THREE

Education costs and finance*

CHAPTER 1 discussed the value placed on education in the Philippines, and the central role it plays in Filipino society. Participation in education in this country is high in comparison to others at a comparable level of development. Literacy levels are commensurately high by world standards. The importance of education is even enshrined in the Philippine Constitution of 1987, which makes it the primary consideration in the national budget, giving it precedence even over defense and debt service. This Constitutional priority, notwithstanding, the already high pressure on the resources of the country will continue to grow, a prognosis ensured by a population growth of 2.3 percent per annum, which is also high by world standards.

Maintaining the current participation rates alone requires thousands of additional school places annually. It can be expected that participation rates at the secondary and tertiary levels will rise even further as rising levels of affluence increase the demand for education.

The national budget bears the brunt of this pressure, since the government provides the bulk of places at the elementary level (93 percent) and the secondary level (73 percent). At the post-secondary and tertiary level, government provision of places is not nearly as numerically important, but the growth in the tertiary sector, at over six percent per annum over the nineties, the increased share of places that the government finds itself providing, and the even faster growth in its financial involvement in the sector, has meant funds going to the top-end of the sector are absorbing an increasing portion of the overall education budget.

Maintaining educational standards in the face of increasing demand for places has been a constant cause for concern. The remuneration of public school teachers, traditionally well below comparably qualified areas of employment, has nonetheless risen substantially over the last decade or so (between 1985 and 1995 it rose four-and-a-half-fold). This has meant, however, that the personnel expenses have risen as a percentage of the basic education budget, at the expense of maintenance and other operating expenses (MOOE) and capital appropriations. This has led inevitably to a deterioration of educational infrastructure, and the consequent decline in the quality of education.

These pressures were straining education finance even before the onset of the current revenue crisis. The recent "Asian Meltdown", since mid-1997, further reduced revenue collections to 16 percent of GNP by 1998 from an already low 19 percent of GNP in 1997. The budget shortfalls since then have put additional strain on education resources. Exacerbating the problem for basic education has been the continued growth in the number of State Universities

* Abridged version of Maglen, Leo and Rosario Manasan, 1999. "Education Costs and Financing in the Philippines," (Technical Background Paper No. 2) ADB/IBRD 1998 Philippines Education Sector Study.

TABLE 3.1
Education Sector Budgets, 1997-1999
(million pesos)

Education Level	Expenditure Program			Change 1998 to 1999 (%)
	1997	1998	1999	
Elementary[a]	56,154	62,162	65,686	5.67
Secondary[b]	18,267	21,837	23,775	8.88
Tertiary[c]	13,774	16,178	16,771	3.67
Vocational[d]	3,568	2,179	2,165	-0.64
Other[e]	641	578	472	-18.34
Total	92,404	102,934	108,869	5.77

[a]DECS allocation plus school building program

[b]DECS allocation, plus GASTPE and school building program

[c]SUCS and CHED

[d]TESDA

[e]DECS allocation to pre-school and non-formal education

Source: World Bank. 1998. *Philippine social expenditure priorities*, Table 2.3

and Colleges (SUCs) proposed by Congress, with their disproportionate impact on sector budget appropriations.

In 1999 the education sector managed with a budget that was the same or only marginally larger than in 1998, despite the fact that it had already accumulated substantial payment arrears, especially in the textbook and school desk programs, and that it has to accommodate the automatic increase in demand for additional school places.

Although it is vital to set priorities and rationalize, an even more pressing problem concerns the way resources are currently marshalled and channelled into the sector. The inadequacies, inefficiencies, and inequities in the education sector are not simply program- or practice-specific but are systemic.

The Philippine education system owes its origins to the American colonial period (1898-1941) and to developments upon that tradition carried on since independence in 1946. It laid a solid foundation of universal, secular, publicly provided and funded basic education, and a vigorous tertiary sector with a high level of private involvement.

Over the years, however, the education system has grown in a largely unchecked manner, so that today it can be described as a large sprawling operation containing a wide variety of institutional providers drawing their funding from a diversity of sources. These institutions range from well-resourced schools and universities that are of world standing, to extremely under-resourced institutions of very low quality. Education at all levels is delivered by a wide range of institutional providers. Many of these providers are multifunctional in nature, offering programs in two or more of the subsectors. While the bulk of elementary and secondary schools are single-purpose institutions, some are combined operations offering the full ten years of basic education. Many are also attached to universities and colleges. This is partly historical, a considerable number of higher education institutions are actually upgraded basic education institutions, they just started developing and offering postgraduate programs, without in the process divesting their basic education programs. However, it is also because teacher training institutions in the Philippines do not conduct practicum arrangements with a network of surrounding elementary and secondary schools, but rather maintain their own "laboratory" schools for this purpose.

Partly for such reasons, planning for the sector is difficult, poorly coordinated, and its funding is inefficiently allocated and inequitably distributed. While goals and objectives for the sector may be formulated, the mechanisms for operationalizing them appear inadequate, and there does not appear to be any clear matching of budgets to plans and targets. Budgeting appears to be a free-wheeling affair, where constituent parts of the sector — departments, agencies, programs, schools and colleges are obliged to compete with one another for a slice of the cake. Opportunities for political intervention in the process are considerable.

Lack of planning, coordination and prioritization of budgets at the system level has led to the gradual deterioration in the quality of the education and training, even without the intervention of the current financial crisis. It could also be the most significant factor in inhibiting the sector's capacity to respond effectively to the stringencies it is confronting.

In recognition of the problems for effective coordination, planning, and budgeting in the education sector created by this confused institutional provision, the sector's management was drastically rationalized following the EDCOM's report of 1991-92 . DECS in 1995 was stripped of a number of its former responsibilities and made to focus on basic education; higher education came under the Commission on Higher Education; and technical and vocational education was placed under the Technical Education and Skills Development Authority. There is in fact a strong proposal, yet to be acted upon, that DECS be transformed into a Department of Basic Education. Even in basic education, however, DECS responsibilities include not only running public elementary and secondary schools but coordinating, planning, standard-setting, monitoring, and evaluating of the whole basic education sector, including the private school component. Part of this brief is the administration of the Government Assistance to Students and Teachers in Private Education (GASTPE), the government's targeted subsidy program for private school students and institutions.

Public and private education

Public is usually distinguished from private education on the basis of ownership — that is, whether an institution is the government, or a private non-profit or for-profit institution — rather than on the basis of who funds it. In practice, however, both public and private education institutions can and do draw their funds from public and private sources. So it is as possible to have full-fee paying public institutions, or totally subsidized private institutions, as it is to have free public institutions and full-fee paying for-profit private institutions.

There is a wide range of public-private provision and financing arrangements in the Philippines education sector. Government elementary schools are an example of free publicly provided education (although they do not charge tuition fees, they are not completely free, however — parents are obliged to meet sundry costs associated with them). The University of the Philippines, on the other hand, is a public institution (SUC) that charges tuition fees that cover a sizeable proportion of the costs of running its teaching programs. Many private for-profit schools and colleges charge full cost-recovery fees because they receive no financial assistance at all from the government. There are however other, (mostly non-profit) private providers, and their students, who receive substantial public subsidies, principally through the Government Assistance to Students and Teachers in Private Education (GASTPE) scheme.

On the basis of ownership of institutions, Table 3.2 shows the public/private mix of institutions and enrollments across the three education sub-sectors. These figures reveal the state's strong commitment to the provision of elementary education, and the equally strong reliance the sector has upon private providers at the upper levels.

Owing to the wide variety of different forms public and private financing can take, it is even more difficult to determine who pays what in education. Public expenditure on edu-

TABLE 3.2
Public-Private Mix of Institutions and Enrollments in the Philippines
(shaded figures are enrollment in thousands, except percent)

1997/1998 Level of education	Public	Private	Percent private
Pre-school	4,928	2,372	32.5
	230	243	51.4
Elementary	35,516	3,083	8.0
	11,296	938	7.7
Secondary	3,909	2,681	40.7
	3,613	1,406	28.0
Technical/vocational	723	1,383	67.7
	47	214	82.0
Higher education	237	1,019	81.1
	633	1,991	75.9

Sources: DECS Statistical bulletins; TESDA Installing a quality assured TESD system; CHED Statistical bulletin

cation in the Philippines can take the following forms: direct expenditure on public education institutions; recurrent items, including personnel, and maintenance and other operating expenses (MOOE); textbooks and instructional materials; capital items, including through the School Building Program; subsidies to private providers, mainly through the Educational Service Contracting (ESC) component of GASTPE; subsidies direct to students, mainly through the Tuition Fee Subsidy (TFS) component of GASTPE, but also through scholarships and the subsidy element in "study now-pay later" schemes; tax exemptions for private non-profit providers; tax exemptions on contributions to private non-profit providers.

Private expenditure on education, on the other hand, takes on the following forms, in both the public and private education sectors: tuition fees; textbooks and materials; uniforms; transport; projects or excursions; parent, alumni, and other voluntary contributions.

