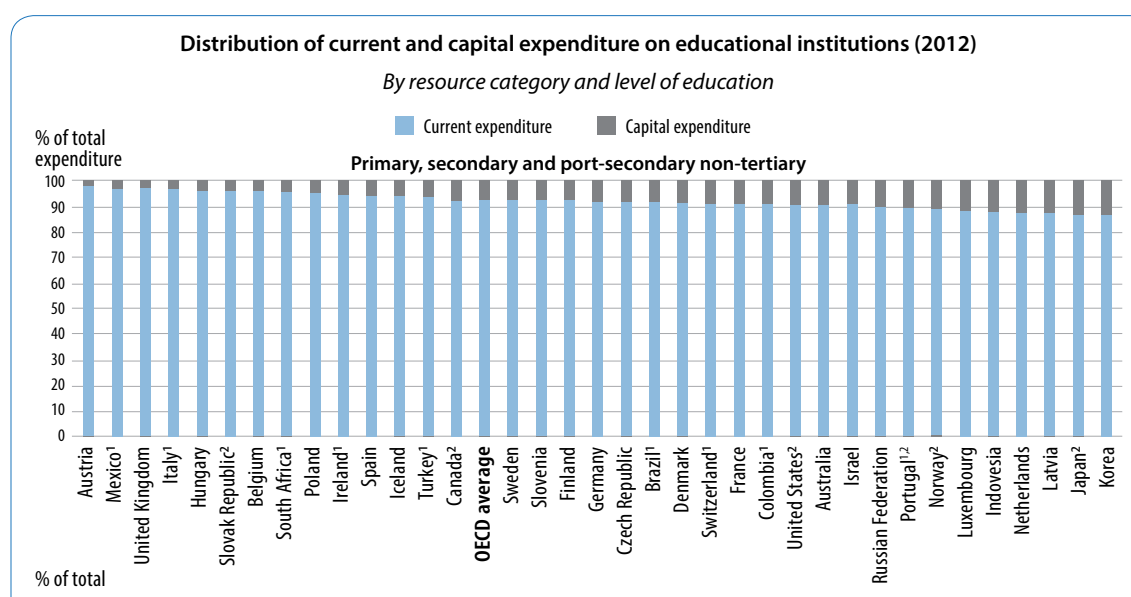
While there has been a policy shift and reforms in recent years, the education sector budget allocation at the national, provincial, district and school levels is still not adequate, even to meet operational expenses.

Complex education challenges. Pakistan's education challenges are strongly linked to the way public finance is planned, managed and monitored. Major issues include inadequate engagement of legislature in the budget-making process, insufficient allocations compared with the actual needs, untimely fiscal flow, wastage, high administrative expenditure and lack of transparency. There is also a very weak linkage between policy provisos, education data and budgetary allocations. The question is not only about finding more resources for education but also about ensuring better and more efficient use of the available meagre resources. This can be achieved by strengthening the education management information system and policy-making and ensuring effective implementation.

**Source:** Pakistan School Finance Case Study, 2015

As seen in Figure 8, the average capital budget in OECD countries for primary, secondary and non-tertiary post-secondary education, for fiscal year 2012, was 8 per cent, with a range from around 2 per cent in Austria to 12 per cent in the Republic of Korea. Data specific to the Asia-Pacific region were not readily available.

**Figure 8: Current and capital expenditure in primary and secondary education in OECD countries, fiscal year 2012**



**Source:** OECD, 2014, Table B6

The country case studies indicate that although most countries in the Asia-Pacific region are willing to devolve control over the operating budget to schools there is significant resistance in many countries to devolving control over the capital budget to schools. Some argue that it may be more cost effective for people at the local level to build and take care of their own school buildings rather than hiring building contractors at the central level and basing their work on specifications and standards at that level. On the other hand, others argue that when responsibility is devolved to the local level this can overburden local authorities and potentially lead to a drop in the standards and quality of construction.

## 4.6 Monitoring and control of school funds

When assessing the monitoring and control of school funds and budgets, questions include: What processes and mechanisms for monitoring, control, and reporting are used? What problems do schools face in monitoring and control of school budget? How are the monitoring results used to improve school budget management and school performance?

The country case studies addressed several of these questions. In **Viet Nam**, for example, each school has an internal monitoring committee, which serves as a means of monitoring all activities of the school. The committee checks the finance and asset management of the school at least once a year to ensure proper allocations and that utilization is in accordance with school regulations. In addition, external inspectors from the district people's committee are expected to visit schools once every two years, though these visits are sometimes conducted less frequently.

Monitoring activities are more regular for school grants. The Bureau of Education and Training or the department of Education and Training checks the overall situation of fund use at VNEN and SEQAP schools. They visit each school's classes to see the activities and work with accountants to check related documents. During the monitoring process, they advise schools directly on how to improve the effectiveness of using grants. Regarding finance management, the monitoring system is based on the amount of expenditure and whether they meet the requirements of the guidebook and satisfy the rules regarding the submission of documents. Sometimes the inspectors arrive unannounced. After each visit the inspectors share the evaluation results with the school and offer specific comments for improvement via email.

Grant schools are required to produce a quarterly report of their expenditure and submit receipts to the Department of Education and Training. After checking the accuracy and proper utilization of the grant, this department informs each school of the results of the monitoring process by email. After schools receive the results they hold a general meeting to report the results to all their teachers, staff and parents' association representatives.

Guidelines, procedures and regulations are provided to schools with the aim of easing the monitoring process and improving accountability, but the outcome depends on how effectively the rules are applied. Lapses are often unintentional and are due to a lack of skills and capacities among the concerned personnel at various levels.

In Punjab Province of Pakistan, schools do not always fully follow the guidelines and rules for budget preparation and management (Pakistan Country Case Study). The reasons for this are political constraints, capacity issues and bureaucratic inefficiencies. There are a number of issues affecting efficiency, including:

- Lack of enforcement of the deadlines set in the budget calendar. Accordingly, these deadlines are often not taken seriously, which results in delays. As a result, draft budgets are often not ready in time and are not presented to the district council on time.
- The budgets are not easily accessible to the general public, which limits public participation. Furthermore, the budgets are prepared in English, which makes them even less accessible to the public.
- Stakeholders are not fully consulted in the process of identifying and prioritizing new development projects. In particular, the steps between when the Budget Call Circular is issued and when the budgetary proposals are formulated do not allow for participation of the public and of elected local leaders and members of parliament. The budgetary proposals are only made accessible to the public when they are presented before the parliament for formal approval, and it may be too late to change much at this stage. In addition, elected councillors at the district level may submit and favour projects not meeting the fairness and prioritization criteria. However, officials have greater discretion and influence in budget making and approval than public representatives.
- There are often inadequate funds allocated for projects, which leads to projects being too small to meet the needs.
- Most district authorities lack staff with the necessary skills and capacity for efficient budget management and monitoring. According to the Pakistan case study, only a quarter of the districts had staff with the capacity to carry out the budget process effectively. Furthermore, only ten out of the 36 district governments had functional websites and only six districts uploaded their annual budgets to the websites (Pakistan Country Case Study). Similar problems exist in varying degrees in most of the countries that participated in the study.

According to staff interviewed at the visited schools in Punjab, district monitoring officers visit schools every month for monitoring school performance, including financial matters and maintenance of accounts. Monitoring reports are available online soon after each visit.

The **Indonesia** case study drew attention to issues relating to the fairness of the criteria, and relating to efficiency in management of the funds, irrespective of the amount. Many of the people surveyed felt basing allocations on the number of students in a school was unfair because these put certain types of schools at a disadvantage, including small schools that have a small student populations, schools that are remote and are difficult to access, schools that have few facilities, schools that have a high concentration of low-income parents, and schools that are located in provinces that have a high cost of living compared to Java.

Other participants in the Indonesia study felt that, irrespective of the criteria and the amount allocated, the critical question related to: how the funds are managed and who managed them. They felt that learning outcomes were likely to be better if the managers were transparent, honest and had the capacity to fulfil their financial management duties. In such cases, even small amounts of funding could make a positive difference as the funds were used properly. When managers are dishonest and lack skills in financial management, they are likely to waste funds (Indonesia Country Case Study). These observations indicate that efficiency issues, and monitoring of them, cannot be seen in isolation from adequacy and equity concerns.



## 4.7 Sustainability of reforms

What does sustainability mean in the context of education reforms? When reforms of social institutions are sustainable, the beneficial impacts of the change endure beyond the original time-frame of the project; they are diffused beyond the original spatial limits of the project and the activities acquire a life of their own, as they are adopted or adapted by concerned people. They are also integrated into the permanent institutional structure of the country (Eckman, 1993).

Noting that it is easier to detect something that is unsustainable than something that is sustainable, Eckman has argued that when judging the sustainability of a project or a reform initiative, it is logical to apply indicators that measure 'unsustainability'. 'Unsustainability indicators' can serve as early warning mechanisms to signal negative trends and point to a need for remedial action or course correction (Eckman, 1993).

Eckman proposed several institutional, socio-economic and financial 'unsustainability indicators' in the context of rural development that are also relevant for the education system:

- The level of conflict or divergent views of stakeholders
- Failure to adopt or adapt an introduced technology or practice.
- A decline in the level and nature of local participation.
- A lack of improvement in the situation of disadvantaged groups such as women and minorities.
- Problems in community-based decision-making regarding resources.
- Discrimination in access to land, common resources and/or benefits for some participants.
- Institutional capacity limitations to carry on the activities.

The country case studies indicate that these indicators can be found in varying degrees in school finance in all the countries that participated in the study.

The presence of these indicators does not necessarily mean that the reforms are failures, but they can be taken as symptoms of problems or, in some cases, alarm bells, which have to be taken seriously as they indicate that corrective actions have to be taken.

In most countries, institutional reforms in school finance are premised on socio-political awareness and are backed by political commitment to achieving the important national objectives of quality and equity in universal basic education. Therefore, despite the constraints in implementation, and in some instances, weaknesses in design and limited resources, the national commitment is likely to result in a cumulative process of positive change. In other words, it can be reasonably predicted that the majority of the reforms will not be reversed. The challenge is to infuse more vigour and intensity into the initiatives to accelerate and widen the scope of change.

To the extent reforms are initiated and carried out within the institutional and organizational framework of the national primary and secondary education systems, the issue about integration and internalization of the change in the permanent institutional system need not always be a serious concern. This can be a problem for projects that are planned and implemented as special projects and are largely dependent on external funding.

Several of the country case studies note concerns about sustainability, including the studies of the school grant projects in Cambodia, Lao PDR, Nepal, Timor-Leste and Viet Nam. These projects have received external financial support, which raises the question of how they can be continued, expanded or integrated into the national system once external assistance ceases or is reduced.



Some case studies voice concern about the lack of sufficient commitment to change and reform; about issues relating to learning and internalizing lessons from experience; about ensuring adequate capacity building for efficient and effective implementation, and about ensuring commitment to devoting enough resources to ensure the threshold level of inputs is reached.

## 4.8 Concluding observations

When assessing school finance, it is important to look at the availability of resources for education and how they are mobilized, and also at how efficiently and effectively those resources are used. The EFA movement, national commitment and recognition in most countries to fulfilling the right to basic education for children, and the new Education 2030 agenda have cast a spotlight on both adequate availability of resources and their proper use.

The discussion in this chapter drew attention to the policy and legal pledges and provisions to create an appropriate context for mobilizing the necessary resources. In many countries, plans and strategies have been developed and organizational measures have been taken for establishing efficiency standards and criteria for resource planning and budget preparation, and for budget implementation. Emphasis has been on decentralization and the devolution of authority and responsibility to sub-national and local levels and ultimately to the school as the locus of action for resource and budget management.

Participation, accountability and transparency are also recurrent themes in the countries that participated in the study. The case studies have illustrated and highlighted these themes. Countries that have emphasized transferring funds to schools through school grants or similar mechanisms are channelling more resources to education, particularly school education. Over the years, priorities have sharpened and objectives in education have focused more on results, especially in relation to learning outcomes and equity. Furthermore, a stronger emphasis has been placed on cost effectiveness and ways of achieving better budget performance.

At the same time, the spotlight on the need for more resources and their use has brought to the fore the challenges in achieving the desired results. Funds have increased in nominal terms but not always necessarily in real terms, as they have not always kept pace with price inflation, and have not been increased in proportion with expansions of the systems and requirements for meeting the demand for higher quality. This underscores the need for better budget and resource management and the need to diligently apply criteria and standards of efficiency in school level resource management.

In Viet Nam, the change in the policy on the autonomy of public administrative units in early 2015 has led to a gradual increase in the autonomy of schools. While they previously only had autonomy in terms of organizational management, they have gradually gained more autonomy in the areas of financial planning, use and management.

The challenges identified in the Viet Nam case study regarding the efficacy of school grants largely reflect the challenges seen more generally in the region in regard to improving the efficiency of budget and resource management in schools. While the contexts of school grants and other forms of resource transfer vary a great deal between countries, the issues they face are often similar. The challenges seen in Viet Nam are summarized below.

- Because the amounts of the grants are relatively small: USD 4,000 per school (the amounts are even smaller in most other countries), schools need to coordinate the grants and other funding sources, such as contributions from parents, to purchase classroom equipment. This process requires all sides to harmonize their activities and usually takes considerable time.
- Although the VNEN model has been adopted in some secondary schools, there have been no funds to support students in buying textbooks or classroom learning aids. Relying on parents' contributions places financial burdens on disadvantaged families and children.
- Most of the equipment in VNEN schools, such as photocopy machines and cameras, broke down in a short period of time. Even though some of these machines were still under warranty, the schools could not claim on these warranties because the procurement contracts were made by a central management committee, not by the schools.
- Principals and teachers face a significant bureaucratic burden. Although schools prepared detailed monthly plans for teachers' technical meetings, they must still also submit separate documents, plans and minutes for each meeting. In addition, stationery lists have to be signed by each teacher when they are received and again collectively by each group of beneficiary teachers. Teachers waste time on this type of repetitive procedure, taking time away from more important tasks, including preparing the content for technical meetings.
- Schools need to submit plans regarding physical facilities and topics of teachers' professional meetings for the following academic year at the end of each year, and once submitted, these cannot be modified, even when new needs or situations arise (Viet Nam Country Case Study).

Each country has implemented policies that respond to their specific policy objectives. Such objectives include: reducing the cost of schooling; improving education quality and learning outcomes in schools; promoting greater school autonomy, including in decision-making; increasing administrative and resource use efficiency in schools; and increasing transparency, community participation and accountability of schools.

Factors that tend to affect the success of efforts to improve efficiency in school finance include: the clarity of policy and objectives, the mechanisms and procedures laid down and actually followed, the amounts of resources committed and made available for the programme, the capabilities and motivation of the stakeholders; strong leadership in individual schools: committed principals, head teachers and school management committee members who take the lead and act, make a difference. As the Viet Nam case study pointed out, proactive principals grab the opportunity that a school grant offers and leverage grants to bring about significant changes in their schools.

# Equity in school finance

This chapter discusses the extent to which equity and the needs of diverse learner groups are considered in school budget planning, management and monitoring; how complementing and supplementing public resources with household and private resources influences equity, and the trends in education equity in relation to school financing.

Equity in education is a broad concept that encompasses a wide variety of education models, programmes and strategies that are necessary to make the education system fair and just, though not necessarily strictly equal in a quantitative sense. One way of explaining the distinction between equity and equality measures in education is that equity measures target the disadvantaged while equality measures treat everyone the same way. Equity measures seek to ensure access to education, participation in education and achievements in terms of the targeted learning outcomes for all who are disadvantaged or deprived. An example of a type of equity measure is the effort to eliminate gender disparity and discrimination against women.

Equity in education has two major dimensions: fairness and inclusion. Fairness refers to ensuring personal and social circumstances, such as gender, socio-economic status and ethnic origin, do not become obstacles to fulfilling one's educational potential. Inclusion means that everyone participates in learning and achieves a basic minimum level of learning outcome. In other words, everyone is literate and numerate at a defined basic level. The two dimensions are interlinked; people have to participate in learning meaningfully to achieve the outcome, and this in turn motivates and encourages people to participate in education. Thus, quality and equity have to be considered simultaneously, and this has implications for planning and using education resources.

Inequities occur when biased or unfair policies, programmes, practices or situations contribute to a lack of equality in educational performance, results, and outcomes. Resource and budget planning and management have to take into account how budgetary processes can address (mitigate and/or remove) the inequities that exist in the school system.

## 5.1 Equity measures in budget planning, management and monitoring

The country studies examined the extent to which finance and resource planning at the school level have considered equity concerns.

**Viet Nam** has taken a series of specific policy steps and made financial provisions to assist various disadvantaged population groups to access education services. Decision No. 59/2010 by the Prime Minister provided for the allocation of state budget funds to provinces, districts and communes, based on criteria such as population, geographical location and level of economic development. This decision allows for affirmative measures to be implemented in disadvantaged areas. For example, with SEQAP, the budget for lunch at school varies based on the number of poor students in each school (in general, between 50 per cent and 60 per cent of students receive lunch support). Other policies similarly address equity concerns. Pre-school education was extended to children of very poor families and of families living in remote, mountainous areas and islands. Likewise, boarding school facilities were established for children from mountainous regions and on islands to enable them to access education. Extra funds are now provided for infrastructure and furnishing of boarding schools in mountainous and remote locations. Furthermore, teachers are given incentives to live and work in such areas (Viet Nam country finance study).

**Japan** has a policy to give a special allowance to teachers who teach in public primary and lower-secondary schools in remote areas. The law recognizes six levels of remoteness, and the amount of the allowance increases with the level of remoteness of the areas. Specific amounts are determined by an ordinance in each prefecture. For instance, Hokkaido Prefecture, which has the highest number of schools recognized as being located in remote areas, gives teachers working in the most remote areas a 25 per cent higher salary than other teachers (Hokkaido Prefecture Education Board, 2016).

**Uzbekistan's** education law requires that all children are given equal opportunity to access education, irrespective of ethnicity, language, religion, place of residence and (special) needs. Therefore, particular measures have been put in place. For example, children in remote areas with sparse population are placed in boarding schools at the state's cost. Furthermore, primary school teachers are paid a salary that is between 10 per cent and 13 per cent higher than that of secondary school teachers, in recognition that primary level is the foundation for further education, and that teachers at this level need to be more skilled and patient than others. According to the staff of schools that were visited under the study, the monthly salary as of September 2015 was between 1.2 million and 1.4 million Uzbekistan som (UZS) for primary school teachers and was between 1.1 million and 1.3 million UZS for secondary school teachers (USD 1 = UZS 2,780) (Box 9).

**Box 9: Incentive payments for teaching personnel in Uzbekistan**

A compensation system for teachers and other education personnel was developed that provides incentives for performance and for working in schools or areas that require extra effort and dedication such as specialized schools and remote and rural areas. A formula established by legislation is applied to the base rate for teacher compensation.

To encourage talented teachers who have demonstrated good performance, every education establishment follows a process of identifying 'star workers'. The star teachers are eligible to receive a bonus of up to 40 per cent over their base salary, for which additional budget allocations are made. Teachers of foreign languages receive 30 per cent extra over their base salaries, and female teachers of physical education in designated rural areas receive a 15 per cent bonus.

Teachers who have special training and work in specialized institutions receive a 20 per cent bonus. So do teachers, directors, deputy directors, and psychologists at specialized boarding schools. Professional personnel with specialized high level training in boarding schools receive a 40 per cent bonus.

To encourage the professional development of teachers, the following qualification categories were established:

- Teacher of the highest category
- Teacher of the first category
- Teacher with higher education qualifications
- Teacher with specialized education (for primary classes)

*Source:* Uzbekistan Case Study of School Finance, 2015.

The Punjab Educational Endowment Fund in **Pakistan** is an equity measure that endeavours to bring the best educational opportunities to the less privileged and talented youth of Punjab and put these youth on par with the most fortunate ones. The investment proceeds are used to award scholarships to children from poor families. Allocation of these scholarships is on the basis of the students' *tehsils* (sub-districts) and the students' results. It favours students from 16 less developed districts, especially those from southern Punjab, as well as orphans, children of lower-ranking public employees, the disabled, minorities and children of widows. The fund was initially established with seed money of 2 billion PKR, which was later raised to 11 billion PKR. The Government of Punjab allocated another 2 billion PKR for each of the fiscal years 2013/14 and 2015/16. As of 2015, the Punjab fund had awarded more than 80,000 scholarships worth over 4.2 billion PKR (PEEF, 2014).

Another innovative education project that seeks to address equity concerns is the 'Daanish schools' project, which was launched in 2009 by the Chief Minister of Punjab. The schools are free for marginalized girls and boys. Other students can also attend these schools, however. A 10 per cent quota for admission into these schools has been reserved for self-financed students. Daanish schools were established through an act that describes the functions of the authority and the criteria for admission, which are related to poverty and income levels. As of 2015, over 5,000 students were studying in 14 Daanish schools in Punjab.

In **China**, public funds are allocated from the central level to the provincial level to increase access to education for students from low-income families in provinces in the west, centre and east. The amount of student support is calculated based on the families' average per capita incomes. Within the provinces, a similar principle is applied. For example, Guangdong Province classifies all counties (cities and districts) under its jurisdiction into five levels in terms of economic conditions, and then determines the provincial share for compulsory education funds as 100 per cent, 80 per

cent, 56 per cent, 40 per cent and 20 per cent. Actual allocations are made following negotiations between the province and the county authorities.

School grant programmes seek to increase access to education and improve education quality through providing financial resources to schools to cover their operational expenditures. School grants can also address equity concerns. For example, in disadvantaged areas of **Cambodia**, the school operations budget is 25 per cent higher than in other areas, and the school improvement grants are 50 per cent higher. Similarly, in **Timor-Leste**, the school grant programme is intended to tackle the disparities and inequalities in the school system. The positive impacts of the school grant vary by school and district, however. Some schools feel that the grants might have widened rather than narrowed the disparities. This is in part because the allocation criteria may not fully consider specific school conditions and in part because of the way the programme has been implemented. It has been suggested that the school grant design and the manual be adjusted to support the objective of school grants.

## 5.2 System design and good practices to promote equity

In order to ensure resources are allocated such that they increase equity in education, it is important to ensure the education system is designed appropriately and good practices are followed. The OECD has developed ten practical steps that governments can take in this regard so as to enhance equity in education (OECD, 2008). These equity in education measures are intended to reduce school failure and drop-out rates, make society fairer and avoid the large social costs of marginalized adults with few basic skills.

### Design

1. Ensure all students have a strong foundation of general competencies before attempting to direct students to vocational, science or business tracks. i.e. Limit early tracking and streaming and postpone academic selection.
2. Avoid enclaves of elite schools that are only accessible to the more privileged.
3. In upper-secondary education, provide attractive alternatives, remove dead ends and prevent drop-outs.
4. Offer students second chances to participate in and gain from education.

### Practices

5. Identify and provide systematic help to those who fall behind at school, and reduce grade repetition.
6. Strengthen the links between school and home to help disadvantaged parents assist their children to learn, without relying on private tutoring and coaching, which increase the family cost burden.
7. Respond to diversity and provide for the successful inclusion of migrants and minorities within mainstream education.

### Resourcing

8. Provide good quality services to all, giving priority to early childhood provision and basic schooling, especially for disadvantaged groups.

9. Direct resources to the students with the greatest needs.
10. Set concrete targets for more equity, particularly related to low school attainment and drop-outs.

The ten practices are effective in increasing equity in access and participation commonly encountered in developing countries and illustrated in the country case studies.

To measure whether the equity measures are effective or not, it is useful to ask the following questions.

- To what extent do learning outcome assessments take into account the socio-economic status, location, ethnicity, language, gender and special needs of the learners?
- How are equity indicators applied in education budget preparation (primary and secondary levels) and how are they implemented at the national, province/district and school levels? To what extent do financing formulas, criteria, mechanisms, transfer processes and monitoring apply equity objectives?
- To what extent does complementing and supplementing public resources in primary education with household, private and other resources exacerbate inequity? Who is affected by this? Can budget policies and mechanisms for public-private partnerships mitigate inequity? Are there good examples of this?
- What are the trends in education equity through school financing? Has there been evolution in terms of improving equity in primary and secondary education through finance mechanisms and practices?

#### Box 10: Tracking financial flows

Countries vary in terms of their sources of education funding and the level of contribution of the government, households and external funding. In Nepal, for example, parents pay for nearly half the cost of their children's education, while government sources cover 38 per cent (mostly at the primary level), and external funds and other private sources cover around 14 per cent. In Côte d'Ivoire, household contributions represented a third of total expenditure on education in 2014. In Lao PDR, external funding supports the country's drive to improve the quality of education and access to school, yet such funding remains fragmented with disbursements falling short, for example by 63 per cent in 2014. In Guinea, the government has designated primary education as a top priority and spends 42 per cent of its current education budget on this level.

##### **The National Education Accounts project**

Launched in 2013 with support from the Global Partnership for Education, the National Education Accounts project is led by the UNESCO Institute for Statistics (UIS), the UNESCO International Institute for Educational Planning (IIEP-UNESCO) in Paris and the IIEP Pôle de Dakar.

A National Education Account (NEA) is a comprehensive information system that helps produce reliable and transparent data on education spending from all sources, including government, household and external funding across all education levels. In countries without a NEA, information on education expenditure is often scattered between numerous sources, mainly because of the complexity of the funding mechanisms and the difficulties involved in collecting data. As a result, headline figures often vastly underestimate the real level of investment in education.

**Creating an NEA**

To create an NEA, information must be mobilized from a set of accounting and statistical sources. This involves mapping the resources that are received and identifying all public sources, not only ministries of education, but also ministries of finance, budget, youth, local government and more. A central framework ensures consistency between all new data added to the NEA. Information is then compiled and made coherent, leading to a set of tables that make up an NEA.

Building an NEA for the first time can take between one and two years, depending on the availability of data and how much time the technical team can dedicate to the process. Once the basic method is in place, updating the account takes just a few weeks each year. With this information, countries can assess national efforts to provide education, the share of contributions from all stakeholders, and have more accurate costs at each level of the system, from pre-primary through to higher education, covering both formal and non-formal education.

