

Financing Education: Trends and Prospects

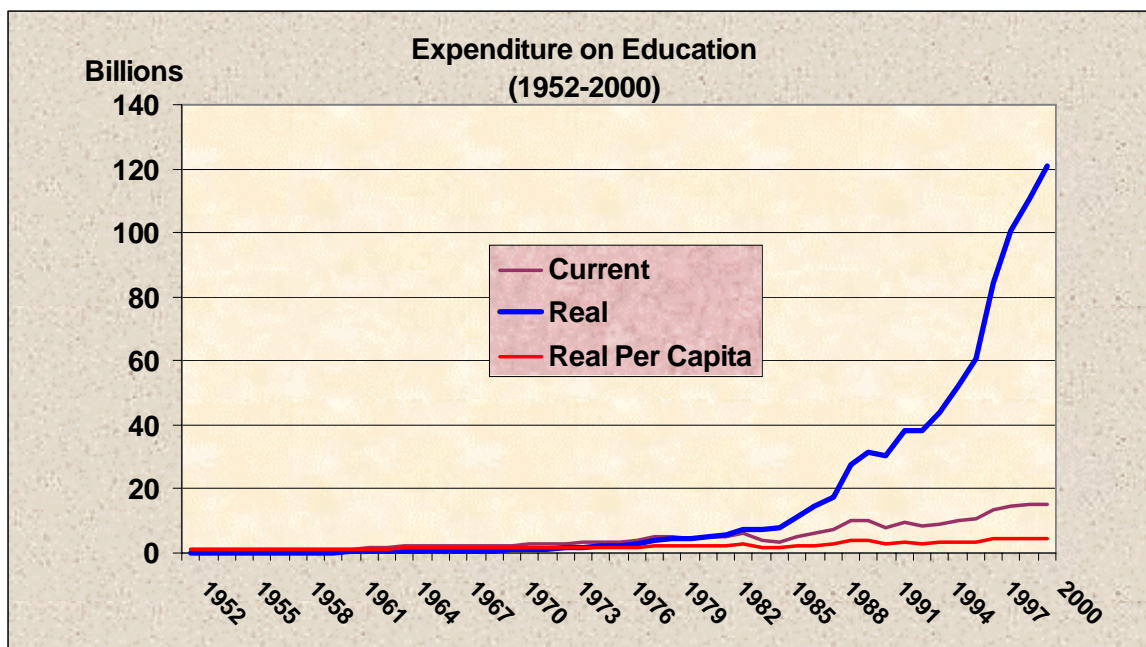
Action for Economic Reforms December 2000

Government expenditures on education has grown tremendously over the last half-century – from P 140 million in 1952 to P 121.1 billion by 2000. In nominal terms, the figures indicate an annual increment of 15%.

Historically, public education received the highest allocation in the national budget (outside of debt servicing and local government allocations), except for certain years during the martial law era. Spending on education averaged 30% of the national budget during the 50s and 60s. By the 70s, however, a shift in priorities under the martial law government caused a drastic fall in the education budget to as low as 5.6% of public expenditures. Basic education took the brunt of the slash as it got squeezed by the overall decline in the education budget and the higher priority given to tertiary education with the increase in number of regional State Universities and Colleges (SUCs).

After 1985, the Aquino government rectified the situation and restored the priority for education in the national budget. The Philippine Constitution of 1987 guarantees free and compulsory basic education and mandates that education be given the highest priority in the allocation of public resources. Starting 1986, public expenditure on education was boosted up by annual increments of 20%. The share of education in the national budget went up to 18% during Aquino's presidency and settled at about 15% during the term of President Ramos. For year 2000, Congress appropriated P121.1 billion for basic and tertiary education.