Tables 3.3a and 3.3b provide estimates of the distribution of public and private financial contributions to education for selected years.

These figures show a substantial private contribution to the financing of education, even at the elementary level, where well over ninety percent of the provision and enrollments are in the public sector, and the government is committed to free education. For 1997 the private contribution to elementary education was estimated at around 30 percent; it was around 50 percent for secondary education (Table 3.3b).

The private financial contribution to elementary education rose substantially over the previous decade, from under forty percent in 1986 to over fifty percent in 1994 with the reduction in government spending in this subsector. (There was competing demand at the secondary level owing to the introduction of free high school education.) Because of this, overall private contribution to education rose from 48 percent to 51 percent between 1986 and 1994, before sliding back to 43 percent in 1997, when the government faced less fiscal constraints.

The diversity of forms that public and private provision and financing of basic education have taken in the Philippines is reflected in the bewildering array of different categories of institutions that can be identified, each with a different public-private financing mix (Table 3.4).

In addition, over the past decade or so there has been a series of major and minor policy initiatives that have had profound implications for the financing of education in the Philippines, and which, collectively, have contributed to the present financial difficulties the sector is experiencing. These include the following:

- the 1987 constitutional provision that education should be given the highest priority in the government budget, and that basic education should be free;
- nationalization of barangay high schools in 1988;
- introduction in 1989-90 of the nationwide application of GASTPE;
- the requirement under the Local Government Code of 1991 that LGUs take responsibility for the school building program;

TABLE 3.3A
Distribution of Government and Private Financing
across Levels of Education
(1986, 1994, 1997; in percent)

	Government			Private		
	1986	1994	1997	1986	1994	1997
Elementary	69.09	59.17	60.92	33.61	34.62	34.52
Secondary	12.07	19.32	19.77	32.26	29.34	26.02
Tertiary[a]	18.27	19.36	17.34	34.13	36.05	39.46
Total	100.00	100.0	100.0	100.0	100.0	100.0

[a]Includes technical and vocational education

Source: author's estimates based on *Family income and expenditure surveys*. 1985, 1994, 1997; FAPE 1986 and 1994 surveys

TABLE 3.3B
Public share in financing various education levels
(1986, 1994, 1997; in percent)

	1986	1994	1997
Elementary	69.03	62.25	70.31
Secondary	28.86	38.86	50.48
Tertiary	36.72	34.14	37.10
Public share in total finance	52.03	49.11	57.30
Memorandum:			
Private share in total finance	47.97	50.89	42.70
Total finance (million pesos)	28,996	97,328	174,615

Note: The private share in each category is 100 minus the stated public share.

Source: author's estimates based on *Family income and expenditure surveys*. 1985, 1994, 1997; FAPE 1986 and 1994 surveys

- reorganization and "trifocalization" of the education sector in 1994;
- lowering of the school entry age from seven to six in 1995;
- Magna Carta for Teachers that prevents the involuntary transfer of teachers across districts;
- accelerated creation of additional state universities and colleges;
- granting of large salary increases to public school teachers;
- policy objective of an elementary school in every barangay and a high school in every municipality;
- policy that school textbooks should be free and that the target should be a student textbook ratio of 1:1;
- privatization of school textbook production;
- extension of GASTPE to include the provision of subsidies to augment private school teacher salaries and a textbook allowance;
- Centennial bonus for DECS employees; and
- planned expansion of the secondary school system to five years from the present four.

TABLE 3.4
Categories of Institutional Providers of Basic Education

Public institutions	Private institutions
DECS-operated elementary and secondary schools	Education Service Contract private schools (sectarian and non-sectarian, stock and non-stock)
"Laboratory" elementary and secondary schools attached to SUCs	Private non-sectarian schools – incorporated institutions not affiliated with any religious organization
Secondary schools run by other national agencies such as the Department of Science and Technology (DOST)	Private sectarian schools – incorporated institutions, usually non-profit, affiliated to a religious organization
LGU-operated elementary and secondary schools	Stock education institutions – incorporated for-profit institutions
	Non-stock education institutions – incorporated non-profit institutions
	Educational Foundations – incorporated non-profit educational institutions that plough back income into institutional development

Almost all these policies have the effect of increasing the public financing requirements of education, although the prudence behind their enactment and their ultimate contribution to the problem of quality, access, and relevance can by no means be presumed.

Expenditure on education

Education expenditure comes primarily from three sources — the national government, local government units (LGUs), and the private sector (including households). Table 3.5 summarizes their relative contributions in 1994 and 1997. It shows that, in the aggregate, the Philippines spent some P97.3 billion in education in 1994 and P174.6 billion (or P142.1 billion in 1994 prices) in 1997. Thus, on the average, total education spending grew by 13.5 percent annually, in real terms, between 1994 and 1997. As total education expenditure grew at a faster rate than GNP, it rose from 5.6 percent of GNP in 1994 to 6.9 percent in 1997. Total spending on basic education was almost 4 percent of GNP in 1994 and almost 5 percent in 1997.

In both years, the national government accounted for the biggest slice of total education expenditure. The national government share expanded dramatically from 56.6 percent in 1994 to 64.8 percent in 1997. Conversely, the share of household financing contracted from 37.8 percent to 29.7 percent. LGU financing was stable at around 5.5 percent.

The decline in private sector financing of education between 1994 and 1997 holds true for all levels, but the drop was most pronounced for

TABLE 3.5
Total Expenditure by Level of Education and Source of Finance
(1994 and 1997; as percent of GNP)

	1994				1997			
	Natl govt	Local govts	Private	Total	Natl govt	Local govts	Private	Total
[illegible]	1.49	0.19	[illegible]	2.02	2.22	0.16	1.02	3.43
[illegible]	0.49	0.05	[illegible]	1.37	0.72	0.06	0.77	1.55
Tertiary[a]	0.53	0.00	1.03	1.56	0.68	0.00	1.16	1.85
Total	2.52	0.23	2.85	5.61	3.66	0.25	2.95	6.91
Memorandum: Total (million pesos)	43,784	4,012	49,532	97,328	92,404	7,648	74,562	174,615

[a]includes technical/vocational education

Source: Maglen and Manasan [1999, Annex B, Table B7]

secondary education, followed by elementary education. While the share of household finance in elementary education increased substantially from 17.8 percent in 1986 to 28.6 percent in 1994, it decreased to 21.9 percent in 1997.

In 1986, higher education dominated private sector education finance, with 46.3 percent of total private sector financing, while secondary education received 31.2 percent, and elementary education 22.5 percent [World Bank 1996]. Since then, elementary education has come to take up a larger share of total private sector financing, and by 1997, 34.5 percent of total private sector finance went to elementary education, 26 percent to secondary education, and 39.5 percent to tertiary education [Table 3.5].

Total government expenditures (by the national government and LGUs), on education over the period 1985-1997, are summarized in Table 3.6. It shows that they increased at a fairly steady rate of around 20 percent per annum in nominal terms (or by about 10 percent per annum in constant 1993 prices) between 1985 and 1997. Except for the period 1990 to 1994, total government education spending grew at a faster pace than inflation, GNP and aggregate general government expenditure. Consequently, the period witnessed the doubling of relative total government outlays on education, from 1.9 percent of GNP in 1985 to 3.9 percent of GNP in 1997. At the same time, the education sector's share in the overall general government budget rose from 12.1 percent to 16.9 percent.

National government spending

The national government contributed between 90 and 98 percent of total government

TABLE 3.6
Total Government Expenditure on Education, 1985-1997

	National government	Local governments	All government
Expenditure in current prices (million pesos)			
1985	9,657	1,094	10,751
1990	33,274	711	33,985
1995	61,082	4,967	66,049
1997	93,639	7,648	100,155
Expenditure in constant 1993 prices (million pesos)			
1985	19,369	2,194	21,563
1990	44,667	954	45,622
1995	51,597	4,196	55,793
1997	69,206	4,816	74,022
Share of government expenditures (percent)			
1985	11.44	13.51	12.11
1990	13.01	3.97	12.80
1995	13.99	7.18	14.74
1997	17.36	8.09	18.13
Share of GNP (percent)			
1985	1.74	0.20	1.94
1990	3.07	0.07	3.14
1995	3.12	0.25	3.37
1997	3.71	0.30	4.00

Source: Maglen and Manasan [1999] Annex B, Table B1

spending on education. While the share of LGUs in total government outlays in the sector dipped from 10.2 percent in 1985 to 2.1 percent in 1990, it recovered to 6.5 percent in 1997.

The 1987 Constitution requires the education sector to have the largest share in the national government budget. Debt service was the single biggest expenditure item in the budget (with a share of 32.2 percent) in the period 1985 to 1987, although its importance has diminished somewhat since 1992. Nonetheless, the education sector captured the second largest share in the budget of the national government, and its share in government expenditures has expanded fairly consistently from 11.4 percent in 1985 to 17.4 percent in 1997.

