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Philippines Education Financing and Social Equity: A Reform Agenda

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CURRENCY EQUIVALENTS
(As of April 1, 1996)

Currency Unit	=	Peso
US\$1.00	=	Pesos 25
US\$0.04	=	Peso 1.00

WEIGHTS AND MEASURES

1 Meter (m)	=	3.28 Feet (ft)
1 Kilometer (km)	=	0.62 miles

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

COA	Central Office for Auditing
DECS	Department of Education, Culture and Sports
ESC	Educational Service Contracting
GASTPE	Government Assistance to Students and Teachers in Private Education
IRA	Internal Revenue Allotment
LGC	Local Government Code
LGU	Local Government Unit
MOOE	Maintenance and Other Operating Expenditures
NCR	National Capital Region
NEDA	National Economic Development Agency
NGO	Non Governmental Organization
NMYC	National Manpower and Youth Council (renamed TESDA)
PTA	Parent-Teacher Association
PY	Project Year
SUC	State University and College
TEI	Teacher Education Institution
TFS	Tuition Fee Supplements

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I. Summary and Recommendations

1.1 Summary

1. This report is primarily, but not exclusively, concerned with the financing of public elementary and secondary education. Both levels, referred to as basic education, are the responsibility of the Department of Education, Culture and Sports (DECS). In addition to the DECS budget, central government resource allocations for the education sector as a whole include budget appropriations for State Universities and Colleges (SUCs), and for the National Manpower and Youth Council (NMYC) responsible for non-formal manpower training and skills upgrading programs. Basic education absorbs over 90 percent of DECS' operational budget.
2. Constitutionally, education in the Philippines commands the highest priority in the inter-sectoral allocation of Central Government resources. In reality, several factors have contributed to limit the volume of effectively available budget resources: an extended period of slow economic growth; insufficient public resource mobilization; the heavy burden of the national debt; and the increasing transfer of central government resources to Local Government Units (LGUs) since the enactment of the new Local Government Code of 1991. Net of debt service and Internal Revenue Allotment (IRA) to LGUs, budget allocations for education absorb close to 30 percent of total available resources. This is a high proportion by international standards, even though it represents less than 3 percent of GNP. Overall, the prospective growth of government funding for the sector thus depends on future overall improvements in economic and fiscal management, rather than on increased allocations from the national budget.
3. At the same time, expansion of the public education system and the need for essential quality improvements, many of which mandated by Congress, generate substantial incremental financing requirements. The growing tension between available resources and financing needs unveils itself in two ways: (i) a gradual erosion of recurrent non-personnel expenditure per student, particularly in basic education (Table 2.8); and (ii) increasing cost-sharing for public education services by households and LGUs. The first trend primarily affects the quality of education delivery in public schools. The second has potentially adverse equity implications with regard to the distribution of educational outcomes among regions and population groups.
4. Financing constraints in public elementary and secondary schools are reflected in steadily rising student/teacher ratios and inadequate funding for essential non-salary operating expenses. Relative to student enrollment, budget allocations for Maintenance and Other Operating Expenditure (MOOE) are incompatible with delivery of quality education. Moreover, a substantial portion of DECS' budget appropriations for MOOE is channeled to the administration rather than to operations. At the school level, LGUs and parental contributions thus appear to be the principal sources of MOOE financing.

5. So far, education spending from private and LGU sources has amply compensated the shortfall in central government financing. Since the mid-1980s, more than half of the increase in national spending on education originated from private sources (Table 2.11). Education expenditure from all sources combined thus represented 6 percent of GNP in 1994, altogether a substantial commitment of national resources. At issue, therefore, are the distribution, composition and quality of this national investment, rather than its magnitude.

6. Private financing flows both to private and public schools. Private schools, accounting for a substantial share of post-elementary student enrollment (33 and 79 percent at the secondary and tertiary level respectively), are a vital element of private sector involvement in education. Over the past decade, however, the role of the private sector as co-financier of the public education system has expanded more rapidly than private education itself. It is this phenomenon that deserves particular attention in view of its underlying efficiency and equity implications (Section 3.4).

7. Parents in the Philippines, eager to capitalize on relatively high private returns, show great willingness to invest in their children's education. In such an enabling environment, Government's role is to promote social equity in access to quality education, particularly at the elementary level, without discouraging private sector involvement. The evidence, however, shows that Government has failed to sustain adequate funding for public elementary education, while simultaneously increasing subsidization of higher education institutions. As a result, the bulk of the increase in cost-recovery for public education has been concentrated at the elementary level, where households now shoulder close to one-third of the total cost, compared to only about 10 percent in the mid-1980s (Table 3.11).

Equity

8. There is a fundamental equity problem in basic education, particularly at the elementary level, with potentially serious long-term consequences for the poor and the country's development prospects. At the elementary level, where the school infrastructure is extensively developed and opportunity costs are still relatively low, poverty affects school completion rather than initial access. Overall, one out of three children entering first grade does not complete the elementary cycle. Underlying this national average are such extremes as near-universal completion in the most affluent areas, and over 70 percent non-completion in the poorest provinces in Mindanao and the Visayas. Surveys among out-of-school children confirm the strong incidence of economic factors on school participation, particularly among post-elementary age groups (13-24). Malnutrition and poor health care are also important factors preventing active school participation among the poor.

9. There is evidence of significant regional differentials in the quality of educational services provided in public schools. The poor receive a lower quality education, not only because they attend public rather than private schools, but also because the quality of public education is comparatively lower in poor areas. Quality differentials are strongly related to the regional distribution of educational inputs, particularly as regards teaching and school management. For instance, the poorest regions have the highest proportion of inexperienced teachers, as well as the highest proportion of schools without principal, and school districts without supervisor.

10. Fiscal decentralization and devolution have generated winners and losers among LGUs, essentially because the incremental cost of devolved services bears little relation with the distribution of extra income. Although public education has not been devolved to LGUs, financing constraints at the central level are de-facto leading to selective decentralization of education financing. Winners among LGUs have resources available for extra support to public schools. They do so voluntarily, each according to means. As a result, there is a danger that the education quality gap between rich and poor areas will increase.

11. Present criteria and procedures underlying DECS' regional budget appropriations do not aim at counterbalancing the regressive impact of fiscal decentralization on local education financing, not to speak of redressing initial inequities. An overriding issue, in this context, is the lack of a coherent DECS strategy for actively targeting resources towards the most pressing needs, the most disadvantaged areas or population groups. The issue is essentially political. There appears to be great reluctance on the part of the national and local legislature to face the implications of the country's considerable geographical, cultural and social diversity, and accept discriminatory use of national resources for the sake of addressing priority regional needs. As a result, DECS is largely deprived of the authority and control required for effective social targeting.

12. Ineffective targeting is apparent in all budget categories. The absence of a truly coherent national strategy for the expansion of the public school system, and DECS' lack of effective control of locally financed school construction, often lead to unplanned additional claims on the recurrent budget. This, in turn, further reduce DECS' flexibility for effective expenditure targeting. Several allocation rules, particularly as regards sector staffing, are based on nation-wide student enrollment characteristics. These rules are applied uniformly throughout the country, regardless of specific local circumstances, actual needs and priorities, and tend to favor urban over rural areas.

13. Social targeting has inspired the creation of the GASTPE program (Government Assistance to Students and Teachers in Private Education), funded through the DECS budget, to enable youth from lower income households to attend private high-schools and colleges. The bulk of the program's support, channeled through tuition fee supplements (TFS) for students, and educational service contracting (ESC) with private schools, is aimed at the secondary level. Although innovative in design, and impressive in size, the program has a major flaw. For a given budget allocation, the GASTPE program has essentially sought to maximize the number of beneficiaries -- these currently represent about half of total private secondary enrollment. As a result, the benefits are substantially below the actual cost of private schools. This has two consequences: (i) TFS students are required to pay the difference between subsidy and actual cost, which eliminates a large segment of the target population; and (ii) the better private schools, unable to collect their full operating cost from ESC beneficiaries, are withdrawing from the scheme.

14. The "nationalization" of village highschoools in 1988 was another attempt at social targeting. Village highschoools, previously funded by LGUs, practiced a significant degree of cost-recovery through tuition and other fees. Nationalization, which entailed elimination of all fees, was the expression of the guarantee of free universal access to basic education adopted in the 1987

Constitution. The measure generated a sharp increase in financing requirements. Since then, Government has been unable to adequately sustain this additional commitment.

Cost-Effectiveness

15. In view of the relatively low levels of unit recurrent expenditure, there does not seem to be ample room for immediate cost savings in the operation of the public education system. In the longer term, the most promising venue for increasing the cost-effectiveness of the system is to improve its internal efficiency, with particular focus on the country's lowest performing school divisions and districts. However, this requires substantial initial investment in quality improvements.

16. There is scope, however, for reducing the cost to the national budget of the rather inefficient State Universities and Colleges, essentially by promoting much higher cost recovery for educational services, and giving them greater financial autonomy. Management and financial decentralization would also make these institutions more responsive to the specific needs of the various regions, hence foster the external efficiency of their program offerings.

17. Thirdly, special efforts need to be deployed to improve the effectiveness of budgetary processes in DECS. At present, the expenditure monitoring system is weak. The recording of actual expenditure commitments does not match the detailed format of initial budget appropriations. It is therefore difficult to monitor the actual implementation of specific budget programs and objectives. A particular concern, in this respect is whether and to what extent MOOE appropriations, a large proportion of which is not directly allocated to operations, are eventually used for the intended purpose.

Government Strategy

18. Government's education strategy, the result of an extensive national consultation effort, is essentially directed at improving the quality of basic education, with major emphasis on the elementary cycle where achieving universal completion is a must. A major, and potentially costly issue to be resolved, in this context, is the need to increase the length of the secondary cycle from four to five years. A beginning has been made with the rationalization of budget support for the State Universities and Colleges, but without appreciable savings. Subsidization remains input-rather than performance-based.