Fig. 1



Source: Basic Data form DECS (1952-95), BESF (1995-98) and DBM (1999-00)

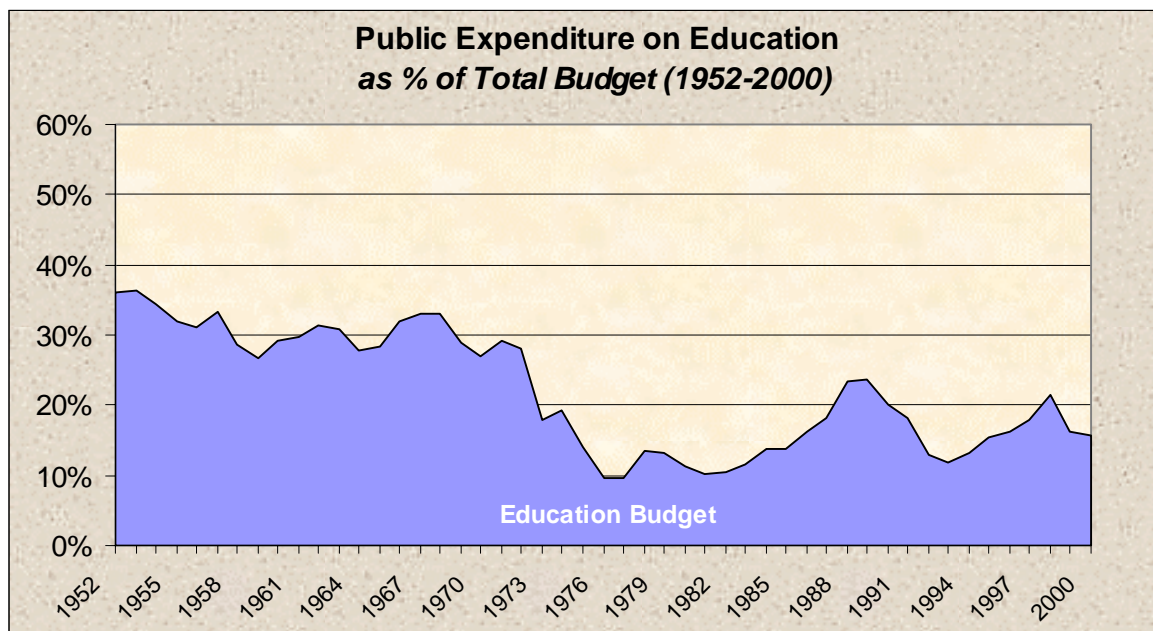
In real terms, public expenditure on education grew only at a modest rate of 7% per annum (1952-2000). Real expenditures during the martial law years increased marginally at an annual rate of only 3%. This rate is not even enough to accommodate new entrants into the system. Thus, expenditures per pupil actually decreased in real terms from 1965 to 1985.

In the post-Marcos period, real expenditure on education posted a higher growth rate of 7% per year. This, however, proved insufficient to cover for the accumulated backlogs and the dramatic rise in enrollment at all levels. Two major factors exerted tremendous pressures on the government budget. First, the explosive growth of debt service especially during the term of President Aquino squeezed the national budget and prevented further increases in the allocation for education. Debt service grew by an average of 25.3% during the period 1986-93 and accounted for nearly 40% of the national budget during the same period. Second, economic downturns experienced by the country in 1990-91 and 1997-98 have triggered deep cuts in the national budget with corresponding impact on education spending.

For 1999, DECS reported that current expenditure for every elementary pupil was P4,625. The corresponding figure for secondary education was P5,250. At constant 1978 prices, these figures translate to only P455 and P516, indicating that expenditure levels on a per capita basis had been basically stagnant over the last 20 years.¹

For School Year 2000-01, DECS reported critical shortages in basic school resources, including some 44,423 teachers, 2.2 million desks and armchairs and 25,816 classrooms.² A minimum of P10 billion in additional resources is needed to cover for these shortages. This, perhaps, is a gross understatement considering the urgency of attending to other

Fig. 2



Source: Basic Data form DECS (1952-95), BESF (1995-98) and DBM (1999-00)