**Why develop a national education account?**

Every country – no matter its level of resources – must monitor the financial pulse of its education system. We cannot expect governments to meet their policy targets if they don't know the precise contributions to the sector of various funding sources. By tracking financial flows, governments can allocate resources to areas most in need and thereby improve education efficiency and equity.

The information provided by NEAs is vital for donors seeking to support education plans, as well as for civil society organizations, households and school organizations striving to ensure system-wide accountability in reaching every child.

NEAs support evidenced-based reform. With the Education 2030 agenda in full swing, there is a growing recognition of the need for good quality finance data. Implementation plans, including financial expenditures, need to be monitored. NEAs can offer considerable insight to illuminate where, how and by whom education is funded and who benefits. Without an NEA, these vital questions related to equity and quality go unanswered.

*Source:* Grant Lewis and Montoya, 2016.

**5.3 Concluding observations**

Improving resourcing for equity in education is not just a matter of having more resources, though having a larger cake would make it easier to give a piece to all who deserve or need it. It is also necessary to take pragmatic steps to reprioritize and redirect existing education expenditure so as to contribute to improving equity in education.

In order to address equity concerns it is necessary to adjust spending to reach the marginalized: the segments not reached and not served effectively by the regular system, and beyond primary and secondary schools. This suggests a need for stronger emphasis on early childhood provision, especially for those from the disadvantaged sections of the population, and greater attention to second chance and non-formal basic education for those who are not well-served by the formal school system.

In considering how the school finance process can promote education equity, it is necessary to first assess the situation in specific contexts and identify the necessary actions to be taken at the national, sub-national and community levels. Basic information has to be collected regarding the proportion of children accessing education, participating in education and completing education (primary and secondary), with a breakdown of students by geographic location (urban vs rural,



remote), socio-economic status (by quintiles), gender, ethnic-linguistic characteristics, and special needs. There is also a need to distinguish between different types of enrolled and would-be enrolled children, such as those who have never attended schools, those who have dropped out of schools and those at risk of drop out. This is particularly important for countries with population diversity, including marginalized ethnic minorities and other disadvantaged groups. An important step is to initiate national education resource flow tracking, which is being piloted in several countries under GPE, IIEP and UIS auspices.

The gaps and deficiencies in terms of availability of relevant data on the equity and equity measures implemented through school finance mechanisms and practices have to be assessed so that the gaps can be filled and deficiencies overcome. This requires a continuing and consistent commitment to equity concerns in the school finance process.

# Key findings, conclusions and recommendations

This chapter presents the conclusions of the review of finance and budget processes at the school level and makes recommendations. In particular, it recapitulates the overall resource situation in the region, looks at potential models and mechanisms for school finance and for the monitoring and assessment of finance and budget processes, and lists recommendations for strengthening school finance and budget performance.

## 6.1 The overall education resource situation in the region

### *Diversity of the Asia-Pacific region*

The description of public and non-public financial resources and participation in primary and secondary education showed that there is great variation between countries in the region with regard to the availability and needs in education resources.

The unfinished business of EFA 2015 that the post-2015 era inherited and the new, ambitious goals for Education 2030 indicate the magnitude of the challenges ahead. These challenges include a lack of resources in relation to the needs, especially in the less developed countries; the need for better articulation of the concepts and strategies regarding adequacy, efficiency and equity; and the need for the required skills and capability to make good use of the resources.

The particular country contexts and requirements of each country must be considered in understanding the state of school finance and in considering how budget performance can be improved and how capacity development for this purpose can be supported.

### *Overview of education resources*

The region has seen a general effort to reform school-related budgets and finance processes through decentralization and to increase school level control of resources through school grants. On the whole, education budgets tend to be higher as proportions of GDP and the national budget in East, South-East and Central Asia, compared with South Asia. South Asia faces more acute access, equity and quality issues than other parts of the Asia-Pacific region.

China has to be seen as a class by itself, not only because of the size of China's school population and school system, but the scale of its effort, the progress it has made, and its approach to meeting future challenges. Similarly, India has to be regarded as a special situation. The provinces in India, comparable in size to many individual countries, show diversity, both in progress made and challenges.

The study findings suggest that education resources are not adequate or satisfactory in any of the participating countries. Absolute budget amounts have increased in all of the countries, but per student public expenditure has not generally increased in real (inflation-adjusted) terms. Similarly, it cannot be said that the relative proportions as a share of GDP or national budget have shown any marked improvement. While Uzbekistan reported having adequate budgetary resources for primary and secondary schools, this is within the current framework of education priorities and quality benchmarks, and would change with higher aspirations. All of the countries examined in the study need to improve the efficacy of resource use and need to develop skills and capacities for this purpose.

### ***Information gap***

Basic information regarding public financial resources, based on annual budgetary exercises and processes, should be made available to stakeholders within a timely period. But the study found this is not the case. In many countries, data are not readily available in a short time period. Furthermore, the data are not easily compared across countries. For example, the public allocation for education as a share of GDP does not always mean the same thing in different countries. While part of the problem relates to differences between the countries in terms of purchasing power parity, there are other issues, including differing patterns of remuneration for public servants, differences in the organization and structure of education across countries, and differences in how public funds are supplemented and complemented by households and the private sector.

In some respects, data are incomplete and unreliable, and for some major components data are totally lacking, including the amounts contributed by the various types of private sector providers to public institutions; contributions by sub-national and local governments, which may or may not be part of the formal school budget; and household expenditure on education, such as what households pay to schools as fees and what is spent directly by them on children. All of these contributions are likely to add up to amounts comparable to what is received from the public exchequer, if not substantially more in many situations. In addition, 'off-budget' expenditures are often not shown either in the school budget or in government calculations for a province or a district. These gaps raise concerns about transparency and accountability, and also jeopardize efforts to plan and use resources rationally and efficiently to achieve the objectives of high quality education and equity in education.

The study observed that in more developed countries, such as members of OECD, where education finance data are more complete, pre-tertiary education, including primary and secondary education, is overwhelmingly funded by public resources. In contrast, the trend in developing countries, including in the Asia-Pacific region, is of greater reliance on non-public resources. This is despite the policy emphasis on upholding the right to basic education and state commitments to fulfil this right.

### ***Transparency issues***

During the study, researchers encountered delays and some resistance in gaining access to data and to officials who could provide information and explain the school finance situation. Institutions that received government grants and/or funds from other sources were in some cases reluctant to share information. This raises issues about transparency, accountability and the participation of stakeholders in the school budget process.

Given all the limitations, what is presented in this report is a reasonable overview of public financial resources for education and for the school system in the region, but is not a complete picture of the state of education resources, encompassing public, private and household contributions.

### ***Policy environment***

Countries in the Asia-Pacific region have expressed their commitment to providing high quality basic education, as a right for children and as an essential element of national development. This commitment is evident in the national constitutional and legal provisions as well as in the international agreements and pledges the countries have supported. These expressions of commitment and the legal obligations assumed by countries provide a positive environment in terms of awareness of the need to mobilize resources for education. However, such policy statements and intentions have not always translated into action or into the fulfilment of the desired results. In some cases, policy-makers lack commitment, while in other cases there are conflicts of interests among stakeholders and there is often a lack in capacity and competency of staff at different levels of government and in schools.

School financing is planned and managed within the context of local plans and policies and is supported by the overall structure of policy-making, planning and decision-making on education financing in the country. The Asia-Pacific region, as elsewhere in the world, has seen a trend towards decentralization in planning and management of resources, including devolution of certain responsibilities and authorities to the sub-national and local levels. Furthermore, schools are being given greater responsibility and control over managing resources and budgets. However, along with gaps between overall policy objectives and reality on the ground, there are also gaps between policy rhetoric and action about the content and scope of sharing responsibilities between the various levels of the governance structure and meaningful devolution to the individual institutions.

## **6.2 Would more resources result in better learning outcomes?**

It is generally understood that having a large quantity of resources and budget provisions for education, particularly for improving school infrastructure, funding feeding programmes, providing better learning materials and providing more and better paid teachers, would result in better learning outcomes. But what is the evidence to support this hypothesis?

In fact, the outcomes depend on whether the resources reach the intended beneficiaries in the right way and in the right place and time. That is, if the facilities are improved in appropriate ways, if teacher performance standards are established and enforced, and if incentive arrangements and structures for teachers and schools are actually applied. Furthermore, many feel that there is a 'threshold' or minimum level of resource inputs that is critical to bringing about the desired results, otherwise the resources and inputs are wasted. The country studies lend support to the concept of the threshold.

### ***School finance in a macro-context***

This study focused on school level finance and budget management, based on the premise that actions are needed at the school level so as to increase access to resources and so as to use the resources more effectively in schools. However, schools in the public sector are part of the national system and what resources they can obtain and how they can use these depend to a large extent on the macro-level policy environment and policy measures.

The framework for Education 2030 has, as a global guideline, suggested that public education resources be between 4 per cent and 6 per cent of national GDP and/or between 15 per cent and 20 per cent of the total national budget. Many countries in the Asia-Pacific have already reached the targets for GDP share and national budget share, but the study found that even those who have reached the benchmark targets have not always met the adequacy requirements in resources for their national education systems.

### ***A threshold of resources and inputs***

The concept of a threshold of inputs and resources to achieve the results in a particular context is useful in understanding the level of funding required for a particular context. When the threshold of inputs and resources is not reached, the system cannot produce the expected results and the resources may be spent in vain.

### ***How the inputs fit together***

While the funding targets are useful as general reference points, especially for countries which have fallen behind the international average, and while countries must seek to reach a minimum threshold in funding in order to achieve their education goals, other factors in the education system must be addressed besides the quantity of funds. Attention must be given to the process of how the inputs fit together to make classrooms and schools function to produce results.

Adequacy, efficiency and equity in resource planning and management must be viewed in a holistic way. Adequacy of resources for education is a function of efficient and effective use of resources to achieve the desired outcomes. Efficiency is related to the desired outcomes: high quality education and equity in participation and in learning outcomes.

### ***Decentralized management and finance***

Decentralization of planning and managing education resources has so far yielded mixed results. The factors that cause decentralization to have adverse effects on education service delivery include a lack of capacity at various levels, including at the local and school level; divided responsibilities without coordination and collaboration (e.g. teachers being paid and even appointed to higher levels by central governments, while local and school levels have only operational responsibilities); a lack of effective interplay between the actors in delivering services; and problems associated with intergovernmental fiscal transfers, and how financial autonomy is exercised at the local level (UNESCO, 2013).

The following conclusions can be made regarding sub-national and local level resource mobilization.

- In the public sector, national financial allocations, channelled through and complemented to some extent at the province/state level (in a federal structure), are the principal sources of school finance. In private sector institutions, managed directly by non-government providers, resources have to be mobilized by the service providers, who depend mainly on school fees. A hybrid variety of schools exists, however, such as non-government secondary schools in Bangladesh, in which the bulk of the resources for teachers' salaries and some of the capital costs are borne by the government. Similar public financial support for private institutions can be found elsewhere, such as government payments of the costs of students attending private institutions.
- With incomplete information and with many actors involved, the extent of data about the adequacy indicators is problematic. Whether they are of reasonable validity and reliability is

another question. A complete picture regarding education resources is not systematically available for decision-making about resource and budget planning and allocations.

- At the local level, institutions collect funds from a wide array of sources, including fees of different kinds from the families of the students, contributions from the community, philanthropy, local government grants, and income earned by schools from entrepreneurial and service activities other than the main education programmes. These are considered unpredictable, are still relatively small, and are not made part of regular budget management with appropriate recording, transparency and accountability.
- As decentralized management becomes more common, mobilization of financial resources from the local, community and school levels is likely to increase. It is necessary to exploit the potential of these resources better and apply stronger management and accountability in the pursuit of these.

### ***Private resources for education***

In summing up the status and role of non-government school financing, four points can be made, as follows:

- Non-government schooling provision serves at least one third of basic education students in countries of the region and its appeal appears to be growing.
- The schooling provisions and their financing are neither purely public nor non-public, even though the institutions are known as public or private. Many types of financial support are provided to both public and non-public institutions.
- There is a degree of rhetorical hype about the role of the private sector and regarding public-private partnership, which seems to ignore the basic dilemma of a public good being treated as a tradable commodity.
- There is no effective alternative to public sector provision of basic general education, recognizing it as a right, in which the private sector and public-private partnership can play a supplementary role.

## **6.3 Can models, mechanisms and formulas increase budget performance?**

Criteria for financial allocations depend on decisions regarding: which schools and which students should receive government financial support; what activities, objectives and expenditure items should be supported; and how much should be allocated for each of these items.

With the move towards decentralization and school grants, criteria, formulas and mechanisms for allocations have become more important. They vary from country to country and country experiences suggest that the criteria, standards, models and mechanisms must take into account practical considerations, including the complexity of situations, the high stakes for people involved in education decisions, and the political and social choices that have to be made in each situation. This requires a nuanced approach rather than mechanical application of formulas. The study found that none of the participating countries seemed to find it appropriate or practical to apply the criteria and formula rigidly and across the board.

***Applying criteria with flexibility***

Most countries apply a pragmatic approach, with flexibility in applying the criteria. For example, China has broad criteria based on the education priorities that are determined at the national level, but these criteria are applied with discretion across diverse circumstances in the country, rather than relying wholly on a formula-based transfer payment. Each particular government level determines its basic education funding criteria on the basis of its own financial capacity and education development objectives, rather than by strict resource allocation formulas. The education funding criteria of a lower-level government are expected to comply with relevant requirements and regulations of governments at higher levels.

In contrast, some countries have yet to articulate any criteria and formulas for moving towards decentralization for resource planning and budget management, and for giving a greater role to schools. Bangladesh, for instance, follows an incremental approach (adding a small increase over the previous years' allocation) to budgeting and resource allocation, rather than applying specific criteria or formulas. Although the government schools cater to the large majority of the student population, no area-based assessment of the potential clientele is carried out and no systematic planning is undertaken for them. Government allocations of inputs and budgets without clearly stated criteria and standards result in great variations between the schools in terms of facilities, teaching staff and student outcomes, even for the same types of schools fully supported by the government. A sector wide primary education development approach has sought to reduce the variations and disparities, with partial success.

When assessing the criteria for the allocation of funding, it is necessary to ask: To what extent are the criteria applied and to what extent do mechanisms and systems exist to apply the criteria?

***Fund transfers***

Overall in the Asia-Pacific region, three quarters or more of educational expenditure for schools' recurrent operational costs are for the salaries of teaching personnel. In general, the salaries of primary school teachers are directly transferred to their personal bank accounts either by the central government, the provincial government or the district education office. Payment of salaries by the government is due to government obligations to provide universal primary education. Although it compromises, to some extent, the schools' ability to manage the teaching personnel this system relieves the school management of the burden of managing such a major budget item. Although salaries and larger capital investment costs remain the responsibility of the government, schools are being encouraged to take on the responsibility of managing other budget items, often through school grants and similar mechanisms.

At the secondary level, the situation varies considerably between countries. Some countries where nine or more years of education are compulsory, such as China, Indonesia and Malaysia, pay secondary school teachers directly. However, in many countries in the Asia-Pacific region, secondary school is not yet part of compulsory education, so governments do not have the same sense of obligation to cover the costs of this level of education and therefore often do not take responsibility for paying teachers' salaries.

***Efficiency and effectiveness***

The EFA movement, the commitment to fulfilling the right to basic education, and the new Education 2030 agenda have thrown a spotlight on both adequate availability of resources and their proper use. Following considerations relating to the availability and mobilization of resources

for education, especially at the primary and secondary school levels, the most important question is how efficiently and effectively the resources are used.

The study found that countries in the region have developed plans and strategies and have taken organizational measures to establish efficiency standards and criteria for resource planning and budget preparation and their implementation. The region has seen major emphasis on decentralization and the devolution of authority and responsibility to sub-national and local levels and ultimately to the school as the locus of action for resource and budget management. Participation, accountability and transparency also have been recurrent themes. The country studies undertaken as part of the regional study have illustrated and highlighted some initiatives in these areas. They point out that while policy directives and regulatory mechanisms have been developed – an essential and important step – effective implementation poses challenges in most countries.

### ***School grants as the leading edge***

Over the years, there has been a sharpening of the priorities and objectives in education, with a greater focus on results, especially in relation to learning outcomes and equity. These efforts have led to a stronger emphasis on cost-effectiveness and ways of achieving better budget performance. The transfer of funds to schools through school grants and similar mechanisms is seen by some as a means of channelling more resources to education, and using resources better.

### ***Private resources***

The study found that information is lacking or incomplete regarding private and household spending on education. Nevertheless, it is clear that the families of school students are major contributors to education resources, not just for private education services but also for public sector schools, which are often proclaimed as being 'free of charge'. Many public schools, particularly at the secondary level, charge tuition fees and other fees, and parents must also bear the costs of transportation, lunches, uniforms and learning materials. Parents also often pay for private tutoring, which has become widespread in the region, even at the primary level. All of these costs add up to amounts comparable to, or more than, state education spending per child. Accordingly, actual national education spending is substantially more than what public sector budgets show. There are clearly equity and efficiency implications relating to the balance between state and non-state expenditure and how they complement each other.

Although data have not been rich on the extent of corporate resources donated to public education and the effects of such resources and of the combination of public and private resources on education, it appears from the country case studies that resources donated by the corporate sector and philanthropy to public education have not been significant. Resources for public education come largely from the public exchequer. With private education services, however, it is a different story. The number and scale of private schools have grown in the Asia-Pacific and as of 2015 they were serving at least one third of primary and secondary students in Pakistan, Nepal and some states of India. These education institutions are essentially self-supporting; they depend on cost-recovery from the beneficiaries and donors, and many are run as profit-making businesses. This modality is seen as having an adverse impact on equity in education, and also challenges the premise of basic education as a state obligation.

It is necessary to ask who is affected by the public-private divide and how. Can budget policy and mechanisms for public-private complementarity and partnerships mitigate inequity? Are there examples of this or experience elsewhere in the world? These questions could not be fully addressed in the study, in part because the relevant data are not easily available.



***Equity concerns***

A basic concern in relation to equity in education is the elimination of gender disparity and discrimination. Other concerns in this regard relate to ensuring education access, participation for all and ensuring all students achieve standard learning outcomes, through addressing the obstacles facing those who are disadvantaged or deprived.

The findings of the country studies indicated that three key policy areas can affect equity in education: the design of education systems; practices in and out of school; and how resources are allocated. The OECD has developed steps that governments can take in these three areas to enhance equity in education

The inequities that exist in the school system can be mitigated or reduced through education resource planning, budget planning and management systems. It is necessary to examine, and therefore better understand, the effects of finance mechanisms and practices on equity, positive and negative, in primary and secondary education.

More attention is needed on understanding the status and trends with regard to provisions for children with special needs. The current approach is to mainstream children with disabilities and special needs, and most countries in the region have taken steps accordingly, but much remains to be done. At the same time, additional steps need to be taken to provide specialized education and care for those with special needs and disabilities who are not well-served by mainstreaming, and this calls for substantial investments.

***Equity-promoting finance***

In understanding how school finance mechanisms can be adjusted to increase equity in education, systematic attention must be given to assessing the situation in specific contexts: the national and sub-national levels, and the community that is served by a school, and identifying the necessary actions. This requires collecting data. The types of basic information that must be collected and analysed include the proportion of children accessing, participating in and completing primary and secondary education, with a breakdown of students by geographic location (urban-rural, remote), socio-economic status (income quintiles), gender, ethnic-linguistic characteristics and special needs.

Going beyond data collection and the mapping of equity in access and participation in education, it is also necessary to examine how learning outcomes are affected by finance and budget processes. The findings of the country studies indicate that while changes have been made to ensure financing is directed towards achieving equity in access and participation, similar steps have not been made towards increasing equity in student learning outcomes. The study found there are also gaps and deficiencies in the data on measures linked to equity in learning outcomes, which must be addressed.

**6.4 Monitoring of resources and budget performance**

Questions the study asked regarding the monitoring and control of school funds and budgets included: What mechanisms and processes are used for monitoring, control and reporting? What problems do schools face in monitoring school budgets? How are monitoring results used to improve school budget management and school performance? Do the mechanisms that enhance transparency and accountability, such as per capita formula funding and block grants with accountability for agreed results, deserve greater emphasis than compliance to detailed procedures?

The findings of the country studies answer many of these questions. The Viet Nam study noted, for example, that each school establishes an internal monitoring committee to monitor activities and the district people's committee also makes periodic visits. In Pakistan, district governments in Punjab Province have set up guidelines and rules for budget preparation and management, and these are at least partly followed in most districts, while the Indonesia study found that the effectiveness of the school finance monitoring system depends on the skills, competency and honesty of those responsible.

In many countries concerns were raised about the sustainability of initiatives that have been implemented with external financial support, as it may not be possible to continue such initiatives or make them an integral part of the national system once external assistance ceases or if it is cut back. Concerns were also raised in some cases about the sustainability of commitment to change and reforms, and how to ensure ongoing learning and internalizing lessons from experience, as well as to continue capacity building for efficient and effective implementation, and to devote enough resources to ensure a minimum threshold level of inputs for success.

Overall, the study found that the participating countries have all made accomplishments but also have deficiencies in their school finance systems. The study findings suggest that the success of initiatives depends on the clarity of policy and objectives, the amount of resources committed and made available, the mechanisms and procedures laid down, whether those procedures are actually followed, and the capacities and motivation of the concerned people, brought together within the larger social, political and economic context of the country. Both large and small issues matter, but 'the devil is in the detail', as the saying goes.

## 6.5 Conclusions

While resources for education and school budgets are not the sole determinants of high quality primary and secondary education, with equity for all children, the desired results cannot be achieved without resources and budgets and their proper management.

Next to availability and mobilization of resources for education, particularly for schools, the most important question is how efficiently and effectively the resources are used. The EFA movement, national commitment and recognition in most countries to fulfilling the right to basic education for children and the new Education 2030 agenda have cast a spotlight on both the provision of adequate resources and their proper use.

This study examined the policies and commitments to mobilizing the necessary resources and found that most countries have developed plans, strategies and measures relating to establishing efficiency standards and criteria for resource planning and budget preparation, and budget implementation. A major emphasis has been on decentralization and the devolution of authority and responsibility to the sub-national and local levels and ultimately to the school as the locus of action for resource and budget management. Participation, accountability and transparency have also been recurrent themes.

The country studies highlighted some of these initiatives and themes. The study found that countries that have emphasized transferring funds to schools through school grants or similar mechanisms have also been those most committed to channelling more resources to education, including to school education, as measured in terms of the proportions of GDP and the total national budget.

Over the years, the education finance priorities and objectives have focused increasingly on results, especially in relation to learning outcomes and equity. There has also been a stronger emphasis on cost-effectiveness and on ways of achieving better budget performance.

While the amounts of funds allocated to education have increased in nominal terms, they have not always increased in real terms, and therefore have not always kept pace with the expansion of the systems and demands for higher quality. Accordingly, better budget and resource management are even more necessary at the school level, in which criteria and standards of efficiency are diligently applied.

Two major study findings need to be kept in view. First, the needs and ways of ensuring adequacy, efficiency and equity in school finance are closely interlinked and therefore the strategies and actions related to these need to be mutually supportive. Second, while useful lessons can be learned from a comparative analysis of experiences in the diverse contexts, it is necessary to adapt good practices, mechanisms and processes to each country's context and circumstances.

## 6.6 Recommendations for strengthening school finance policies and practices

The study findings and conclusions suggest a 23 interlinked policy and strategy recommendations. These can be divided into four broad categories: a) resource mobilization and resource planning, b) budget execution and management, c) monitoring and assessment of resource use, and d) skills and capacity building for improved resource and budget performance in schools.

### *Resource mobilization and planning*

- Civil society and other stakeholders need to come together to ensure that **mobilization of adequate resources for education** is high on the agenda of national discourse, so as to fulfil the state obligation to provide basic and compulsory education. Potential strategic interventions to mobilize resources include: improvements in revenue collection (expanding tax bases and ensuring that a share of this is spent on education; progressive tax reform; action on tax evasion; ending tax holidays for large corporations; and closing tax loopholes); fee-abolition programmes; a leveraging of political momentum generated by national elections and the prioritization of education in capital spending (Nicolai et al., 2014). The advocacy focus can be on increasing public financing for education, with concrete and time-bound pledges (GPE, 2014).
- Ensure that **sustainability** is part of the design of finance programmes, such as grants, using the 'unsustainability indicators'. Because school grants in most countries are relatively small, these grants could be seen as seed money that would encourage raising more resources locally.
- Conduct an **objective analysis** of the impact and cost effectiveness of demand-side financing (such as demand-inducing incentives and cash transfers) and of supply-side support (better and more responsive provision of services and quality-enhancing inputs), then select the type of support that is most appropriate to the local context.
- Improve the **effectiveness** of existing programmes such as stipends and other conditional cash transfers, with better targeting and efficient implementation (to encourage improved student performance).

### *Planning, management and execution of budgets*

- **Build capacity** at the local and school levels so that programmes and financial management can be decentralized and therefore help make programme activities responsive to local needs

and conditions. A school-based management model can be considered for enhancing greater effectiveness of school operations (Pritchett, 2013).

- Develop a **transparent and pragmatic formula** or set of rules that allow affirmative action and higher spending, to meet the needs of disadvantaged groups and areas, and apply these to both recurrent and capital spending.
- Implement **performance-based financing** as an incentive for schools to perform better but at the same time provide unconditional support for schools in remote and disadvantaged areas to ensure they are able to continue providing services to marginalized groups.
- Conduct an analysis of the level of **structural equity** in the distribution of resources, including an analysis of public spending, according to socio-economic characteristics and by linking those results to student participation and performance. This kind of **disaggregation of information** is necessary for targeted strategic financing.
- Increase **efficiency in management, the quality of inputs** such as learning aids and professional support **and helpful supervision**, as these make the difference between the success and failure of school grants.
- Adapt education reform policy initiatives, including the **decentralization of financial planning and management**, to the institutional, administrative and financial contexts where they are applied.
- **Balance** authority and responsibility with the participation of stakeholders, accountability and institutional capacity.
- **Accountability measures** developed with support from international development partners should be applied to domestic resources, since the bulk of education expenditures are derived from domestic sources.