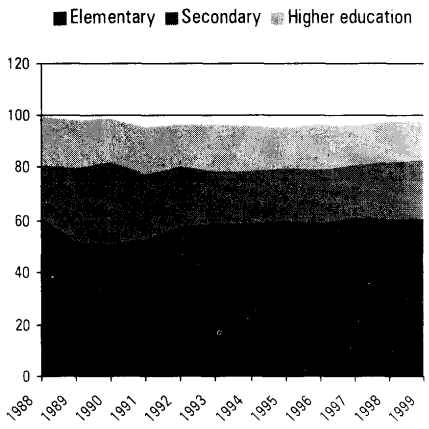
The education sector benefited significantly from the Aquino administration's greater commitment to the social sectors. National government education spending was buoyant in the period 1985-1990, increasing from 1.7 percent to 3.1 percent of GNP. However, the fiscal constraints brought about by the mini-recession of 1991 took its toll on the sector, and national government allocations in education were static at around 2.6 percent of GNP in the early 1990s. National government education outlays recovered, however, and rose from 3.1 percent of GNP in 1995 to 3.6 percent in 1997 [Table 3.6].

Basic education accounted for more than three-quarters of total national government education financing over the period 1988 to 1999 [Table 3.6]. However, it was the basic education sector that bore the brunt of the cutbacks during the fiscal crunch of 1991 to 1994. This trend persisted through 1995 and 1996. Thus, the share of basic education in the national government education dropped from an average of 78.5 percent in 1988-1990 to an average of 74.5 percent in 1992-1996. However, the basic education sector enjoyed a turnaround in 1997-1999, when its share increased to around 81.5 percent [Figure 3.1].

The nationalization of barangay high schools, as well as the Constitutional mandate for free secondary education, starting in 1988, resulted in a re-allocation within the basic education sector. The budget share of elementary education contracted (from 59.3 percent to 49.7 percent), and that of secondary education expanded (from 19.4 percent to 29.7 percent) over the two years 1988 to 1990. Since then, however, elementary education has regained its dominant position, with its expenditure share rising from 52.9 percent in 1991, to 63.9 percent in 1997. In contrast to the basic education subsector, the budget share of higher education proved resilient to the fiscal austerity measures in the early 1990s, remaining at a constant 17 percent. However, even with the essentially comfortable fiscal situation in 1997, higher education's share dipped to 14.9 percent. With the current fiscal crisis, higher education's budget share remained pegged at this level, although the number of SUCs grew rapidly in the late 1990s. This suggests an attempt on the part of the Department of Budget and Management (DBM) to use the budget process to help rationalize the higher education sub-sector.

By type of expenditure, personnel services are the biggest single expenditure item in any education budget, but it has come to have an in-

FIGURE 3.1
Distribution of National Government Expenditures on Education by Level (1988-1999, in percent)



Source: Maglen and Manasan
[1999: Annex B, Table B.2]

TABLE 3.7
National Government Expenditure by Type in Basic Education
(1990-1999, percent)

Expenditure type	1990	1993	1995	1997	1999
Personnel services	74.34	82.63	79.14	83.96	87.69
MOOE	16.49	15.05	10.12	8.65	8.85
Of which: GASTPE	4.34	3.89	2.61	...	1.10
Capital outlays[a]	9.17	2.31	10.54	7.39	3.47
TOTAL[b]	100.00	100.0	100.00	100.00	100.00
TOTAL (million pesos)	27,963	32,167	51,486	77,299	89,933

[a]includes School Building Program

[b]rounding errors

Source: Maglen and Manasan [1999, Annex B, Table B.3]

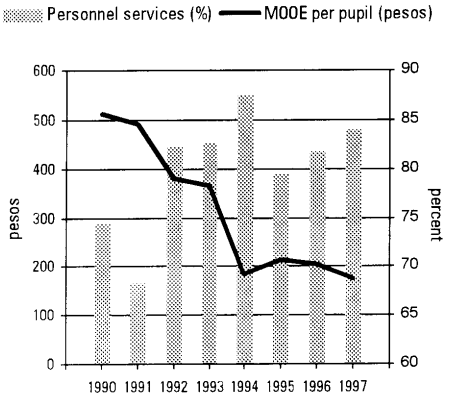
ordinately large share of the DECS budget in recent years. Between 1990 and 1999, the share of personnel services in the DECS budget increased from 74.3 percent to 87.7 percent (Table 3.7).

The dramatic rise in personnel expenditure is largely attributable to the public school teacher salary adjustments implemented by the government in the late 1980s and the 1990s. Between 1985 and 1997, the remuneration of government teachers rose 4.5 times. Since over this period there was no commensurate cutback in the rate of teacher recruitment, or any attempt to rationalize their employment, teacher productivity did not increase appreciably in line with salary improvements, and the growth in teacher salaries was absorbed at the expense of MOOE. Consequently, the share of MOOE in the DECS budget contracted from 16.5 percent in 1990 to 9 percent in 1999. Because of this, per student MOOE declined on average by 17.4 percent a year between 1990 and 1997, from P510 to P134 [Figure 3.2].

Capital outlays have apparently also suffered both as a result of the steep rise in teachers' salaries, and of the current round of austerity measures (Table 3.7). While the latter was to be expected, the decline in capital outlay appropriations that resulted from the former points up the vulnerability of capital works programming. Effective capital development planning cannot occur when capital budgeting is on an annual basis and when it must annually compete with other items for a slice of the budget.

There are considerable differences in per capita education expenditures among regions (Table 3.8). Total amounts spent per school-age child, as well as MOOE spending per school-age child are positively correlated with educational outcomes, such as the NEAT mean per-

FIGURE 3.2
Personnel Services and MOOE per Pupil in Basic Education
(1990-1997)



Notes:
Personnel services measured as percent of national government basic education budget;
MOOE per pupil in pesos at 1993 prices.

Sources: DECS *Statistical bulletin*, various years for MOOE; Maglen and Manasan [1999, Annex B, Table B.3] for personnel services

centage score (correlation coefficients of 0.5 and 0.61, respectively). The relationship between prosperity of regions (as measured, say, by average family income) and per capita MOOE spending is weak, however (correlation coefficient 0.15).

Local government spending

As part of the devolution of the construction and maintenance of local infrastructure, responsibility for the construction and maintenance of public elementary schools and secondary school buildings is now assigned principally to municipal and city governments. However, the national government continues to be in charge of the operation of public schools. Thus, in contrast with sectors such as health and social welfare, education remains primarily the responsibility of the national government.

Local governments have always played a role in financing public education. Between 1985 and 1987 LGUs contributed on average 8.6 percent of total government expenditure on education. With the nationalization of barangay high schools in 1988, this figure decreased to an average of 3 percent over the period 1988 to 1991. However, with greater fiscal decentralization mandated by the Local Government Code (LGC) of 1991, LGU education expenditures rose almost tenfold from P0.8 billion in 1991 to P7.6 billion in 1997. Consequently, the share of LGUs in total government education expenditure reached an average of 7.5 percent from 1992 to 1997 [Figure 3.3].

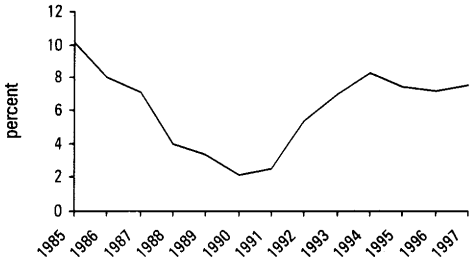
LGU spending in education is largely financed through the Special Education Fund (SEF). SEF receipts come from a one-percent tax on real property located in the LGU. SEF collections are shared equally by the province and its respective municipalities. Under the Local Government Code (LGC), proceeds of the SEF are to be allocated to the operation and maintenance of public schools; construction and repair of school buildings; facilities and equip-

TABLE 3.8
Basic Education Expenditure (DECS) by Region, 1997

Region	Spending per school age child (pesos)	Spending on MOOE per school-age child (pesos)	NEAT mean percent score (1997)	Average family income (1997, pesos)
NCR	2,268	172	53.9	274,823
CAR	3,563	189	52.5	112,595
Ilocos	3,668	187	49.6	102,741
Cagayan Valley	3,346	193	56.4	86,818
Central Luzon	2,662	157	49.3	133,831
Southern Tagalog	2,627	135	50.8	132,212
Bicol	3,620	209	81.1	77,098
Western Visayas	3,459	159	48.2	86,733
Central Visayas	2,640	126	47.1	85,500
Eastern Visayas	3,533	146	63.2	68,018
Western Mindanao	3,226	164	54.8	89,370
Northern Mindanao	2,993	159	47.3	99,473
Southern Mindanao	2,941	138	47.0	94,356
Central Mindanao	2,442	142	40.7	81,364
Caraga	3,006	111	45.9	71,806
ARMM			52.1	74,729

Source: Maglen and Manasan [1999, Annex B, Table B4; Annex A, Table A14]; *Philippine statistical yearbook*, 1997

FIGURE 3.3
Local Government Spending on Education
as Share of Total Government Spending on Education
(1985-1997, in percent)



Source: Maglen and Manasan [1999, Annex C, Table 1]

ment; education research; purchase of books and periodicals; and sports development. Actual spending priorities are determined by the Local School Boards (LSBs).