19. Government is conscious of the equity issues facing the public education system. So far, these are essentially being addressed through the Presidential Task Force for the Fight against Poverty, with the participation of DECS. The task force has designed a development strategy for 20 Priority Provinces, with an integrated basic education component (See Annex 1, Figure 2). This is certainly a commendable first step. It is to be hoped, however, that this strategy will not lead to neglect of poverty-related education priorities in non-selected provinces, or foster uniform

approaches to widely different regional needs and circumstances.¹ Moreover, the sustainability of the adopted strategy will only be assured if criteria and procedures for recurrent budget appropriations are adjusted accordingly.

1.2 Conclusions and Recommendations

20. Inadequate government funding has led to a substantial increase in cost-recovery in public schools, particularly at the elementary level. Public schools today are relatively more expensive for lower income households than private schools are for upper income households. In view of the rather inequitable distribution of income in the Philippines,² the emerging imbalance between public and private education financing affects a relatively large segment of the population. Continued reliance on private sources to meet the shortfall in central government financing therefore increasingly requires compensatory measures to protect the poor.

21. Overall, student enrollment at the elementary level is lagging behind the rate of population growth. At the same time, enrollment in public elementary schools is growing at a much lower rate than in private schools, suggesting that the private cost burden may have reached a critical level for lower income households. There are three venues to reduce this burden: (i) improving the efficiency of education delivery (see Section 3.5), so as to reduce the need for extra financial contributions from parents; (ii) increasing cost-sharing with LGUs where further possible, with selective targeting of central budget support towards disadvantaged areas; and (iii) direct subsidization of private costs for children from the poorest households.

22. Providing free access to secondary schooling of adequate quality would require a substantial increase in government funding. Cost-recovery at that level need therefore not be reduced. However, greater and, above all, more effective support for students from lower income households is a must. In this respect, public school fees should be regularized, notwithstanding the constitutional guarantee of free access. At the tertiary level, both the extent of cost-recovery and the cost-effectiveness of programs and operations ought to be targeted for drastic improvement.

23. Government's sector objectives call for considerable additional resources to be channeled to public elementary and secondary schools, particularly in view of the need for lightening the cost burden of school participation to the poor. Since education already absorbs a substantial part of the national budget, the required additional resources will have to be mobilized primarily through:

- * Reallocating resources within the overall education sector budget towards basic education;

¹These issues are being addressed in the proposed Third Elementary Education Project, identified jointly by DECS and the World Bank, which would promote bottom-up participatory planning processes geared to meet specific needs in targeted areas. The latter would not be limited to the 19 priority provinces.

² According to the 1991 Family Income and Expenditure Survey, 39 percent of households have a per capita income below the poverty threshold (47 percent of rural households). See *The Philippines: A Strategy to Fight Poverty*. World Bank Report No. 14933-PH, November 1995.

- * Reassessing expenditure priorities for central government funding in the sector;
- * Raising the cost-effectiveness of DECS' operations and programs.

In the implementation of the national education agenda, moreover, DECS should aim at maximizing the social returns of its activities and programs by seeking more effective ways of targeting resources towards priority needs.

Increasing available resources

24. Increasing resource availability for DECS can be achieved in two ways; i.e., by: (i) increasing DECS' share in the total education sector budget; and (ii) rationalizing expenditure within DECS' budget.

- (a) A first step for DECS to gain more financial room for addressing priority needs in the sector would be to devolve some of its present responsibilities (e.g. school construction and maintenance) to LGUs. DECS would provide selective compensatory financing to disadvantaged LGUs. This support would have to be granted in ways that do not discourage local taxation efforts, nor the extent of local resource commitment to education -- an Education Resource Equalization Fund, providing matching grants, might be considered in this context
- (b) The burden of State Universities and Colleges on the central government budget ought to be substantially reduced, and the savings reallocated to basic education (DECS). This could be achieved by promoting fuller cost recovery, decentralized financing, and greater financial autonomy for these institutions. Continued subsidization from the national budget should be selective, reflecting national priorities, rather than across the board, and based on output performance rather than input criteria. Equity considerations would of course require higher cost recovery to be accompanied by compensatory adjustments in existing scholarship and student loan programs. Since many SUCs are the product of local initiative, serving regional needs, such adjustments, to a large extent, could be co-financed by LGUs.
- (c) DECS' elementary and secondary school construction program, to the extent that it is not devolved to LGUs, needs to be reassessed, considering the fact that not every barangay needs or can accommodate an elementary school, nor every municipality a highschool. At the elementary level, expansion of the school network is clearly becoming a lower priority than proper maintenance of the existing stock, a relatively large part of which is in dilapidated condition. Moreover, construction activities likely to be financed from other sources need to be taken into account and coordinated, if only to minimize the likelihood of unexpected subsequent claims on DECS' recurrent budget. Evidence further indicates that substantial savings, as well as quality gains, could be realized, by

entrusting the implementation and supervision of construction activities to local authorities and PTAs.

- (d) Rationalizing budget management processes in DECS is a necessary condition for achieving greater cost-effectiveness in the various programs and operations. In particular, better coordination between budget preparation and execution, more transparency in budget commitment and disbursement procedures, and more functional and systematic monitoring of actual expenditure are needed to insure that strategic sector objectives are being met. In a continuous perspective, improving budget management processes would also contribute to reduce the incidence of stop-go financing patterns that have adversely affected various educational programs and operations over the years.

Effective targeting of available resources

25. With more resources at its disposal, DECS should strive to: (i) consolidate and sustain present quantitative achievements in basic education; and (ii) move towards nation-wide implementation of its quality improvement strategy, particularly at the elementary level; while (iii) targeting a higher proportion of expenditure towards the most disadvantaged areas and population groups. Social targeting will be most difficult, because it is a politically sensitive topic in any country, and because DECS, at present, does not have sufficient control over the use of its own resources. While one should obviously strive for what is politically feasible, there are nonetheless several improvements that appear to be implementable within the prevailing constraints.

- (a) In general, and wherever possible, DECS should attempt to improve the extent and efficiency of expenditure targeting, away from the prevailing principle of strict proportionality -- i.e., per student, per teacher, or per classroom allocations, or other standard norms applied throughout the country -- towards addressing priority needs identified at the basis of the education system. This implies deconcentration of sector management, program budgeting and execution.
- (b) Overall, budget appropriations for MOOE ought to be increased substantially, both at elementary and secondary levels. Regional allocations, however, should again be based on actual needs. In operations, expanded provisions for MOOE should flow directly to schools. This will prove to be an essential condition for successful implementation of DECS' stated strategy towards empowering school principals.
- (c) Prevailing norms underlying sector staffing and allocation of educational inputs tend to have an adverse impact on cost-effective use of available resources. With regard to staffing, for instance, student per class criteria used for the attribution of teacher positions promote padding of student enrollment declared by schools. It is recommended that a thorough assessment of such rules and their effects be conducted, in order to identify possible remedial changes.

- (d) Improving the quality and retention of public elementary schools is rightly one of the cornerstones of Government's fight against poverty, hence the first priority in terms of intrasectoral allocation of additional resources. Nonetheless, funding for secondary education needs to be increased as well, and quite substantially so if, in addition to quality improvement, the Constitution's commitment to free universal access to basic education is to be sustained. Moreover, raising learning achievements to international college-entrance standards will eventually require the secondary cycle to be lengthened from four to five years. In view of the financing needs of the public secondary education system, the justification for government subsidization of private secondary schools through the GATSPE program would seem questionable.
- (e) There appears to be a rather large salary differential between teachers in teaching positions and teachers in non-teaching positions, in favor of the latter. Teachers are promoted into non-teaching positions on the basis of seniority and, in principle, of merit. As a result, teaching tends to lose its most qualified practitioners. It may thus be worthwhile to consider extending career opportunities within the teaching profession.
- (f) The justification of the GATSPE program, in its present form, needs to be reassessed. In any case, if this program is to benefit students from lower income households, and to provide access to private education of acceptable quality, it might be wiser to increase the level of subsidization per student, even if it means reducing the number of beneficiaries. Means testing for the selection of beneficiaries is a must.
- (g) There is convincing evidence of a strong adverse impact of economic factors on school participation rates. Out-of-school youth represents as much as 18 percent of the 7-12 age group. A case can therefore be made for subsidizing elementary school participation for children from the poorest households, in order to reduce the private cost of education.
- (h) Surveys also reveal a relatively high incidence of health-related reasons for non-participation among elementary school age children. Systematic institutionalization of school-based feeding and preventive health care programs in the poorest areas therefore ought to be considered.

II. Education Finance

2.1 Central Government Financing

26. Constitutionally, education commands the highest priority in the inter-sectoral allocation of government resources.³ At first view, however, the education sector⁴ appears to receive a rather modest share of the national budget (Table 2.1): 13-14 percent of total expenditure (15-16 percent of recurrent expenditure) in the period 1991-93. Two factors account for this outcome: (i) the heavy burden of the national debt; and (ii) increasing Internal Revenue Appropriations (IRA) to Local Government Units (LGUs) since the enactment of the new Local Government Code of 1991. Debt servicing absorbed over 40 percent of the national budget in that period, and the incidence of IRA transfers increased from 4 percent of the budget in 1991 to about 12.4 percent in 1993. Net of these two obligations, budgetary allocations to education represented 28 percent of effectively available government resources; altogether an appreciable level of commitment.