### ***Monitoring and assessment***

- Ensure a **balance** is reached between the need to follow procedures, regulations and instructions for fund use at the school level and the need to ensure school staff are not overly burdened with administrative tasks. In this regard, it is necessary for monitoring teams to develop a relationship of trust and confidence with the school personnel and community leaders, permitting greater discretion and flexibility by school staff once they acquire experience and demonstrate capacity.
- Collect **disaggregated data** and conduct data analysis to identify disadvantaged groups and the needs of different groups.
- **Combine data** on education spending with reliable data on education outcomes to identify any linkages between inputs and outputs.
- Build on ongoing programmes to strengthen information flows and local accountability systems, which should include frequent **financial and performance reporting** to the stakeholders and auditing related to block grants to the sub-national authorities.
- **Introduce tracking of education resource flows** in schools and communities.

### ***Capacity building***

- **Assess the performance challenges and weaknesses** in skills and capacities of education staff at all levels.

- **Build the capacities and skills of all education staff**, including at the school level, in budget management and data collection, analysis, reporting and use for planning and policy-making (ACARA, 2015). Strengthen knowledge, understanding, skills, practices and attitudes of personnel at different levels to improve budgetary performance at the school level, backed up by policies and actions at the other levels in the management hierarchy.
- **Build the capacity of the members of school management committees** to exercise their discretion to use their funds creatively to improve learning, including by adjusting fund management strategies to meet the needs of disadvantaged students.
- Develop financing and management mechanisms that **motivate teachers** to perform effectively. For example, establish performance standards for teachers and offer financial rewards for performance.
- **Introduce a change management programme**, recognizing that greater responsibility, authority with accountability and transparency involve a change process that should be introduced gradually, linking devolution of tasks, functions and roles with capacity enhancement, and demonstration of skills and capability in action.
- **Encourage school leaders**, such as head teachers and school management committee members, to take the lead and to present examples and ideas to their peers, to bring about beneficial changes in schools.

## 6.7 Looking ahead: Follow-up actions for capacity building

The study findings support the following logical sequence of six essential school budget management tasks (adapted from World Bank, 2013):

- (i) Providing adequate financing to ensure basic conditions for learning.
- (ii) Collecting the required information for effective planning and monitoring.
- (iii) Managing budgets transparently, to facilitate service delivery.
- (iv) Managing resources and expenditure efficiently.
- (v) Providing resources to students who need them the most and ensuring resources are spent where they are most needed.
- (vi) Monitoring both expenditure and the learning outcomes supported by the school budget.

The first step is to create the conditions and wherewithal for learning. The next step involves ensuring that budget planning and monitoring are supported by accurate and disaggregated data. The third step relates to budget management and implementation, while the fourth and fifth steps involve applying efficiency procedures and ensuring that resources reach where they are most needed. The sixth step relates to monitoring expenditure and outcomes and identifying links.

It is recommended that these six consecutive tasks be the basis for capacity building and advocacy work for strengthening school finance. To this end, UNESCO plans to develop a learning module for stakeholders involved in the school finance process.

## 6.8 Preparing the ground: Dissemination, discourse and actions at the national level

One of the important planned outcomes of the regional study is a learning module for capacity building in school finance management, which will be part of the UNESCO Bangkok set of modules for the Education Micro-planning Toolkit (UNESCO, 2014b). This planned module was discussed at the Regional Expert Meeting on School Finance held in Bangkok on 31 March and 1 April, 2016. This meeting was an opportunity for in-depth discourse on the challenges in school finance, how these can be addressed and the capacity-building needs for this purpose. The participants of the regional meeting, representing diverse countries, are expected to become a group of 'champions' for strengthening school finance in the region and for professional collaboration to this end. Ultimately, achieving any impact will depend on the interest of the countries of the region, their awareness of the issues, and their willingness to engage in a systematic effort to improve school financing.

The following steps are proposed as follow-up to the regional study and report in order to derive further benefits from the initiative and to encourage member countries to give priority to strengthening school finance:

- Share experiences in school finance.
- Finalize and produce a training module on school finance.
- Formulate a plan for country level dissemination of the regional finance report, country case studies and the training module on school finance, and for capacity development on school finance. The activities may include seminars and workshops at the national level with national government, civil society, academia, private sector and international development agencies with UNESCO regional, cluster and country offices' collaboration to the extent possible. It will be necessary to translate some or all of the materials into national languages.
- Investigate ongoing country initiatives to improve school finance and how the materials and resources from UNESCO may fit in and support the current initiatives. This may lead to identifying strengths and weaknesses in the existing initiatives, mechanisms and the processes, and associated modifications.
- For countries that have a focal point responsible for overseeing improvements to their school finance systems, examine and strengthen the role of this focal point, if necessary. Where applicable, involve external development partners, academic institutions, civil society and other national stakeholders in this effort.
- Examine the capacity and resource needs of the UNESCO Asia-Pacific regional office, as the initiator of this exercise, for moving forward with what has been initiated, as a significant contribution to achieving the Education 2030 agenda, especially regarding Target 4.1.
- Make use of the school finance resources (report, case studies and module) for national, regional and global meetings on Education 2030, the International Commission on Financing Global Education Opportunity and the Global Partnership for Education to raise visibility of the need to strengthen school finance.

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# Guiding questions

The guiding questions listed below served as a template for the literature review, to elicit what was known about school financing in the Asia-Pacific region, and also served as an analytical framework to keep the study on track. Furthermore, the guiding questions helped to structure the country case studies and the regional school finance report.

The study examined concerns relating to adequacy, efficiency and equity in education financing, focusing on primary and secondary school education (up to grade 8 or 10, depending on the school structure in the participating countries).

## 1. Adequacy of school finance

### 1.1. Structure of the education system

- Number of grades in primary and secondary education
- Total number of institutions in primary and secondary education – public and non-public.
- Enrolment numbers and gross and net enrolment ratios in primary and secondary education – in public and non-public institutions.
- Completion rates for primary and secondary education.

### 1.2 Availability of public resources

- Education resources/expenditure as a share of GDP.
- Education resources/expenditure as a share of total government outlays
- Education resources/expenditure as a share of sub-national public budgets (provinces, local governments, municipalities, etc).
- Primary education resources/expenditure as a share of the total public education budget.
- Secondary education resources/expenditure as a share of the total public education budget.
- Per student public expenditure in primary and secondary education.
- International aid to primary and secondary education (loan or grant, earmarked or flexible, capital or operational support, trends).
- International aid – significance in volume and in influence on education decisions.

### 1.3 Availability of non-public resources

- Numbers of non-public institutions operating in the primary and secondary education sub-sectors.
- Types of non-public institutions: non-profit and profit-making
- Types of non-profit institutions: community-run, NGO-run, religious, etc.
- Types of profit-making institutions: private enterprises, corporate enterprises, etc.
- Percentage of students enrolled in primary and secondary non-public institutions.
- Percentage of students in non-public institution who complete primary and secondary education.

### 1.4 Public-private partnerships

- Corporate, philanthropic and community contributions to public institution resources.
- Form and significance of private contribution: conditionality, significance in volume and influence on services.
- Public financial contributions to private institutions: form (grants to schools, vouchers, free textbooks, scholarship to students, subsidised loans to school or students, allocation of land on preferential terms, tax incentives, etc.), conditionality and significance in volume and influence on service quality.

### 1.5 Household contributions

- Average household expenditure per child in public and private schools (primary and secondary)
- Items of expenditure: registration fees, admission fees, tuition fees, special fees (games, sports, school events etc), private tutoring, learning materials and textbooks, transportation. lunch, clothing and uniforms, etc.
- Comparison of public and household expenditure per student in public institutions.

### 1.6 Total resource picture in primary and secondary education

- Overall resource availability from all sources: public, private, household, others.
- How significantly non-public resources augment total resources.

### 1.7 Trends in resource availability

- Evolution and trends in resource provisions since 2000.
- Change in composition of the sources of educational financing in primary and secondary education.

### 1.8 Observations on availability of relevant data on the above items;

- Are there any major deficiencies in the relevant data?
- To what extent can a reasonably valid picture of the state of school financing in the region be constructed?
- How can the deficiencies be overcome?

## 1.9 Criteria for resource adequacy

- Have criteria for resource adequacy been established in terms of legal and political commitments and obligations with regard to primary and secondary education?
- To what extent are the components of the criteria translated into indicators for monitoring and assessment? e.g. distribution of schools and physical facilities, student-teacher ratio, teacher qualifications and training, teacher remuneration and incentives, learning materials, financial allocations, learning outcomes and assessment of learning, equity considerations, accountability and transparency of management, etc.
- To what extent are the criteria applied? To what extent do mechanisms and systems exist to apply the criteria?
- To what extent are data about the main indicators of adequacy available? Are the data of reasonable validity and reliability? To what extent are these used in decision-making about resource and budget planning and allocations?

## 2. Efficiency of school finance

### 2.1 Legal framework and provisions regarding primary and secondary education

- What level of education is recognized as a right and what constitutional and legal provisions are there in the countries?
- Universal and compulsory education provisions – up to what grade or age level?
- Are the obligations of governments, parents and other actors specified?
- Are there legal provision regarding the allocation and use of financial resources for education?

### 2.2 Structure of policy-making, planning and decision-making regarding school education

- Degree of decentralization of education governance and management.
- Responsibility and authority at the national, provincial, district, local and school levels. What kinds of decisions are made at the various levels and how is authority distributed between the levels, particularly with regard to financial decisions and responsibilities?
- Budget preparation and allocation process.
- Are there criteria, formulas and standards that are applied in budget making and allocations? How are these applied? How are decisions made?

### 2.3 Mechanisms for transfer and disbursement of funds

- Transfers to local authorities (districts, municipalities, etc).
- Transfers to schools.
- Direct payments of teachers' salaries.
- Transfers to students and families (stipends, scholarships, conditional cash transfers).
- Transfers in kind (textbooks, learning materials, equipment).

- Vouchers to students.
- School meals.
- Government guaranteed or subsidized student loans.
- How are capital and development budgets decided and allocated?

## 2.4 Budget management and implementation at the national, provincial and district levels

- National level education budget management tasks and mechanisms.
- Provincial and district level education budget management tasks and mechanisms.
- Monitoring and fiscal control mechanisms for education budgets at the national, provincial and district levels for primary and secondary education.
- To what extent are school performance and results indicators used for budget management and monitoring?

## 2.5 Budget planning, management and implementation at the school level

- What are the sources of funds for the school budget? Are there conditions and earmarking?
- What are the main budget items or budget lines at the school level? What is the scope and authority or responsibility for budgets at the school level?
- How are capital and development expenditure decisions made and managed?
- What steps are followed in the decision-making process at the school level?
- What processes for approval of the budget are used? How do schools identify their needs and use of funds?
- What actors are involved and consulted? How are local stakeholders' views considered? Who are the recognized stakeholders?
- What problems do schools face in the decision-making process? What are the capacities of the actors, including institution heads and managing committees?

## 2.6 Monitoring and control of the school funds

- What processes and mechanisms are used for monitoring, control, and reporting? What problems do schools face in the monitoring and control of the school budget?
- Do schools receive support in this process? If so, what kind of support do they receive?
- What feedback from the results of the monitoring process is offered to stakeholders? What tools are used for sharing the results (e.g. meetings, reports, etc.)? With whom?
- How are the monitoring results used to improve school budget management and school performance? How are the monitoring and control processes followed up? Are there any sanctions for non-compliance? What are they?

## 2.7 Trends in resource mobilization and management

- Have there been changes in resource mobilization and management at the national and sub-national levels since 2000 (launch of EFA 2015)? What trends can be seen?

- Have there been changes in resource mobilization and management at the school level since 2000? What trends can be seen?

## 2.8 Observations on the availability of relevant data on the resource management and efficiency items

- Are there any major deficiencies in the data?
- To what extent can a reasonably valid picture of the state of school financing in the region be constructed?
- How can the deficiencies be overcome?

## 3. Equity in school finance

### 3.1 Are indicators of equity considered in educational planning, budget planning, and budget management and monitoring? If so, what are these?

For example: Proportion of children accessing, participating in and completing primary and secondary education, with breakdown of students by geographic location (urban-rural, remote); socio-economic status (quintiles); gender; ethnic-linguistic characteristics; special needs.

### 3.2 To what extent do learning outcomes assessments take into account the learner groups, by socio-economic status, location, ethnicity, language, gender and special needs?

### 3.3 Are equity indicators applied in education (primary and secondary levels) budget making, and implemented at the national, province, district and school levels?

To what extent do financing formulas, criteria, mechanisms, transfer processes and monitoring apply equity objectives?

### 3.4 To what extent does complementing and supplementing public resources in primary education with household, private and other resources exacerbate inequity?

Who are affected? Can budget policy and mechanisms for public-private partnerships mitigate inequity? Are there any examples of this?

### 3.5 Trends in education equity through school financing

- Has there been any improvement equity in primary and secondary education through finance mechanisms and practices at the national and sub-national levels since 2000?
- Has there been any improvement in equity in primary and secondary education through finance mechanisms and practices at the school level since 2000?

### 3.6 Observations on the availability of relevant data on equity promotion measures through school finance mechanisms and practices

- Are there major deficiencies in the data?
- To what extent can a reasonably valid picture of the state of school financing in the region be constructed?
- How can the deficiencies be overcome?

## 4. Outcomes of school finance planning, management, implementation, monitoring and assessment

The questions in this part were not part of the literature review, but were intended to assist in drawing conclusions from the literature review and national case studies, and to aid in preparing recommendations on strengthening school finance systems.

### 4.1 What is the overall education resource situation in the region?

- Absolute budget amounts are likely to have increased in all countries, but has per student public expenditure increased in real (inflation-adjusted) terms?
- Have resource limitations been alleviated by household expenditure and other non-government sources? To what extent?
- Are there distinct patterns in the school financing situation and any trends in the Asia-Pacific region?

### 4.2 Would more resource inputs result in better learning outcomes?

- Budget provisions (for improved school infrastructure, feeding programmes, better learning materials, more and better paid teachers, etc) are expected to result in better learning outcomes. Is there evidence to bear this expectation out?
- Is there a threshold or minimum level of resource inputs that is critical? Does it seem that if the threshold level is not reached, this would result in a waste of the investments made?

### 4.3 Are there certain models, mechanisms and formulas that are likely to increase budget performance?

- Is there any evidence that conditional cash transfer arrangements to students or families (known as demand-side financing) improve learning outcomes and address equity concerns? Do these divert resources from critical quality-enhancing inputs in schools or school meals, for example? Is demand creation the main concern or is it better to ensure a responsive supply of services and good quality services?
- Do mechanisms that enhance transparency and accountability deserve greater emphasis? For example, per capita formula funding, block grants with accountability by schools for agreed results, and school allocations tied to performance over a reasonable time-frame.
- Given that teachers' salaries consume 80 per cent or more of the operating budget, what can be done to use financing to establish incentive structures for better performance by teachers?

- How are capital and development expenditures augmented and managed? For example: international aid, access to the capital market (with government guarantees and incentives), corporate social responsibility, etc.

#### 4.4 Is public-private partnership for school finance effective?

- Is adopting public-private partnership as a key strategy to provide for a public good and in fulfilling the rights obligations effective? Is there any contradiction? Is there too much hype about it?
- What are the actual and likely effects of public-private partnership on equity? Are there good examples that can be replicated elsewhere?

#### 4.5 How are resource use and budget performance monitored and assessed at the system level and in schools?

- To what extent do budget policy and practices promote school autonomy related to school finance?
- What efforts are made to link education spending and learning outcomes (for example, using system level and achievement indicators and school performance indicators)?
- What steps and mechanisms are used to ensure the transparency and accountability of school fund use?
- How is the sustainability of school finance programmes addressed (e.g. the sustainability of school grants and stipends)? Do governments and schools develop plans for ensuring the sustainability of school financing?

#### 4.6 Strengthening school finance policies and practices

- What are the key components of the initiative to strengthen school finance policies and practices?
- What are pros and cons of the various school budget allocation mechanisms?
- Is an integrated and holistic approach taken when addressing the relationship between adequacy, equity and efficiency of school finance?
- Are good practices in mechanisms and processes adapted to national environments and contexts?

#### 4.7 What are the necessary steps for the preparation of a policy brief or guidelines based on the conclusions and recommendations of the regional school finance study and what are the follow-up steps?

(e.g. dissemination, national level discourse, national level adaptation, encouraging and supporting national level action.)



# Country reports

## 1. Country Report: Cambodia

### School Finance in Cambodia: Challenges and Recommendations for Effective School Grants Implementation

Akemi Ashida<sup>6</sup>, Phal Chea<sup>7</sup>

#### Introduction

##### Context

In 2015, countries of the world assessed the progress made towards the 2015 Education for All (EFA) goals and Millennium Development Goals (MDGs) and set the post-2015 education agenda, based on the achievements since 2000. Cambodia noted that it had made impressive progress in both the MDGs and EFA goals.

Some of the success was due the education reforms made by the Ministry of Education, Youth and Sport (MoEYS). The ministry's third education strategic plan (2009-2013), released in 2010, presented three main policy areas, including one that emphasized decentralization, and the subsequent plan (2014-2018), developed with inputs from national and sub-national stakeholders, including development partners, sought to strengthen decentralization reforms through enhancing the institutional and capacity development of education staff, with the overall goal of ensuring equitable access to education and improving education quality.

The total budget allocated to the education sector increased year by year in nominal terms in the decade between 2005 and 2015, but the percentage of education in the national recurrent budget fluctuated between 15 per cent and 20 per cent over that period.

More than 70 per cent of the education budget in Cambodia is spent on staff salaries. Teacher salaries are not channelled through schools but are paid directly into individual bank accounts, so although the decentralization reforms have meant that school management bodies now have some control over their operational budgets, the teaching and non-teaching staff salaries are beyond their control.

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## School finance and grants

For this study, school finance was defined as the mobilization, allocation, management and use of financial resources provided to and/or generated at school level. The largest sources of financial resources for schools in Cambodia are school grants, of which there are two types: the School Operations Budget (SOB), commonly known as the Programme-based Budget, (PB) and the School Improvement Grants (SIG) programme. As of 2015, these two types of school grants were being provided to all primary and lower secondary schools nationwide in Cambodia. The grant programmes seek to improve school access and education quality by providing financial resources to schools to cover school operational expenditure.

## Research methods

This study used a qualitative approach. The study collected information on school finance in Cambodia from national, sub-national and school levels as well as from development partners such as UNICEF and UNESCO through an in-depth desk review and a field study.

At the national level, semi-structured interviews were conducted, using questionnaires, at the Directorate General of Policies and Planning, the Department of General Secondary Education, the Department of Primary Education and Department of Finance and with the International Technical Advisor to MoEYS. At the sub-national level, interviews were conducted at provincial education offices and district education offices in the provinces and districts in which the sample schools were located. At the school level, interviews were conducted with school principals, accountants and teachers, as these staff who work directly on school grant programmes.

## Sample selection

The study selected Phnom Penh Capital and two other provinces: Kampong Thom and Siem Reap for the field study. In each location one Khan (district) and four schools were selected.<sup>8</sup> The four schools in each Khan consisted of one lower secondary school and three primary schools, chosen to include various types: urban, rural and disadvantaged. See Table 1 for the numbers of students and staff at each of the schools.

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<sup>8</sup> In Phnom Penh, schools were from two different Khans, but only DEO in Khan Daun Penh was interviewed. The lower secondary school was from Khan Russie Keo while the three primary schools were from Khan Daun Penh.

**Table 1:** Number of students, classes and staff surveyed, by location

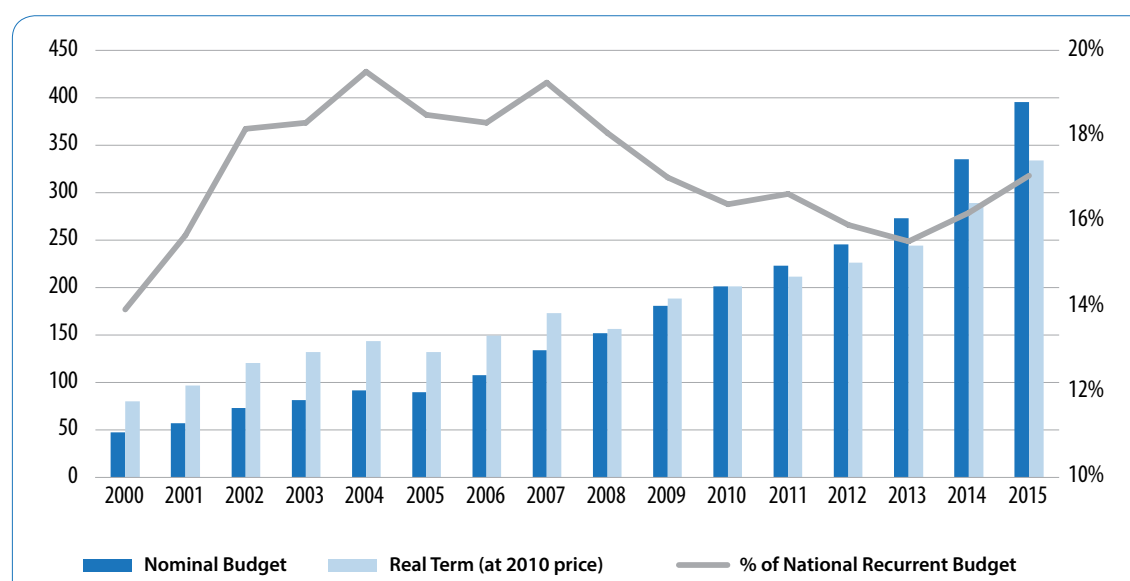
Khan/District Capital/Province	School Code	Number of Student	Number of Class	Non-Teaching Staff	Teaching Staff
Kampong Svay	A	134	6	0	3
Kampong Thom	B	149	6	0	4
	C	195	7	0	5
	D	181	4	1	10
Sotr Nikum	E	817	18	6	18
Siem Reap	F	85	4	0	2
	G	561	14	1	10
	H	475	8	3	10
Daun Penh	I	3504	86	5	93
Phnom Penh	J	682	26	4	54
	K	3193	82	8	82
Russei Keo	L	993	20	11	52

## National school finance management system

### School finance policy

#### **Background**

With the launch of the Priority Action Programme nationwide by the Royal Government of Cambodia in 2001, which introduced the school grants policy, primary school enrolment figures increased. Between 2001/02 and 2012/13, the primary school net enrolment ratio surged by 13.2 per cent, increasing from 86.8 per cent to 97 per cent (MoEYS, 2014a). The budget allocated to the Ministry of Education Youth and Sport also increased year by year over this period and in some years it reached almost 20 per cent of the total national recurrent budget. However, the education budget as a percentage of the national recurrent budget declined between 2007 and 2013, and in 2013 the education sector received only about 15 per cent of the total national budget, the lowest share since the Priority Action Programme was launched. The decline was partly owing to the fact that MoEYS had underspent, by as much as 15 per cent, the allocated budget in previous years (Tandon and Fukao, 2014). In 2014, following stronger budget preparation, management and execution, the budget share allocated to MoEYS was increased to 16.2 per cent and in 2015 it was increased to 17.1 per cent.

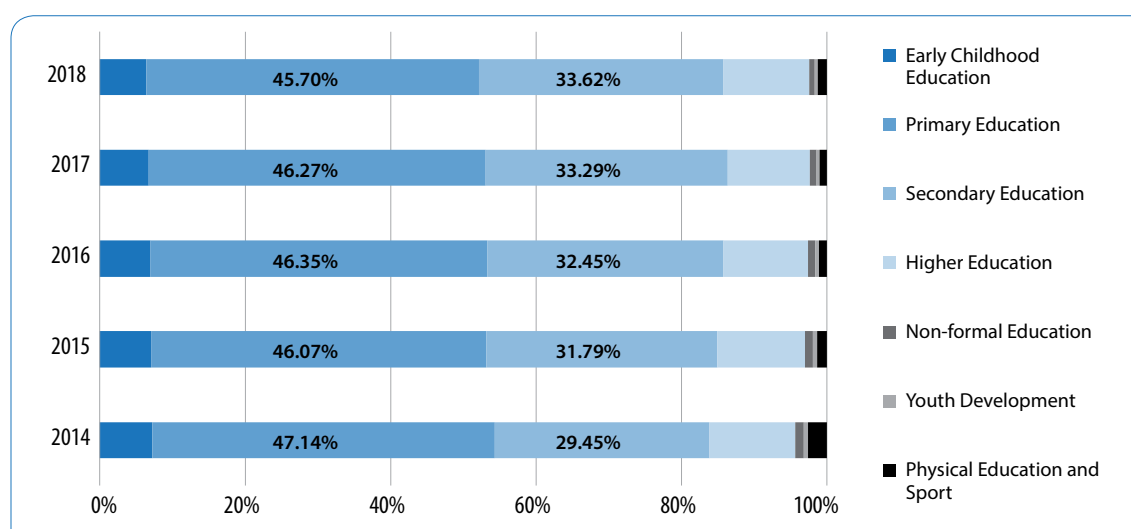
**Figure 1:** Cambodia education budget 2000-2015 (in millions of USD)

*Source:* Cambodian National Budget, 2000-2015

The Priority Action Programme introduced reforms to the basic education sector in Cambodia, aiming at increasing school participation and enhancing the quality of education in primary and lower-secondary schools. The programme began as a pilot project in 10 provinces in 2000 and was expanded nationwide in 2001. With the introduction of the programme, registration fees and other school costs were abolished, so as to reduce the household financial burden of education, especially for poor families (World Bank, 2005b). The programme was replaced by the Programme-based Budget in 2007, but there were few changes in the guidelines on spending and clearance procedures.

Prior to 2014, teachers' salaries were distributed to teachers by the district education offices, and since 2014 both teaching and non-teaching staff salaries are transferred to individual bank accounts from the Provincial Treasury (MoEYS, 2014c).

The education strategic plan has seven sectors: 1) Early childhood education, 2) Primary education, 3) Secondary and technical education, 4) Higher education, 5) Non-formal education, 6) Youth development and 7) Physical education and sports. Among these, primary and secondary education continue to be the central focus and they receive the largest share of education budget, which accounts for more than 70 per cent of the total.