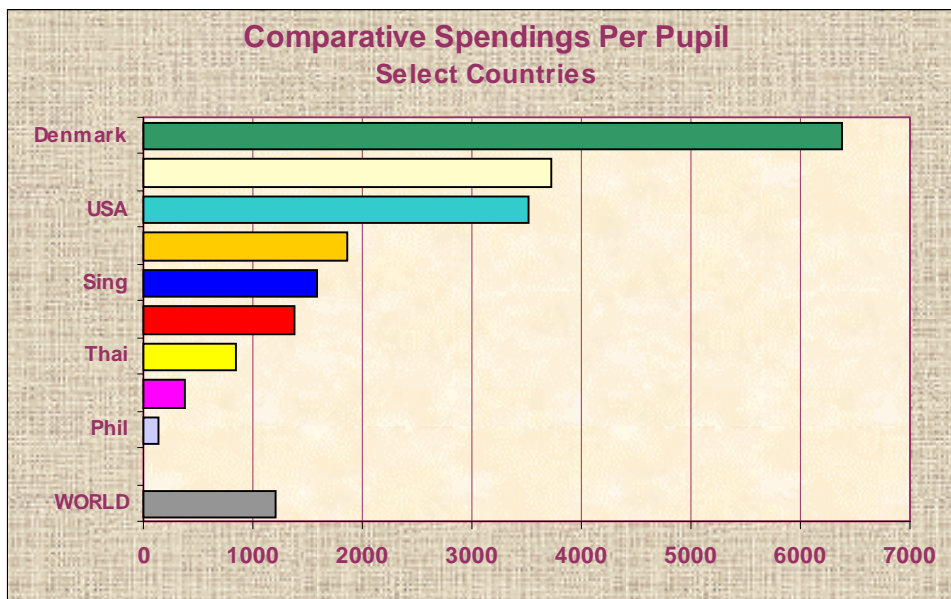
basic school requirements, particularly for teachers' training, laboratory and library facilities and other operating expenses. A former DECS official argued that at least P30 billion more is needed to cover for basic maintenance and expansion, not to mention the need for modernization if the country has to improve efficiency and quality of education.*

International Comparison

The current level of expenditure on education locates the Philippines among the lowest spenders in East Asia and the rest of the world. The US invests about P195,816 per student while the world average for basic education is estimated at P41,028 per student. The Philippines is spending less than one-sixth of what Thailand allocates for its pupils and only about 8% compared to that of Singapore's spending. In tertiary education, UNESCO estimates the average cost per student at P139,855 for the world and P40,130.50 for the developing countries. In contrast, the Philippines spends an average of P24,777 for public tertiary education.³

Similarly, the country's past expenditure on education relative to GNP is also among the lowest in the world. In 1980, the budget level for education was 1.7% of GNP. This increased to 2.5% during the time of President Aquino (1986-92) and 2.9% under President Ramos (1993-98). The corresponding figures (1996) for Thailand was 4.1%; 5.2% for Malaysia; and 3.7% for Korea.⁴ Nonetheless, if private expenditure is included, total education spending adds up to a respectable level in relation to GNP and is comparable to the world's average. Observers, however, note that given the small size of the Philippine economy, the country appears to be spending too little for the education of its citizens.

Fig. 3



Source: Computed based on data from PHDR2000; Chua,1999; Arcelo,2000

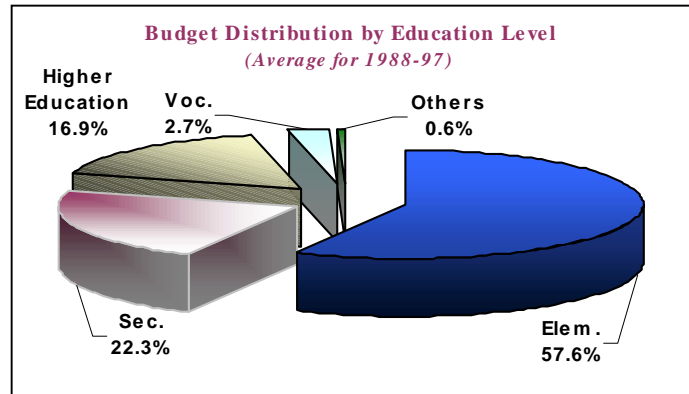
* Interview with Dr. Alejandro Clemente, former DECS Undersecretary