Table 2.1 Central Government Education Expenditure ^{a/}

Year	Million Pesos		% of National Budget		% of GNP
	Current Prices	1993 Prices	Total	Exl. Debt & IRA	
1985	8,371	16,961	10.5	15.1	1.5
1986	14,046	28,235	12.7	19.5	2.4
1987	15,730	30,484	13.0	33.5	2.3
1988	20,716	36,895	15.2	33.7	2.6
1989	26,741	42,221	15.5	32.0	2.9
1990	32,922	45,772	15.1	31.4	3.0
1991	32,873	38,492	13.3	28.4	2.6
1992	36,633	39,422	13.6	26.2	2.6
1993	38,015	38,015	13.5	28.8	2.5
1994 ^{b/}	46,184	42,377	14.3	31.4	2.6
1995 ^{b/}	55,324	47,440	14.0	26.0	2.8

Sources: DECS, DBM, NSCB; 1994 General Appropriation Act, 1995 General Appropriation Bill.

^{a/} DECS, SUCs and NMYC combined (actual expenditure).

^{b/} Estimate.

27. The actual volume of resources available for education financing has also been limited as a result of inadequate resource mobilization, which so far kept government revenues at a relatively modest proportion of national income. All in all, the ratio of government education expenditure to GNP, about 2.5 percent on average through 1991-93, is among the lowest in the East Asia region.

³The 1987 Philippine Constitution indeed prescribes that education should be guaranteed the largest appropriation from the national budget.

⁴I.e., the combined budget of DECS, the State Universities and Colleges (SUCs), and the National Manpower and Youth Council (NMYC).

Finally, an extended period of low economic growth (about 1.2 percent p.a. on average between 1989 and 1993) further constrained the level of available government resources.

Recent Trends

28. The evolution of government education financing since the early 1980s mirrors the sharp ups and downs of the Philippine economy in that period: (i) severe adjustment and fiscal austerity during the first half of the 1980s; (ii) rapid economic expansion throughout the remainder of the decade following the demise of the Marcos regime; (iii) recession and renewed fiscal austerity in the early 1990s; and (iv) recovery since 1994 onwards.

29. The effects of economic adjustment and fiscal austerity during the first half of the 1980s were severely felt in the education sector. Government spending for education declined by about 30 percent in real terms during that period, and was down to 1.5 percent of GNP in 1985. The financial crisis affected the quality and, to a lesser extent, the expansion of the public education system. Enrollment in public schools continued to increase at all levels, but at substantially lower rates than during the previous decade. The slowdown was particularly significant at the elementary level, where the growth of enrollment fell below the rate of population growth. Real salaries of teaching staff declined dramatically, both in absolute terms and relative to comparable public and private sector employment.

30. From the very beginning, the Aquino Administration initiated a drastic increase in resource allocation to the sector, from less than 10 percent of the national budget in 1985 to 15.5 percent in 1989.⁵ Total government expenditure for education increased almost fourfold during the remainder of the decade, reaching 3 percent of GNP in 1990. A substantial part of this increase was absorbed by upward salary adjustments. Under the 1989 Salary Standardization Law, teachers' basic salaries were upgraded by 76 percent. This adjustment was subsequently extended to the rest of the civil service, so that the relative position of teachers was only moderately improved.

31. Two important measures further contributed to increase sector financing requirements in that period. First, in 1988 DECS took over the operation of village high-schools, previously funded by LGUs. This "nationalization" was essentially inspired by concern for the relatively low quality of educational services delivered in those schools, and by the commitment towards universal free access to basic education (i.e., including the secondary cycle) expressed in the 1987 Constitution. Moreover, it was feared that the uncontrolled proliferation of these schools would lead to the recruitment of less qualified teachers. Village high-schools practiced a significant degree of cost-recovery through tuition and other fees. The abolition of such fees in the nationalized schools generated a considerable additional increase in public secondary enrollment. The financial consequences of this measure were reflected in a four-fold increase in DECS spending on secondary education between 1987 and 1990.⁶

⁵Measured in terms of effective government resources (i.e., net of debt service and IRA), the share of education peaked at 33.7 percent in 1988.

⁶From P1.5 billion in 1987 (10 percent of the total education budget) to P6.7 billion (20 percent of the education budget) -- see Table 2.2.

32. Secondly, a program for Government Assistance to Students and Teachers in Private Education (GASTPE) was launched in 1989. The GASTPE program was essentially designed to provide financial assistance to students from lower income families enrolling in private highschools and tertiary institutions. The program started with an appropriation of P590 million (2.5 percent of DECS' 1989 recurrent budget). Funding was gradually increased to P953 million in 1993, but declined afterwards.

33. The nationalization of village highschools in 1988, and the inception of the GASTPE program in 1989, are estimated to have absorbed about 40 percent of the total 1985-89 increment in the DECS budget. The latter was so generous, however, that ample room was left for expansion of other outlays, both recurrent and capital (Table 2.2). Incremental allocations for maintenance and other operating expenses (MOOE), for instance, far exceeded the overall growth in public enrollments -- in real terms, MOOE per student grew by about 17 percent per year in that period.

**Table 2.2 Evolution of Government Education Financing 1985-95,
by Category of Expenditure ^{a/}**

	1985-89	1989-93	1993-95	1985-95
I. Average Real Growth p.a.:				
Total Education	25.6	-2.6	11.7	10.8
DECS				
Personnel Services	26.9	-1.4	13.6	12.1
MOOE ^{b/}	<u>21.4</u>	<u>2.0</u>	<u>5.6</u>	<u>10.1</u>
Total Recurrent Exp. ^{c/}	27.2	-1.1	11.5	12.0
(Same, per student)	(22.8)	(-3.1)	(9.0)	(8.9)
Capital Expenditure	<u>47.0</u>	<u>-26.6</u>	<u>28.9</u>	<u>8.4</u>
Total	28.2	-2.4	11.9	11.9
	1985	1989	1993	1995
II. Distribution of DECS Exp. (%):				
Personnel Services	83.2	80.0	82.6	84.7
MOOE	12.6	10.1	12.1	10.7
GASTPE	-	<u>2.6</u>	<u>3.0</u>	<u>1.5</u>
Total Recurrent Expenditure	95.8	92.7	97.7	96.9
Capital Expenditure	<u>4.2</u>	<u>7.3</u>	<u>2.3</u>	<u>3.1</u>
Total	100.0	100.0	100.0	100.0

Sources: see Table 2.1

^{a/} Total education includes the SUCs and NMYC. Actual expenditures for 1985-93 and estimated actual for 1994-95.

^{b/} Excluding GASTPE.

^{c/} Including GASTPE.

34. Recession and renewed fiscal austerity in the early 1990s brought an end to the rapid expansion of government's education sector spending. Allocations to the education sector fell back to 13-14 percent of total government expenditure throughout 1990-93, equivalent to 2.6 percent of GNP. Total expenditure for education, in real terms, declined on average by 2.6 percent per year between 1989 and 1993, and the overall cost of DECS personnel services by 1.6 percent per year.

The volume of MOOE per student is on a downward trend since 1990. Capital outlays underwent drastic cuts, both in 1992 and 1993.

35. The pace of education spending picked up again in 1994, essentially as a result of new government-wide salary adjustments. On balance, a considerable improvement in the sector financing situation has thus been achieved during the last decade. Nevertheless, in view of the bleak initial conditions, it appears unlikely that this improvement was sufficient, overall, to fully meet the growing quantitative and qualitative needs of the public education system. There are four areas of concern, in this respect: (i) the rapid increase in salaries; (ii) the erosion of MOOE; (iii) the chaotic year-by-year evolution of the various categories of expenditure; and (iv) the adverse impact of fiscal decentralization on DECS' effective budgetary resources.

36. *Salaries.* Overall, the total compensation package of teachers recorded a fourfold increase between 1985 and 1995, equivalent to a 5 percent annual improvement in real income. Although this compares favorably with the 1.4 percent growth of per capita GDP achieved during the same period, the evidence suggests that the remuneration level of public school teachers is still relatively moderate (Table 2.3). Not surprisingly, therefore, the raise in basic teacher salaries and other compensations granted in 1994 and 1995 are part of a longer term package, with additional adjustments in the pipeline. Taking into account normal wage drift and incremental recruitment, this could end up boosting DECS' wage bill to an even much larger extent. Crucial non-salary outlays are thus at risk of being crowded out under the mounting pressure of personnel costs.

Table 2.3 Teacher Remuneration

	Ratio of Teacher Salary ^{a/} to:		
	Poverty Threshold	Minimum Wage	GNP per Capita
1985	.9	1.1	2.0
1988	1.2	1.6	2.4
1991	1.1	1.3	2.4
1994	1.2	1.3	2.5

Source: DECS; Philippine Statistical Yearbook; World Bank.

^{a/} Starting salary elementary teacher (including various allowances)

37. *MOOE.* On a per student basis, this category of expenditure has been on a downward slide since 1990. The overall recovery in government education spending in 1994 did not interrupt this trend. And although budget appropriations for MOOE suggest a sizable increase for 1995, past discrepancies between budget allocations and actual spending raise some doubt as to whether the budgeted increase has been fully realized. In total, MOOE per student declined by as much as 34 percent in real terms between 1991 and 1994. This erosion of earlier achievements is a source of concern, as it may have significant adverse impacts on school maintenance and the provision of essential educational inputs. In addition, there are serious questions as to the proportion of MOOE actually reaching down to the school level.

38. *Stop-go financing patterns.* Underlying the evolving trends illustrated in Table 2.2, are rather wide year-to-year fluctuations in expenditure patterns, particularly as regards capital operations and MOOE. The resulting unpredictability of funding levels frustrates rational educational planning efforts, and is a major impediment for effective sector management.

39. *Fiscal decentralization.* Rising IRA transfers to LGUs have exacerbated DECS' resource constraint.⁷ According to the new Local Government Code of 1991, the financial responsibility for school construction and maintenance in basic education was to be devolved to LGUs. So far, however, there has been no formal devolution of educational services. With central government resources diminished by IRA transfers, DECS should therefore have received an increasing share of available resources to sustain adequate delivery of basic education services to a rapidly growing school age population. Moreover, considerable investments are required (many mandated by Parliament) to improve the quality of those services. In reality, the required proportional adjustment in resource allocation to education did not materialize. Instead, the share of the national budget (net of debt service and IRA) accruing to DECS declined from 27 to 23 percent between 1990 and 1992, and remained since then within this margin. As a result, earlier commitments, such as free secondary education, are becoming increasingly difficult to sustain effectively.