**Figure 2: Expected education budget by sub-sector, 2014-2018**

**Source:** Based on MoEYS, 2014b.

### **Decentralization**

Good governance is at the core of the National Strategic Development Plan, known as the Rectangular Strategy Plan, under which the Royal Government of Cambodia adopted the decentralization and dispersion reform. These reforms intended to encourage good governance, recognizing the importance of this in improving the delivery of public services and achieving Cambodia's development goals. Under the plan, Commune Councils were created in 2002 as an administrative management structure in every commune (*sangkat*) in the country, thereby delegating more power to the grassroots level.

The World Bank's (1995) publication on 'Priorities and Strategies for Education' is considered a driver of decentralization of education and of school-based management globally. In Cambodia, capacity development for decentralization was one of the three policy areas in the Education Strategic Plan (2009-2013) along with ensuring equitable access to education services and improving the quality and efficiency of education services. In accordance with this plan, and in response to Public Financial Management Reform introduced by the Ministry of Economy and Finance (MEF), MoEYS prepared a detailed Ministry Action Plan and provided training to all sub-national institutions as well as to all schools in the country on the topics of budget classification, bookkeeping and fixed asset inventory management. The following education strategic plan (2014-2018) extended the focus on decentralization and education financial management reform to further build capacity at the sub-national and school levels. Priority topics for capacity building include budget formulation and execution and procurement. The capacity development plan is supported by the Capacity Development Partnership Fund, which is jointly funded by the European Union, SIDA and UNICEF, and has been managed by UNICEF since late 2011.

### **Funding sources**

In 2014, public expenditure on education was USD 335 million, accounting for 16.2 per cent of Cambodia's national recurrent budget. Three quarters (75 per cent) of the total recurrent expenditure allocated to MoEYS was spent on salaries for teaching and non-teaching staff, while the Programme-based Budget represented 13 per cent of the expenditure (MoEYS, 2014b). That year, development partners also supported the education sector in Cambodia, with the amount of aid from the top ten bilateral and multilateral donors topping USD 81 million, a huge increase

compared to previous years (see Table 2). In addition, since becoming a member of the Global Partnership for Education (GPE) in 2006, Cambodia has received GPE grants twice: USD 57.4 million for the period between 2008 and 2012 and USD 38.5 million for the period between 2014 and 2017.

**Table 2:** Foreign aid for education in Cambodia, by development partner (in USD, thousands)

Development partners	Disbursement			Commitment	
	2012	2013	2014	2015	2016
World Food Programme	9,401	10,861	26,646	25,924	15,715
World Bank	2,898	4,729	13,250	27,500	26,250
European Union	9,060	4,521	12,525	15,109	30,127
Sweden	3,860	11,576	11,303	12,657	4,543
Asian Development Bank	3,592	8,884	8,600	5,000	6,000
UNICEF	1,656	7,218	5,939	681	0
Republic of Korea	3,263	1,459	1,455	1,000	4,500
Japan	0	1,641	1,351	722	0
France	443	478	309	0	0
UNESCO	302	268	30	20	0
<b>Total amount from these 10 donors</b>	<b>34,474</b>	<b>51,634</b>	<b>81,407</b>	<b>88,612</b>	<b>87,135</b>
<b>Total amount from all donors</b>	<b>38,165</b>	<b>53,892</b>	<b>81,407</b>	<b>99,313</b>	<b>97,835</b>

Other sources of financial resources for education are non-governmental organizations (NGOs), private donors, communities and incomes generated locally by schools. The total amount of funding from NGOs, private donors and communities is difficult to accurately measure, as it is neither channelled through the government nor well recorded.

As of September 2015, 52 international NGOs and 85 local NGOs were registered as members of NGO Education Partnership, an organization aiming at promoting active collaboration between NGOs working in the field of education in Cambodia (NGO Education Partnership, 2015). With most of the government budget allocated for recurrent expenditure, private donors, including NGOs and political figures, cover the costs of most school buildings and facilities. For example, as of 2014 Prime Minister Hun Sen had funded the construction of 3,622 school buildings (MoEYS, 2015).

## Policy formulation process

Education policies are formulated centrally, normally in consultation with sub-national stakeholders and development partners. Governments at the sub-national level also play an important role in disseminating the policies once they are adopted.

Before launching any programme nationwide, the government normally conducts a pilot project. For example, the School Improvement Grants programme was implemented in 606<sup>9</sup> schools between 2009 and 2012 under the Education Sector Support Scale-Up Action Program (ESSUAP) before nationwide implementation in 2013.

<sup>9</sup> Based on SIG Program Evaluation: Final Report by Marshall (2012), 600 schools received the grants, but according to Department of Primary Education it is 606 schools.

## Policy dissemination

To ensure school grants are implemented smoothly, guidelines were prepared at the central level and disseminated to all stakeholders at the sub-national and school levels through the education departments under the MoEYS. Both provincial education offices and district education offices were provided with guidelines for the implementation and financial management of the School Operations Budget and School Improvement Grant programme, along with regulations, *prakas*<sup>10</sup> and monitoring and evaluation instruments prepared by the central government. At the school level, more simplified versions of documents are distributed through the district education office.

Generally, when new guidelines are released, the central government first trains staff at the provincial education offices, so that they can join MoEYS teams to train staff of district education offices and schools afterwards. Before the School Improvement Grant programme was launched in 2013, a four-day training course was conducted for the staff of provincial and district education offices and school committees. At the school level, key members of the School Improvement Grant committee, namely the school principal, accountant and school supporting committee representative of each school in each district, were invited to attend workshops by MoEYS and the provincial education offices.

The responses to the interviews at the school level indicate that school principals and school accountants are well informed and knowledgeable about the School Operations Budget and School Improvement Grant's formulas and objectives, although some still face difficulties with accounting procedures. The distribution of the guidelines for these funding programmes was confirmed at the visited provincial and district education offices and schools.

The study found that the district education offices play a vital role in the success of school grant implementation, since some schools, particularly small schools in disadvantaged areas, do not have sufficient knowledge of financial management and accounting procedures. Newly-assigned school principals and accountants without prior experience and training find that school grant management is very challenging and they need particular support from the district education offices. Schools rely heavily on the district education offices for information and for support when they face difficulties.

## Budget preparation and allocation at the central and sub-national levels

All ministries in Cambodia prepare their budgets in three stages: Budget Strategic Plan Preparation (from March to May), Preparation of the Annual Budget (from June to September) and Adoption of the Budget (from October to December) (Cambodian Economic Association, 2013; NGOF and EIC, 2007). MoEYS follows this cycle even though the academic year in Cambodia starts in October or November. Based on the macroeconomic framework and medium-term public financial policy and guidelines prepared by the MEF, the PEOs and MoEYS prepare the provincial and national Budget Strategic Plans (BSP) and submit them to the MEF for review by mid-May. In the second stage of the budget preparation, responsibilities are extended to all levels of stakeholders, including schools. Schools are expected to send their budget proposals to the MoEYS through their district and provincial education offices. In September, MoEYS presents the budget proposals and negotiates with the MEF in order to finalize the budget. In the final stage, the MEF consolidates the budgets of all ministries and submits the final budget to the Council of Ministers in October for review before submitting it to the National Assembly. By December, the national budget is approved and adopted by the National Assembly.

<sup>10</sup> *Prakas* is a ministerial or inter-ministerial decision signed by the relevant minister(s). It must conform to the Constitution and the law or sub-decree to which it refers.

In the past, the School Operations Budget was prepared at the central level based on the Education Management Information System (EMIS) database and submitted to the MEF for approval. After the budget was approved by the National Assembly, the School Operations Budget was allocated to schools through provincial and district education offices. Schools received a budget based on their type and size and on the number of students they had, as recorded in the EMIS database. The budget allocated for each school was channelled through the National Treasury, Provincial Treasury, and the provincial and education offices.

Following the reforms, budget preparation was decentralized and the process begins from the bottom, from schools up to the national level. According to the MoEYS guidelines, each school is now required to establish committees for the School Operations Budget and the School Improvement Grant programme, which are chaired by the school principal. The committees manage the funds and are also responsible for preparing a school development plan, annual operational plan and budget proposal, which are submitted to the district education office. Schools generally hold meetings independently to decide their priorities and propose activities and budget plans, although in some cases schools gather together at a cluster school and hold meetings in which they prepare their plans and proposals together.<sup>11</sup> However, under the School Improvement Grants programme, a three-year project supported by SIDA, schools are required to prepare separate proposals and plans.

The district education offices have about two weeks to review and verify the plans and proposals that schools submit and consolidate the district budgets before submitting them to the PEOs. Based on the information from the district education offices, the provincial education offices consolidate the provincial level budgets and send them to the MoEYS through the Department of Primary Education, the Department of Lower Secondary Education and the Department of Finance. At the central level, the MoEYS prepares the national consolidated budget proposal for the MEF's approval. Both the School Operations Budget and the School Improvement Grants programme are prepared annually, but the latter does not require approval from the National Assembly, as it is not a part of the national budget.

## School budget allocation mechanisms

### School financial resources

#### *Funding sources*

Before the introduction of the Priority Action Programme in 2001, schools relied on school fees collected from parents, community contributions and funds raised by School Supporting Committees to cover their operational expenditures, since the national budget only covered the salaries of teachers and education administrators (Duy, Hang and Yos, 2001). Following the reforms, the main source of school financial resources became the School Operations Budget, as a part of the Programme-based Budget and the School Improvement Grants programme.

Nevertheless, as of 2015 the allocated funds from the Programme-based Budget and the School Improvement Grants programme were still not sufficient for schools to cover all the costs of operating and maintaining their facilities, so continued to rely on other sources of incomes.

<sup>11</sup> The cluster school system was introduced in Cambodia since 1993 as a mechanism for quality improvement of education and a way to facilitate sharing and interaction between schools. Primary schools of neighboring villages are grouped in 6–9 for administrative and educational purposes such as to share available resources, to disseminate information with the cluster (Dykstra and Kucita, 1997; Pellini and Bredenberg, 2015).



Schools in Cambodia seek support from local communities, parents, external donors and NGOs to supplement the limited financial resources they receive from the government. When large-scale repairs or construction are needed, such as fences or repairs to school compounds, schools usually seek contributions from communities through fundraising events and/or requests for contributions. Nine out of the 12 schools interviewed in the study reported they had conducted at least one fundraising event in the previous two years. In the same period, four schools had also requested contributions from parents when there were expenditures that could not be covered by government funds (Table 3). For instance, workers such as cooks (for the school breakfast programme) and cleaners (in the case of schools in Phnom Penh) are not covered by the government budget as they are not officially employed, therefore these costs must be covered by parental contributions. Contributing money to schools is the most common type of education activity in which parents in rural areas participate (Shoraku, 2008). Some schools are able to generate extra income from renting spaces for bicycle parking and food stores inside school compounds, but this is very uncommon in rural and disadvantaged areas. Since MoEYS has limited budget for capital investment, most school building construction is funded by private donors, international inter-governmental organizations and NGOs. In 2014 and 2015, World Vision, the World Food Programme, KAPE, Room to Read, Shanti Volunteer Association (SVA), Meta Korona, Kampea Koma, Friend International and Pour un Sourire d'Enfant (PSE) implemented activities at nine of the 12 schools interviewed in this study (Table 3).

**Table 3:** Financial sources for 12 primary and lower secondary schools, by location, 2014-2015

Financial sources	All	Kampong Thom	Siem Reap	Phnom Penh
School Operations Budget	12/12	4/4	4/4	4/4
School Improvement Grants	12/12	4/4	4/4	4/4
Contribution from community	9/12	3/4	2/4	4/4
Voluntary contributions from parents	4/12	0/4	2/4	2/4
Other sources of donations	1/12	0/4	0/4	1/4
Support from NGOs	9/12	2/4	4/4	3/4
Income generation	5/12	1/4	2/2	2/4

### **School grants**

With support from the World Bank, the Education Quality Improvement Project (EQIP) was launched in Takeo Province in 1998 and later in Kandal and Kampot provinces. In 2000, based on the EQIP experiences, the government began the Priority Action Programme as a pilot project in 10 provinces then launched it nationwide in 2001. This programme sought to overcome obstacles to access to education by abolishing the school fees that schools had collected to cover operational expenditures. In 2007, the Priority Action Programme was replaced by the Programme-based Budget, which was still in place as of 2015.

Aside from expanding access to education, the purpose of allocating budgets directly to schools was to improve quality education through funding the provision of teaching and learning materials; to include local stakeholders in the decision-making process; and to increase the efficiency and effectiveness of school budget management (Kheang and Luz, 2012).

The School Improvement Grants programme began as a component of the Education Sector Support Scale-Up Action Program (ESSUAP) in the 2009/10 school year, providing additional school grants to schools in disadvantaged areas. Evaluations of the grants programme indicated that schools with these additional grants performed better than other schools in term of higher

pass rates, lower drop-out rates and higher student achievement levels. The differences were not statistically significant, however, when the control schools are restricted to schools with similar characteristics (Marshall, 2012). Nevertheless, in late 2013, SIDA signed an agreement with the MEF to finance the implementation of the School Improvement Grants programme for three years from the 2013/14 academic year onwards.

As of 2015, all primary and secondary schools received at least two types of school grants: the School Operations Budget and the School Improvement Grants programme. Some selected lower secondary schools are also funded by the Asian Development Bank's School Improvement Grants, as a part of the third Education Sector Development Programme (Asian Development Bank, 2012), but none of the schools interviewed for this study receive this funding. According to the responses to interviews at the central level, after the completion of the School Improvement Grants programme in the 2015/16 academic year, MoEYS is considering combining the School Operations Budget and the School Improvement Grants programme to form the School Improvement Fund.

### Criteria for the distribution of the school budget and grants

The School Operations Budget and School Improvement Grants funds are now distributed to all public primary and lower secondary schools regardless of school characteristics, even though the allocated amounts are deferred depending the school type and size and the number of students.

When school grants were first introduced in the Priority Action Programme in 2000 as pilot project in 10 provinces, the distribution was made based on a very simple formula using the number of students as the only criterion. All schools received 8,514 Cambodia riel (KHR), which was about USD 2, per pupil regardless of school location or size. When the government launched Priority Action Programme nationwide in 2001, a fixed amount of KHR 50,000 for each school was added, but the per-pupil amount was reduced to KHR 5,305 (World Bank, 2005a). The formula changed slightly several times over the years and as of 2015, based on the inter-ministerial Prakas 508 issued in May 2013, the amount distributed for the School Operations Budget was based on school type and size and the number of students, as described in Table 4.

**Table 4:** School operations budget, by school type (in KHR)

School type		Fixed	Per Student
Pre-school	Typical Area with 3 or fewer classes	400,000	9,000
	Typical Area with 4 or more classes	500,000	8,000
	Disadvantaged Area with 3 or fewer classes	450,000	10,000
	Disadvantaged Area with 4 or more classes	500,000	9,000
Primary school	Typical Area with 6 or fewer classes	800,000	10,000
	Typical Area with 7 or more classes	1,000,000	9,000
	Disadvantaged Area with 6 or fewer classes	1,000,000	12,000
	Disadvantaged Area with 7 or more classes	1,200,000	10,000
Secondary school	Typical Area with 10 or fewer classes	1,500,000	19,000
	Typical Area with 10 or more classes	2,000,000	17,000
	Disadvantaged Area with 11 or fewer classes	2,000,000	21,000
	Disadvantaged Area with 11 or more classes	2,500,000	19,000

*Source:* Based on MEF, 2013

In addition to the government's School Operations Budget, in 2013 the Swedish International Development Cooperation Agency signed an agreement for the three-year School Improvement Grants programme (2013-2016) to financially support school operations budget in Cambodia with the aim of ensuring that education services are delivered with better equity and quality to all children. Similarly to the School Operations Budget, the funds are allocated based on school type and the number of students but with a simpler formula. Unlike the School Operations Budget, the School Improvement Grants funds are provided in USD not KHR.

**Table 5:** Amounts provided per school and per pupil by the School Improvement Grant programme, by school type

School type	Per school	Per pupil	
		Typical area	Disadvantaged area
Pre-School	USD 69	USD 1.41	USD 2.12
Primary school	USD 94	USD 1.41	USD 2.12
Lower secondary school	USD 144	USD 2.12	USD 3.17
Upper secondary school	USD 144	USD 1.76	USD 2.65

*Source:* MoEYS, 2013

The Cambodian academic year usually starts in October and sometimes begins in November, but the fiscal year starts in January. The approved School Operations Budget is supposed to be allocated in four instalments: in January, in April, in July and in October (Jong, Theavy and Conochie, 2013) but instalments are sometimes late. For instance, as of the end of July 2015 the schools in Kampong Svay and Sotr Nikum districts and Khan Daun Penh had received only two instalments. At the time of the field survey in 2015, all schools had just opened a separate bank account for the School Operations Budget transfer and expected to receive that budget through bank transfer. When the School Operations Budget is not distributed in time during the fiscal year, the remaining amount cannot be carried forward to the next fiscal year. In 2013 schools in Kampong Svay District only received three instalments of the School Operations Budget and in 2012 schools in Sotr Nikum District only received three instalments of that budget. However, schools in Khan Daun Penh reported that they receive four instalments every year.

The respondents at the school level (principals, accountants and teachers) felt that the formulas used to calculate the funds allocated to schools are appropriate, simple and easy to understand, all stakeholders including those at school level agree the current formulas are appropriate and fair enough and, more importantly, felt that the formulas are effective in the context of Cambodia. When asked whether there is any inconsistency between the proposed budget and the allocated budget, most schools responded that they had received almost the same amounts as they had requested. Schools in Kampong Svay District in Kampong Thom Province reported receiving budgets slightly different from what they requested and some school principals in other areas also reported that the amounts were not what they had originally requested. For example, some schools in rural and disadvantaged areas received a budget for electricity and water supply, although they had not requested it, as they do not have electricity and water supplied in their areas. In such cases, the schools had to find alternative ways to spend the allocated budget. The interviewed rural schools used the electricity budget to buy or recharge batteries for electricity generation and used the water budget to hire someone to transport water for school use. The urban schools interviewed for the study reported that the allocated budgets for electricity and water were far from enough. To address this problem, urban schools had to find non-governmental financial resources to cover the costs, such as from parent and community contributions and from incomes generated by the schools.

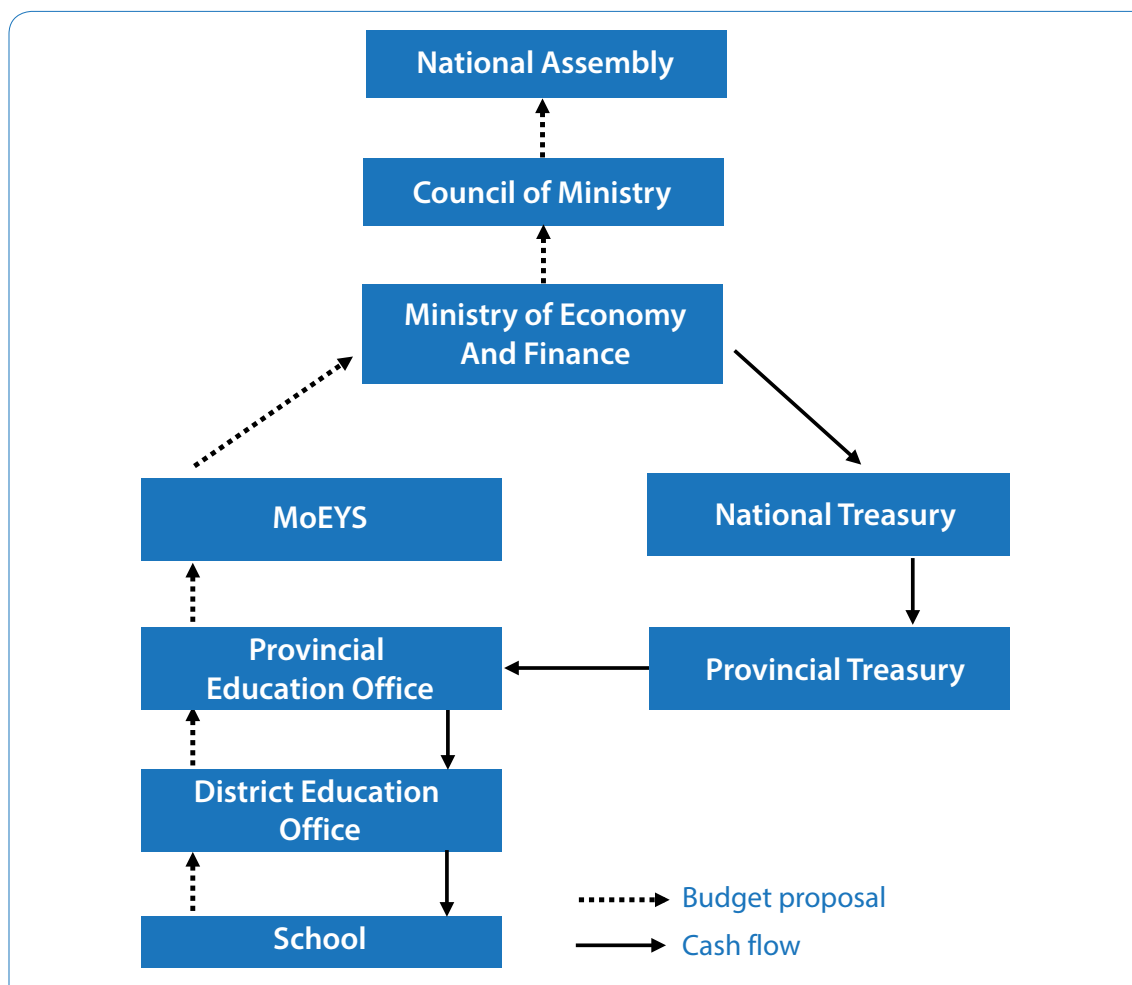
School committees did not fully understand the reasons behind the unexpected or undesired budget allocations. Interviews with staff at the district and provincial education offices and at the departments at MoEYS revealed that this mismatch of budget allocations was likely to be because the budgets allocated to the provincial and district education offices are also classified into sub-accounts (electricity and water, etc) similar to the School Operations Budget sub-accounts allocated to schools. When district education offices have limited skills in financial management they may have difficulty in re-allocating the budget to schools in accordance with school requests. However, the district education office in Sotr Nikum Distict in Siem Reap Province reported that it can reallocate its budget to schools according to the sub-accounts specified in the school proposals.

For the School Operations Budget, schools are required to prepare an accounting report for each instalment. As a condition for receiving a new instalment, schools need to clear the previous instalment. The interviewed schools reported not having any difficulty in preparing these reports. For the School Improvement Grants, schools need to prepare monthly, quarterly, semester and annual reports, using specific formats, and must submit them to the district education office. The interviewed schools see preparing so many financial reports as a burden. One of the school principals also noted that preparing these reports was difficult because there was no manual or guidelines for report preparation. The school staff also reported that it is a challenge for school committees when implementation regulations relating to the grants are revised, as it takes time for them to fully understand the new procedures. Changes in school finance guidelines also present challenges for school principals and teachers.

### Design of budget allocation mechanisms at the school level

In accordance with the MoEYS regulations, schools must establish committees for the School Operations Budget and the School Improvement Grants. The committees are responsible for preparing school budgets and annual operational plans for the School Operations Budget and the School Improvement Grants to be submitted to the district education office. The committee members include: the school principal (head of the committee and chairperson), a School Supporting Committee representative (deputy chairperson), the accountant, teachers and students. Small schools tend to have the same members in both committees.

The committees calculate the school budgets for the coming year based on school location and size and the number of students enrolled in the current academic year. The district education office reviews the submitted proposals and plans, and requests additional information if necessary before consolidating the school budgets and submitting a district budget to the provincial education office. That office consolidates the provincial level budget and submits it to the technical departments at the central level: the Department of Primary Education, the Department of General Secondary Education and the Department of Finance (see Figure 3).

**Figure 3:** School Operations Budget flow of proposal and cash, 2015

**Source:** Based on World Bank, 2005a, and interviews at the central and sub-national levels

According to UNESCO-IIEP and UNICEF (2015), delays in the distribution of grants is a common problem faced worldwide by schools participating in grant programmes. Cambodia is no different. The approved annual School Improvement Grants funds are supposed to be distributed in a lump sum payment directly in each school's bank account at the beginning of the academic year, but there was a large delay in the first year of the programme. The schools interviewed in the study reported receiving their 2013/14 budget in either May or June 2014, just a few months before the school year ended. In the second year of the School Improvement Grants programme, the funds for the 2014/15 academic year were delivered in January and February 2015, several months late.

All of the interviewed schools complained about the delays in the distribution of the budget and some reported that they had been forced to borrow money or use their own money to purchase necessary materials for school operations as they could not wait for the funds to arrive from the district education office.

Poor timing of fund distribution is one of the reasons for underspending the budget allocated to MoEYS. The interview responses at the PEO level indicate that a possible cause of the delay is late submissions of the required documents to the Provincial Economic and Finance Office. The NGO Education Partnership reported that another possible cause is a shortage of money in the provincial treasury (Jong et al., 2013).

In 2015, the system was adjusted such that the third instalment of the School Operations Budget would be transferred directly to the school bank accounts. PEO staff interviewed in the study expected that this new system would help reduce the delays in fund distribution to schools, though some were concerned about the capacity of school principals to deal with the new procedures. As of September 2015, all of the schools participating in the study had opened new bank accounts in readiness for the School Operations Budget funds and schools in Khan Daun Penh had already received the allocated Programme-based Budget for the first time through bank transfer to a separate bank account.<sup>12</sup>

School level respondents were asked whether they had easy access to banks, so as to access the funds received through the School Improvement Grant programme. While urban schools, such as those in Siem Reap, reported having banks within a walkable distance, about 300 metres, schools in rural and disadvantage areas reported that they were located at a distance of between 13 kilometres and 25 kilometres from the nearest bank. The school principals in these areas either travel to the bank on their own personal motorbikes or request help from the community to get transportation to visit the nearest banks. Schools cannot withdraw all the funds they receive and keep the funds at school. They can only withdraw the amount necessary for the activity they are currently implementing. The transfer of the funds for School Improvement Grants to bank accounts can address the issue relating to delays in distribution, but it can create issues for schools located far from banks, as they need to visit the bank many times to withdraw funds.