Intrasectoral Allocation and Distribution

Expenditure by Level of

Education. Basic education takes up the greater share of the education budget with about 58% allocated for elementary level and another 22% for secondary education. Nearly 17% of the budget goes to higher education and 2.7% goes to vocational education. Non-formal education has always been a neglected area with annual appropriation of less than 1%.

Fig. 2.4

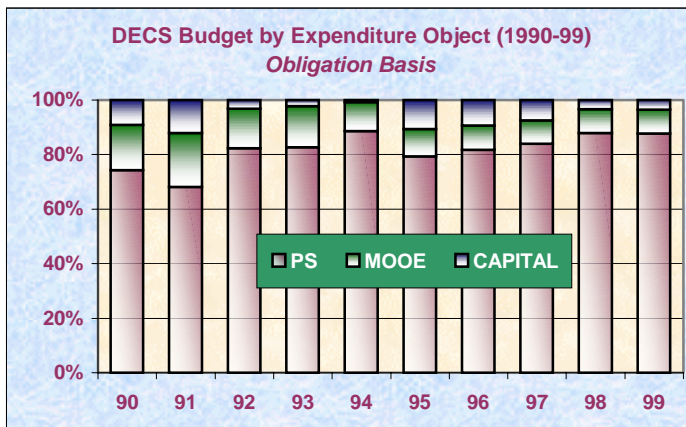


Source: 1998 Philippine Education Sector Study, ADB, 1999.

The Philippines has established an extensive public school system throughout the country with a strong emphasis for elementary schooling as reflected in its historical spending pattern for education. This was made possible largely as a result of the strong participation of the private sector in secondary and higher education. In the 50s and 60s, 95% of the budget went to primary basic education. During the martial law years, however, fewer resources went to basic education as a result of the reduction of the education budget and the proliferation of regional state colleges. Allocation for higher education rose from 5% to as much as 35% during the first half of the 80s. This spending pattern was altered after 1986 with the allocation for higher education settling at 15%-18% of the education budget.

The law enacted in 1988 that mandates free secondary education exerted tremendous pressure on the budget and pushed down the allocation share for the operation of elementary schools from 56.6% in 1987 to 41.7% in 1990. The downward trend was partially corrected starting 1994, but the 1976 share was never restored.⁵

Fig. 6



Source: 1998 Philippine Education Sector Study, ADB, 1999.

Expenditure by Object. The bulk of the education budget goes to teachers' salaries, leaving very little resources for capital outlay and operating expenses. For 1999, Congress appropriated P84.5 billion for basic education. Of this amount, 87.5% went to PS (Personal Services), 8.8% went to MOOE (Maintenance and other expenses) and only 3.5% went to CO (Capital Outlay). Ten years earlier, the

DECS budget reflected a more balanced distribution with at least 15% of the budget going to operating expenses and another 10% allocated for capital outlay. The imbalance in the current budget has been the result of successive increases in teachers' salaries that was effected without allowing for corresponding and proportional increases in the overall education budget. The net effect, therefore, was the progressive reduction of the budget for other important expenditure items such as textbooks, teachers' training and school facilities.

The 2000 Philippine Human Development Report (PHDR 2000) noted that nearly all the budget increases have gone to compensation, with the share of personal services rising from 68.9% in 1987 to 75.5% in 1993 to 89.1% in 1998. As a result, spending level per student for MOOE has fallen significantly throughout the 1990s, from P510 in 1990 to P175 in 1997.