Intra-sectoral Distribution of Expenditure

40. Regrouping the various education-related components of the government budget into a reliable breakdown of expenditure by level and type of education is a cumbersome operation. Public elementary and secondary education is, in principle, financed through DECS. However, there are also elementary and secondary schools attached to teacher training faculties in State Universities and Colleges (SUCs), which are funded through direct budget appropriations. SUCs, moreover, also offer vocational and technical courses which do not normally belong to higher education. DECS also transfers resources to private schools at the secondary and tertiary level (GASTPE).

41. With these caveats in mind, the intrasectoral breakdown of education expenditure is shown in Table 2.4. About 85 percent of central government appropriations for education are channeled through DECS. Most of the rest is absorbed by the State Universities and Colleges (SUCs), which are funded through direct appropriations. Since 1991, minor but rapidly growing financing is also being allocated to the National Manpower and Youth Council (NMYC), which is essentially responsible for non-formal manpower training and skills upgrading programs.⁸

42. DECS' share of total education financing has remained virtually constant throughout 1987-94. Neither repeated hefty salary adjustments,⁹ nor the nationalization of village highschools,

⁷Since 1993, the volume of IRA transfers from central government to LGUs is roughly equal to the entire public education budget.

⁸Minor amounts of education sector financing, essentially for on-the-job staff training, can further be identified in the respective budget allocations of several Departments. These are omitted here.

⁹Normally, under constant relative staffing patterns, a proportional wage increase in two sub-sectors should raise the funding requirements of the most labor-intensive one relative to the other. On the whole, DECS (i.e., basic education) is considerably more labor-intensive than the SUCs -- personnel expenditure were absorbing 75 and 66 percent of the respective budgets in 1994.

or the establishment of the GASTPE program, have managed to raise DECS' share in the government's total education budget. On the other hand, the establishment of NMYC did not alter DECS' share either; so far, this new claim on public resources has been at the expense of the SUCs.

This uncommon rigidity in the global distribution of education finance suggests tension between prevailing resource appropriation rules and procedures, on the one hand, and rapidly evolving sector circumstances and needs, on the other. It is a first indication that DECS may not have been granted sufficient additional resources to meet the new commitments entrusted to it in that period.

Table 2.4 Government Financing, by Level and Type of Education
(% Distribution)

	1987	1988	1989	1990	1991	1992	1993	1994
Elementary	60.0	56.6	42.3	40.4	41.9	50.8	54.1	55.5
Secondary^{a/}	9.8	18.5	21.3	20.2	18.3	14.8	15.9	16.7
Tertiary^{a/ b/}	16.8	16.9	17.7	18.0	16.1	16.4	17.6	16.4
Vocational^{c/}	2.1	1.2	.7	.6	3.1	3.0	3.3	3.3
Other^{d/}	--	--	--	--	.0	.0	.0	.4
DECS Central Adm.	<u>11.3</u>	<u>6.8</u>	<u>18.0</u>	<u>20.8</u>	<u>20.6</u>	<u>15.0</u>	<u>9.1</u>	<u>7.7</u>
Overall Total (o.w. Total DECS)	100.0 (84.9)	100.0 (85.0)	100.0 (84.5)	100.0 (84.4)	100.0 (86.5)	100.0 (85.9)	100.0 (84.7)	100.0 (85.1)

Source: 1987-94 General Appropriations Acts

1989-90 SUCs Expenditure Program

^{a/} Including GASTPE from 1989 onwards.

^{b/} SUCs, plus DECS-managed tertiary institutions.

^{c/} DECS-managed programs, plus NMYC from 1991 onwards.

^{d/} Pre-school and non-formal programs (DECS).

43. Over the medium term, the nationalization of LGU-funded highschools has not dramatically altered the intra-sectoral distribution of resources. The final outcome, however, is the net result of two counterbalancing rounds of adjustment. First, the share of secondary education shot up from an initial 10 percent to 18.5 percent in 1988, and up to 21 percent the year after. This sudden increase was matched by a decline in the share of elementary education, from 60 to 42 percent. In those two years, DECS' regional operations budget increased by P7.8 billion. As much as P4.1 billion of this increment (52 percent) was allocated to public secondary education, which accounted for only 21 percent of DECS-controlled student enrollment.¹⁰ From 1990 onward, the increasingly severe constraints facing DECS' budget affected primarily secondary education, and the respective shares of sector resources moved back towards their original level. These consecutive rounds of adjustment illustrate DECS' difficulty in balancing conflicting budget claims.

¹⁰ After nationalization of village high-schools.

44. Table 2.4 also shows a strong upsurge in the portion of sector resources absorbed by DECS' central administration. This phenomenon largely reflects the salary adjustments implemented under the 1989 Salary Standardization Law. These adjustments were administered on the DECS central administration budget for several years, before being integrated in the accounts of the various central and regional administrative units. Likewise, varying personnel benefits over and above basic salaries are centrally administered.

Administrative versus Operational Expenditures

45. What proportion of Government education expenditure actually benefits education delivery at the school level? Out of DECS' 1994 total budget appropriation (P37.3 billion), a little over 6 percent was allocated for General Administration, of which 4 percent at the regional level (Table 2.5). Altogether, 92 percent of the DECS budget is allocated for regional operations, which, in principle, represents the resources available to schools and other educational institutions. On the whole, there does thus not appear to be much wastage in terms of administrative and other not strictly operational expenditure. The detailed breakdown of DECS expenditure, however, raises a number of issues.

Table 2.5 Functional Distribution of the 1994 DECS Budget (in %)

	Personnel Services	Transfers ^{a/}	MOOE	Capital Expenditure	Total Expenditure
I. General Administration					
Central	2.8	0.8	1.6	--	2.3
Regional	1.5	--	25.6	1.9	4.0
—	—	—	—	—	—
Sub-total	4.3	.8	27.2	1.9	6.3
II. Operations					
Central ^{b/}	0.6	9.0	8.8	3.0	1.8
Regional (o.w. unallocated)	95.1 (.6)	90.2 (12.5)	64.0 (5.5)	95.1 (28.1)	91.9 (4.8)
—	—	—	—	—	—
Sub-total	95.7	99.2	72.8	98.1	93.7
III. Total Budget (same in million P.)	100.0 (28,188)	100.0 (777)	100.0 (3,182)	100.0 (4,556)	100.0 (37,333)

Source: 1994 General Appropriation Act

^{a/} Essentially the GATSPE program (90% of total transfers), which is specified under Regional Operations.

^{b/} General operations and operations support.

46. First, of the total of P34.3 billion reserved for regional operations, P1.8 billion (5 percent) was not allocated to specific educational institutions at divisional and district levels. This may not seem much. It is, nonetheless, considering that this margin is almost entirely concentrated in non-personnel expenditure categories. Altogether, unallocated funds represent over 21 percent of non-personnel expenditure earmarked for regional operations. Spending of about 30 percent of regional appropriations for capital expenditure, and 14 and 9 percent of appropriations for transfers and MOOE respectively, is apparently at the discretion of DECS' regional administration. A source of concern, in this respect, is that the utilization of these unallocated funds may escape DECS control given the relatively weak expenditure monitoring system in place.

47. A second issue concerns the high proportion of the total resource appropriation for MOOE which is retained in the regional administration. Overall, less than 60 percent of budgeted MOOE funding is earmarked for specific operations. The phenomenon is particularly striking in elementary education, where as much as one-third of budgeted MOOE funding is set aside for the regional administration. About three-quarter of MOOE funds allocated to the regional administration (P725 million) were in principle reserved for elementary education. Under the prevailing budget system, however, it is difficult, if at all possible, to ascertain whether and to what extent these funds are eventually used for the intended purpose¹¹.

48. Concerns about the lack of transparency in the functional allocation and utilization of the DECS budget are underscored by the apparent pattern of actual versus budgeted expenditure (Table 2.6). Overall, there appears to be a systematic tendency towards underspending, which averaged 6 percent of DECS total budget allocation in the 1991-93 period. Underspending is particularly marked at the central level, for all categories of expenditure. It is most visible with respect to personnel services, where substantial amounts are reserved on the central administration budget to cover the estimated cost of staff promotions and other personnel obligations during the fiscal year. A large portion of this cost does not materialize, essentially because staff fail to qualify for promotion. To a varying, but relatively minor extent, unused balances also reflect the fact that DBM, as a rule, does not release the totality of the funds appropriated by Congress. Capital operations, finally, are funded according to a revolving two-year cycle, and unused balances constitute "continuing appropriations" for the next fiscal year. Over a longer period, however, this procedure does not explain the considerable margin of underspending on the capital budget.

¹¹There have also been several changes in budget format and nomenclature over the years. As a result, it is rare that relevant indicators can be observed consistently, over a sufficient period of time. In addition, the recording of actual expenditure commitments does not match the detailed format of initial budget appropriations. It is therefore difficult to monitor the actual implementation of specific budget programs and objectives.

Table 2.6 Actual versus Budgeted DECS Expenditure

	Obligation/Allotment Ratio (1991-93 Average)			
	Personnel Services	MOOE	Capital Expenditure	Total Expenditure
Central ^{a/}	.505	.859	.807	.659
Regional ^{a/}	.999	.989	.738	.989
Total Budget	.950	.959	.777	.940

Source: DECS

^{a/} General administration and operations combined.

49. With regard to MOOE, funding allocated to DECS' regional offices appears to be fully utilized. Funding retained in the central administration, however, is under-utilized by as much as 14 percent. Concern about the extent to which DECS' MOOE funding actually reaches schools was first raised during field visits to elementary schools and meetings with local government representatives (see Annex 2). At the school level, maintenance and other non-personnel operating expenses were found to be almost entirely financed from LGU and PTA sources. A limited survey of household education expenditures¹² also confirms that there are significant private costs to attending of public schools (see Section 2.3).