## Use of funds at the school level

### ***Decision-making process for the use of school funds***

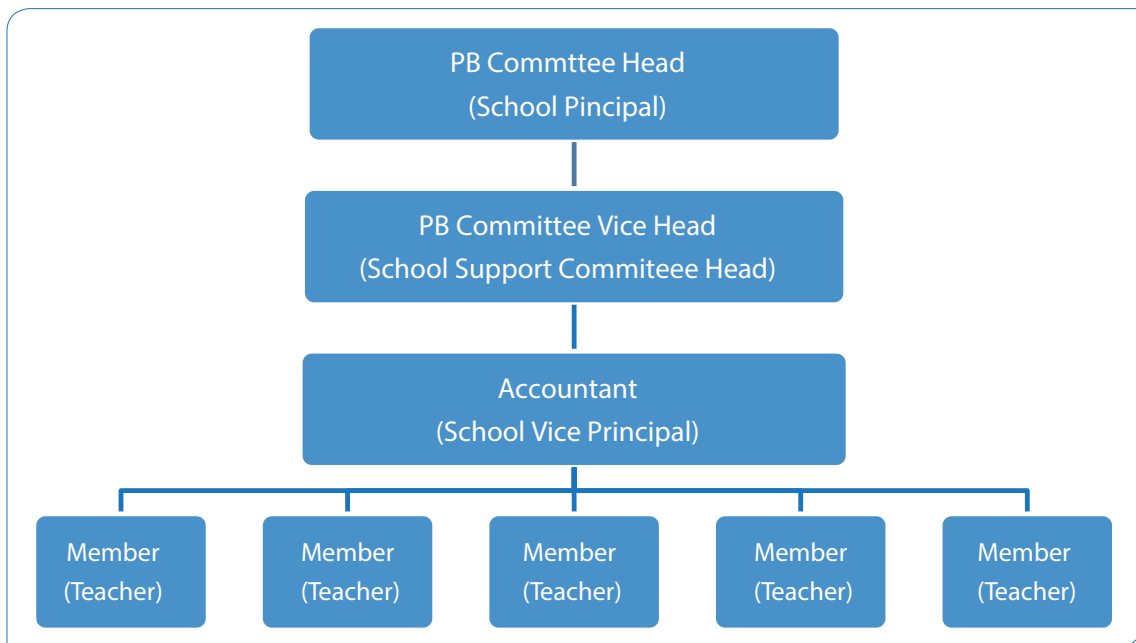
Decisions on the uses of grant funds are made by the School Improvement Grants committee and the School Operations Budget committee. In general, however, the funds must be used based on the proposals and annual operational plans developed by the committees that were submitted to the district education office. After the principal or accountant receives the Programme-based Budget funds from the district education office, the school organizes a meeting of the committee members to inform them of the actual amount the school received and confirms the activities on which the money will be spent.

Schools are allowed to modify their School Improvement Grants activity budgets without approval provided the changes are for less than 25 per cent of the budget. They need to get approval from the district education office if the change is for more than 25 per cent of the budget (MoEYS, 2013).

To change activities funded by the School Operations Budget, schools need to amend their plans and get an approval from the district education office. The responses to interviews at the school level indicate that schools, especially those in rural and remote areas, seem to only discuss changes with their school committees and get consensus on the changes. None of the participating schools reported any conflict related to decision-making or to fund use. Figure 4 illustrates the fund management and decision-making process.

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<sup>12</sup> Schools need to open a separate account for the Programme-based Budget, as they are not allowed to use the School Improvement Grant bank account for any other purpose.

**Figure 4:** Fund management and decision-making process at the school level in Cambodia

As of 2015, schools had to prepare the proposals and plans for the School Operations Budget and School Improvement Grants separately, and also had to prepare accounting reports at least quarterly (for the district education office). This represents a significant administrative workload. Therefore, although the School Operations Budget and School Improvement Grant funds are very important for school operations, some school principals and teachers, especially those from small schools in disadvantaged areas, expressed in the interviews that school grants are a burden in terms of their daily teaching and office work, as their schools lack non-teaching staff who can manage administrative work. Among the interviewed principals, two also served as teachers in their schools due to a teacher shortage, so lacked time to perform administrative tasks.<sup>13</sup> In many cases school principals and teachers perform the work of accountants but do not have formal accounting knowledge. Although in-service training is provided, some of them still find the accounting procedures to be complicated. Schools are more familiar to School Operations Budget spending procedures than the School Improvement Grants procedures as the former have been implemented for many years. Some school staff travel to the district education office to seek help and advice when they have problems with new procedures.

Staff members of the provincial and district education offices have frequent opportunities for training but trainings at the school level are irregular and, most of the time, are donor-driven. As of 2015, staff at the participating school had received only one training session on School Improvement Grants, and the school principals and accountants who had joined the schools after the training had been provided have never received any trainings on the School Improvement Grants.

<sup>13</sup> Public schools in Cambodia have two shifts of four hours each, in the morning from 07:00 to 11:00 and in the afternoon from 13:00 to 17:00.

### Actual use of school funds

Both the School Operations Budget and the School Improvement Grants are earmarked and must be used in accordance with the approved plans. Even though school committees are entitled to plan and implement their activities and expenditure, schools do not have full autonomy to manage or use the funds.

Schools plan and implement their activities based on the guidelines for the School Operations Budget and the School Improvement Grants which restrict activities to certain types, such as purchasing learning and teaching material, office stationery, small-scale repairs, school environment and meetings. Most of the participating schools reported allocating a substantial share of the budget to teaching and learning materials and office stationery. For instance, schools in Kampong Svay District and Khan Daun Penh spent more than 70 per cent of their budgets on purchase of such goods (Table 6). Not surprisingly, the expenditure share of electricity and water supply of schools in Khan Daun Penh was more than five times higher than that of schools in Kampong Svay District. Schools in rural areas also face additional costs in transporting purchased goods to their schools.

**Table 6:** School Operations Budget Expenditure by Sub-Account in 2014 (in thousands of Riel)

Description Amount		Kampong Svay District		Khan Daun Penh	
		Percentage	Amount	Percentage	Amount
<b>Chapter 60: Purchase of goods</b>		<b>259,359</b>	<b>71.00%</b>	<b>86,147</b>	<b>75.17%</b>
601	Maintenance Supplies				
-	6011 Cleaning and Hygiene Supplies	35,263	9.65%	7,439	6.49%
602	Office Stationery				
-	6021 Office Stationery and Printing	83,765	22.93%	36,618	31.95%
603	Food and Agricultural Products				
-	6031 Food	45,242	12.38%	15,810	13.80%
605	Small-Scale Equipment and Furniture				
-	6051 Equipment and Technical Materials	1,906	0.52%	-	0.00%
-	6053 Small Tools	87,170	23.86%	15,719	13.72%
606	Electricity and Water Supply				
-	6061 Electricity	2,972	0.81%	5,902	5.15%
-	6062 Water Supply	3,039	0.83%	4,657	4.06%
<b>Chapter 61: Purchase of Services</b>		<b>105,942</b>	<b>29.00%</b>	<b>28,457</b>	<b>24.83%</b>
615	Repair and Maintenance				
-	6151 Maintenance of Land	21,500	5.89%	9,344	8.15%
-	6152 Building Maintenance	46,090	12.62%	8,061	7.03%
-	6157 Equipment Repair	19,481	5.33%	11,051	9.64%
618	Transportation Fees				
-	6181 Materials and Goods	18,870	5.17%	-	0.00%
<b>Total</b>		<b>365,301</b>	<b>100%</b>	<b>114,605</b>	<b>100%</b>

*Source:* Based on PEO and DEO reports.

Although the funds can cover some small-scale repairs and maintenance, major capital investments are beyond the scope of both types of school grants. Therefore, schools normally rely on private donors and/or community contributions for construction activities that require large amounts of funding.



Schools cannot accumulate the unused funds of the School Operations Budget and the School Improvement Grants. In the case of the School Operations Budget, if schools cannot spend all of the allocated budget, schools need to return the remaining amount to the treasury. Even though schools can keep the unused School Improvement Grants funds in the bank account, that remaining amount will be deducted from the following year's approved budget. All of the interviewed schools were able to use all of the allocated funds, but there were delays in the budget distribution.

### ***Monitoring and control of use of school resources***

School financial management is monitored by the district and provincial education offices. While rare, schools are also audited by the MoEYS internal auditors and by external auditors from other ministries as well as by independent private auditing companies. Among the schools participating in the study, only one reported being audited in 2015. It was audited by Ernst & Young, which was hired under the School Improvement Grants programme.

The district education office is able to monitor schools more closely and more often than the PEO and the MoEYS, though it depends on the district. In Phnom Penh, the Daun Penh district education office can visit all schools in the area two or three times a year since it has only eight primary schools and five lower secondary schools. However, in Kampong Thom and Siem Reap the district education office cannot monitor all of the schools every year, due to the large number of schools: 74 primary schools in Kampong Svay District and 67 primary schools in Sotr Nikum District. In Siem Reap Province, the number of schools has increased significantly in recent years reaching nearly 1,000, making it hard for the provincial education office to monitor every school. One of the schools visited in Kampong Thom reported that it had not received a monitoring visit from the district education office in the previous two years. How

The responses to the interviews with education office staff indicate that schools with problems and/or difficulties were the main targets of monitoring efforts as this provided an opportunity for the provincial and district education offices to provide technical support to those schools. A school principal interviewed in Kampong Thom Province found that monitoring visits were very helpful for him in improving his school as the provincial and district education offices guide him on what to do next. A few of the participating schools even visited district education offices to seek advice when they had problems. One school principal reported that he went to district education office three or four times for consultation in 2014, since the school is not far from the office.

The responses to interviews at the sub-national level indicate that the obstacles that district and provincial education offices face with regard to regular monitoring are: insufficient budgets and unskilled human resources. Although staff of the district education office had received some training on monitoring at the time of the interviews, not all of staff members had the capacity to properly monitor schools and provide feedback. In addition, at the moment there is no any sanction or punishment toward schools for non-compliance, according to the PEO in Siem Reap Province.

The district and provincial education offices prepare their annual monitoring plans as part of their annual operations plan along with the budget plan. For Programme-based Budget monitoring, they can use the budget allocated in Chapter 62, Account 624 of Domestic Mission Allowance allocated to the district and provincial education offices. The School Improvement Grants programme also provides the monitoring budgets to the district and provincial education offices as well. In addition, the financial management of the district education office is monitored by the provincial office, MoEYS and inspection and auditing groups.

Monitoring instruments are prepared by MoEYS at the central level and it can take between half a day to a full day to monitor one school, depending on school size. The monitoring group identifies the strengths and weaknesses that schools have using the monitoring instruments, and generally give written recommendations to schools on the spot at the end of the monitoring visit. Schools are expected to improve at least one of all the problems identified during the visit by the time of the next monitoring visit comes around. The monitoring differs depending on who does it. People from technical departments and offices check on whether schools are spending on appropriate activities or not, but do not look into accounting records and documents, as that is the duty of the financial department. During a monitoring visit by the financial department, the monitoring staff check documents such as receipts and verify the purchased items. Schools are required to label items such as furniture to indicate they were purchased with funds from the Programme-based Budget or School Improvement Grants programme.

## Conclusions and recommendations

The section highlights some benefits of the school grants and challenges related to school finance in Cambodia based on the findings of the study.

### Advantages of school grants

- By reducing the financial burden on parents, school grants have contributed increasing access to school, as children from poor households have more chance of being enrolled. The grants have therefore contributed to greater equity. Although school costs are not completely abolished by school grants, contributions from parents continue only on a voluntary basis.
- Schools now have more autonomy in deciding what kind of activities they want to invest on (within the boundaries set by the MoEYS).
- Decentralization has given greater autonomy also in planning, with school committees now able to prepare school operational plans and implement them themselves. The activities listed in the guidelines help schools to prepare their annual operation plans.
- The allocation formulas are simple and are considered fair by all stakeholders, and allow schools to easily calculate how much their schools are eligible to receive.

### Challenges and recommendations

- **Delay in grant distributions and missing distributions:** In some cases school grants are distributed late and in some cases schools do not receive all four instalments of the School Operations Budget. Furthermore, regardless of the size of the school, the procedures of school grants are identical, meaning the School Operations Budget should be distributed in four instalments to all schools, even when the amounts distributed are very small.

**Recommendation: Explain the reasons for the delays and provide training.** The reasons for the delays and failures in distribution should be explained to the schools and education offices, so that the root causes can be prevented. Furthermore, the capacity of staff at both the MoEYS and MEF and at the sub-national, local and school levels need to be increased so that the necessary documents and reports are prepared in a timely manner.

- **Excessive work for small schools without non-teaching staff:** The staff of small schools that have no or few administrative staff are overloaded with work as they must undertake managerial and administrative tasks relating to school grants.

**Recommendation: Reduce distribution rounds.** The government should consider the possibility of reducing the number of instalments of the grant distributions from four times a year to two or three times. This will reduce the amount of administrative work required at all levels and may also reduce the number of trips school staff need to make to banks.

- **Mismatch of allocation by sub-accounts:** Some schools reported receiving budgets that did not match their requests and included sub-accounts they did not need, such as for water supply and electricity.

**Recommendation: Make grant use more flexible and train staff of district education offices.** Greater flexibility in the use of grants by schools would enable them to spend their budgets according to their actual needs. To minimize the mismatches, the staff of district education offices should be given further training in financial management.

- **Insufficient funding:** The school grants remain insufficient to cover all operational costs, even since the introduction of the School Improvement Grants programme. For this reason, contributions from communities and parents remain important as a financial resource for schools. As long as such contributions are voluntary, this can help to increase participation in school life by communities and parents.
- **Inadequate internal monitoring and community participation:** Although a monitoring mechanism exists to improve transparency and ensure grants are used appropriately, internal monitoring mechanisms at the school level are weak. In general, school grant management and information sharing are conducted within the school committees established to manage the schools grants. The school participation from committees and parents is limited in most cases to contributions to schools.

**Recommendation: Develop clear regulations regarding penalties for misconduct in the use of grants and encourage greater participation by parents** to ensure transparency and accountability.

- **Limited management capacity at the sub-national and school levels:** Staff of education offices and school principals themselves have noted that school principals and teachers have limited understanding and knowledge of school management. This is understandable given that they were trained to teach, not to manage schools.

**Recommendation: Provide training and improve information flows.** To strengthen school management capacity, school staff should be trained and district education offices should hold meetings with schools once or twice a year to disseminate information and provide opportunities for schools to share experiences and lessons learned.

- **No clear records of other sources of income:** While schools keep a clear record of income received from the School Operations Budget and the School Improvement Grants programme they are not required to keep records of income from other sources (e.g. NGOs, private donors, and incomes generated by schools).

**Recommendation: Improve financial recording systems.** Schools should be encouraged to record all kind of incomes, both from the government and the private sector, yet without causing an excessive administrative burden to schools.

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## Appendix A: School operations budget expenditure, by sub-account

	Description	Code
1	Basic Materials	
	- Office stationery	6021
	- Teaching and learning materials	6053
	- Other materials	6051
2	Small-scale repair	
	- Equipment repair and maintenance	6157
	- Furniture purchase	6052
3	Book purchase for library	
	- Purchase of books and references	6022
4	Improving school and classroom environment	
	- School compound	6151
	- Building repair and maintenance	6152
	- Seeds and seedlings	6033
	- Materials for classroom	6053
5	Life skills (Sports, arts, workshops and agriculture)	
	- Seeds and seedlings	6033
	- Materials for life skill class	6053
6	Clean water and hygiene	
	- Materials for cleaning and hygiene	6011
7	Electricity and water supply	
	- Electricity	6061
	- Water supply	6062
8	Year-end learning assessment	
	- Office stationery and printing	6021
9	The three movements (good student, good friend and good child)	
	- Student council's activities	6031
10	Miscellaneous expenses	
	-	6181

**Source:** Based on guidelines for the implementation of the Programme-Based Budget for fiscal year 2014

## 2. Country Report: Lao PDR

### School Finance in Lao PDR

Keiichi Ogawa<sup>14</sup>, Viriyasack Sisouphanthong<sup>15</sup>

#### Introduction

The Lao education sector is in the process of developing. The government of Lao PDR provides support to the education sector including in providing financial resources, and the education sector receives a high percentage of the government budget (MoES, 2014). Providing sufficient financial resources plays a key role in improving education (Kremer, 2003) and Lao PDR has seen a significant increase in enrolments as a result of government financial support, with the net enrolment ratios for males and females at the primary level rising from 88 and 85 in 2006/07 to 94.9 and 93.3 in 2010/11 (MoES, 2012).

With the introduction of the three-tier system, administrative functions were decentralized to provinces, districts and villages. Aiming to improve access to education in Lao PDR, the government introduced the school block grant (SBG) programme in school year 2011/12. The SBG programme is part of the school-based management framework (see Caldwell, 2005) aimed at subsidizing school operation costs (SOC) in public schools. By implementing the SBG, the Ministry of Education and Sports (MoES) sought to abolish the collection of tuition fees from students, thus reducing obstacles to access to education. The SBG programme intended to promote autonomous decision-making for financial management at the school level. It was expected that decision-making at the school level rather than the central level would make a spending more effective since schools have a better understanding of what they need (Barrera-Osorio et al., 2009).

The general objectives of the SBG programme are to support educational institutions to develop financial management capacity, to abolish the collection of tuition fee in basic education for increasing enrolments and equity, and to improve institutional facilities in order to improve the quality of education.

This study examined the current situation of the school finance in Lao PDR, particularly the SBG programme. This study only looked at the SBG school block grant programme, not at any other grants. The focus was on compulsory education, which comprises primary and lower secondary levels. (Education Sector Development Programme, 2011).

The study methods included reviewing related documents and conducting interviews with officials and staff from the Cabinet, the Ministry of Education and Sports, the Provincial Education and Sports Services (PESS), the District Education and Sports Bureau (DESB), and schools.

The study was conducted in three districts of three provinces: Sisuttanak District of the city of Vientiane, Keoudom District of Vientiane Province and Thakheak District of Khammuoane Province. In each district, the researchers selected three primary schools, one lower secondary school, one DESB, and one PESS. The schools were located in both urban and rural areas. Accordingly, the schools have different contexts, numbers of students, conditions of school facilities and operating budgets. Table 1 presents the participating schools and basic information about them.

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**Table 1:** Overview of the schools included in the study, by location

Name	Service	Location	Students	Teachers	School condition	Budget
<b>Vientiane Capital</b>						
School 1	Lower secondary	Urban	217	17	Poor	50
School 2	Primary	Urban	362	7	Good	102
School 3	Primary	Urban	416	14	Good	90
School 4	Primary	Urban	195	8	Normal	38
<b>Vientiane Province</b>						
School 5	Lower secondary	Urban	194	19	Normal	8
School 6	Primary	Rural	69	15	Normal	14
School 7	Primary	Rural	123	9	Poor	3.5
School 8	Primary	Urban	236	14	Poor	11
<b>Khammuane Province</b>						
School 9	Lower secondary	Urban	1020	42	Normal	45
School 10	Primary	Urban	395	18	Good	70
School 11	Primary	Rural	113	7	Poor	7
School 12	Primary	Rural	176	7	Normal	13

**Note:** Budget is in millions of Lao Kip (LAK) per year. One USD was approximately equal to 8,000 LAK in 2015.

The researchers designed four questionnaires, one for each group of interviewees. The questionnaire for the MoES, PESS and DESB included questions about the SGB programme formulation and dissemination, the implementation procedure, the grant preparation and allocation process and monitoring and control of the use of the grant. The questionnaire for schools included questions about the school staff and students, budget management, the SBG conditions and allocation process, decision-making for planning and actual use of the grant, and monitoring and control of the grant.

The researchers interviewed 12 principals, 11 vice principals and several school financial administrative staff and also spoke with two directors and four vice-directors from the provincial department, and one director and four vice directors from the district department. At the ministry, the researchers met the head of division of the cabinet office and the head of the planning department in the Ministry of Education and Sports.

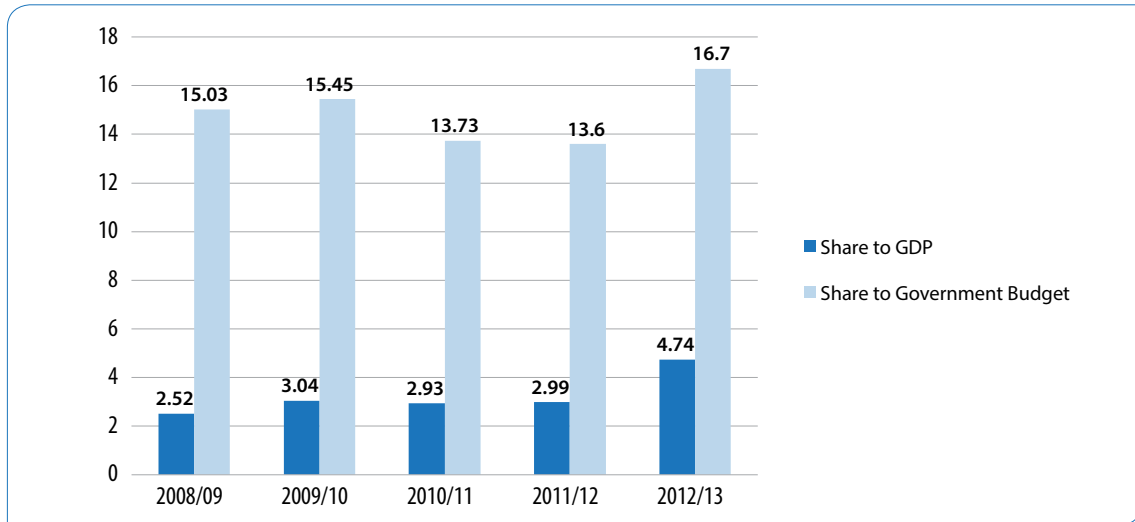
## National school finance management system

### School finance policy

The highest administration body of the education sector and the main actor for education finance management is the Ministry of Education and Sports. The next level of administration is the PESS, followed by the DESB and the school. The government of Lao PDR gives priority funding to the development of the education sector. Figure 1 shows the share of the government expenditure on education in relation to gross domestic product (GDP) and to the total government budget for the years between 2008/09 and 2012/13. The government expenditure on education as a proportion

of GDP rose from 2.52 per cent in 2008/09 to 4.74 per cent in 2012/13. Government expenditure on education as a proportion of the total government budget remained around 15 per cent in 2008/09 and 2009/10 then dropped in the following two years, and subsequently increased to 16.7 per cent in 2012/13.

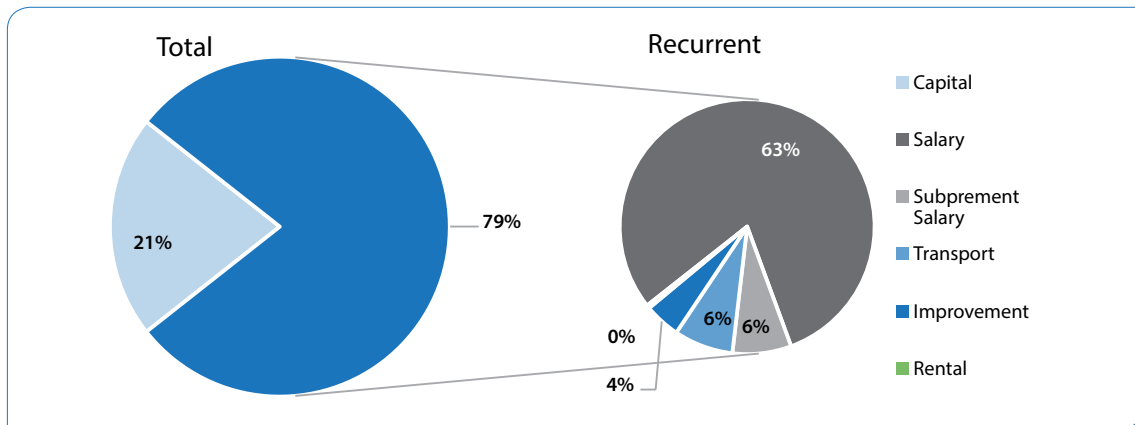
**Figure 1: Government budget for education**



Source: Ministry of Education and Sports, 2014

In 2012/13, the recurrent budget accounted for 79 per cent of total expenditure, while the capital budget was 21 per cent. Within the recurrent budget, the highest area of expenditure was salaries, which accounted for 63 per cent. Salary supplements and transport accounted for 6 per cent, expenditure on improvements was about 4 per cent and expenditure on rent was less than 1 per cent (see Figure 2).

**Figure 2: Education expenditure, 2012/13**



Source: Ministry of Education and Sports, 2014

School principals interviewed in the study reported that before the SBG programme was established, government support to schools consisted mainly of providing the teachers' salaries and funding school infrastructure, but did not cover operation costs. To cover the latter, many schools collected tuition fee from parents and community. The school fees served as an obstacle to the enrolment of children from poor families. The schools also lacked financial resources invest in their teaching



facilities, which affected the quality of education. The SBG programme contributes to covering the operating costs of schools so as to increase access to education and improve education quality.

The responses to interviews indicate that the interviewed officers at the central and provincial levels understand most of the purposes of the SBG programme. At the district and school levels most staff feel that the main purpose of the grant is to contribute to covering operating costs and to abolish tuition fees. Most school principals interviewed felt that the purpose of the grant is to cover the operating costs, including of items required for teaching, electricity and water fees. Some principals felt that the grants also sought to improve the quality of education, though none stated that it was necessary. The study found that many schools lack the financial capacity to manage and sustain school budgets.

### Policy formulation process

The budget for education is organized in the central level. The MoES decides the amount of the budget, particularly for salaries and some operation costs, based on information received from the district and school levels. The budget for capital investments, including for construction and building, is prepared at the school and district levels, then is submitted to the PESS and MoES.

Prior to establishing the SBG, the Ministry of Education and Sports spoke with other ministries, particularly the Ministry of Finance and Ministry of Investment and Planning regarding how to support schools to cover their operating costs. Subsequently, national education laws were enacted in 2007 along with the SBG programme. In 2010, Prime Minister Decree No. 136 launched the programme. The program was implemented nationwide for the first time in academic year 2011/12.