The SEF income of LGUs rose dramatically between 1992 and 1997, increasing on average by 35 percent per annum. This rapid expansion may be traced to the mandated general revision in the schedule of fair market values of real property under the LGC. LGUs have increasingly had to top up the SEF with general fund monies to finance their outlays on the education sector. In 1990 the SEF financed 88 percent of total LGU education expenditures; this proportion declined to 57 in 1992. It rose again to an average of 78 percent over the years 1993 to 1997.

Total LGU spending on education exceeded the national government's appropriations to the School Building Program (SBP) in the period 1992-1997 [Table 3.9, last two rows]. Existing LGU outlays on education would suffice to cover the P2 billion necessary for the construction of some 8,200 new classrooms per year to accommodate the increasing demands brought about by population growth, as well as the P1.8 billion needed to maintain existing classrooms. Not all LGU resources are used for capital development, however. In 1997, LGUs allocated a mere 33 percent of their total education spending (or P2.6 billion) to the construction of school buildings, while 30 percent was allocated to school supervision and 6 percent to sports development.

There may be a need to encourage LGUs to reallocate their total education spending to school building construction and maintenance. The DECS School Building Program is a major impediment in this regard. The LGU counterpart-funding requirement under the World Bank-funded Third Elementary Education Project (TEEP) and the ADB-funded Secondary Education Development Improvement Project (SEDIP) seem out of place when there is no similar requirement for the SBP nationwide.

Efficiency issues

There is anecdotal evidence that LGUs are able to construct school buildings at a lower cost than the national government. Some LGU officials claim that their construction cost per classroom is roughly P180,000, compared to the P305,000 which the Department of Public Works and Highways (DPWH) charges DECS. Part of the reason for this is that LGUs do not charge for overhead in the construction process, while the DPWH imposes a 3 percent management fee. LGUs are also able to obtain some construction materials from quarry sites that they themselves operate, and which, presumably, do not get costed. Lastly, LGUs are

TABLE 3.9
Allocation of LGU Expenditure on Education
(1992 and 1997; percent)

	1992	1997
Basic education share (%)	84.52	82.60
Of which: Capital outlays share (%)	32.65	33.38
Sports development share (%)	2.50	5.81
Local development fund share (%)	6.34	5.96
Memoranda:		
SEF share in total LGU education spending (%)	57.51	71.85
Education share in total LGU expenditure (%)	8.09	8.06
Total LGU spending on education (million pesos)	2,212	7,648
Total LGU spending from all sources (million pesos)	26,206	94,893
DECS School-building program (million pesos)	1,559	6,656

Source: Maglen and Manasan [1999, Annex C, Table C.2]

often able to generate community support for their projects in the form of voluntary labor contributions.

Increased efficiency may also be generated through another avenue. Experience in other countries indicates that greater LGU participation (financing as well as implementation) generally results in a heightened sense of ownership, and a greater willingness to maintain facilities properly. The Local School Boards (LSBs), which pre-date the Local Government Code, are generally fully functioning units within LGUs, unlike many other special bodies. Another reason for the lower per unit costs incurred by LGUs in school-building construction may be the oversight role played by the local Parent Teacher Association (PTA) representatives on LSBs.

Equity issues

One of the problems that must be addressed under greater devolution of the school building program is the tendency towards widening regional inequities in education outcomes. If they must rely primarily on their own resources, local governments that are less endowed will obviously be less able to spend on education, with consequent effects on outcomes. This could conceivably lead to a vicious circle where poor regions remain poor, while others become better off owing to differential investments in education. For instance, 58 percent of local spending on education occurs in cities, where only 25 percent of the population live. Aggravating this are wide disparities in SEF income across regions (Table 3.10). Eastern Visayas and ARMM, where average family incomes are lowest, also have the lowest per capita SEF incomes.

Institutional issues

Apart from low SEF incomes, another reason for the relatively small share of school building construction in LGU education budgets may be the low priority accorded to it by LSBs. While SEF budgets are prepared by the LSBs, and each LSB is co-chaired by the LGU Chief Executive and the DECS Divisional Superintendent/District Supervisor, in many places the former generally delegates most of the decision-making to the latter. It is reported that many superintendents/supervisors would rather give a higher priority to sports development (e.g., participation in athletic meets) than to school building construction and maintenance. There is, therefore, a need to strengthen the LSBs' independent capacity in this regard.

Provinces have a 50 percent share in the SEF, but the law is silent about their specific responsibilities. This situation has not been helpful in galvanizing provincial financing in the sector. Provincial governments should therefore be considered a likely source of funding for non-school building expenditures, e.g. textbooks.

The LSBs could also play a major role in targeting assistance to poor students. An effective means-testing mechanism is critical in this regard. While means-testing could be cumbersome and costly when administered by the national government, it could be carried out more successfully at the local level.

Household expenditure on education

Households spent 3.7 percent of their income on education in 1997. This is a figure that has grown from a low of 2.9 percent in 1988. As might be expected, this varies by level of family income [Figure 3.4]. The proportion spent on education rises with family incomes.

The per capita poverty threshold in 1997 ranged from around P14,360 in the NCR to around P8,000 in Central Visayas and Eastern Visayas. The percentage of families below the poverty threshold in the country as a whole was 32 percent — ranging from 7 percent in the NCR to 50 percent in Bicol and 59 percent in the ARMM. From this, one may surmise that there was a huge number of families that spent little or nothing on education.

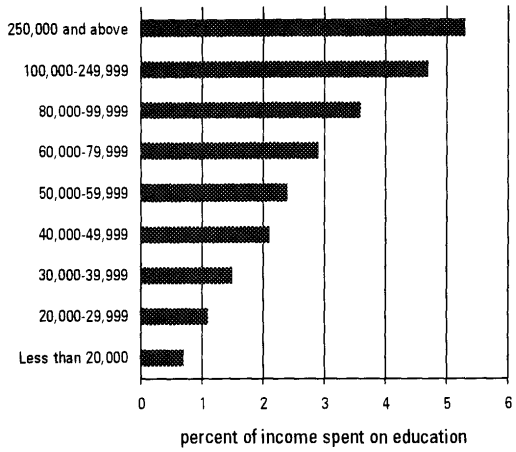
The nature and composition of household expenditure on education for families sending their children to public and private institutions is presented in Table 3.11. Some items require comment. The high average expenditures on board and lodgings would not be incurred by most families, since most pupils and students generally live at home through their period of schooling. Similarly, the very high average figure for private elementary schooling would be accounted for by just a small number of well-to-do families who choose not to send their children to public elementary schools. Not in-

TABLE 3.10
Special Education Funds per Capita, by Region, 1996

Region		SEF per Capita (pesos)	IRA per capita (pesos)	Average Family Income
Philippines		319	3,279	123,881
NCR-Metro Manila		1,148	1,965	274,823
CAR-Cordillera		139	6,347	112,595
I	Ilocos Region	101	3,287	102,741
II	Cagayan Valley	84	4,600	86,818
III	Central Luzon	196	2,696	133,831
IV	Southern Tagalog	294	3,183	132,212
V	Bicol Region	68	3,215	77,098
VI	Western Visayas	158	3,334	86,733
VII	Central Visayas	182	3,172	85,500
VIII	Eastern Visayas	84	4,098	68,018
IX	Western Mindanao	47	3,854	89,370
X	Northern Mindanao	159	4,066	99,473
XI	Southern Mindanao	140	3,438	94,356
XII	Central Mindanao	187	3,891	81,364
CARAGA		94	4,797	71,806
ARMM-Muslim Mindanao		12	2,806	74,729

Source: Annex C, Table C.3
Philippines statistical yearbook 1997

FIGURE 3.4
Proportion of Family Income Spent on Education
(by income class, 1994, in percent)



Source: ADB, *Compendium of social statistics in the Philippines*, 1997

cluded is income foregone by students, which is a significant cost item for most students from secondary level onwards. Even with these caveats, however, the table does show how even public education is beyond the reach of many very poor families.

Savings are a major means by which Filipino families finance the education of their children. An increasingly popular way of doing so is through so-called "pre-need plans". These are annuity schemes under which parents pay for the plan over, say, five years, and receive payments after maturity, when their child is in school. Since its inception in 1980, the pre-need industry has grown on average by 20 percent per annum. Nevertheless, plan dropouts are high, with an estimated 55 percent of who commence failing to complete their payments [Haas 1998].