Recurrent Expenditure Per Student

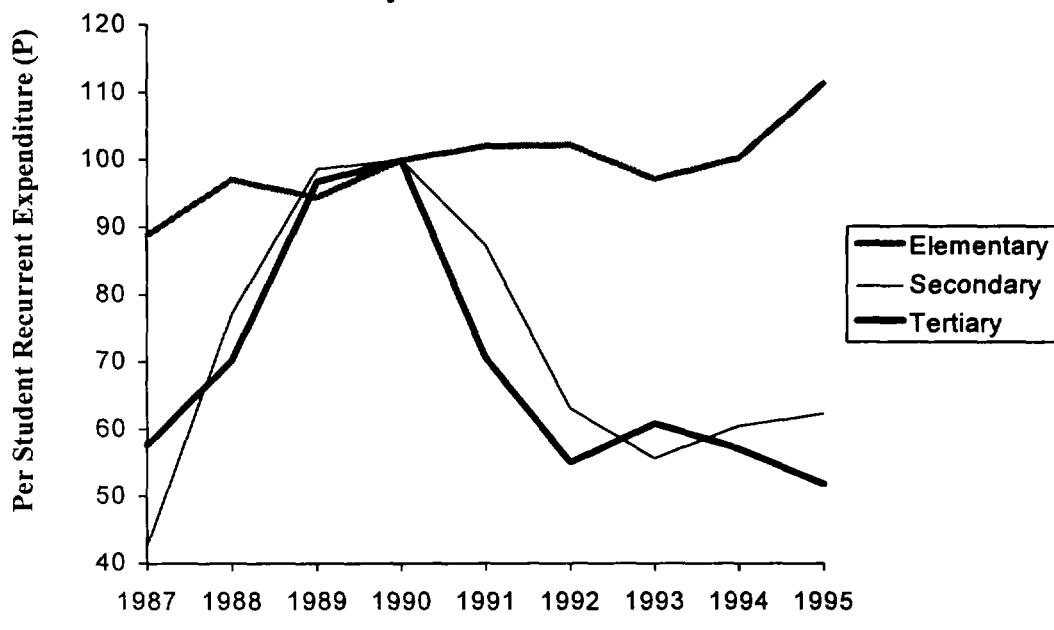
50. The evolution of per student recurrent expenditure at the successive levels of the education system (Figure 2.1) underscores government's difficulty in balancing competing claims on its resources. Spurred by the nationalization of village highschoools, unit expenditure at the secondary level increased by about 130 percent in real terms between 1987 and 1989. A substantial gain was also recorded at the tertiary level (42 percent), whereas elementary education, with a marginal five percent increase, was clearly the residual sub-sector. During the 1990-93 recession, however, elementary education appears to have been effectively protected from the consequences of fiscal retrenchment, whereas much of the earlier achieved gains in unit spending at secondary and tertiary levels were lost (at both levels, real per student expenditures in 1993 were down to about 60 percent of their 1990 level).¹³

¹²Fund for Assistance to Private Education (FAPE), *Cost-effectiveness of Education in the Philippines: Comparative Analysis of Public and Private School Programs* (draft, March 1995).

¹³In contrast to elementary and secondary education, where the growth of student enrollment is fairly steady, the pattern of unit recurrent expenditure at the tertiary level is to a large extent also a reflection of fluctuations in student enrollment. Nonetheless, there appears to be a significant downward trend in per student budget allocations.

Figure 2.1: Evolution of Per Student Recurrent Expenditure ^{a/},

by Level of Education



^{a/} Indexes of actual expenditure at constant prices (1990 = 100)

Source: DBM, DECS

51. To a large extent, the huge increase in secondary level unit expenditure between 1987 and 1989 reflects the substitution of central for local government financing of the nationalized village highschools, rather than more and better educational inputs per student. This measure was the expression of Government's determination to guarantee free universal access to secondary education, which entailed the commitment of substantial additional public resources. The downward evolution of secondary unit expenditure since 1989, however, is a clear indication that Government has not been able to sustain this financial commitment.

52. Compared to elementary education, the respective levels of recurrent expenditure per student in secondary and tertiary education seem low, as shown in Table 2.7. In absolute terms, it is difficult to say whether the public secondary and tertiary sub-sectors are under-financed relative to elementary education, or whether, on the contrary, it is the elementary sub-sector that is financially privileged. Since the *predetermined* wage component of unit recurrent costs varies by level of education services, MOOE per student provide a better picture of educational resource endowments at each level. Unfortunately, the breakdown of recurrent expenditure between personnel expenditure and MOOE is not available for elementary and secondary education separately. Table 2.8 therefore compares the evolution of MOOE per student between basic (i.e., elementary and secondary combined) and tertiary education. Two important observations can be drawn from this table. First, the tertiary/basic education ratio of unit MOOE is significantly higher than the corresponding total recurrent expenditure ratio. Secondly, unit MOOE has been declining

steadily since the early 1990s, both in basic and tertiary education, but much more so in the former than in the latter.¹⁴

Table 2.7 Recurrent Expenditure per Student ^{a/}

	1989		1995	
	A	B	A	B
Elementary	2,281	1.0	2,698	1.0
Secondary ^{b/}	4,224	1.9	2,673	1.0
Tertiary	32,005	14.0	17,155	6.4

A: In Pesos, at 1993 prices

B: Ratio to unit expenditure at the elementary level

Source: DBM, DECS

^{a/} Based on actual expenditure for 1989 and budgeted expenditure for 1995

^{b/} Including vocational/technical education

53. In real terms, 1994 unit MOOE in basic education was down to one-third of the 1990 level. In nominal terms, it was equivalent to about US\$7 per student (P184). This is extremely low by regional standards, particularly when considering that:

- (a) A substantial portion of that amount, being absorbed by DECS' central and regional administration, does not reach schools;
- (b) The underlying unit MOOE figure for elementary education is likely to be significantly lower; and;
- (c) There is a rather wide variation in per student budget allocations for MOOE among school divisions and districts.

54. In DECS' 1994 budget, MOOE appropriations for regional operations were equivalent to P125/student (US\$5) for elementary schools, ranging between less than P50/student and P300/student among school divisions. For secondary education, the corresponding national average was P235/student (US\$9.4), also with wide differences between divisions. At both levels, such meager MOOE allocations are incompatible with delivery of quality education.

¹⁴The 1991-94 tertiary/basic education ratio of unit MOOE averages 13, compared to 8 for the total recurrent expenditure ratio, the latter declining from 8.5 in 1991 to 7.7 in 1994, and the former increasing from 11 to about 21 in the same period.

**Table 2.8 Evolution of per Student MOOE ^{a/}
in Basic and Tertiary Education**

Year	Basic (1)	Tertiary (2)	Ratio (2)/(1)
	(In Peso, at 1993 prices)		
1987	388	n.a.	--
1988	293	n.a.	--
1989	369	n.a.	--
1990	510	n.a.	--
1991	491	5,437	11.1
1992	378	4,151	11.0
1993	363	4,837	13.3
1994	184	3,766	20.5
1995	212	3,387	15.0

Source: DBM, DECS

^{a/} See Table 2.7

55. The erosion of unit MOOE was much less severe at the tertiary level. Government-financed MOOE at the tertiary level averaged about US\$164 per student in 1994, 21 times the level of basic education. This amount may be on the low side, considering that less than half of SUCs' operating budget is spent on educational services. On the other hand, it may be more than adequate, in view of the fact that SUCs have considerable potential for raising additional revenues.

Conclusion

56. Central Government commitment to education, as measured by the share of the National budget allocated to the sector, has increased substantially since the mid-1980s. Several factors, however, have contributed to limit the volume of effectively available budget resources: an extended economic recession in the early 1990s; a relatively low rate of public resource mobilization; the heavy burden of the national debt; and increasing IRA transfers to LGUs. Total Government spending on education thus represents only a modest 2.5-3 percent of GDP, even though it accounts for a major portion of the National Budget.

57. As a result, there is a growing imbalance between the limited resources at the center and the rapidly increasing financing requirements of the public education system. This imbalance is particularly critical in basic education, where the continuing erosion of DECS' per student expenditure for MOOE threatens the quality of education delivery in public schools. The shortfall in DECS' resources is largely counterbalanced through a rising incidence of education financing from LGU and private sources, which is examined in the following two sections.

2.2 Local Government Financing

58. Traditionally, local government has always played a role in the financing of public education. This role was greatly reduced after the nationalization of village high-schools in 1988. Starting in 1991, however, fiscal decentralization gave LGUs financial latitude¹⁵ for a renewed commitment, as local officials quickly recognized the broad popularity of additional spending on education. Education expenditure from local government sources thus recorded a fourfold increase in the three years following the enactment of the new Local Government Code (LGC), from an initial P.7 billion in 1990 to P2.9 billion in 1993. LGUs' contribution to total public financing of education rose from a modest 2 percent in 1990 to 7 percent in 1993.¹⁶

59. The bulk of the increase in education spending by LGUs has been financed through the Special Education Fund (SEF), which is yearly replenished from the proceeds of local real estate taxes. The new LGC mandates that a minimum percentage of local proceeds from real estate taxes be allocated to the SEF. Part of LGU revenues are thus earmarked for education, and it might therefore be argued that the spectacular increase in local education financing was the result of national legislation rather than local commitment. Ultimately, however, the absolute amount of resources allocated to the SEF depends on the extent and effectiveness of the local taxation effort. Moreover, local education financing from non-earmarked general funds has also been rising significantly, albeit not as rapidly as SEF outlays.¹⁷

60. Municipalities account for almost half of local education expenditure, followed by cities and provinces -- 45, 37 and 18 percent respectively in 1993. Cities allocate the highest proportion of their budget to education -- 9 percent in 1993, compared to 8 and 6 percent respectively for municipalities and provinces. The difference in commitment between cities and municipalities, although relatively small, appears to be systematic. In 1990, prior to the enactment of the new LGC, municipalities were in fact devoting a somewhat higher proportion of their budget to education than cities. The situation was immediately reversed in 1991, reflecting the fact that fiscal decentralization has so far favored cities over municipalities.