### Policy dissemination

The MoES raised awareness of the SBG programme by organizing workshops in which information and related documents were disseminated to the PESS and DESB. The DESB then organized further workshops at the school level. However, not every school received the same number of workshops. The DESB also distributed a guidebook to every school on how to use the grant..

### Budget preparation and allocation

The MoES drafts the annual budget and submits it to the Ministry of Finance (MoF) and Ministry of Planning and Investment (MoPI). After that, the government presents it to the National Assembly. After the National Assembly approves the budget the MoF delivers the funds to the MoES.

Government expenditure on education is divided into the following categories: salaries-allowances, subsidies, operations and maintenance cost, and investment and construction (Bouapao, 2000).

To calculate the amount of SBG given to each school, schools multiply the flat rate set by the Ministry of Education and Sports by the number of students enrolled in the school. The rate was determined based on the estimated cost (unit cost) of schooling at each level of education. The rates for each level as prescribed in Article 57 of the national education laws are listed below.

Kindergarten and nursery school	100,000 LAK/person/year
Primary	100,000 LAK/person/year
Lower secondary	120,000 LAK/person/year

Upper secondary	150,000 LAK/person/year
Vocational education	500,000 LAK/person/year
Teacher training	300,000 LAK/person/year
University	550,000 LAK/person/year
Non-formal education	150,000 LAK/person/year.

Furthermore, an extra grant is given to the schools with fewer than 50 students, as shown below:

Kindergarten and nursery school	1,000,000 LAK/school/year
Primary	1,000,000 LAK/school/year
Lower secondary	1,500,000 LAK/school/year
Upper secondary	2,000,000 LAK/school/year

Due to the government budget deficit in 2010, the government could no longer afford to pay the rates as contained in the policy. Therefore the actual rates of the grant are lower than the rate stated in the policy.

In the first year of the programme, primary schools received 20,000 LAK/person/year. Then, the rate increased to 50,000 LAK/person/year for primary schools. Not all primary schools received the higher rate, however. Only about half of the school principals who were interviewed in the study reported that they had received the higher rate in the second year of operation. The rate is 20,000 LAK/person/year for lower secondary schools.

The use of a flat rate creates huge differences in the grant amounts received by big schools compared to small schools. And with the higher flat rate, big schools receive much larger amounts than small schools do. But regardless of the size of a school, the administration costs are similar. Thus, any change to the flat rate affects small and medium-sized schools much more than large schools. Small schools in remote areas are particularly affected as they usually need to spend more on transportation costs, including costs to travel to withdraw the grant and to attend general meetings. Although the government provides a supplement to the very small schools (those with fewer than 50 students), some schools miss out on these funds.

The grant preparation and allocation process has several stages. Schools first to submit documents to the district office requesting the grant (see 'Submission to district level' documents). The DESB then prepares the necessary documents and submits these district level documents (see 'Submission to provincial level' documents) to the provincial level. The office also uploads the school education statistics and the number of students in each school to the ministry's database. After that, the provincial level submits the provincial documents (see 'Submission to national level' documents) to the MoES. The Ministry of Education and Sports compiles the documents. The documents submitted at each level are listed below.

### Submission to district level

- Record of the number of students enrolled in the current academic year (collected twice a year: the first time during the collection of statistics and the second by the report of the SBG)
- Minutes of the school development meeting for the current academic year (list of participants and the action plan)

- Report of the grant management and items of expenditure
- Requirements for the SBG

### Submission to provincial level

- Record of schools and students according to each level of education in the district
- Report of the SBG according to each level of education in the district
- Requirements for the SBG for the province

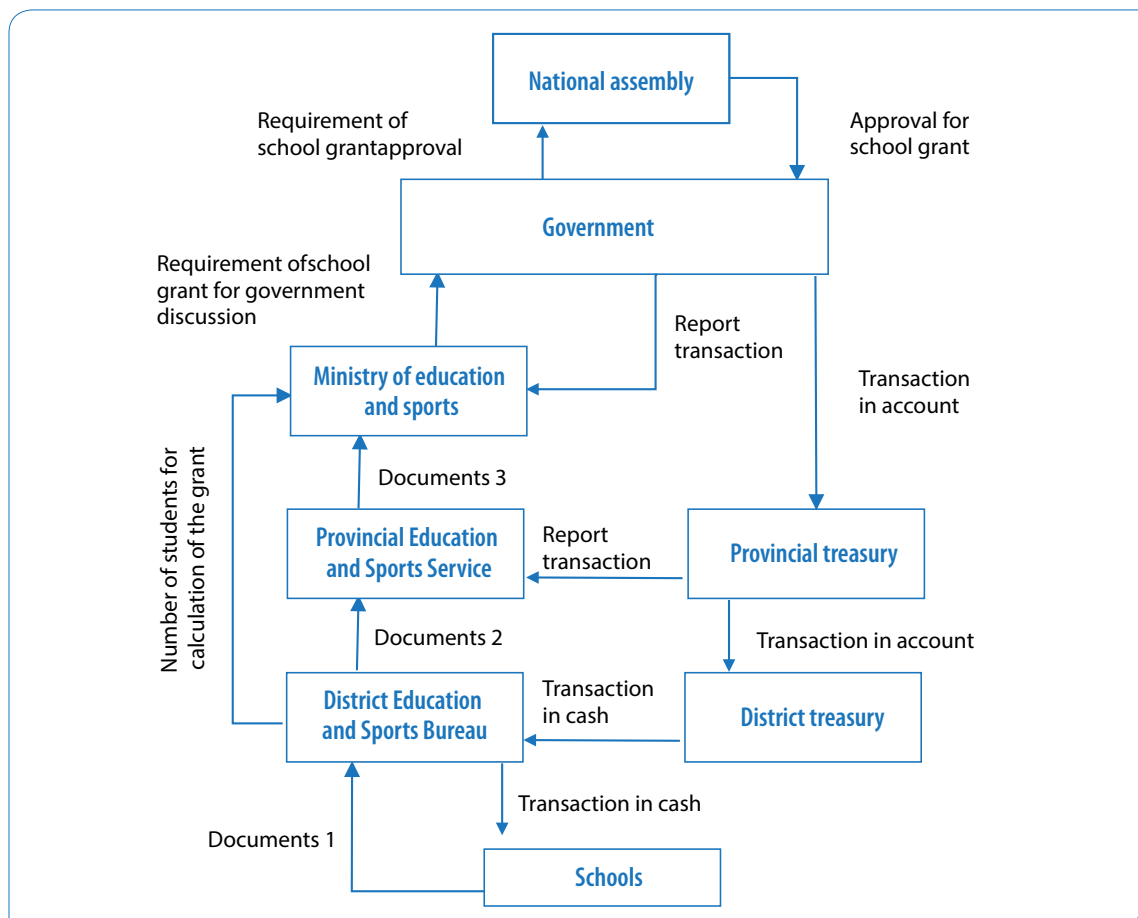
### Submission to national level

- Record of schools and students according to each level of education in the province
- Report of the SBG according to each level of education in the province
- Requirements for the SBG for the province

The amounts distributed to each school are calculated based on the school information provided. The grants are transferred from the Ministry of Finance to the treasury office at each level (provincial and district financial service). The grants are then transferred to the district level then distributed in cash to each school.

The grant preparation and allocation process is illustrated in Figure 3.

**Figure 3:** SBG preparation and allocation mechanism



*Source:* Based on the School Grant Survey findings, 2015

## School budget allocation mechanisms

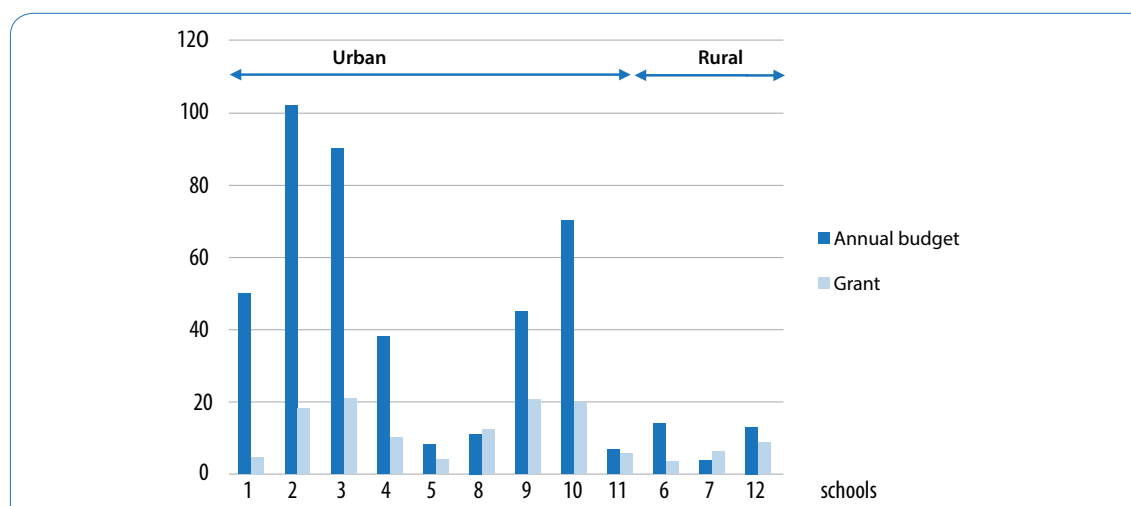
### School financial resources

Schools in Lao PDR obtain financial resources from the government, parents and the community. The government generally pays for teachers' salaries, the construction of buildings, classroom equipment, etc. Since the government abolished the collection of tuition fees, schools cannot, legally, collect tuition fees from pupils' parents. Parents continue to contribute in other ways, however. In particular, another kind of fee is paid. The amount of support from parents differs between provinces, districts and schools. For example, schools in Sisuttanak District (Vientiane capital) request a fee for primary level of 150,000 Lao kip (LAK) /year/pupil and for lower secondary of 180,000 LAK/year/pupil. In Keooudom District (Vientiane Province) and Thakheak District (Khammouane Province), the rate for primary school can range from 20,000 to 27,000 LAK/year/pupil and the rate for lower secondary is about 50,000 LAK/year/pupil. The money from parents is commonly used to cover operating costs such as electricity, mains water, garbage service, newspapers, etc. Some schools that do not collect money from parents by themselves but rely on the Village Education Development committee (VEDC). The committee collect money from households, with or without children at school, to support schools. Furthermore, the committee is responsible for collecting money from the community, parents, private sectors, and others when a large investment is being planned. Although school principals interviewed for the study reported that support from each source of finance has increased, the operating costs of their schools have also increased.

The responses to the interviews indicated that there are two main reasons why schools continue to requests payments from parents and communities. One reason is that the amounts received as grants are too small to cover all the costs, and the other is that the grant payments are often delayed and unpredictable.

In 2015 the SBG for primary level was 50,000 LAK per pupil per year and was 20,000 LAK/pupil/year for lower secondary level, but the operation costs in many schools are higher than the amounts received as school grants. Figure 4 shows the annual total budget of school and the amounts of the expected grants. Only two schools had grants exceeding their operation costs. Many schools in urban areas have operation costs that exceed the grant they receive.

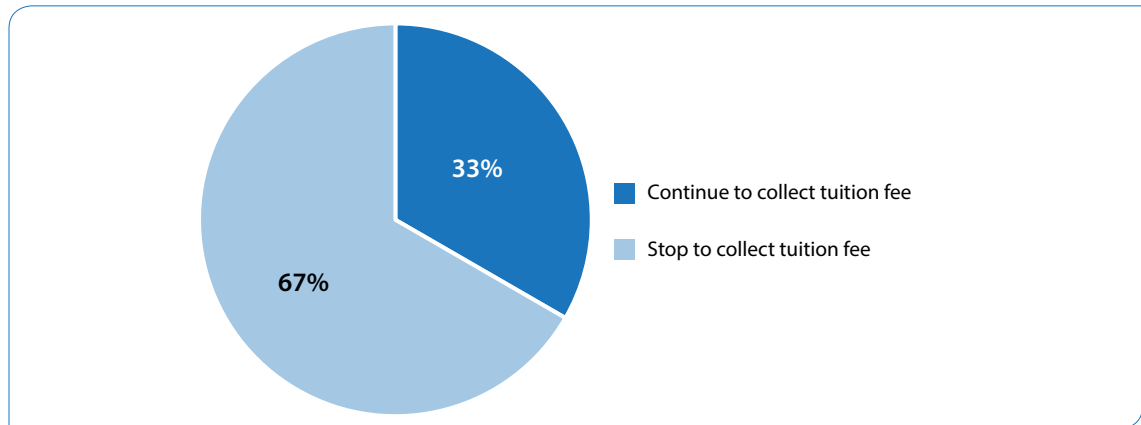
**Figure 4:** Comparison of annual budget to SBG, in millions of LAK per year



Source: Based on the School Grant Survey results, 2013

The grants were expected to replace the financial contributions from other sources, such as parents (Das et al., 2013), but the study found only one school that did not collect any fees from parents. When school principals were asked whether they would abolish all fees, about a third of the principals reported that their schools could not rely solely on the grant to cover operation costs. Thus, the grant programme may not succeed in its goal of abolishing fees. Figure 5 illustrates the share of schools that plan to abolish tuition fees if the government pays the grant according to the policy rate.

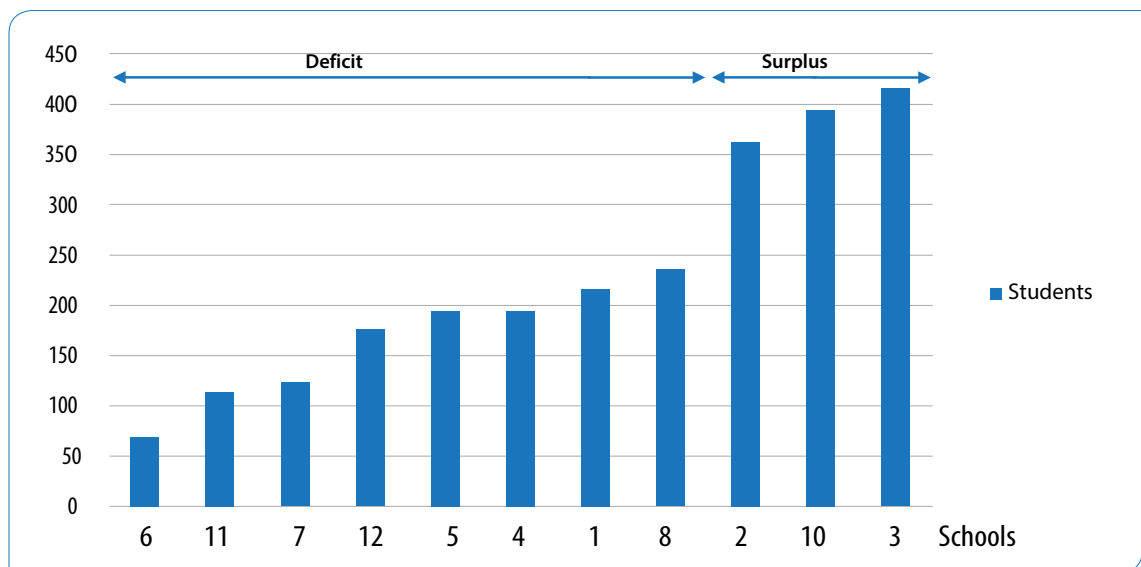
**Figure 5:** Schools collect/abolish tuition fee if the policy rate of the grant is received



*Source:* Based on the School Grant Survey results, 2015

While some schools have insufficient funds, others reported that they did not completely spend their grants. Schools with higher number of students seem to have a surplus budget. This indicates a problem with the flat rate of subsidy: smaller schools tend to be disadvantaged. As illustrated in Figure 6, which shows the number of students at each school (excluding the schools with more than 1,000 students) and their grant expenditure status, there is a correlation between the number of students at each school and their status in terms of having a deficit or a surplus.

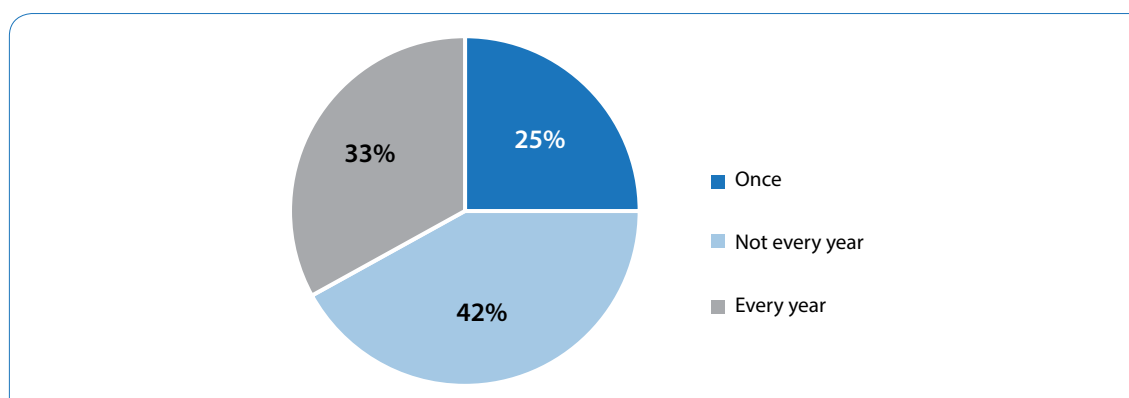
**Figure 6:** School size and surplus of grant expenditure



*Source:* Based on the School Grant Survey results, 2015

Another problem related to grants is that payments are unpredictable and are often delayed. None of the school principals interviewed in the study knew exactly when the grants would be distributed, and some principals reported a delay in the grant payment of over one year. Accordingly, schools tend to consider it risky to include grants in their expenditure plans. Some schools have received the grant only once since the implementation of the grant policy. Only one third of the schools participating in the study had received the grant every year. Less than half (42 per cent) of the schools had received the grants several times, and a quarter (25 per cent) had received the grant only once. Figure 7 illustrates how often the schools had received the grant.

**Figure 7:** Frequency at which schools receive grants



*Source:* Based on the School Grant Survey results, 2015

The delays in the payments of the grant are because the government lacks funds for the school grants programme due to the difficulties it faces in collecting sufficient taxes, and because the grant funds must be distributed to all schools at the same time, regardless of when the schools submit the required documents. The schools prepare and complete the documents at different times, but the school must wait for all of the other schools to finish their documents before they can receive the grants. This means that even schools that have the capacity to prepare the required documents on time have no incentive to do so.

### Criteria for school budget/grants distribution

As the purpose of the grants is to cover schools' operating costs, no schools are excluded from receiving the grant. Any school, regardless of their conditions in terms of infrastructure, teaching and learning materials, location, performance of students, ethnicity of students, etc. can apply to receive the grant. After the schools complete and submit the required documents to the DESB, they simply wait for the grant to be paid.

### Design of budget allocation mechanisms at school level

Schools receive training at the district level on the procedure for applying for grants. The schools discuss the items on the expenditure plan in a teachers' meeting and then consult with the VEDC. Small and regular items relating to school operations are decided and approved within the schools, but expensive items and investments require schools to consult with the committee of village education development and, in some cases, the parents' association.

After preparing the expenditure plan, the schools submit the plan to the DESB, and if the plan is approved, the schools are supposed to receive the grant the following year. When the DESB

receives the grant in cash from the treasury, schools have to prepare a letter of acceptance and submit it to the DESB in order to obtain the grant funds. Generally, the grant is divided into two instalments and given to the schools in the first and second semesters. The DESB asks the school principals or school financial officers to visit the district office to collect the grant.

The items that can be purchased under the SBG are listed in the MoES guidebook. Table 2 lists the expenditure items that have three digits.

**Table 2:** Modes and items of expenditure

Code			Mode of expenditure	Items of expenditure
12	1	1	Gasoline and oil	Gasoline and oil
12	1	2	Official stationery and printing	Note books, pens, paper, printers and printing equipment, teaching guidebooks, newspapers, magazines, etc.
12	1	4	Teaching and learning materials	Teaching and learning materials
12	1	5	Water supply and electricity	Water and electricity costs (not including installation)
12	2	2	Repairs, maintenance and installation	Repairing, maintaining and partial installing of buildings, vehicles, etc.
12	2	3	Insurance	Insurance for buildings, vehicles, etc.
12	2	4	Post and telecommunications	Post, telephone, fax, etc.
12	3	0	Official trip costs (domestic and abroad)	Transportation and living costs, per diem (according to the government rate), etc.
12	4	0	Seminars and workshops	Costs for school to hold meetings, seminars and training.

**Source:** MoES, Guidebook for the SBG, 2013

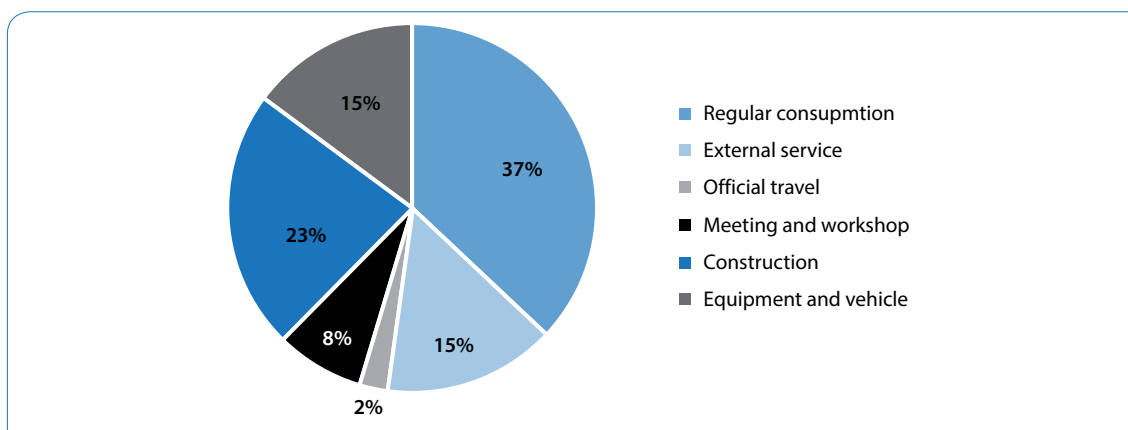
### Use of funds at the school level

In general schools have autonomy in managing and spending regular and small items of expenditure. But when schools want to purchase expensive equipment, they must ask for permission from the committee of village education development and, in some cases, the DESB.

In spending the SBG, the guidebook indicates that schools should use the grants mainly on school operations, which usually do not cost a large amount. Thus, schools can generally manage and spend the grants independently.

Figure 8 presents an example of the annual expenditure of an urban primary school. Regular items at this school include gasoline, official stationery, magazines, teaching materials, medicine, water and electricity, and these made up the largest share (37 per cent) of total expenditure. The second largest share was spent on construction (repair and maintenance), making up 23 per cent. Expenditure on equipment and vehicles accounted for of 15 per cent of total expenditure. Meeting and workshop expenditure had an 8 per cent share, while the official travel costs accounted for only 2 per cent.

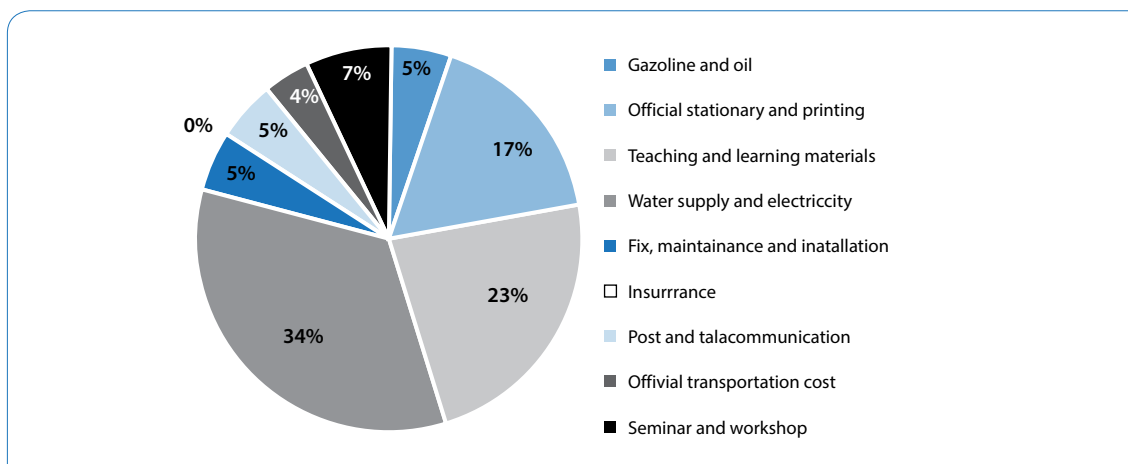
**Figure 8:** Annual expenditure at an urban primary school



**Source:** Based on a sample school report submitted to the DESB, 2015.

Figures 9 and 10 show the expenditure on items using SBG funds and funds from other financial sources. Using SBG funds, the greatest area of expenditure was on water supply and electricity, accounting for 34 per cent, as shown in Figure 9. This was followed by expenditure on teaching and learning materials (23 per cent) and on official stationery and printing (17 per cent). Other items each accounted for less than 10 per cent.

**Figure 9:** Expenditure using the SBG

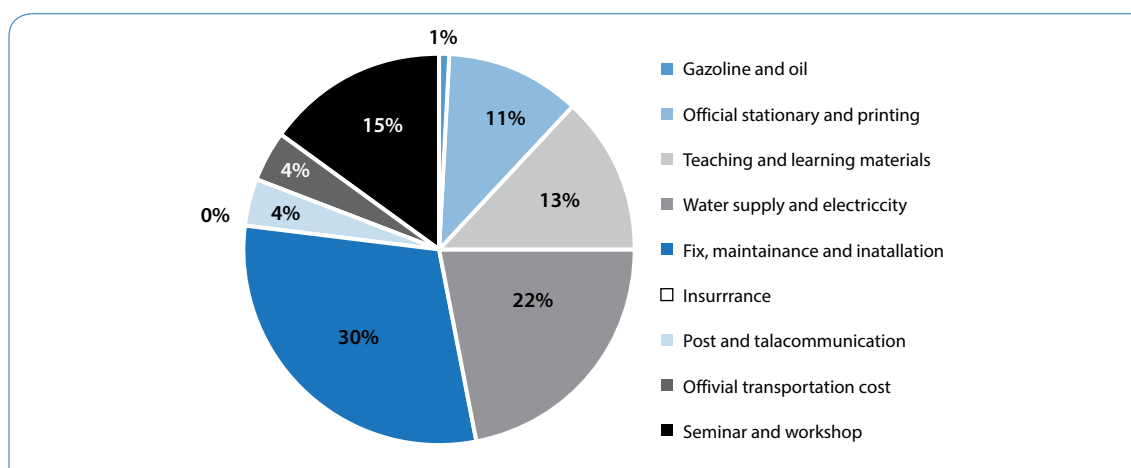


**Source:** Based on a sample school report submitted to the DESB, 2015.

Figure 10 shows expenditure using funds from other financial sources. Repairs, maintenance and installation costs consume the largest share of these funds (30 per cent). Expenditure for water supply and electricity accounted for the second largest share (22 per cent), followed by the teaching and learning materials (13 per cent), official stationery and printing (11 per cent). Other items each accounted for less than 10 per cent.