The 1998 Philippine Education Sector Study (PESS) undertaken by the Asian Development Bank noted further that government funds allocated for critical resources suffered from perennial shortages as a result of reduction or marginal increases in their budget shares in the last ten years. Spending for textbooks declined by 6.9% from 1988 to 1999, while the budget for classrooms suffered a reduction of 20.2% over the same period. For school Desks, only a 3.5% increased was recorded during the 12-year period.⁶

The imbalance in the budget allocation is made worse as a result of delays in fund releases which affects especially textbook and supplies procurement and building construction. In 1998, for example, DECS regional offices reported that less than half of regular textbook budget was actually made available by the DBM during the same year. A similar development happened in 1997 when release of funds for the regular textbook program amounted to less than 50% of allocated funds.⁷ Whenever government falls short on funds, priority has always been given to personnel salaries.^{*} This policy is not unreasonable, but it exacts a heavy toll on other important expenditure items in the education budget.

Geographical Distribution. Public expenditure on basic education appears to be fairly distributed across regions and provinces. For CY 1997, Southern Tagalog got the largest share at P6.27 billion followed by the National Capital Region with P4.95 billion. On the other hand, the Cordillera Administrative Region and Central Mindanao received the smallest allocation at P1.06 billion and P1.39 billion respectively. The allocation by region is determined largely on the basis of enrollment size and school-age population. Thus, per capita expenditure tends to even up with some of the poorest regions, such as Bicol, the Cordilleras and Eastern Visayas, getting the largest shares on a per capita basis. The situation is quite different for higher education with the NCR getting a disproportionate share in the budget. Nonetheless, if the University of the Philippines System is excluded, the variation appears to straighten out.

^{*} Interview with former DBM Secretary Emilia Boncodin.

Table 2.1 Expenditure Per Capita by Region

REGION	Expenditure Per School-Age Population		REGION	Expenditure Per School-Age Population	
	Total	MOOE		Total	MOOE
NCR	2,268	172	Central Visayas	2,640	126
CAR	3,563	189	Eastern Visayas	3,533	146
Ilocos Region	3,668	187	Western Mindanao	3,226	164
Cagayan Valley	3,346	193	Northern Mindanao	2,993	159
Central Luzon	2,662	157	Southern Mindanao	2,941	138
Southern Tagalog	2,627	135	Central Mindanao	2,442	142
Bicol Region	3,620	209	CARAGA	3,006	111
Western Visayas	3,459	159			

Source: 1998 Philippine Education Sector Study, ADB, 1999.

LGU Expenditure. Public funding for education does not come solely from the central government. All local government units share funding responsibility for education. In fact, the share of the local government increased dramatically over the years, rising from less than a billion in 1991 to P 7.65 billion by 1997. This represents a phenomenal increase of 800% in just six years. During the same period, the share of local government spending for education rose from 3.9% to 7.6% of total public expenditure on education. The bulk of local expenditures went to basic education.⁸

The enactment of the Local Government Code in 1991 have stimulated local expenditure on education. Under the code, local government units have been tasked with the responsibility of sharing in funding educational programs particularly for the construction of school buildings and other facilities, the establishment of extension classes and sports development. The Code further mandates the creation of the Special Education Fund (SEF) to be generated from the proceeds of the additional one percent levy on real property.

The Special Education Fund increased from P1.2 billion in 1992 to P5.5 billion in 1997. It has been the major source for supporting local expenditure on education. In 1997, SEF accounted for 72% of total local government expenditure on education, the balance of which was sourced from Internal Revenue Allotment (IRA) and locally-generated funds.⁹

The SEF constitutes a significant amount for income-rich provinces, cities and municipalities where property values are extremely high. In 1997, for example, the SEF for the National Capital Region amounted to P2.7 billion while Southern Tagalog generated a corresponding income P739 million. The City of Makati boasts of SEF income that is more than enough to provide teachers with ample benefits and to ensure a complete set of textbooks for every pupil in the city. In contrast, the SEF for the poorest regions of the country amounted to less than P50 million. The corresponding SEF income of a typical 5th or 6th class municipality is barely enough to finance the construction of a single classroom or to pay the salary of an additional teacher. On a per capita basis, the National Capital Region generated an SEF income of P 1,147. The corresponding figures

for Eastern Visayas and the Autonomous Region of Muslim Mindanao were P84 and P12 respectively.¹⁰