61. The pattern of LGUs education spending is characterized by a striking degree of complementarity with central government spending. Whereas in recent years an increasing share of the central education budget is being absorbed by personnel expenditure, to the neglect of other recurrent and capital expenditure, LGUs allocate three-quarter of their education budget for non-personnel expenditure (Table 2.9). Provincial schoolboards, in particular, are playing an increasingly important role in targeting extra MOOE funding towards priority needs within their jurisdiction, to supplement the deficient and inadequately targeted funding from the central budget. Over the period 1991-93, provinces spent over two-third of their education budget for MOOE. Municipalities basically assume the same responsibility.

¹⁵The total budget of LGUs doubled in the 1990-93 period.

¹⁶It is estimated to have reached 9 percent in 1995.

¹⁷At present, education expenditure absorbs only about 2 percent of LGUs' combined general budget.

**Table 2.9 LGU Education Financing by Expenditure Category
(% Distribution)**

	Provinces		Municipalities		Cities		All LGUs	
	1990	1991-93 Average	1990	1991-93 Average	1990	1991-93 Average	1990	1991-93 Average
Personnel Services	21.6	11.6	31.4	24.7	34.8	28.3	30.9	24.1
MOOE	59.2	67.2	40.6	43.8	52.8	32.9	48.1	43.0
Capital Expenditure	19.2	21.2	28.0	31.5	14.4	38.8	21.0	32.9
Total (same, in Million P.)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(124.1)	(304.7)	(337.9)	(855.8)	(248.7)	(803.9)	(710.7)	(1,964.3)

Source: COA, Financial Statements and Other Schedules (1990-92), Annual Financial Report of Local Governments, 1993

62. Among LGUs, cities spend the lowest proportion of their education budget on MOOE, and the highest both for personnel and capital expenditure. Concerning MOOE and capital expenditure, cities' diverging behavior appears to accommodate the discriminatory outcome of DECS' regional budget allocation norms. DECS distributes its MOOE funding largely on a per student basis, which tends to favor densely populated urban areas. School construction, on the other hand, is primarily targeted to barangays and municipalities without schools, thus favoring rural areas.

63. The rapid build-up of LGU revenues has led to a generalized increase in local education financing -- i.e., of all expenditure categories in each class of LGU. From a distributional perspective, however, a number of noteworthy adjustments appear to have taken place. Most importantly, there has been a considerable increase in the share of local education financing going to capital operations -- an average of 33 percent during the 1991-93 period, compared to 21 percent in 1990. This increase coincided with the collapse of centrally financed capital expenditure after 1991. The two factors combined led the share of LGUs in total government-financed capital outlays in the education sector to climb from 4 percent in 1990, to over 40 percent in 1993. Substitution of local for central financing of capital expenditure was predominantly an urban phenomenon, cities' combined capital outlays soaring from P31 million (12 percent of their total education spending) in 1990, to P427 million (44 percent of total) in 1992.

64. Similarly, increasing local spending for MOOE has coincided with the stagnation of MOOE allocations from the central education budget after 1991. As a result, locally financed MOOE has gained considerable importance. It was equivalent to 17 percent of total public spending for MOOE in 1993, compared to only 6 percent in 1990. Overseeing the relative evolution of central and local capital expenditure and MOOE, one may thus conclude that the enactment of the 1991 LGC has led to a significant decentralization of education financing, albeit unplanned and unacknowledged. In fact, the new LGC does include school construction and maintenance among public services to be devolved to LGUs, but central government has so far been unwilling to relinquish this responsibility. The evidence, however, shows that devolution of capital operations and MOOE is already an ongoing process.

65. All staff in the public education system is, in principle, to be paid by central government. LGUs, nonetheless, assume a small, but rising part of the overall wage burden. LGU outlays for personnel services in the education sector serve essentially three purposes: (i) supplementing the salaries paid by central government; (ii) paying the salaries of newly recruited teachers until they are integrated in the DECS payroll; and (iii) recruiting permanent teachers over and above the school staffing norms applied by DECS. Supplementing teacher salaries is unconstitutional¹⁸. It is nonetheless a widespread practice among LGUs, particularly in urban areas, aiming to attract and retain qualified teachers. Red tape and extensive delays in DECS/DBM approval of new teaching positions, and subsequent absorption of new appointees on the central payroll, force LGUs to bridge the gap for increasing periods of time. Finally, the "students per teacher" norms used by DECS for the allotment of extra teacher positions has been increasing steadily over time, reflecting growing budget constraints. If they can afford it, LGUs therefore hire extra teachers so as to have smaller classes, or avoid the necessity of multi-grade teaching in under-enrolled schools.

66. For these reasons, local personnel expenditure for education doubled in 1992, and rose by a further 33 percent to P675 million in 1993. This level was equivalent to 2.2 percent of total public outlays for personnel services in the sector, compared to slightly under one percent in 1990. Relative to total education spending by LGUs, however, the incidence of personnel expenditure has been gradually declining, averaging 24 percent through 1991-93, compared to 31 percent in 1990.

67. An intriguing phenomenon, in this context, is that virtually the entire 1991-93 increase in LGUs' personnel expenditure for education was financed through the SEF, as shown below (in million P.):

	1991-92	1992-93	1991-93
Total increase in LGUs			
Ed. personnel expenditure	264.0	169.1	433.1
<u>Source of financing:</u>			
SEF	167.8	229.1	396.9
General Fund	96.2	- 60.0	36.2

In 1993, moreover, SEF funding was substituted for general funding of education personnel services.¹⁹ Since the SEF is specifically earmarked for MOOE and capital outlays, there must be compelling reasons for LGUs to switch to SEF financing for personnel expenditure. More detailed and recent evidence is needed to permit a meaningful interpretation of this phenomenon. One should hope, however, that it is not a precursory sign of increasing wage competition among LGUs to attract and retain competent teachers.

68. Compared to central government, budget execution among LGUs is weak, as evidenced by a rather wide margin of underspending. Overall, the ratio of actual expenditure to budget appropriations for education averaged over 70 percent over the 1991-93 period. In terms of the total education budget, the extent of underspending is about the same for the three LGU classes.

¹⁸The Philippines' Constitution prescribes that there should be equal pay for equal work.

¹⁹General funding of LGUs for education personnel outlays recorded a decline of P60 million, which was matched by an additional increase in SEF funding for the same purpose.

There are sizable differences in performance, however, between recurrent and capital operations. The 1991-93 expenditure/appropriation ratio averaged 80 percent for the former (85 and 78 percent for personnel services and MOOE respectively), but only 55 percent for the latter. DECS' implementation performance for capital operations, although far from satisfactory, is much better (78 percent over the same period). Since capital operations are eventually to be devolved to LGUs, this is an issue that requires serious attention.

Conclusion

69. The rapid build-up of LGU revenues under the ongoing fiscal decentralization process has led to a generalized increase in local financing of public schools. This increase is largely concentrated on MOOE and capital operations, where the shortfall in DECS financing is most critical. With respect to capital operations, LGUs have a significantly worse implementation record than DECS. The eventual devolution of such operations to LGUs therefore requires the causes of this unsatisfactory performance to be identified and adequately resolved.

2.3 Private Financing²⁰

70. The private sector contributes directly to the financing of the education system in three ways, namely through: (i) household financing of private schools; (ii) household financing of costs related to attendance of public schools; and (iii) voluntary contributions, both to private and public schools, including payments related to income generating activities by schools. There are no regular statistics of these financial flows; estimates are therefore tentative.

Private Schools

71. The important role of private education in the Philippines, particularly at the post-elementary level, is well known. Of roughly 18 million students presently enrolled at all levels of the education system, over one-fifth are in private schools. This proportion has remained remarkably stable since the early 1980s, albeit with some variation between the successive cycles.

72. Based on a recent comparative cost study conducted by FAPE (Fund for Assistance to Private Education) among private and public schools at the different levels of the education system,²¹ it is estimated that private financing of private education totaled about P29 billion in 1994, distributed as follows:

²⁰ The assessment of private contributions to education in this section excludes the opportunity cost of school attendance.

²¹ FAPE (1995)

	(P.million)	(%)		(P.million)	(%)
Elementary	3,666	12.8	Tuition & other fees	17,000	59.6
Secondary	8,944	31.3	Other private costs ²²	9,163	32.1
Tertiary	15,935	55.8	Voluntary contributions	2,382	8.3
Total	28,545	100.0	Total	28,545	100.0

As can be expected, more than half of total private outlays is for tertiary education, and almost 60 percent consists of tuition and other school fees. Voluntary contributions play a significant role. Total financing, serving close to 4 million private school students, is equivalent to an average private contribution of P7,300 per student.

73. According to an earlier World Bank sector study,²³ the corresponding total for 1986 was about P5.3 billion, for 3 million students (P1,750 per student). This estimate may be somewhat on the low side since it does not appear to include voluntary contributions. Taking this into account, as well as the rate of inflation and the increase in private enrollment in the intervening eight years, these two estimates imply a real increase in private financing per private school student of about 7 percent per year.