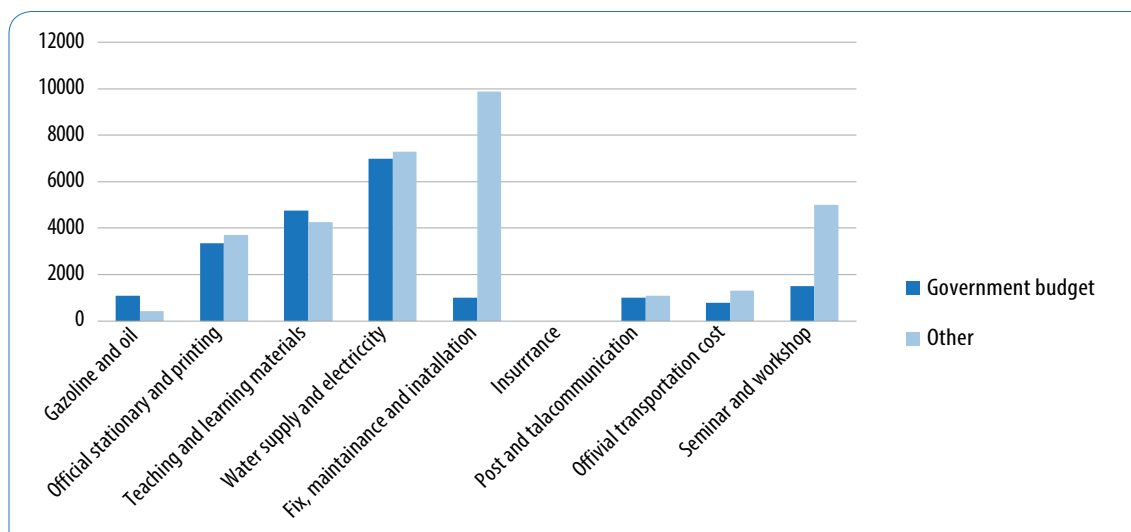
**Figure 10:** Expenditure using other sources of finance



**Source:** Based on a sample school report submitted to the DESB, 2015.

Figure 11 compares the use of SBG funds and funds from other financial sources. It illustrates that the two sources of funds are used for expenditure on items such as official stationery and printings, teaching and learning materials, water supply and electricity, post and telecommunication, official transportation cost. However, funds from other financial sources tend to be used, rather than SBG funds, for repairs and maintenance and for seminars and workshops. Expenditure on gasoline and oil tends to be paid for using SBG funds rather than funds from other sources.

**Figure 11:** Comparison of expenditure using government (SBG) and other sources of finance, in thousands of LAK



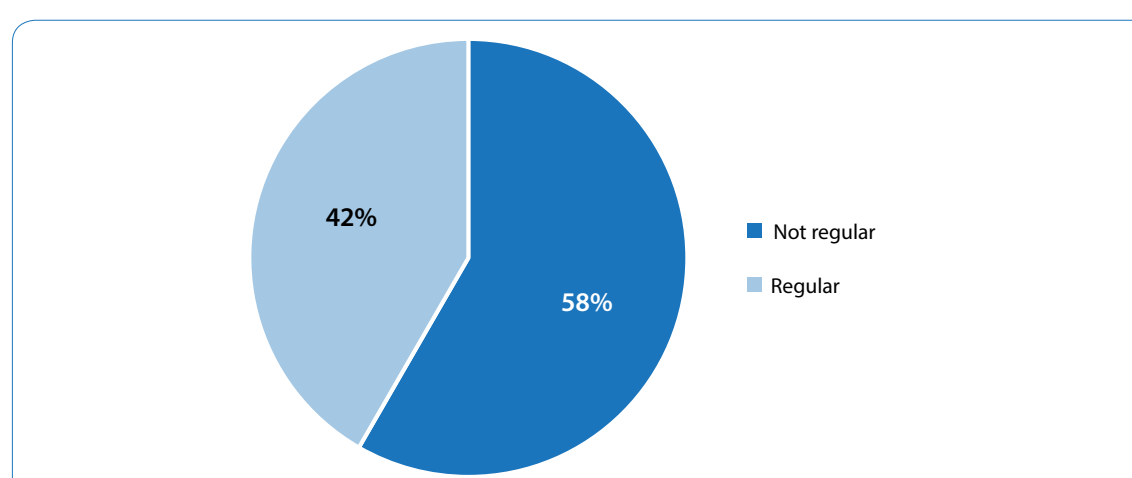
**Source:** Based on a sample school report submitted to the DESB, 2015.

Sometimes schools cannot use the grant for the items listed in guidebook due to the small amounts received and/or the unpredictable payments of the grant. Usually, schools combine the received grants with the total school budgets. Accordingly, schools divide and spend the combined budget as regular payments for school operation costs. Some schools use the grant strictly according to the guidebook, but they are usually schools that receive the grant regularly.

## Monitoring of use of school resources

Schools must prepare reports of their actual expenditure and keep receipts for monitoring. According to the regulations, inspectors from the DESB, and sometimes officials from the provincial and central levels, must visit schools to monitor their expenditure, including their use of grant funds, every semester. However, the inspectors do not visit every school every semester. They randomly select schools to visit and do not monitor regularly. Most of the time the monitoring visits cover both school finance and the SBG. There is no separate monitoring for the use of grants. The inspectors often check the expenditure reports, but rarely check the receipts and the purchased items. As shown in Figure 12 over half of the schools interviewed for the study reported not being regularly monitored by either the local government or the central government.

**Figure 12:** Proportion of schools that have regular monitoring and that have irregular monitoring



*Source:* Based on the School Grant Survey results, 2015

Although the purpose of the grants is to increase access to education and to improve the quality of education, there is no mechanism to assess the impact of the grant programme. The district, province and ministry government offices measure school outcomes in terms of enrolment numbers, measured through annual statistics records, but generally do not produce specific reports directly linking the use of grants with improved outcomes in terms of access and quality.

## Conclusions and recommendations

The study assessed the school finance situation in Lao PDR, in particular the sources of school finance, and preparation, allocation, and monitoring and evaluation of school finance, focusing on the SBG school grant programme. The study involved reviewing related documents and literature and interviewing stakeholders from the Ministry of Education and Sports, provincial education offices, district education offices, school principals and other school staff. The researchers visited 12 schools from three districts in three provinces.

Four main findings were drawn from the study. First, although the grant programme sought to abolish fees, some schools continue to collect financial contributions from parents in order to cover school operating costs. This reflects the fact that a flat rate is applied to all schools regardless of size and location. The schools' fixed costs and expenditures are often the same regardless of the size of the school. For example, schools pay similar costs for transportation to meetings with the

DESB. Accordingly, it is recommended that the education department at the central level should set an appropriate rate that enables each school to cover the costs of operations. The rate should differ depending on the number of students enrolled in each school and should take into account factors affecting costs, such as location, the condition of school and the sufficiency of teaching and learning materials.

Second, the study findings indicate that monitoring and evaluation are not practiced effectively or regularly. It is therefore recommended that a more effective monitoring system be established and the outcomes of school grant programme be evaluated periodically for each school to see if any improvements can be seen. Regular monitoring would motivate schools to improve financial management and avoid any misuse of funds, and a comparison of schools' outcomes compared to their previous performance would serve to identify areas they need to change. However the results of the schools must not be compared with each other, because the low performing schools are at a disadvantage in comparison to others.

Third, the study found that the unpredictable and delayed distribution of grants creates problems in school expenditure planning. If schools cannot predict when the grants will arrive, they cannot make precise plans for using the grants. Long delays in grant allocation have turned out to render the grant as an extra source of income. This means that schools would collect financial support regularly because they might not receive the grant in some years. Thus the distribution of the grant would not help to increase school enrolment. It is therefore recommended that the government take steps to address the root causes of the delays. In particular, schools that have completed the required documents for the grant should receive the grant immediately, rather than wait for the schools that are not ready.

The fourth main finding from the study was that the grants are generally small and in many cases do not cover all of the school operating costs. Therefore, if schools no longer collect school tuition fees their budget is too small to cover all the services they should provide to students. The quality of education is thus likely to decline. It is therefore recommended that the grant should be used as an award for schools that perform well, so as to encourage schools to increase the quality of education. If the government wants to reduce the amounts paid by poor families so as to increase school enrolment by children from poor families, it may be better to provide direct support to poor families.

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### 3. Country Report: Viet Nam

#### Study on School Finance in Viet Nam through School Grants: Case Study of SEQUAP and the VNEN Project

Lina Benete<sup>16</sup>, Nguyen Thi Thanh Huyen<sup>17</sup>, Truong Thu Ha<sup>18</sup>

## Introduction

### Background

Since the 2000s, decentralization policies have been implemented in many developing countries, including in Viet Nam, aiming to enhance school autonomy and achieve the Education for All (EFA) goals and the Millennium Development Goal (MDG) of universal primary education. Governments have also introduced school grants with the aim of aiding schools in covering their operating costs, so as to increase access to education and other EFA goals. In early 2000, the Government of Viet Nam launched an experiment of “block grant budgeting” which allowed the provincial finance department to approve and control budgets for spending units such as “block grants” or “lump sums” and the pilots were then continued on a larger scale (Bartholomew et al, 2005).

The study described here is part of the UNESCO regional study of school finance in the Asia-Pacific region. The overall objective of the regional project was to develop guidelines on strengthening school finance systems in the region, based on the evidence and lessons learned in ten countries of the region in relation to school finance policy formulation and dissemination as well as school budget preparation and allocation mechanisms.

This country case study on school finance in Viet Nam builds on a collaborative project by Kobe University and UNESCO Bangkok, supported by the Japan Ministry of Education, Culture, Sports, Science and Technology (MEXT), on education finance and management in the Mekong region: Cambodia, Lao PDR and Viet Nam.

In the context of overall financing for education development, especially basic education, this country study in Viet Nam investigated the financial management of two school grants in Viet Nam: (i) the Global Partnership for Education Viet Nam Escuela Nueva (VNEN) project and (ii) the School Education Quality Assurance Programme (SEQAP) funded by the World Bank. These projects were selected because they focus on disadvantaged children with the aim of improving access to education and increasing the quality of education. (NAPEA, 2012; Socialist Republic of Viet Nam, 2006; Socialist Republic of Viet Nam, 2001; Socialist Republic of Viet Nam, 2008). School grants – which can also be block grants or school block grants – are a policy measure for improving school finance.

The VNEN project was implemented between 2012 and 2016, and sought to introduce new, child-centred teaching and learning practices into primary school classrooms. The project is funded by the Global Partnership for Education (GPE),<sup>19</sup> with a total budget of USD 83.6 million and annual budgets of USD 11.6 million, USD 31 million, USD 34 million and USD 8 million for the four years.

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<sup>19</sup> In 2002, the EFA-FTI changed its name to Global Partnership for Education (GPE)

The beneficiaries of the project are primary school going children (approximately 440,000) who belong to disadvantaged groups<sup>20</sup> in 20 priority provinces.<sup>21</sup> The Ministry of Education and Training (MoET) is the responsible agency in implementing the project.

The SEQAP has a total budget of USD 127 million and is funded by the World Bank. MoET is the responsible agency. SEQAP is not phased and is a part of a multi-year multi-stage process of transition from half-day to full-day schooling (FDS) in primary education, aiming for 35 periods<sup>22</sup> per week by 2025. The programme is part of the policy framework for implementing FDS nationally, improving teaching and school management and installing better facilities and infrastructure for the transition to FDS in 35 disadvantaged provinces.

## Scope of the study

The study introduces the school finance system in Viet Nam and investigates two types of school grants in Viet Nam: the VNEN project and SEQAP. The study was conducted in one northern province and in the capital city.

## Research approach and methods

The study addressed three sets of research questions:

- Questions regarding the characteristics and components of school finance in Viet Nam, policy formulation/dissemination, budget preparation and allocation at the central and sub-national levels. This set of questions was asked during interviews at the central level.
- Questions regarding school budget allocation mechanisms, investigating school profiles, schools' financial resources, criteria for the distribution of school budgets/grants, design of school budget allocation mechanisms and implementation/use of funds at school level. This set of questions was asked in the school and/or provincial/district level interviews.
- Questions relating to lessons learned and recommendations for strengthening the school finance system based on achievements and difficulties in formulating, disseminating and implementing school grant policies at the national level and the implementation or use of school grants at the sub-national and school levels. This set of questions was covered at all levels (ministerial, provincial, district, and school levels) of the study.

The study used qualitative methods, collecting descriptive data through semi-structured interviews, meetings, field visits and policy documents. Meetings and interviews were conducted at the central, provincial/district and school levels. The researchers also compiled and examined national policy documents on budget allocations and school grants and conducted policy analysis.

At the central level, the research team visited the Ministry of Education and Training (MOET) where it held interviews with the vice minister of education and representatives of the department of primary education, the department of planning and finance, the department of international cooperation and the curriculum and textbook reform unit as well as with project officers for SEQAP and for lower secondary education projects for the most disadvantaged regions. In addition,

20 These groups are defined according to four school characteristics: (i) percentage of students classified as belonging to poor families; (ii) percentage of children belonging to ethnic minority groups; (iii) distance of the school from the district center; and (iv) percentage of students who perform as average or poor in Vietnamese student achievement measures.

21 In addition to the 20 priority provinces, MOET may also choose to support a small sample of VNEN demonstration schools in other provinces.

22 One period last for 40 minutes as the standard length of a lesson of a specific subject at primary level.

discussions were held with representatives of the United Nations Joint Programming Group on Education and the World Bank regarding school finance and grants. The latter also provided feedback on the research approach at a meeting organized by the UNESCO Hanoi office. At the sub-national level, interviews were undertaken with representatives of the Department of Education and Training (DOET) in Hanoi and Lao Cai Province (in the far north of Viet Nam). In addition, interviews were held with representatives of the Bureau of Education and Training (BOET) in four districts, two in Hanoi and two in Lao Cai Province, encompassing three types of geographical areas: urban, semi-urban and rural.

The research team conducted visits to seven primary schools in four districts, where they held interviews with school principals or vice-principals, school teachers, school accountants and representatives of the parent-teacher associations (see Table 1 for details). All of the schools selected for participation in the study were direct or indirect beneficiaries of the VNEN project.

### Profile of schools

The seven schools included in the study include two schools located in relatively poor communities. One of these two schools, School G, is made up entirely of children from ethnic minorities, while the other has 32 ethnic minority students. The two schools in Hanoi, School B and School C, are surrounded by households of a mixed economic status, ranging from a low to high income levels. Three of the other schools, School A in Hanoi and School D and School E in Lao Cai are located in relatively wealthy communities.

The schools varied slightly in terms of their infrastructure. While most schools had classrooms made of reinforced concrete ones, at School G only three of its 28 classrooms were made of concrete. All of schools had a smooth schoolyard made of cement or bricks. Each school had separate toilets for boys and girls. School A, located in one of Hanoi's central districts, had a smaller schoolyard than the others but all of its classrooms were air-conditioned. Schools D and E had the largest campuses, with many trees and flowers, and each of the schools had a swimming pool. New classrooms and a multi-purpose hall were under construction at School F. School B was the only school that did not have enough classrooms. It had only 19 classrooms but had 22 classes, so the students of three classes had to attend school on Saturdays.

As shown in Table 1, the number of pupils enrolled and number of classes in each of the sample schools varied. At the time of the study, School A, which is located in a high-density populated district of Hanoi, had the highest number of enrolments.

The number of teachers in the sampled schools ranged from 21 to 45. Most of the schools had a principal and two vice-principals, but some only had one vice-principal. The age of the school principals ranged from 35 to 54. The number of years of experience of these school principals ranged from 4 to 8 years. All of the school principals were female except that of School G, who hailed from an urban area.

**Table 1:** Overview of the participating schools

School location and code name	Location	Grades	Classes	Number of Students	Number of Teachers	Student/Teacher Ratio	School principal		
							Gender	Age	Qualifications
<b>Hanoi Capital</b>									
School A	Urban	1-5	33	1705	45	37.9	Female	49	Bachelor
School B	Rural	1-5	22	1030	31	33.2	Female	47	Bachelor
School C	Rural	1-5	26	1181	31	38	Female	54	Bachelor
<b>Lao Cai Province</b>									
School D	Urban	1-5	29	1010	40	25.2	Female	47	Bachelor
School E	Urban	1-5	32	1200	45	26.1	Female	38	Bachelor
School F	Semi-urban	1-5	14	476	21	22.7	Female	42	Bachelor
School G	Rural/ Disadvantaged	1-5	28	511	43	15	Male	35	Bachelor

Each school had a school management committee, which was made up of school principals and vice-principals, and representatives of the party cell, the youth union, the committee for young pioneers and children, administration and teachers' professional groups. The committees reported holding regular meetings once a month and making decisions on the objectives, strategies and development plans of schools, managing the use of financial resources and the property of the schools, establishing and amending school regulations, and supervising school activities.

The schools' parent associations (Ban đại diện cha mẹ học sinh – Circular No. 55/2011/TT-BGDĐT), which also function as parent-teacher associations, are made up of students' parents, with membership numbers ranging from 5 to 7 in the schools covered in the study, except at School G which had 22 members. At the time of the study all of the associations reported holding regular meetings, between 3 and 4 times a year, excluding cases of emergency.

### Limitations of the study

The study had a limitation. Due to lack of time and a limited budget, the study could only cover one province and one city, and only seven schools. Given that the various provinces and regions in Viet Nam differ significantly in terms of socio-economic development and policy implementation and schools also differ in their practices, the findings of the study cannot necessarily be generalized to the country's entire school finance system. However, the study did cover various types of schools in several geographical and socio-economic regions: rural, urban and sub-urban, so the findings are useful in obtaining an overall understanding of the situation in Viet Nam. Thus, although the study could not cover all the complexity of school finance in Viet Nam, it highlights the factors that are likely to be similar across all schools and regions in the country.

## National school finance management system

### Background

Before 1986, Viet Nam's education system was highly centralized. Since Doi Moi (the social and economic reforms), the education system has changed along with the changes from a centrally planned economy to a market-based one. In 2006, the government launched a policy to increase the autonomy of public administrative units. This was revised in early 2015 and the mechanism for exercising the autonomy of public administrative units, including public schools, was stipulated.



Based on the new law, public schools have autonomy not only in terms of organizational management but also in financial planning, use and management.

### **Policy on education expenditure**

The government placed a priority on Education for All, aiming to strengthen education for ethnic minority groups and other socio-economic disadvantaged areas. In addition, the government has stated that 'investment in education is the highest national priority'. This emphasis is supported by Article 102 of the Law on Education 2005 and the Amendment of 2009. Under this law the annual rate of increase in education expenditure must be higher than that of state expenditure. Furthermore, state expenditure must be allocated on the basis of openness and democratic centralism, in accordance with the education and socio-economic development situation in each region.

According to the government resolution of 2008, a target was set such that by 2010 government expenditure on education would be 20 per cent of the entire government budget. This target was already achieved by the end of 2008 and has been maintained around 20 per cent to 21 per cent since then. Education expenditure is equivalent to approximately 5.5 per cent of GDP and is higher than in many other countries in South-East Asia (Table 2 and Table 3). This percentage has remained fairly stable over the past two decades.

**Table 2:** Expenditure on education as a percentage of total government expenditure, 2000-2012

Country/Year	2000	2005	2008	2009	2010	2011	2012
Viet Nam	-	-	18.05	-	20.94	-	21.44
Lao PDR	7.27	13.73	13.96	-	11.89	-	-
Cambodia	11.08	-	-	-	13.08	20.62	20.9
Thailand	28.39	20.55	17.54	17.56	16.46	21.95	20.74
Indonesia	-	15.15	13.67	19.31	16.65	18.06	18.09
Brunei	8.92	-	-	-	5.29	9.18	9.73
Malaysia	21.39	-	14.04	18.46	18.41	20.98	-

**Source:** UIS, 2015

-: Data not available

**Table 3:** Expenditure on education as a percentage of GDP, selected years

Country	2000	2005	2009	2010	2012
Viet Nam	3.57	4.70	5.33	5.84	5.73
Lao PDR	1.5	2.41	-	2.77	-
Cambodia	1.67	1.72	-	2.6	-
Thailand	5.41	4.23	4.13	3.75	4.93
Indonesia	-	2.87	3.53	2.99	3.51
Brunei	-	-	-	2.05	3.21
Malaysia	5.97	5.92	5.97	5.12	-

**Source:** Ministry of Finance, 2014; UIS, 2015

-: Data not available

The national policy on school finance requires that at least 20 per cent of government expenditure on education should be invested in school activities and the remainder should be used to pay teachers' salaries. The purpose of the policy is to assure the quality of school activities, so as to: (i)

ensure that as many students as possible are able to go to school; (ii) improve teaching quality by utilizing new teaching methodologies/approaches; and (iii) improve school management mechanisms.

In practice, however, as reported by representatives of the provinces studied, expenditure on education is not always 20 per cent, especially in provinces with financial difficulties. However, the ratio is not very different, normally 19 per cent invested in school activities vs 81 per cent on salaries, or 18 vs 82, or 17 vs 83.

In Viet Nam primary education takes the largest share of education expenditure at 32.1 per cent, and followed by lower secondary education at 24.7 per cent (UIS data for 2010). The minimum teacher salary level for the start of stable budget period is 730.000 VND.

### ***National policy on education decentralization***

The national policy on education decentralization was revealed in Decree No.115/2010/ND-CP and defines the responsibilities of the state regarding the management of education under the provisions of the Law on Education 2005 and the Amendment and Supplementing Law on Education of 2009. The decree defines the roles of MOET, other ministries, the Provincial People's Committees, the DOETs, the District People's Committees, the BOETs, and the Communal People's Committees. Basically, under this decree, provinces have full authority in financial management of basic education (following some basic laws and regulations set by the central government), and decentralization of financial sources to the lower level (district) varies between provinces.

In 2015, the government launched Decree No. 16/2015/ND-CP stipulating the mechanism for exercising the autonomy of public administrative units, including schools. Subsequently, Decree No. 43/2000/ND-CP was launched, which provides guidelines for the implementation of a number of articles of the education law, including the financial conditions of the national education system. The policy is applied nationwide but the responses to the interviews for the study indicate that the extent of autonomy depends on the strength of each school.

Under Article 48 of the Law on Education schools in the national education system of Viet Nam include public schools, community schools established by the local community, and private schools established by individuals, social organizations, social-career organizations and/or for-profit organizations. The article lists three types of public service units: (i) fully funded by the government budget; (ii) partially funded by the government budget; (iii) no funding from the government budget (for schools that can generate revenues themselves). In general, almost all basic education public schools rely fully on the government budget, and normally schools in disadvantaged areas receive extra financial support from school grants. Government financing is generally only for public schools, but sometimes the private schools receive a very tiny percentage of state financing but these funds are not included in official documents.

### ***Public school financing***

Article 101 of the Law on Education lists the financial resources for the national education system as follows:

- State budget.
- Tuition fees, admission fees; revenues from consultancy, technology transfer, manufacturing, sales and services by the educational institutions; and donations and investments by individuals and organizations to develop education.

### **Community and private school financing**

In private and community schools, financial resources for activities, the construction of and teachers' salaries are not provided by the government. Revenues of such schools are used for school activities, paying tax, and school development. The remainder is distributed to shareholders. These schools must nevertheless obey the national legal audit and accounting mechanisms and must assure financial transparency and have to report their annual financial activities to the local education and finance authorities (Article 66, Law on Education).

Community and private schools may be able to rent land or infrastructure from the government if they undertake tasks assigned by the government, and they can benefit from the tax incentives and credits. The government also supports community and private schools if they implement incentives for students with special needs.

### **Policy formulation process**

The following three ministries are always involved in the school finance policy formulation process: the Ministry of Finance, the Ministry of Planning and Investment (MPI) and MOET. Three other authorities: the Ministry of Science and Technology (MOST), the Ministry of Labour, Invalids and Social Affairs (MOLISA) and the Committee of Ethnic Minorities (CEM), are involved when the policy content is related to their functions and tasks.

Government departments at the sub-national levels do not have the authority to be involved in the policy formulation and decision-making, but they, along with schools and individuals, can express their opinions on draft policies during the two-month period in which the public is permitted to give feedback. During these two months, public media such as newspapers, radio and television can disseminate the draft policy document(s) and provide feedback on behalf of the beneficiaries of that policy. According to the responses from interviewees and workshop participants, the public media, especially newspapers, are becoming more and more active in this regard.

Once a policy is launched, the sub-national authorities are responsible for clarifying the policy content in order to implement the policy at their various administrative levels.

### **Policy dissemination**

Several types of policy documents relating to school finance are disseminated, including those describing the contents of the policy, and guidelines on how to implement the policies at the sub-national levels. There are three types of school finance policy documents: those relating to students, those relating to teachers and those relating to schools.

The policy documents relating to students include:

- Prime Minister's Decision No. 239/QD-TTg in 2010, approving the scheme on universal pre-school education for children aged 5 in the 2010-2015 period, and supporting lunch for 5-year-olds.
- Decision No. 60/2011/QD-TTg in 2011, on pre-school education development between 2011 and 2015, including the scheme to provide assistance to pre-school children aged 3 and 4, whose parents permanently reside in border areas, high-mountain and island communes, communes and mountain villages with exceptional difficulties, poor households. These children and those who are orphans, handicapped and/or have economic difficulties are eligible for support of 120,000 VND per month during the learning period, which must not exceed nine months in a year, to cover the cost of their lunches at school.