Three major issues are noted in relation to LGU expenditure on education. First, spending is done without benefit of clear planning. There appears to be little or no coordination with the central government for the purpose of matching total available resources and needs in the local areas. Second, the lack of consultation and accountability in resource utilization may open opportunities for fund mismanagement. In this connection, the school board must be expanded to ensure the participation of stakeholders and the community in decision-making. Finally, allocation across provinces, cities and municipalities are highly skewed in favor of income-rich areas, thus, making it highly inequitable.

External Financial Sources for Education. The Education Sector received US\$958 million in development assistance from 1982-1996 that was shared almost equally by multilateral agencies and bilateral donors. By Subsectoral allocation, the largest chunk was directed to Elementary Education (64%), followed by Higher Education (14%) and Technical/Vocational Education (11%).¹¹

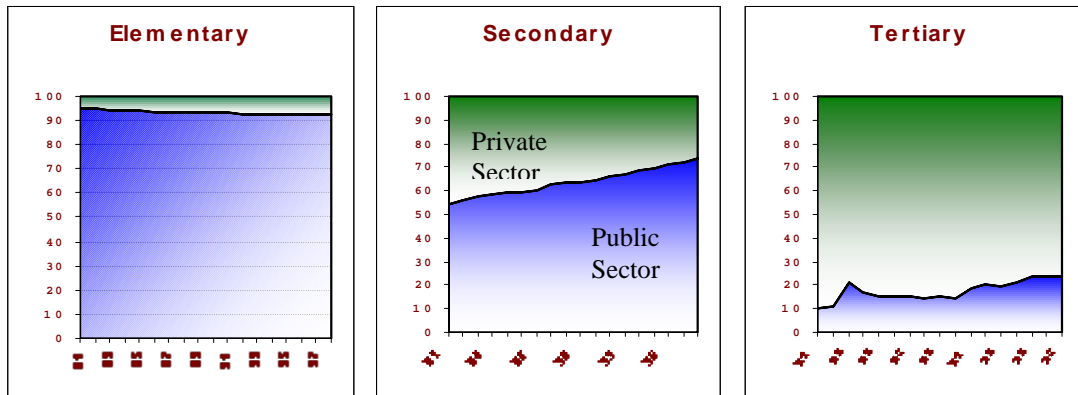
In December 1996, the Third Elementary Education Project (TEEP) was approved with a combined loan of US\$ 218.2 million. The seven-year project is the single biggest so far for the education sector. It aims to improve learning achievements, completion rates and access to quality elementary education in 26 poor provinces, focusing on the most disadvantaged communities. A similar project for secondary education, with a total project cost of \$170 million is due for implementation by 2000.¹²

The World Bank, Asian Development Bank, Japan and Australia are among the largest aid contributors to the Philippine education sectors.

Public-Private Mix in Education. The Philippines is perhaps one of the few developing countries that has a strong tradition of private sector involvement in education. The sector plays a dominant role in preschool, technical-vocational and higher education with enrollment shares for SY 1997-98 of 51.4%, 82% and 79.9% respectively.¹³

Prior to 1970, elementary education was almost exclusively provided by the government while tertiary education was largely provided by the private sector. By 1980, the share of the public sector in elementary enrollment remained high at 94.8%. The corresponding share of the public sector in high school enrollment was 54.2% and 10% at the tertiary enrollment. The situation did not change much at the elementary level in the last 20 years, although the enrollment share of the public sector dropped slightly to 92.6%. The trend is quite different for secondary and tertiary education. By 1998, the public sector accounted for nearly three-fourths of high school enrollment and about one-fourth of enrollment at the tertiary level.¹⁴

Fig 2.6



Source: Basic data culled from the 1998 PESS, Main Report, 1999

The dramatic rise of enrollment in public high schools was largely stimulated by the passage of the law on free secondary education of 1989. The law paved the way for the nationalization of secondary schools and the transfer of financing responsibility to the national government. The increased enrollment in public tertiary schools has been stimulated in part by the proliferation of SUCs and expansion of their degree programs. It is also important to note that significant increments in enrollment occurred especially during crisis periods, suggesting that the increase is also induced by economic considerations.