Private Financing of Public Schools

74. The above mentioned FAPE study shows that there are significant private costs to attending public schools, particularly at the secondary level. Altogether, private financing of public education adds up to about P21 billion in 1994, detailed as follows:

	(P.million)	(%)		(P.million)	(%)
Elementary	12,573	60.1	Tuition & other fees	5,037	24.1
Secondary	6,505	31.1	Other private costs	15,342	73.3
Tertiary	1,849	8.8	Voluntary contribution	548	2.6
Total	20,927	100.0	Total	20,927	100.0

The contrast with private education is striking. Tuition and other school fees account for a relatively modest portion of total private financing since basic education is in principle free and tertiary education heavily subsidized. Other school related costs supported by parents make up the bulk of private financing of public education. This is essentially the counterbalancing item for the shortfall in public financing: schools are nominally free, but several schooling costs are de-facto privatized. Voluntary contributions are marginal, particularly on account of tertiary institutions, which deploy little efforts to attract them. The distribution of financing by level of education is the

²²Other school related items financed by households, such as books, educational materials, and transportation, but excluding school uniforms and boarding.

²³The Philippines Education Sector Study (Report no. 7473-PH, World Bank, December 1988)

mirror image of the distribution of public enrollment, hence the opposite picture of private education.

75. Private financing of public education in 1994, for a total enrollment of almost 14 million students, is equivalent to P1,540 per student. The corresponding World Bank estimate for 1986 was P210 per student. In real terms, the difference implies a 16 percent rate of increase in private financing per public student -- i.e., more than twice the corresponding rate of increase for private schools.

Conclusion

76. As already mentioned, both the 1994 and 1986 estimates are tentative, and not too much significance should be attached to the absolute numbers. Nonetheless, a fundamental conclusion emerges from the relative growth of private financing for public versus private schools. Private schools are, and continue to be a vital element of private sector involvement in education. However, it is the growing importance of the private sector as a co-financier of the public education system that deserves particular attention in view of the underlying efficiency and equity implications (see Section 3.4).

2.4 Synthesis

77. Having successively reviewed the various sources of education financing in the Philippines, a global synthesis is provided in Table 2.10, covering total (recurrent and capital) expenditure.²⁴ Altogether, the Philippines spent a little over 100 billion on education in 1994, equivalent to about 6 percent of GNP. This estimate is probably somewhat on the low side, to the extent that it does not include the cost of non-degree skills development programs offered in private institutions, nor the private cost of pre-school education and early childhood development.

Table 2.10 Total Expenditure by Level of Education and Source of Financing (1994)

Level of Education	Source of Financing (in million Pesos)			
	Central Gov't.	Local Gov't.	Private	Total
Elementary	29,756	2,965	16,222	48,943
Secondary ^{a/}	9,436	932	15,337	25,705
Tertiary	10,270	137	17,973	28,380
Total	49,462	4,034	49,532	103,028

Source: General Appropriation Act 1994; COA Annual Financial Report

Local Government 1993; FAPE; mission estimates.

^{a/} Including vocational/technical education

²⁴For the sake of comprehensiveness, the table includes all minor education items, mostly vocational and in-service training programs offered by the various Government Departments. These items, totaling P422 million, are included in tertiary education.

78. The World Bank's 1988 Education Sector Study estimated total recurrent expenditure for education at 3.2 percent of GNP in 1986, which compares to 5.4 percent in 1994 when excluding capital expenditure from the present estimate. This rough comparison underscores the tremendous increase in the national investment in educational development that took place since the end of the Marcos period.

79. More than half of the total increase in recurrent education expenditure through 1986-94 came from private sources, so that the share of Government (central and local) declined from 61 to 48 percent (Table 2.11). Noteworthy, in particular, is the substantial increase in the proportion of private financing going to the elementary level, at the cost of tertiary education. The opposite evolution took place with regard to government financing, where the nationalization of village highschoools has reduced the share of elementary education. The latter remains nonetheless high by comparative standards.

Table 2.11 Changing Pattern of Education Financing ^{a/}, 1986-94
(% Distribution)

	Source of Financing					
	Government		Private		Total	
	1986	1994	1986	1994	1986	1994
I. Distribution of Financing by Source (%):						
Elementary	67.5	63.1	22.5	32.7	49.8	47.2
Secondary	17.5	20.9	31.2	31.0	22.9	26.2
Tertiary	<u>15.0</u>	<u>16.0</u>	<u>46.3</u>	<u>36.3</u>	<u>27.3</u>	<u>26.6</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0
II. Distribution of Financing by Level (%):						
Elementary	82.2	63.6	17.8	36.4	100.0	100.0
Secondary	46.3	37.9	53.7	62.1	100.0	100.0
Tertiary	<u>33.1</u>	<u>28.5</u>	<u>66.9</u>	<u>71.5</u>	<u>100.0</u>	<u>100.0</u>
Total	60.5	47.6	39.5	52.4	100.0	100.0
Memo item: Total in million P. (1994 prices)	25,181	44,912	16,417	49,532	41,598	94,444

Source: 1994, see Table 2.10; 1986, The Philippines Education Sector Study (World Bank, December 1988).

^{a/} Recurrent expenditure only

80. Both the differential growth rate and diverging sub-sectoral evolution of government and private expenditure have led to some significant changes in the overall pattern of education financing. Whereas government accounted for 82 percent of total elementary education financing in

1986, its share was reduced to 64 percent by 1994. At the other end, the decline in government's share of tertiary education financing was relatively minor (from 33 to 29 percent).

Conclusion

81. From a rather depressed condition in the mid-1980s, the commitment of national resources for education has now reached a comparatively high level by international standards. This investment is reflected in relatively high quantitative educational achievements: near universal entry into primary education, and secondary and tertiary enrollment rates far in excess of the average for the East-Asia Region.²⁵ Qualitative returns, however, leave much to be desired. Educators are concerned with the low level of learning outcomes and cohort survival rates (see Section 3.1). These weaknesses are increasingly seen as impediments to successful integration in the global economy.

82. From a social equity point of view, the distributional pattern of education financing was, and remains efficient -- i.e., the private sector's share of total financing is rising at each successive level of the education system, as the implicit extent of government subsidization declines. A cause for concern, however, is that this distributional pattern has become less progressive since 1986. Moreover, the private sector contribution to the national investment in education has grown to exceed the Government contribution. The equity implications of these changes are explored in Section 3.4.

²⁵ According to the Bank's 1995 World Development Report, 74 versus 52 percent at the secondary level, and 28 versus 5 percent at the tertiary level, in 1992.

III. Major Issues

3.1 Education and Poverty

83. There is a pervasive link in the Philippines between educational outcomes, both quantitative and qualitative, and the incidence of poverty. Annex 1 presents the results of a cross-sectional analysis of this relationship, based on detailed data for 97 provinces and cities with provincial status.²⁶ The analysis focuses on three sets of linkages, for public elementary and secondary schools respectively: (i) the relation between poverty and school participation; (ii) the relation between poverty and the regional distribution of educational resources; and (iii) the relation between school staffing characteristics and schooling outcomes. The main findings are summarized in this section, with comparative indicators for two regions: the National Capital Region (NCR), which has both the highest average family income and the lowest incidence of poverty in the country, and the Eastern Visayas region, which are at the other end of the scale (Table 3.1).

Table 3.1 Family Income, School Participation and Completion

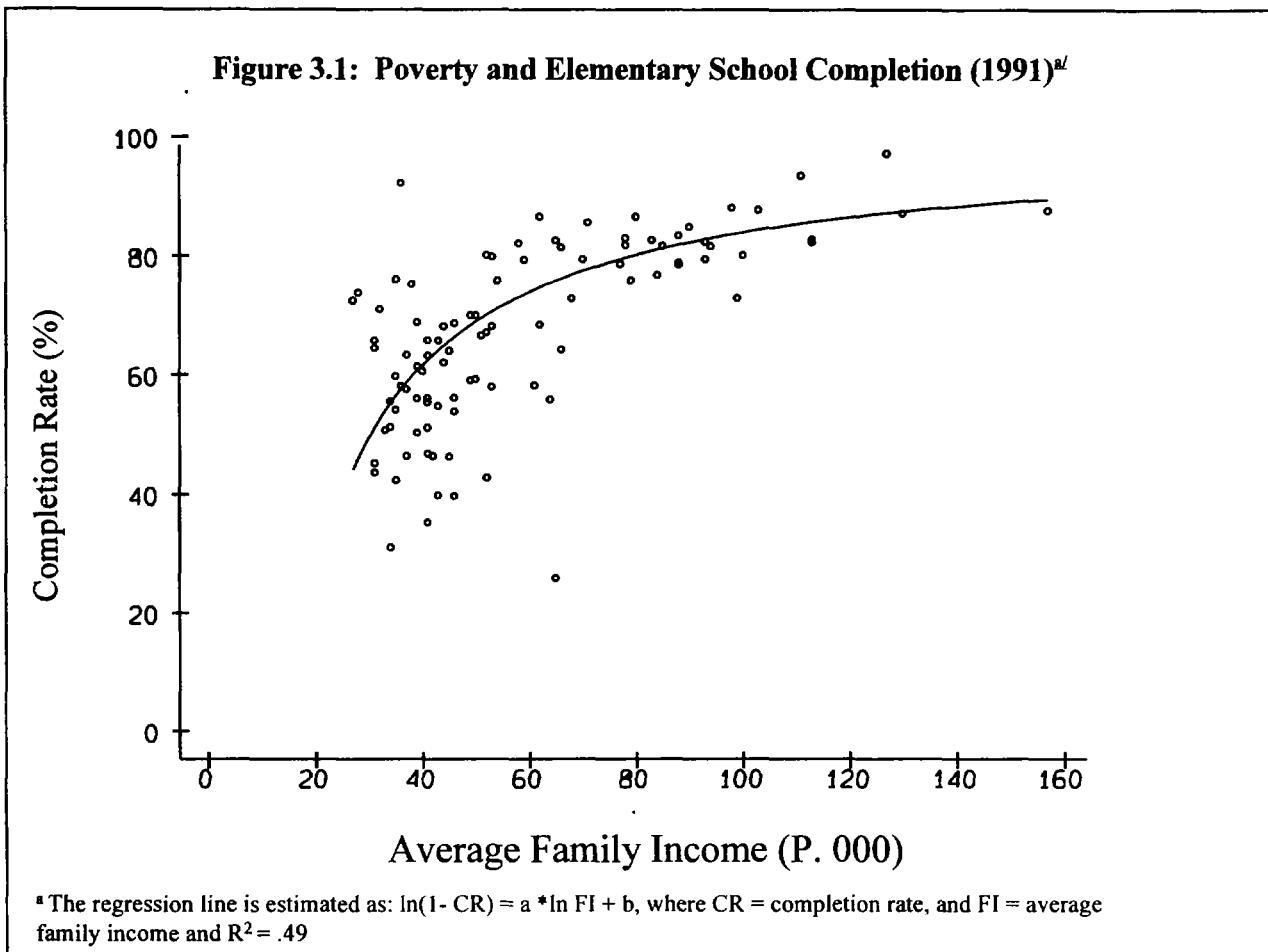
	East. Visayas	NCR
Average Family Income (P 1,000)	38.5	138.3
Poverty Incidence (%)	40.7	14.9
Gross enrollment rate:		
Elementary	98.0	112.0
Secondary	55.0	95.0
Tertiary	16.0	34.0
Completion rate:		
Elementary	54.0	97.0
Secondary	64.0	75.0