- Decision No. 85/2010/QD-TTg, stating that pupils can receive financial support when they live far away from schools.
- Prime Minister's Decision No. 36/2013/QD-TTg on providing rice for lunch for students of semi-boarding schools (which are mostly in mountainous and remote areas where boarding or semi-boarding schools are crucial in providing access to education for disadvantaged children).

The policy documents relating to teachers include:

- Decree No. 19/2013/ND-CP in 2013 revised from Decree No. 61/2006/ND-CP in 2006, providing financial support and incentives for teachers, school staff and managers of specialized schools who are willing to move to disadvantaged areas with poor socio-economic conditions.
- Decree No. 54/2011/ND-CP, regulating a seniority allowance regime for teachers of public schools. According to this regulation, teachers with at least five years of teaching experience will receive a bonus equivalent to 5 per cent of their salary per month and that bonus will increase by 1 per cent each year from the second year of receiving the bonus.

The policy documents relating to schools include:

- Decision No. 85/2010/QD-TTg, stating that semi-boarding schools that cater to students from ethnic minorities are eligible to receive government support for infrastructure including buildings, beds, dining rooms, bathrooms, toilets and clean water supply. Under this policy schools are also able to buy new tools for teaching physical education and music as well as televisions, or can repair such tools, with a maximum limit of 100,000 VND per pupil per year. The policy also provides for financial support for medical care, with a maximum limit of 50,000 VND per pupil per year.
- Pursuant to the December 25, 2001 Law on Organization of the Government at the Proposal of the Minister of Education and Training, the Prime Minister of Viet Nam signed Decision No.959/QD-TTg in 2010 approving the scheme to develop the system of specialized upper secondary schools between 2010 and 2020. The objectives of this decision are to improve the quality of upper secondary education institutions, ensuring the schools have complete and modern teaching and learning equipment, and to foster in gifted students the values and competencies of: patriotism, national pride, self-respect, self-reliance, general knowledge, self-learning methods, research skills and creativity, and to support good health among students.

As soon as a decree or decision is launched, a circular is released to provide instructions on how to implement the policy at the school level. The documents are sent from MOET to the DOETs, then on to the BOETs after clarifying the content and the implementation procedure. Finally, the BOETs are responsible for disseminating the documents and guidelines to school principals. The school principals directly implement the policies at their schools, through the teachers. If the policy involves students and parents, the class teachers transfer the policy content to students and provide instructions to the students and parents. In almost all of schools, a general meeting is held at the beginning of a school year at which all key policy documents are disseminated to all school teachers, staff and parents (and sometimes students). For example, when Decision No. 239/QD-TTg for the scheme on universal pre-school education for children aged 5 was launched, Circular No. 29/2011/TTLT-BGDĐT-BTC was released by MOET and the Ministry of Finance which provided detailed instructions on how to implement the decision, i.e. how to deliver support to students, and on what basis the students could receive financial assistance.

In general, the study found that clear instructions for the implementation of the policies are provided via documents and training at various levels. Training programmes on policies and

implementation are organized for various actors, including at the school level. The study found that so many trainings were being held on these topics that the Minister of Education cancelled some of them so as to save time and resources (interview at MOET).

## Budget preparation and allocation

Article 44 of the Law on State Budget (LSB) 2015 outlines the timeline for making, aggregating, deciding and giving state budget estimates (to all public sectors). As of December 2015, this timeline was not yet being applied. The system was still based on LSB 2002 which did not include all of the same details of LSB 2015. Since LSB 2015 was not yet being applied, budget policy implementation differed between provinces depending on their own contexts and conditions.

The LSB 2015 timeline is as follows:

- Before 15 May, the Prime Minister promulgates regulations on making socio-economic development plans and state budget estimates for the following year.
- Before 20 September, the government submits the reports mentioned in Clause 1 Article 47 of the Law to the Standing Committee of the National Assembly for opinions.
- The government's reports are sent to members of the National Assembly at least 20 days before the start date of the National Assembly Meeting (held at the end of the year).
- Before 15 November, the National Assembly decides the state budget estimate and plans for the allocation of the central government budget of the following year.
- Before 20 November, the Prime Minister gives estimates of the budget revenue and expenditure to each of the ministries, ministerial agencies, governmental agencies, other central regulatory agencies and provincial governments.
- Before 10 December, the People's Councils of provinces decides their budget estimates and allocation of the provincial budget of the following year. The People's Councils at inferior levels decide their local government budget estimates and budget allocations of the following year within ten days of the day on which the People's Council at the superior level decides the estimate and budget allocation.
- Within five working days of the day on which the People's Council decides the budget estimate, the People's Committee at the same level gives the budget estimate of the following year to each of its affiliated agencies and units and sends a report to the People's Committee and finance authority at the higher level. The People's Committees of provinces send reports on the budget estimates decided by the People's Councils of provinces to the Ministry of Finance.
- Before 31 December, ministries, ministerial agencies, governmental agencies, other central regulatory agencies, and the People's Committees must finish giving budget estimates to their affiliated agencies, units and the People's Committees at lower levels.

Within the education sector, the Provincial People's Committee prepares its own annual budget plan, incorporating school budget estimates, and submits it directly to the Ministry of Finance. They only send the provincial education budget estimate to MoET for sectoral budget consolidation.

At the school level, the schools submit their budget estimates to the People's Committee of their level in June, and then the People's Committees submit the budget estimates to the provincial People's Committee. The budget estimates are then discussed at the provincial level before they are submitted to MOET, which then sends the estimates to the Ministry of Finance for discussion before they are submitted to the National Assembly.

According to Article 102 of the Law on Education, financial agencies are responsible for allocating fully and in a timely manner (by the school year), the education expenditures, while education management agencies are responsible for managing and efficiently using the allocated budgets and other incomes.

As of 2015, the government allocated state budget funds to provinces based on their populations and pursuant to the articles of the State Budget Law and its amendment. The mode of payment is bank transfers from the Ministry of Finance. Prior to 2011, the budget was allocated to provinces based on the number of students. The approach was changed to prioritize school activities and was instead based on the size of the provincial population.

Pursuant to the State Budget Law, 80 per cent of the government budget for expenditure on education is distributed to the sub-national governments. The biggest change in budget allocation since 2005 is that the ratio of budget to be allocated to the sub-national levels has increased.

By the end of December every year, government departments at the sub-national level need to submit their financial plan(s) so that they can receive their budgeted funds by the end of January. However, in practice, not all districts and provinces submit their plans on time. The study found that in some cases when plans are submitted late, payments are still made to the sub-national governments in January so as to cover education costs.

Projects with non-state budgets such as SEQAP and VNEN have their own timelines for budget allocation. The budgets from such projects are allocated depending on each project's needs and their criteria for allocation. For example, with SEQAP the allocated budgets for school infrastructure and facilities are the same at all schools but the budget for lunches at school varies depending on the number of poor students at each school (normally between 50 per cent and 60 per cent of students receive lunch support).

All types of budgets that are categorized as budgets for sub-national levels are allocated to the sub-national levels, except for some budgets from overseas development aid sources that have their own targets defined.

Decision No. 59/2010/QĐ-TTg by the Prime Minister details the allocation formula of state budget for provinces based on the criteria of: population, geographical location and economic development characteristics of the communes and districts (Table 4).

**Table 4:** Budget allocation quota based on population aged 1-18, by area

Area	Allocation quota (unit: VND/person/year)
Urban	1,241,680
Delta	1,460,800
Mountainous and distant areas, living places of minority groups	1,986,880
Highlands-islands	2,775,520

*Source:* MOET, Decision No. 59/2010/QĐ-TTg by the Prime Minister, 2010

If the revenue of each unit (school/district/province) is higher than their actual expenditure, they will have to submit extra sources to their higher administrative level and the district/province may receive 5 per cent, 10 per cent or 30 per cent of that extra amount as bonus for excess revenues.

## School budget allocation mechanisms

### School financial resources

The main sources of school funding are: the government education budget, grants, and communities' and parents' contributions.

As shown in Table 5, school grants from the SEQAP and VNEN projects supplement other sources of school finance. They enable schools to improve their activities and increase the quality of teaching (through teacher training and meetings).

**Table 5:** Financial sources of interviewed schools

Financial sources	All	Hanoi	Lao Cai	Main use of funds
State Budget	7/7	3/3	4/4	Teacher salary, school construction, basic facilities
VNEN	5/7	1/3	4/4	Teachers' meetings, training, classroom decorations
SEQAP	1/7	0/3	1/4	Teacher's meetings, training, classroom decorations, purchase of desks and chairs, minor repairs, utilities, school lunches
Contribution from communities	7/7	3/3	4/4	Toys, books, fans, air-conditioners
Voluntary contributions from parents	7/7	3/3	4/4	Toys, books, fans, air-conditioners

### State budget

Schools receive the budget through the District People's Committee, which is responsible for recurrent expenditure such as payment of teachers' salaries and wages, school management and maintenance fees and capital expenditure for construction, procurement and facilities. Wages and salaries are deposited directly into teachers' bank accounts. Little of the budget is provided to schools in cash. All of the contracts for procurement and construction are made at the district level. In general, each provincial government prepares standards and criteria for primary school facilities and buildings in the province and focuses on improving the physical infrastructure of the schools that have not met these standards.

### Grants (VNEN and SEQAP)

Five out of the seven schools participating in the study reported receiving funds from the VNEN project. Grants are usually allocated to schools based on the schools' initiative. Before the start of the VNEN project came, the DOET held informative workshops for principals and key staff in schools. After attending these workshops, the principals explained the project to the teachers and administrative staff in their schools. If the schools were eligible to apply, they could do so on their own initiative.

The provincial grant management committee informs the school principals and accountants of the timing of the fund transfers and the amounts. When the schools receive the funds they inform teachers and parental association representatives in a general meeting. One of the schools interviewed for the study reported receiving 294 million VND per year from VNEN project, with the project covering pupils' lunches twice a week. Another school received a VNEN grant of 84 million VND per year. Only one of the interviewed schools received a SEQAP grant. This school received a SEQAP grant of 222 million VND over a period of one year.



### **Contributions from parents and communities**

Contributions from pupils' parents vary from school to school. In some schools, parents contribute rice and other types of food. In other schools, the contributions are mostly goods and days of labour to decorate the classrooms. Parents also contribute cash. In two of the schools that participated in the study, parents funded the construction of the gym and swimming pool. One principal in Lao Cai reported that parents' contributions at her school are between 200 and 300 million VND per year.

In the two extended VNEN schools, the biggest contributions for VNEN classes come from parents. Parents contributed money to buy cupboards, bookshelves and stationery and also made contributions in service and in kind to decorate classrooms. A representative from the parents' association said that poor families who cannot afford to contribute are exempted.

Private donors also support schools. For example, the Lao Cai International Hotel give scholarships to students from low income families at one school in Lao Cai. The principal of this school said that it also received support in the form of goods and about 20 million VND in cash annually from companies and enterprises nearby.

## **Criteria for the distribution of school budget and grants**

### **State budget**

Provinces and the capital city allocate budgets to the school in accordance with the Provincial People Committee's Decision, which is supposed to be based on the number of pupils enrolled. Accordingly, Lao Cai province would spend about 2.5 million VND per primary student per year and Hanoi would spend about 3 million VND per student per school year in 2014/15. However, in practice in Lao Cai Province the budget is allocated based on the number of full-time teachers on the payroll.

The funds are deposited into the schools' state treasury accounts in the province under the name of the principal. When schools withdraw cash or make payments for procurement contracts, they need to submit documents to the treasury. Payments for school construction and major restoration contracts funded by the provincial budget are made at the provincial level.

### **Grants (VNEN and SEQAP)**

- VNEN

Schools participating in the VNEN project are selected based on four major criteria: (i) percentage of students classified as belonging to poor families; (ii) percentage of children belonging to ethnic minority groups; (iii) distance of the school from the district centre; and (iv) percentage of students who perform as 'average' or 'poor' in student achievement measures (World Bank, 2012).

The VNEN project divided the provinces of Viet Name into three groups: Priority 1, Priority 2 and Priority 3. Priority 1 schools receive the highest amount of support, including school grants and lunch subsidies. Because Lao Cai is classified as a Priority 1 province and most of its schools satisfy the criteria, any public primary school in the province that meets the minimum standards regarding the number of classrooms and teacher-pupil ratio can apply to participate in the VNEN project. The school needs to get approval from its teachers and from pupils' parents. The BOETs make lists of all interested schools and submits them to the Lao Cai DOET. As of 2015, VNEN had provided funding to 1,447 schools in all 63 provinces.



Hanoi belongs to the Priority 3 provinces, and has only one school that is eligible to participate in the VNEN project. It was selected by Hanoi DOET on the basis that the school meets standards to participate. The school is located in a rural area of Hanoi and as of the start of the VNEN had not received any grants. This school applied for the grant and got approval from its teachers and from pupils' parents.

- SEQAP

Schools participating in SEQAP are mostly located in disadvantaged provinces that have half-day or mixed-day schooling. Only a small group of schools are 'visible' effective schools. Only one of the schools participating in the study had received funds from SEQAP. This school had a high proportion of disadvantaged students. Most of its pupils were from ethnic minorities living in the same village. This school needs to provide its students with lunch twice a week and provide full-day schooling for the whole weekday to satisfy the criteria of SEQAP.

## Set up of the budget allocation mechanism at the school level

### **State budget**

According to the responses to the interviews, teachers' salaries are usually deposited directly into teachers' bank accounts. When schools give rewards to teachers, they need to get approval from the head of the District People's Committee. None of the interviewed principals had experienced delays in the payment process.

Schools have autonomy on management of recurrent expenditure but for expenditures of over 100 million VND, schools need to get approval from the finance division at the district level. In general, the BOET is not involved in this process, but the situation differs between provinces and is different in Hanoi. Hanoi must not only adhere to the Law on State Budget but also to the Law on Capital City. According to the responses to interviews conducted in schools in Hanoi, these schools rarely receive cash from state budget. Whenever they have procurement contracts, the money is transferred directly to accounts of providers. The budget also pays for pupils' extracurricular activities in this way. Extended VNEN schools can use the state budget for their class activities, such as buying VNEN textbooks for the school library.

### **Grants (VNEN and SEQAP)**

For school grants, each DOET holds a workshop for principals and key staff of the schools in the province to explain the project's benefits as well as eligibility requirements and the responsibilities of the participating schools. If schools are eligible and decide to participate in the project, they apply for the grant.

- VNEN

Each school participating in the VNEN project has a VNEN account under the name of the principal. According to the project implementation manual, schools receiving school campus and satellite support grants have the autonomy to decide how to spend grant funds, based on an eligible expenditure list (e.g. learning materials, school furniture, small repairs, teaching assistants and food for students in satellite campuses). The schools have to follow the procedures described in the manual to withdraw cash or pay for a contract from the bank account. Conditions for the release of funds include a plan, receipts, minutes of meetings and procurement contracts. School communities are able to participate in the preparation of grant proposals and oversee grant implementation to ensure that the funds are used in accordance with grant contracts.

VNEN funds are directly deposited into school's bank account once a year (in January). Schools have to make monthly expenditure plans and submit their receipts to the management committee once every three months. Schools also need to report to BOET when they get the funds. The fund is adjusted with changes in the VND/USD exchange rate.

- SEQAP

A SEQAP management unit in the BOET oversees SEQAP schools in each district. The staff of the SEQAP school that were interviewed for this study reported that the school receives the funds from BOET once a year, in cash. The subsidies for lunch were increased from 10,000 VND per lunch in 2014 to 15,000 VND per lunch in 2015. As of 2015, the VNEN funds covered 20 per cent of pupils' lunches while SEQAP covered 40 per cent of the lunches of pupil in the school that received SEQAP funds.

## Use of funds at the school level

### ***Decision-making process for the use of school funds***

According to Decree No. 43/2006/ND-CP and Circular No. 71/ 2014/TTLT-BTC-BNV, at the beginning of each fiscal year, all school staff must attend a general meeting at which to decide their priorities and the budget expenditure for each item. Later on, the school budget is used in accordance with these decisions.

In most of the interviewed schools, only the school management committee is actively involved in the management of the budget received from the government.

After the schools receive a grant, schools establish a grant management unit which includes the principal, vice principal, accountant and representatives of teachers and pupils' parents. The unit allocates responsibilities to each of its members. For example, the principal is put in charge of overall grant implementation and the accountant is given the responsibility of preparing documents related to the expenditure for school activities. Representatives of teachers and parents cooperate with the unit in grant implementation and verify whether the grant is used appropriately. Schools also follow other requirements according to the guidelines provided by the provincial grant management committee of the project.

The VNEN grant can be used for teachers' professional activities, training and purchase of material facilities. The teachers in VNEN schools can suggest which topics or subjects in which they would like to have professional meetings and training activities. Their suggestions are communicated to the school grant management unit through their representative. These suggestions are then included in the school's proposal plan which is submitted to the provincial project management committee.

Using the VNEN grants, schools can procure three types of items: (i) printed materials such as training materials and learning guides; (ii) equipment for schools (i.e. computers, photocopy machines and digital cameras); and (iii) furniture for seating students and minor repairs and rehabilitation. The project management unit procures the first two types of items, while the head teachers, the physical infrastructure committee and the school accountant make decisions regarding the third type of items. They discuss what kinds of furniture (for example, desks and chairs) need to be purchased. The parents' association board may be consulted in setting priorities. Repairs or purchase of school furniture and other such assets should not account for more than 40 per cent of the received grant (out of total 4,000 USD for one VNEN school). The schools submit their plans to the provincial project management unit. According to the interview responses

adjustments after the plan has been submitted are not permitted. After getting approval, the schools must follow the submitted plan and proposed objectives exactly. Some respondents feel that this restricts school autonomy somewhat.

### **Actual use of school funds**

Most schools start using the funds from the beginning of the financial year in January. However, delays in grant flows occur. For example, the funds may not arrive until March. One of the principals interviewed for the study said that the school had to purchase food for student lunch on credit. Schools receiving support to cover the costs of students' lunches, such as school G, must to provide lunches for pupils twice a week.

VNEN schools are required to conduct teachers' professional meetings three or four times a month. The meetings should not be held on weekdays so as to avoid reducing teaching time. The funds can be used to cover the costs of office stationery and teachers' lunches at the meetings.

Many kinds of training workshops and seminars have been held for grant recipient schools at the provincial and central level. These generally provide training on school grant finance management, especially for principals and accountants. Some VNEN schools in Lao Cai District reported that some professional meetings and training workshops conducted at Lao Cai DOET have enabled them to share their experiences in using grants. However, there have been no official seminars or workshops solely focusing on sharing experiences among VNEN or SEQAP schools. Table 6 outlines the items on which the grant funds were spent by schools participating in the study.

**Table 6:** School grant allocations for specific purposes, by school

School	Grant Amount (VNEN, SEQAP)	Purposes
C	84 million VND from VNEN	Teachers' meeting, training, classroom decorations
D	84 million VND from VNEN	Teacher's meeting, training
E	84 million VND from VNEN	Teacher's meeting, training
F	84 million VND from VNEN	Teachers' meeting, training, classroom decorations, purchase of desks and chairs
G	294 million VND from VNEN; 222 million VND from SEQAP	Teachers' meeting, training, classroom decorations, purchase of desks and chairs, minor repairs, utilities, school lunches

The principals interviewed for the study said that because all activities need to be carried out according to the submitted plan, there is no delay in the process of implementation in their schools. Some principals reported that whenever problems occurred with any VNEN schools in using the funds, the provincial grant management board would inform all of the other schools so that they could avoid similar problems. Therefore, so far most of the have not had any problems.

### **Monitoring and control of use of school resources**

Each school has an internal monitoring committee that regularly (at least once a year) checks the finance and asset management of the school to ensure the allocation and utilization of government funds are in accordance with the regulations. External inspectors from the district people's committee are required to make monitoring visits to schools at least every two years.

Monitoring activities are more regular for school grants. The BOET or DOET checks the overall situation of funds use twice a year at VNEN schools in Lao Cai and once a year at the VNEN school in Hanoi. The inspectors also make unscheduled visits sometimes. The World Bank also arranges visits to schools but does not visit all schools since they work mostly with BOET and DOET.

The inspectors visit each VNEN and SEQAP school classes to observe the activities and they work with accountants to check related documents. The monitoring visits verify that the expenditure meets the requirements of the guidebook and are in accordance with submitted documents. During the monitoring process, they advise schools directly on how to improve the effectiveness of using the grants (for example, what topics should be covered by the teacher training workshops and how to decorate classes).

After each visit, the inspectors inform the schools of the evaluation results and provide specific comments, by email, regarding the adjustments that should be made (for example, schools might need to revise their finance documents or should redecorate classes to support class activities more effectively).

Grant schools are required to produce quarterly reports of expenditure and submit their receipts to DOET once every three months. After checking that the grants are being used appropriately and the documents are accurate, DOET informs each school of the results by email. When schools receive official results of the monitoring process, they hold a general meeting to report the results to all of the teachers, staff and parental association representatives.

## Conclusions and recommendations

The study found that in Viet Nam education's share of the total state budget and percentage of GDP are quite high in comparison to those of other countries in the region and found that following recent reforms schools have gained greater autonomy in finance management and investment in education has grown, which have contributed to improving the quality of education. Furthermore, the study found that while the cost-effectiveness of investment in education has increased, it is still not at an ideal level.

Since the change in the policy on the autonomy of public administrative units in early 2015, schools have gradually been given more and more autonomy. Initially they only had autonomy in organizational management but were then given autonomy in financial planning, use and management. All of the interviewed schools reported having autonomy at different levels in school finance management, including regarding the state budget, grants and contributions from parents and communities.

According to the MOET, the key challenge of school finance in Viet Nam is that though the share of education expenditure in total government expenditure is high, there are nevertheless insufficient funds to meet the needs. As of 2015, the government was preparing the 2016-2020 Plan in which it would implement Resolution No. 29-NQ/TW (2013) on 'fundamental and comprehensive innovation in education, serving industrialization and modernization in a socialist-oriented market economy during international integration'. The most challenging factor in developing this plan was the quest for financial balance. Another challenge facing the school finance system in Viet Nam in 2015 was that school finance had not been fully decentralized nationwide and implementation varied between provinces. In addition, most education managers did not understand the financial issues.

According to the staff at the schools participating in the study, the introduction of school grants brought a number of benefits to schools.

- Since receiving the grants, schools have been able to have professional development meetings more frequently (three or four times a month) and have been able to hold longer training sessions and discussions, since the grants fund lunches and coffee breaks. More frequent and

longer meetings and training have increased opportunities for learning and have resulted in deeper discussions.

- Thanks to the support of VNEN and SEQAP, students are provided with lunch as often as five times a week, with the result that they can participate in full-day schooling. Free lunches for students also offer low-income parents a greater incentive to send their children to school for the whole day.
- The grants have enabled parents to become more involved in their children's schooling activities as under the grant projects parents are encouraged to visit the schools to participate in decorating classrooms and/or to teach their traditions and crafts to the children.
- The VNEN learning model promotes classroom interaction and thus makes the learning environment more interesting and flexible than the conventional approach. The learner-centred method encourages pupils to be more active and develops their confidence as they have opportunities to present and exchange ideas in class. The fact that classrooms are decorated by the parents and teachers also contributes to children's enjoyment of school.

Compared with projects in the past such as the Primary Education for Disadvantaged Children (PEDC) project, VNEN and SEQAP have the advantage that participating schools could prepare grant proposals and documents based on their actual needs. Schools were given the autonomy to decide what kind of school facilities or teachers' professional development activities could be supported financially. This contrasts with the PEDC which used to distribute items that pupils do not need, such as thick winter boots, because the grant plan was not prepared by the schools.

The study identified several challenges associated with the grants, however, as listed below.

- The biggest challenge for both VNEN and SEQAP projects is the issue of sustainability. All of the interviewed principals felt that most primary students from VNEN schools would not have the opportunity to continue the VNEN learning model at secondary level. Although the VNEN model has been adopted in some secondary schools, there have been no funds to support students and their parents in buying textbooks or classroom decorations. Payment of these costs by parents would place more financial burdens on the families of disadvantaged children.
- Because the amount of the VNEN grant is relatively small (4,000 USD per school), schools need to merge the grants and other funding sources, such as contributions from parents, to purchase classroom equipment. This process usually takes substantial time and requires harmonizing activities.
- Some school representatives felt that VNEN procedures were overly complex and time-consuming. One principal said that although her school already prepared detailed plans for teachers' technical meetings every month, they were still required to submit documents and minutes for each meeting. Furthermore teachers were required to spend a lot of time on repeated procedures, which reduced the amount of time that had to prepare the content for technical meetings. In addition, schools were required to submit proposed plans regarding physical facilities and the topics of teachers' professional meetings at the end of each year. While this was not problematic in the case of physical facilities since the needs are generally obvious, the teachers found that new topics are often identified in the new academic year but schools cannot change what they had submitted at the end of the previous year, so the topics may not meet their needs.

The study found that the schools that managed to implement school grants successfully and which addressed fundraising and sustainability issues were the ones that were headed by proactive

principals. Such principals immediately seized opportunities to receive more funding as soon as they were made aware of them.

***Recommendations on strengthening school finance at primary schools in Viet Nam in general and for particular schools:***

- Schools should be given even greater autonomy in finance management.
- Schools in Hanoi and Lao Cai that receive grants should organize joint workshops and seminars on sharing experiences and best practices as schools in other provinces have done.
- A greater budget should be allocated for primary education since the current budget is insufficient to cover the costs of all school activities and schools still have to collect money from parents.
- Since both SEQAP and VNEN will be ending soon, it is important for schools to develop capacity to obtain new sources of revenue and finance. MOET should conduct training workshops on how schools can manage their budgets without grants and how they can support disadvantaged students. This kind of training should be extended to VNEN lower secondary schools so that there will be no gap in the transition from primary to lower secondary school for pupils participating in the VNEN model.
- Schools should become more proactive in fundraising and attract funding contributions from sources such as tourism, local businesses, etc. So far, most community contributions come from the parents. A mechanism is needed to encourage principals to be more proactive in searching and applying for school grants as well as in raising funds and managing finances efficiently.

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