Household financing of education in 1997 amounted to P46.8 billion, or 1.8 percent of GNP [Table 3.12]. Of this amount, some 62 percent funded private education, while the rest went to public education. Basic education took up 61 percent, with 34 going to elementary and 26 to high school education.

In just three years, (1994-97) household financing rose by 50 percent. In aggregate, households spent P2,822 per student in 1994 and P3,801 per student (P3,094 in 1994 prices) in 1997. Spending per student by households is markedly different for private and for public education. Per student household expenditure on private education in 1994 was P4,986, 5.7 times that on public education (P869). In 1997, this disparity became slightly more pronounced with the ratio inching up to 5.8.

The major part of household financing of private education went to tertiary education (52 percent); elementary and secondary education receiving 21 percent and 26 percent, respectively. In comparison, elementary education captured the lion's share (58 percent) of household financing of public education, with secondary and tertiary education getting 30 percent and 12 percent, respectively.

Government assistance to students

Assistance to students at the secondary level is provided mainly under the Government

TABLE 3.11

Average Expenditure per Student by Families on Education Items in the Public and Private Sectors by Level, SY 1994-95 (pesos)

Item	Education Level					
	Elementary		Secondary		Tertiary[a]	
	Public	Private	Public	Private	Public	Private
Tuition and other fees	189	4,501	287	3,361	1,908	7,190
PTA	29	80	65	93	80	231
Other fees	181	686	232	693	655	1,253
Books	102	1,259	282	862	922	1,717
School supplies	361	1,015	411	723	779	1,091
Other materials	532	952	384	594	812	1,481
Uniforms	722	1,650	964	1,403	1,748	2,062
Transport	1,209	2,906	1,630	2,223	3,308	3,706
Board and lodgings	3,578	9,318	1,840	4,158	3,833	5,422
Total	6,903	22,367	6,065	14,110	14,045	24,153

[a] includes technical/vocational

Source: FAPE Survey 1995

Assistance to Students and Teachers in Private Education (GASTPE) program, which comes from the MOOE appropriation of DECS. Its proposed budget allocation for 1999 was P758,625,000. GASTPE consists of two schemes: the Education Service Contract (ESC) and the Tuition Fee Subsidy (TFS). The former was designed to enable students to enroll in private schools where no public high school exists, or where there is excess enrollment in the public school. The latter is designed to help families cover the tuition fees charged by private secondary schools. In 1998 ESC provided a subsidy of P1,700 per grantee, and the TFS paid a maximum of P290 per grantee. In 1997/1998 there were 219,048 students supported by ESC and 209,936 supported by TFS. This represented 16 percent and 15 percent, respectively, of total private secondary school enrollment in that period. Congress has recently expanded GASTPE to include the provision of subsidies to augment teachers' salaries and a textbook allowance, although this has not yet been implemented.

Unfortunately, neither scheme has proved to be effective in enrolling poor students, since the amounts provided are too low to bring the cost of secondary education within the reach of the poor. The ESC subsidy of P1,700 covers only 68 percent of the ceiling fee level under the scheme, while the TFS grant of P290 covers only 12 percent. Lengthy delays in the processing of claims and the release of payments further discourage needy families from participating.

Foreign assistance

Over the last two decades the Philippine education sector has been the recipient of a substantial amount of international development assistance [Table 3.13]. Resources have come from both multilateral and bilateral sources in roughly equal portions. It is interesting that while over two-thirds of foreign assisted projects (FAPs) over the period indicated were in basic education (the bulk being in elementary education) the technical/vocational education sub-sector received a disproportionate amount as well.

It should also be mentioned that a strong surge in foreign assistance to education is scheduled beginning in 1999 from the infusion of loan proceeds into the system, predominantly through the World Bank-funded TEEP. What this draws attention to is the critical role played by the availability of counterpart funds to facilitate the re-

TABLE 3.12
Household Financing of Education, 1994-1997

Level of Education	School Fees	Voluntary Contribution	Other Private Costs /a	Total
(Million pesos)				
Public Education				
Elementary	2,510.69	296.28	13,911.35	16,718.32
Secondary	1,431.11	127.19	7,089.68	8,647.98
Tertiary	1,109.72	10.72	2,933.91	4,054.35
Sub-Total	5,051.52	434.20	23,934.94	29,420.66
Private Education				
Elementary	4,408.70	51.55	4,561.10	9,021.34
Secondary	5,186.21	65.65	5,503.85	10,755.71
Tertiary	13,902.98	41.99	11,419.76	25,364.72
Sub-Total	23,497.88	159.18	21,484.71	45,141.77
Total	28,549.41	593.38	45,419.64	74,562.43
% Distribution				
Public Education				
Elementary	15.02	1.77	83.21	100.00
Secondary	16.55	1.47	81.98	100.00
Tertiary	27.37	0.26	72.36	100.00
Sub-Total	17.17	1.48	81.35	100.00
Private Education				
Elementary	48.87	0.57	50.56	100.00
Secondary	48.22	0.61	51.17	100.00
Tertiary	54.81	0.17	45.02	100.00
Sub-Total	52.05	0.35	47.59	100.00
Grand Total	38.29	0.80	60.91	100.00
% Distribution by Type of Expenditure				
Public Education				
Elementary	49.70	68.24	58.12	56.83
Secondary	28.33	29.29	29.62	29.39
Tertiary	21.97	2.47	12.26	13.78
Sub-Total	100.00	100.00	100.00	100.00
Private Education				
Elementary	18.76	32.38	21.23	19.98
Secondary	22.07	41.24	25.62	23.83
Tertiary	59.17	26.38	53.15	56.19
Total	100.00	100.00	100.00	100.00

[a] does not include expenditure on uniforms and board and lodging

Source: Annex B, Table B6

TABLE 3.13
Foreign Assistance to Education, by Source and Subsector (1982 -1996)

	US$ million	percent
Elementary	614	64.09
Basic education (combined)	69	7.20
Technical/vocational	104	10.86
Higher education	138	14.41
Nonformal education	33	3.44
Total	**958**	**100.00**
Multilateral agencies	**466**	**48.64**
ADB	60	6.26
World Bank	385	40.19
European Economic Community	12	1.25
UNICEF	8	0.84
UNDP	1	0.10
Bilateral agencies	**492**	**51.36**
AusAid	84	8.77
JICA	46	4.80
OECF	359	37.47
GTZ	3	0.31
Total	**958**	**100.00**

Source: Development Academy of the Philippines [1997] *Policies trends and issues in Philippine education*

lease of loan proceeds in FAPs. Although the relative contribution of counterpart funds will fall (e.g., from 63 to 44 percent between 1998 and 1999), they will still be required to rise. The rate at which foreign funds for education can be utilized, therefore, will hinge on whether counterpart funds can be budgeted.

Pressure points

A number of items may be considered pressure points in the budgetary allocations to the education sector, owing to their sheer size or rate of increase. These items are difficult to contain within budgets that are either static or growing only slowly, and their accommodation has a significant impact upon other expenditure items within those budgets. Three in particular can be identified:

- teacher remuneration;
- the school textbook program; and
- the creation of SUCs.

The remuneration of teachers in the public basic education sub-sector increased almost five times between 1985 and 1997, with a consequent squeezing of appropriations for both MOOE and capital outlays. Salaries rose from below the poverty threshold for a family of six in 1985 to a level 57 percent above it in 1997. While teachers' salaries in 1985 were only about twice the per capita GNP, by 1997 they had risen to almost thrice. [Table 3.14]

Thus, public school teachers enjoyed considerable gains in income in both nominal and real terms. They had, however, by 1997 moved considerably in advance of teacher salaries in the private sector — to almost 2.5 times as high. Not only has this distorted DECS' own budgets, but it has also led to an oversupply of new teachers entering the market and drawn teachers away from the private sector.

DECS has a policy of providing free textbooks to all its students, but this is a target that it finds increasingly impossible to reach. Even before the current crisis, however, serious prob-

lems had arisen with respect to this program. Privatization of the textbook production program has not been going smoothly, with delays and difficulties in procurement and unit costs rising rather than falling. The onset of the financial crisis meant that by the second half of 1998, neither the 1998 nor the 1997 textbook program had been implemented. The resulting ratios were 6 pupils per book at the elementary level, 8 pupils per book in high school. These figures are far from the DECS target of providing a book to each pupil.

DECS estimated that some P6.9 billion would be required in 1999 to achieve the target 1:1 ratio of books to pupils including instructional materials, and P3.6 billion to achieve a second-best solution of a 1:2 ratio [Table 3.15].

The DBM-recommended budget for textbooks in 1999, on the other hand, was P479.6 million, enough to purchase only 7,377,969 textbooks, or about 7 percent of what DECS estimated they need to meet their target (or 14 percent of the 1:2 target). Clearly the program is collapsing.