The shifts in the enrollment pattern in public and private institutions translate to corresponding changes in the financial sharing between the two sectors. Statistics compiled in the 1998 PESS Report reveals the following:*

First, the private sector contributes heavily in financing education in the Philippines. In 1997, the private sector contributed a total of 74.6 billion or about 42.7% of total expenditure on education. Nearly 40% of this amount went to tertiary education; 34% to elementary education; and 26% to secondary education.

Second, the share of the government in overall expenditure has been generally increasing through time - from 52% in 1986 to 49% in 1994 to 57.3% in 1997.

Third, the highest increment in public sector spending was noted at the secondary level. This is consistent with the rapid growth of enrollment in public high schools as noted above. Total government spending (national and local) for secondary education rose from 12% in 1986 to 20%. Relative to the private sector, the government's share in secondary education increased from 28.9% in 1986 to 50.5%.

Finally, despite the increased share of the public sector in tertiary enrollment, the contribution of the government relative to the private sector remained basically at the same level – 36.7% in 1986 and 37.1% in 1997.

* *Basic Data culled from Maglen and Manasan, 1999*

Household Expenditure. The proportion of household expenditure on education has not changed significantly over the years. From 3.5% in 1985, the proportion went down to 2.9 % in 1988 and rose back to 3.7% in 1994 and 1997. Household expenditure on education also varies across regions, ranging from 2.5% in Northern Mindanao and 3.7% in Metro Manila to 5.3% in CARAGA. Statistics indicate that family income is the single most important variable that influences the level of household expenditure on education. Households with high income levels tend to spend more of their income on education. In 1994, families with annual income of less than P20,000 spent only 0.7% for the education of household members. On the other hand, the richest families with annual income of P250,000 or more spent 5.3% of their income for education.¹⁵

ENDNOTES

¹ DECS: Briefing Materials on 2001 Budget; Philippine Human Development Report 2000. Manila: Human Development Network (HDN) and United Nations Development Programme (UNDP) 2001

² Department of Education, Culture and Sports. SY2000-01 School Opening Report. June 2000.

³ Philippine Human Development Report 2000. Manila: Human Development Network (HDN) and United Nations Development Programme(UNDP) 2001; Arcelo, Adriano A. "Financing World-Class Education in the Philippines: A Perspective on Cost Issues and Alternative Funding Schemes". The ALG Research and Development Report. Vol.1 No. 2 & 3, May-June 2000; Chua, Yvonne T. Robbed: An Investigation of Corruption in Philippine Education. Manila: Philippine Center for Investigative Journalism, 1999.

⁴ United Nations Development Programme (UNDP) [1999]. *Human Development Report*. UNDP Website as of December 2001

⁵ Philippine Human Development Report 2000. Manila: Human Development Network (HDN) and United Nations Development Programme(UNDP), 2001.

⁶ 1998 Philippine Education Sector Study, ADB, 1999. (For details see Table B8, p.114)

⁷ DECS: 1998 Annual Report

⁸ Maglen, Leo and Rosario G. Manasan. Education Cost and Financing (The 1998 Philippine Education Sector Study - Technical Background Paper No. 2). Asian Development Bank. Manila, Philippines, 1999.

⁹ [Maglen and Manasan,1999]

¹⁰ [Maglen and Manasan,1999] For details refer to tables on pages 99-102

¹¹ [Maglen and Manasan,1999]

¹² National Economic Development Authority Public Investment Staff

¹³ 1998 Philippine Education Sector Study, ADB, 1999

¹⁴ 1998 Philippine Education Sector Study, ADB, 1999

¹⁵ [Maglen and Manasan,1999]