Alternative solutions that would go some way to meeting the problem are:

- cutting down on the number of textbooks each student requires;
- concentrating only on the acquisition of key textbooks in science, mathematics, English and Filipino;
- finding ways of reducing the cost of textbooks; and
- shifting more of the financial burden of textbook acquisition to LGUs and their Special Education Funds.

However, none of these solutions, not even all of them combined, would solve the problem completely.

Finally the issue of the creation of state universities and colleges — a process that has gone on largely unplanned, uncoordinated, and unjustifiable on education grounds — does not touch directly upon basic education and is not dealt with at length here. The matter is relevant, however, to the extent that SUCs continue to preempt budgets that would have been better spent on textbooks, buildings, and teacher training in basic education.

Emerging issues in education finance

Five major issues in education finance in the Philippines need to be addressed.

- how to meet all of the demands placed upon the sector when resources are limited, were being stretched to the limit even before the current crisis,

TABLE 3.14
Nominal and Comparative Changes in Public Teacher Remuneration (1985-1997)

		Ratio of public teacher salaries to:		
	Public teacher salaries (pesos)	Per capita GNP	Poverty threshold (family of six)	Private teacher salaries*
1985	20,547	2.02	0.91	
1988	32,910	2.44	1.15	
1991	49,376	2.42	1.13	
1994	62,799	2.42	1.18	
1997	107,017	2.98	1.57	1.66

* survey caried out by the Catholic Education Association of the Philippines

Source: DECS National Statistical Office

and are likely to continue to be tight for the foreseeable future;

- what the government's role in the education sector should be;
- how much education decision-making, provision, and financing to decentralize to the regional and provincial offices of national agencies, and ultimately to schools, on the one hand, and devolved to LGUs and Local School Boards, on the other;
- how to carry out proper planning when development and recurrent budgets are not adequately separated; and
- how to expand the educational opportunities of the poor.

Too few resources to meet competing demands

The demands made on the education sector come from many quarters.

Demographic change – the Philippines' birth rate remains high, so that up to 500,000 new education places must be found in elementary schools each year.

Social demands – the right to a free basic education is strongly embedded in Filipino society, as well as the desire for, and expectation of being able to acquire, a college education.

Economic demands – the Philippine economy requires increasing numbers of well-trained and educated workers with middle-level and more advanced specialized and professional skills, if it is to continue to develop.

Educational demands – the quality of educational delivery — teaching skills, abilities, and dedication, curricula, programs, support services, educational technology, etc. — must be maintained, and if possible improved. Most important here is the requirement for well-trained teachers, with corresponding status, career prospects, and remuneration.

Political demands – education has already been given top priority under the Philippines Constitution. Current practice in the legislature, however, does not always reflect stated priorities. It is unclear how Congress can be dissuaded from making pledges with respect to education without due regard for resource availability, or introducing changes (such as new SUCs) that can be achieved only by taking resources away from more pressing programs.

The various stakeholders in education— the students and their families, teachers, administrators, employers, politicians — all place demands upon the sector, hoping to derive benefits from it. However, it is evident that there is not always a close matching of demand and capacity to supply, or between who benefits and who bears the costs.

Table 3.15
DECS-proposed Budget for 1999 for Textbooks and Other Instructional Materials

Estimated enrollment 1998/1999	15,754,047
Estimated textbooks required[a]	126,032,376
Less: estimated usable textbooks	25,138,521
Net new textbooks required	100,893,855
(In thousand pesos)	
Book budget required for 1:1 ratio[b]	6,558,100
Book budget required for 1:2 ratio[b]	3,279,050
Plus: instructional materials[c]	327,906
Total budget for 1:1 ratio	6,886,006
Total budget for 1:2 ratio	3,606,956

[a] each student requires 8 textbooks on average
[b] cost per textbook assumed at P65
[c] estimated at 5 percent of 1:1 textbook requirement
Source: DECS 1999 Budget Presentation

Product devaluation, service depreciation, and overcrowding

The chief means of meeting the pressures of competing demands on the sector have been product devaluation, service depreciation, and/or overcrowding. This is evident in the following examples:

education inflation – the continuous upgrading and conversion of secondary schools and post-

secondary technical and vocational education institutions into colleges of higher education, through the introduction of four-year degree courses, without any substantial increase in the capacity of the institutions to deliver acceptable quality courses at this more advanced level.

dilapidation of facilities – the squeezing of MOOE and capital appropriations to meet increased personnel costs and the squeezing of maintenance and repair expenditures in the MOOE appropriations to include other mandated items and expenditures have led to the progressive decline in the quality of the education infrastructure.

expanded class sizes and fewer textbooks to go around – increased enrollments at most levels of education have outstripped classroom expansion and school textbook acquisitions. This has led to progressive increases in class sizes and to rising student to textbook ratios.

These solutions are clearly unsustainable, and other more rational methods of allocating resources need to be employed, i.e., *more effective planning and coordination* and *greater use of the price mechanism*.

More effective planning and coordination

Planning is required to increase the amount of resources available to the sector as a whole and to use existing resources more efficiently.

The amount of resources available to the sector as a whole may be increased by exploring ways of tapping previously under-utilized financial resources by:

- making greater use of local government revenue sources;
- shifting more of the burden of educational provision to the private sector;
- tapping alumni and other philanthropic sources;
- offering tax credits and concessions to potential private financial contributors to education programs and projects;
- exploring ways of accessing the Philippines capital markets;
- entering into joint training and research operations with industry; and
- approaching foreign donors for more loan and grant assistance;

Existing resources can be used more efficiently through the following measures, among others:

- eliminating waste and corruption in programs;
- prioritizing programs to concentrate resources in most valued programs, downgrading, postponing, and/or eliminating others;
- exploring economies of scale through the amalgamation/merger of institutions of inefficient size; and
- freeing-up of resources, increasing their mobility and flexibility, and removing rigidities in the deployment of teachers and other inputs.

Greater use of the price mechanism

While the private sector makes extensive use of tuition fees and other charges to ration entry into its educational programs, this allocation mechanism is hardly used in the public sector. Options for achieving greater cost-recovery from the users of public education sector services include:

- increased tuition fees;
- charging for the use of other education services;
- the sale of textbooks to students rather than providing them free, in conjunction with a textbook exchange for used textbooks;
- out-sourcing services currently provided in-house; and
- greater commercial use of education facilities, e.g. land, buildings, equipment.

In introducing price-rationing and cost-recovery measures, several considerations need to be kept in mind.

- changes should be gradual, with plenty of notice given of the impending changes to all parties affected;
- institutions should be given revenue targets, e.g., a requirement that they raise a given percentage of their budget in this manner; and
- hardship cases, especially among the poor, should be handled directly, through student subsidies allocated on a means-tested basis.

Government's role in education

Governments play three conceptually distinct roles in education: educational planning, regulation, licensing, standard setting; provision of education places — the ownership and operation of education institutions; education financing. The Philippine government is heavily involved in all three.

Trifocalization was an obvious attempt to rationalize the government's participation in the education sector in this respect. There is, however, a clear need for this process to be strengthened by:

- achieving a greater coordination between the three agencies involved;
- achieving a clearer and more rational jurisdictional balance between the three agencies that accords more closely with their supposed areas of responsibility;
- strengthening each agency's capacity to undertake the planning, budget preparation, and monitoring;
- strengthening their capacity to operate at the regional and provincial levels.

Education provision

Traditionally the government has been the dominant provider of basic education places, especially at the elementary level. It has, however, become increasingly involved in the direct provision of post-secondary and higher education through the continued creation of SUCs.

The government should review its priorities here. The case for it remaining the dominant provider of places at the elementary level is a good one — traditionally, and on economic, educational, and equity grounds. Elementary education being a public good is a sufficient argument. It may also be the case that government should remain a major provider of secondary education. At the tertiary level, however, the case is weak. The private sector in both the technical/vocational education area and in higher education is more cost-effective (lower per student costs, higher graduation rates, better achievement test scores), and more responsive to client (student, employer, and professional) demands.

Education finance

In the Philippines, education finance tends to follow closely educational provision — that is, most public funding goes to public educational institutions and the private financial contribution to those institutions is generally low. On the other hand, public subsidies to private education are also low. In both sectors, however, there are problems.

The relative financial burden on students and families in public education tends to be greater at the elementary and secondary level than it is at the post-secondary level, and this is regressive.

Moreover, the decision to limit the size of GASTPE and to distribute it as widely as possible means that the assistance levels per institution and per pupil are so low as to be of little practical help to the poor. This, too, is regressive.

What is needed is to reverse these tendencies by requiring a greater financial contribution from students at the post-secondary level, and having more effectively targeted public subsidies to private educational institutions. (In post-secondary education, it is possible for government to withdraw altogether from the direct provision and to concentrate its efforts on educational finance, e.g., through a voucher scheme.)

Decentralization and devolution

Decentralization and devolution of educational planning and financing are two quite separate processes, although they have similar aims — to shift some of the responsibility for education planning and financing away from the center, towards the local or community level. *Decentralization* involves giving regional and provincial offices greater financial and planning autonomy. DECS already passes many of these responsibilities down to its regional offices. In addition, however, decentralization should aim to give district supervisors and school principals a greater say in planning and financial management.

The process has two aspects — not only does it aim to have a greater decentralization of budget preparation and financial decision making, but also the setting of financial targets whereby those with these responsibilities are also obliged to recover part of the costs of their operations through local fund raising activities. (This is evident, for example, in TESDA's objective of transforming its supervised schools and centers into so-called "entrepreneurial institutions".)

Devolution, on the other hand, involves increasing the financial planning and responsibility for education of LGUs and their Local School Boards. Considerable movement has been made in this direction. Devolution is not only required in the school building program, but also in the more recurrent planning and funding of education. Especially important here is the development and implementation of means-tested assistance schemes for students from poor family backgrounds.

For devolution to be effective, however, LGUs must be encouraged to take on more of the responsibility for planning and financing of education, and their capacity to undertake it, especially through the LSBs, must be strengthened.

Recurrent and development budgeting and planning

Different time horizons are associated with the various components of education expenditure programs, and to be most effective, financial planning and budgeting should recognize and make provision for these. In the Philippine education sector almost all planning and budgeting is on an annual, calendar year, cycle.

It is appropriate that recurrent expenditures be planned and budgeted for on a short-term, generally annual, basis. Major capital works, however — new building and classroom construction, major renovations, large and expensive equipment purchases — require considerable planning, implementation, and delivery lead times, and the budgeting for them should be on a longer cycle, say, from three to five years. If these programs are budgeted on an annual basis, effective planning is not possible. Moreover, budgetary allocations to capital programs are placed on the same footing as, and have to compete each year with, those for recurrent expenditure programs. Uncertainty over the availability of funds on a year-to-year basis to pay contractors and suppliers to these programs becomes a major consideration.

Development planning and budgeting, which may involve both recurrent and capital items, also need to be treated differently from routine recurrent expenditure programs. Development programs can take a variety of forms. Specially targeted regional development programs are one example. So, too, are the development of special education programs, the introduction of new technologies, especially information technologies, into education programs, the fostering and development of research capacity and performance in higher edu-

cation, and programs for the improvement of access to education at all levels of students from poor backgrounds.

Effective planning and budgeting for development programs call for them to be taken out of the annual budgetary appropriation cycle. Time horizons as far out as ten years may be necessary for longer-term, more far-reaching development programs, such as those involving the introduction of new technologies, since not only may they require extensive capital works and equipment acquisition, but also well-planned and coordinated staff development and upgrading programs.

Access and equity

Equity is the major issue in education finance in the Philippines. In 1997 an estimated 27.3 million people, or 4.6 million families, were below the poverty line. These constituted 40.5 percent of the population, 35.5 percent of all families in the country. Improving access to quality education for young people from these backgrounds is a major challenge for education policy-makers.

Despite the obvious commitment to the ideal of universal access to free quality education, this goal thus far proved elusive, and its achievement extremely difficult. As already noted elsewhere, 32.5 percent of children who begin public elementary school do not reach Grade 6. What is more, the variation across the country in elementary school drop-out is far from even. It is close to zero in the NCR, but as high as 70 percent in the poorer regions of Mindanao and the Visayas. Of those that do go on to public secondary schools, a further 33.2 percent drop out before completing fourth year. Drop-out rates at the secondary level also vary, inversely, between poorer and more affluent parts of the country. Participation rates in post-secondary education vary directly with income levels between regions.

Social and cultural considerations no doubt contribute to these differences, but by far the most important factor is the cost to the family of continued attendance at school and college. Out-of pocket expenses, even for 'free' public elementary education, can prove crippling for very poor families, especially large ones. But even more critical is the opportunity cost associated with keeping children in school. While elementary education is meant to be compulsory, earnings opportunities do exist for children in this age bracket, and these can be significant in the decisions of the poorest parents as to whether their children stay in school or not. Poverty generally brings with it much shorter time horizons than those more affluent families can afford to apply to their children's education. Moreover, as the earnings foregone component of education costs rise with age and the level of education, the choice becomes more difficult with time. Another frequently important consideration with poorer families is the role older children are required to play in looking after younger siblings while their parents are out working.

The problem is compounded when low quality education is provided to poor areas. Unfortunately, the combination of national government patterns of allocation between regions, provinces, and schools (and between levels of education) and the unevenness of LGU expenditures on education has not served the poor well. Neither has the amount and distribution of student assistance provided by governments so far contributed significantly to the improvement of access to education for the poorest. What is available is insufficient, fragmented, and poorly targeted, so that too much of it has benefited those who need it least.

Access to quality education for the poor would be significantly improved if resource allocation to schools took account of the great variations in the capacity of parents to contribute to their operations, and to fund sundry expenses. This would involve a major review of the formulas currently applied by the national agencies in establishing individual school budget appropriations (or their share of them), and the earmarking of IRA to LGUs in the poorest locations for specific educational purposes.

It would also require an overhaul of the current program of assistance to pupils and their families. Much more funding is required for a streamlined and consolidated program. Most crucially, the importance of foregone earnings as a key consideration in the costs of education for the poor must be acknowledged. Means-tested living allowances would have to be an integral part of such a program.

Policy recommendations

Clearly there is an urgent need for a more cohesive sectoral approach to education with regard to management, planning, and budgeting. Then the education and training sector could be more clearly related to other sectors and the community, to the development needs of the country, and to the competing claims on the government's limited resources. This would allow better identification and prioritization of intrasectoral needs in the budget. The maxim that without budgets there can be no effective planning, and without planning there can be no effective budgets could then be implemented at both the strategic and operational levels.

Allied to this is the need to place budget planning on a more stable, longer-term basis. A system of rolling plans covering three years or more should be introduced, including forward estimates.

Budget procedures themselves should be streamlined and subject to scrutiny primarily within the education sector, using sound educational planning criteria, rather than be left to more narrow, and necessarily crude, financial criteria.

For planning future budgets, the education sector is in great need of the following sector-wide policy directions.

A regional strategy – which translates the particular demographic, geographic, social, industrial development, and employment needs of each region into education and training strategies and priorities. This requires the active cooperation, at the regional level, of the three education agencies, regional economic agencies, representatives of industry, employers and the community.

An equity and access strategy – designed to ensure that everyone, regardless of socio-economic background, gender, intellectual and physical capacity, ethnic/religious/cultural background, has the opportunity to participate to the fullest possible extent in education and training. This would involve, *inter alia*, developing concrete fully costed proposals to target vulnerable groups.

A development strategy – which assesses longer term demographic changes; the Philippine economic development strategy and its needs for skilled human resources at professional/high level technologist, technician, craft and operative levels; and changes in information technology and its impact upon the delivery of education and training, e.g., through the use of computers in schools, distance education, simulated training environments, etc. This includes development funding proposals, including those for consideration by foreign donors, and for submission to Philippine financial institutions.

These proposals clearly require the active participation and cooperation of the three education agencies plus DBM and NEDA, and may entail the establishment of a formal coordinating mechanism.

DECS priorities

Responding to the 1987 Constitutional requirement that basic education should be free has dominated DECS educational planning over the last decade. It had always had a virtual monopoly of elementary school provision, but in the last ten years, it has expanded its provision of places at the secondary level (from around 50 to 70 percent of places). While much of this expansion has been as a result of increased participation rates in secondary education, it has also been at the expense of private sector enrollments. More importantly, however, it has resulted in a failure to keep pace with elementary school enrollment (private enrollments have increased as a proportion of

total enrollments at this level), a reduction in the quality of educational provision at both levels, falling education standards, and the near collapse of the school textbook program.

DECS should reorder its priorities, giving top priority to providing quality elementary education. A solid early foundation would improve the efficiency of subsequent investments. Moreover, a restoration of adequate public resourcing of public elementary schools would reduce the need for family expenditures on education — a major factor in school drop-outs among the poor.

Emphasis at the secondary level should switch from further expansion of educational provision to greater financial support for private education provision. As the private sector is a generally more cost-effective provider of secondary education, such a shift in emphasis, if carefully managed, would lead to a more efficient use of public funds.

GASTPE

To achieve this, Government Assistance to Students and Teachers in Private Education (GASTPE) requires a thorough overhaul to bring a sharper focus upon secondary education. Better resourcing is essential and should be provided separately from the MOOE appropriation of DECS. Its two components, the Education Service Contract (ESC) and the Tuition Fee Subsidy (TFS), should be separated.

The ESC component should aim at covering more of the standard private school fee if it is to be anything more than a subsidy to more affluent students and their families. If no new public secondary schools are built, the savings out of the School Building Fund (SBF) could be transferred into the ESC. The School Building Program (SBP) allocation for secondary schools in the 1999 expenditure program was P610 million (DECS proposed P5.2 million). The addition of these funds alone would more than double the GASTPE appropriation (P569 million) for that year.

The TFS component could be used to form the basis of a more general student assistance program for secondary students in both public and private schools. This would help offset some of the cost-recovery measures that are already part of the private sector's financing, and which should be given careful consideration (especially with respect to whether they are contrary to the Constitution) in public secondary education financing. TFS should be means-tested. The savings from the sale rather than the free provision of textbooks (around P450 million in 1999), would be a useful addition to funding. An even bigger boost would come from some of the savings made from the "teaching-only" deployment recommended below.

Personnel expenses

Personnel expenses are the largest part of the DECS budget and squeeze MOOE and capital appropriations to an unacceptably low level. Alleviating the squeeze means using personnel with maximum efficiency and effectiveness.

The remuneration of teachers in public schools has grown substantially in recent years, to a point where it now is well in excess of that of teachers in the private sector. No further increases should be contemplated for the next year or so, and then only in line with those in the private sector.

The current practice of assigning teachers to do administrative/clerical functions at the local schools and district offices, that could otherwise be assigned to lower level positions, should be abolished. This will require close cooperation between DBM and DECS in the approval for non-teaching positions. The potential savings to be gained from adopting such a teachers-teaching only deployment are sizeable, amounting to as much as P1.47 billion in elementary and P804 million in high schools, or almost P2.3 billion [Maglen and Manasan 1999: 58]. These could be used not only for much needed supplements to MOOE, but also to augment the proposed means-tested student assistance scheme.

Larger class sizes need not be less effective if teaching methods are adjusted to accommo-

date them through group teaching, for example. Greater use of teaching assistants, such as the lower paid extension teachers engaged by the LGUs, should also be explored.

DECS urgently needs more flexibility in deploying teachers, so that shortages in some areas can be covered by surpluses in others. This would reduce the need to hire additional staff for the purpose. While there are constraints imposed by the Magna Carta for Public School Teachers on the involuntary physical reassignment of teachers, inducements in the form of higher remuneration or better promotion prospects, etc., could be offered. This would still be cheaper than hiring new staff. Flexibility at the secondary level could also be enhanced if teachers were required to teach across more discipline areas, expanding their range of competence and specialization.

Maintenance and other operating expenses

Increasing the amounts available for maintenance, operating, and other expenses (MOOE) in the DECS budget is clearly a top priority. One way to do this is to rationalize the deployment of teachers; even within existing budgets, however, there is scope for rationalizing and prioritization.

Reforms in the current system for the procurement of textbooks and desks (see below) would release additional funds for priority items such as school maintenance and repairs. This would leave more funds available for priority items such as school maintenance and repairs, ensuring an adequate supply of consumables, laboratory equipment and supplies, and staff development.

Savings could also be realized if the MOOE budget were more efficiently employed. This entails closer monitoring of how appropriations are spent — whether they are actually spent on the items they were meant to be, whether there is any waste or corruption in the programs that could be eliminated, and so on.

School textbooks

This is a major area where cost-recovery could be implemented. For reasons of sound pedagogy, DECS would like the current book:pupil ratio of 1:6 in elementary schools and 1:8 in high schools to 1:2 or even 1:1. Clearly this is beyond the current means of the government. Proposals for a second-best solution therefore include:

TABLE 3.16

Estimated Cost to Families of Proposed Sale of Textbooks, and Potential Cost Savings to Government

Estimated cost of achieving a 1:1 student-textbook ratio	P6,558,100,575
Actual CY 1999 Budget allocation for textbooks	P479,568,000
Assume: each student requires on average 8 textbooks.	
Each new textbook costs P65	P520
Therefore maximum cost per student per annum is:	
Assume: textbooks last three years	
Suppose, with the establishment of a school textbook exchange	
One-year old textbooks sell at P32	
Two-year old textbooks sell at P16	
Cost per annum to family of (a)	P256
Cost per annum to family of (b)	P128
These costs would be even lower if textbooks were handed down to younger siblings	
(Note: average annual expenditure on tobacco of a family in the fourth income decile in 1997 was	P2,544

Note: average annual expenditure on tobacco of a family in the fourth income decile in 1997 was P2,544

Source: computations by Maglen and Manasan

- a review of textbook requirements with the view to cutting back the numbers needed at each level;
- measures to reduce the unit cost of textbooks, including a review of the public tendering process;
- prioritizing textbook ordering, with precedence being given to science, mathematics and English and Filipino textbooks;
- use of the LGUs' Special Education Fund to help finance textbook ordering.

While the first two should be implemented in any event, the most effective solution would be to require students to buy their own textbooks. This would probably not violate the provision for free eduction, but would result in considerable savings that could be better applied to more pressing education programs. On the other hand, means-tested assistance should be available for students from low income families. The cost to students could be further defrayed by each school operating a Textbook Exchange, for the selling and buying of used textbooks.

The following calculations illustrate how modest the costs of this proposal would be to families, and how much it would save the government.

School desks

This item in the DECS budget could be greatly reduced with the cooperation of TESDA. DECS could contract TESDA to supply a limited number of desks to set specifications. The cost per unit would be for materials and delivery only. Construction would be by students under supervision in TESDA schools and training centers. In this way both agencies gain from the exchange. DECS gets its desks more cheaply, and TESDA not only gets an additional source of funds, but valuable hands-on practical experience for its trainees.

The DECS appropriation for school desks in 1999 is P295 million (DECS had asked for P1,279 million). If the labor component of the cost of constructing desks is estimated at between 40 and 50 percent, then the potential savings from such an arrangement could be between P118 million and P148 million. Put differently, this scheme could have allowed DECS to construct between 46 and 58 percent of the desks they asked for, not the 23 percent they will without the scheme. Whether TESDA institutions can in fact provide desks in the volumes required needs further investigation. The approach should not be overdone, and a careful balance must be maintained between theoretical and practical training experience.

The school building program

The school building program should concentrate on ensuring that the supply of acceptable quality elementary school classrooms is provided in the public sector. Further school building at the secondary level should be curtailed, and the funds saved should be transferred to the ECS.

The long-standing goal of having one elementary school in every barangay, and one high school in every municipality should be abandoned as impractical and unaffordable. Close attention should be paid to consolidating schools in nearby locations, and to providing school-bus services where these are appropriate. DECS' intention to undertake a school location planning exercise, and to explore such alternatives as Build, Operate and Transfer schemes are moves in the right direction.

More effective design of school buildings would lead to lower costs per square meter of construction, as would the closer scrutiny and monitoring of the public tendering of construction contracts. It is claimed that LGUs could build schools cheaper than the DPWH can. Table 3.16 estimates the cost savings associated with the former taking over responsibility for this from the latter.

Existing LGU expenditure on education is potentially sufficient for the construction of elementary schools commensurate with population growth. However, in practice, only 16 percent of LGU education expenditure goes to

TABLE 3.17
Comparative LGU-DPWH Costs in School Building Construction

	LGU	DPWH
Unit cost	180,000	350,000
No. of classrooms built at P2.5 billion appropriation	8,197	2,500
Difference in number of classrooms	5,692	...
Potential savings (5,692 × 180,000) (million pesos)	1,025	...

Source: computations by Maglen and Manasan [1999]

school building construction. It appears that DECS' School Building Program (SBP) acts as a disincentive to LGUs in this respect.

To encourage LGUs to take on their devolved function, SBP funds may be used as matching grants. In view of the fact, however, that cities account for 50 percent of LGU education expenditure, while accounting only for 25 percent of population, regional inequality in education outcomes may be exacerbated. A cost-sharing arrangement with a safety net provision might be the most appropriate. Ultimately, SBP should be phased out as the LGUs take full control of the school building function.

Teacher training

Teacher training is currently conducted in higher education institutions that use "laboratory" schools — elementary and secondary schools attached to, and operated by, those institutions — for the purpose of giving students practical classroom experience. Since the practicum is only part of the teacher training curriculum, this is an inefficient and costly component of teacher training. Consideration should instead be given to the laboratory schools reverting to DECS supervision. For the higher education institutions that require practical classroom experience, their teacher trainees should enter into contracts with nearby schools for this purpose, but only for that amount of time and for the services that they require, a common practice in many other countries.

Laboratory schools would be taken out of the higher education sub-sector and located back in the basic education sub-sector where they belong. The cost of running those schools would be reduced, since they would no longer be part of the more expensive higher education system. The cost of conducting teacher training programs would be reduced, since the cost of providing practical classroom experience for trainees would be the contract fees paid to participating schools, not the whole cost of running those schools. Revenue received by the basic education sector would be augmented by the contract fees paid by the teacher training institutions.

These recommendations by themselves are by no means a panacea. They do however hope to present the sort of new financing and budget initiatives required to pull basic education out of the deepening rut of mediocrity in which it finds itself. ◗

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