Sources: DECS, 1989/90

84. At the elementary level, where the school infrastructure is extensively developed and opportunity costs are still relatively low, income levels have a moderate, though significant, impact on participation. Nonetheless, the latest population census (1990) revealed that 1.7 million elementary school-age children were not attending school (18% of the 7-12 age group), a disproportional number of which in the poorest areas. More important at this level, however, is the link between family income and completion rates. Overall, one out of three children entering the first grade does not complete the cycle. Underlying this national average are such extremes as near-universal completion in the most affluent areas (mostly in and around NCR), and over 70 percent non-completion in the poorest provinces in Mindanao and the Visayas. Figure 3.1, wherein

²⁶These are generally equivalent to one of DECS' school divisions.

provinces and cities at various average income level are plotted against the corresponding elementary school completion rates, provides a vivid illustration of this relation.



85. With rising opportunity costs, the impact of income differentials on school participation is more significant at the secondary and tertiary levels. Inversely, the relation between income and school completion becomes weaker, once initial supply/demand constraints to access are overcome.

The ratio of highest to lowest completion rates among provinces and cities is about two at the secondary level, compared to almost four at the elementary level. This typical pattern of enrollment and completion rates is illustrated in Table 3.1 for the two outlying regions on the average family income scale. Elementary enrollment rates in both regions turn out to be pretty close, but the completion rate in the most affluent region is about twice that in the poorest. The reverse situation prevails at the subsequent level, with the enrollment rate in the Eastern Visayas region over 40 percent below the NCR level, but completion rates in both regions only 15 percent apart. A further widening of the differential in enrollment rates can be observed at the tertiary level.

86. The strong incidence of economic factors on school participation is evident from the results of a recent survey of out-of-school youth among the lowest 30% income group of households (Table 3.2). According to this survey, the high cost of education and the need to

contribute to the family income account for almost half of non-attendance in the 13-16 age group, and over two-third in the 17-24 group.

**Table 3.2 Reasons for Not Attending School
(lowest 30% p.c. income group)**

	Percent of Respondents in Age Group: ^{a/}					
	(7-12) yrs.		(13-16) yrs.		(17-24) yrs.	
Inaccessibility of school	14.2	(17.8)	4.4	(6.0)	2.1	(2.0)
High cost of education	10.1	(8.9)	22.0	(25.6)	22.2	(22.2)
Illness/disability	7.5	(7.8)	3.8	(5.1)	2.1	(2.0)
Working/looking for work ^b	9.0	(11.4)	25.4	(31.1)	46.6	(55.4)
Lack of interest	59.2	(54.1)	44.4	(32.2)	27.0	(18.4)

Source: Alejandro N. Herrin and Rachel H. Racelis, Monitoring the Coverage of Public Programs on Low-Income Families: Philippines, 1992 (NEDA, 1994).

^{a/} Corresponding values for females are indicated between brackets.

^{b/} Including housekeeping.

87. A major reason for non-attendance is an apparent "lack of interest" in education, particularly in the 7-12 and 13-16 age groups and among males. This particular reason, however, does not lend itself to unambiguous interpretation. Lack of interest in schooling may be the outcome of supply-related factors, such as inadequate curricula, unqualified teachers, and lack of learning materials. Low quality and relevance of education, combined with low growth of modern sector employment, may fuel a perception of low private returns to investment in education among parents, and adversely affect their attitude towards schooling. By the same token, lack of interest may reflect specific poverty-related constraints. Irregular class attendance due to competing work-related activities, for instance, affects children's ability to cope with the learning process. This may cause them to lose interest, and eventually to drop out of school altogether. Malnutrition may have the same outcome.

88. Malnutrition likely accounts for a significant proportion of the professed lack of interest among children from the poorest 30 percent of households. Firstly, a similar survey of out-of-school youth conducted in 1988, covering all income groups, shows a much lower incidence of lack of interest as stated reason for non-attendance.²⁷ Secondly, the relatively high percentage of 7-12 age children not attending school because of illness or disability is in itself a reflection of widespread malnutrition and poor health care among the poor. Thirdly, the health and nutrition situation in the Philippines compares rather unfavorably with regional standards, as well as with countries in the same range of per capita GNP, as shown in Table 3.3. The evidence thus suggests that school-based preventive health maintenance and feeding programs in the poorest areas may be required.

²⁷The 1988 survey covers the 7-24 age group without further breakdown. The proportion of out-of-school youth for reason of "lack of interest" averages 22.2 percent nation-wide, compared to 33.4 percent for the same age group in the 1992 survey of the lowest 30 percent income group. A noteworthy outcome of the 1988 survey, in this particular context, is the much higher proportion of children lacking interest in rural than in urban areas (26 versus 16 percent).

Table 3.3: Comparative Nutrition & Health Indicators ^{a/}

	PHL	EAP	LMI
Prevalence of malnutrition (% under -5)	34	25	17
Low birthweight babies (%)	15	10	11
Infant mortality (p. 1,000 live birth)	40	39	45
Under -5 mortality (p. 1,000 live birth)	50	49	59
Life expectancy at birth (yrs.)	65	68	68
Population/physician	8,120	3,990	2,230
Population/hospital bed	780	553	516

Source: World Development Report 1994; Social Indicators of Development 1994.

^{a/} PHL = Philippines; EAP = East Asia & Pacific; LMI = Lower middle-income countries

89. Compared to other reasons for non-attendance, inaccessibility of schools plays a minor role at post-elementary levels (Table 3.2). It is somewhat of an issue at the elementary level, but one that does not appear to be related to poverty per-se. Analysis of the results of a 1992 school-mapping survey (Annex 1) shows that there is no connection between the proportion of Barangays without elementary school in each school division and the incidence of poverty. Nor does there appear to be any relationship between divisional participation rates and the proportion of Barangays without elementary school.

90. Non-completion is certainly also a result of inadequate quality of educational services delivered in public schools. There is evidence of substantial, and widening, quality differentials in basic education between prosperous and poor regions in the Philippines (see Annex 1). Mean scores in terminal examinations in public elementary and secondary schools, for instance, are significantly higher in the NCR than in the Eastern Visayas region (Table 3.4).

91. As a rule, private schools score higher than public schools, both in terms of completion rates and test results. It is interesting to note, however, that the poorer a region the higher the performance differential between private and public schools. This suggests that regional quality differentials tend to be larger among public than among private schools. In other words, the poor receives a lower quality basic education, not only because he attends a public school, but also because the quality of public schools is comparatively lower in the poorest regions. This phenomenon is essentially related to the inequitable distribution of essential educational inputs, both quantitatively and qualitatively, among the various regions and between rural and urban areas (see Section 3.3).

Table 3.4: School Performance: Eastern Visayas Region vs. NCR

	East. Visayas	NCR
Elementary level:		
Mean NEAT scores (public) ^{a/}	61	71
Idem, ratio private/public scores	1.47	1.37
Ratio private/public completion rate	1.67	1.03
Secondary level:		
Mean NCEE ratings ^{b/}	461	523
Idem, ratio private/public ratings	1.11	1.21
Ratio private/public completion rate	1.29	.99

Source: DECS

^{a/} National Elementary Achievement Test

^{b/} National College Entrance Examination

Conclusion

92. Improving the quality and retention of public schools ought to be a fundamental component of Government's fight against poverty. The priority is at the elementary level, where a vast majority of children from poor families do initially access the public school system, but a substantial proportion of them eventually drops out prematurely, without having acquired the minimum literacy and numeracy skills required for productive participation in economic development. A key factor of the "Asian Miracle", which the Philippines seek to emulate, was the achievement of universal primary education, not just in terms of access but also of successful completion. The Philippines Government is fully aware of the situation, and intends to make improvement of the quality of basic education a cornerstone of its overall strategy to fight poverty.

3.2 Fiscal Decentralization and Equity

93. The fiscal decentralization process initiated by the new 1991 Local Government Code has triggered a rapidly increasing role of LGUs in the financing of public education. Relative to needs, however, the incidence of local education financing is rather unevenly spread. Fiscal decentralization and devolution have generated winners and losers among LGUs, essentially because the incremental cost burden of devolved services bears no relation with the distribution of IRA transfers.

94. Although education services have not been formally devolved to LGUs, under-financing of the public basic education system from the central government budget is de-facto leading to selective decentralization of education financing. Winners among LGUs have resources available

for extra support to public schools. They do so voluntarily, each according to means, by paying salary supplements to teachers, hiring extra teachers to reduce class size below DECS' steadily increasing school staffing norm (see Section 3.3), and providing extra financing for school maintenance, equipments, supplies and other operating costs, as well as for classroom construction (see Annex 2).

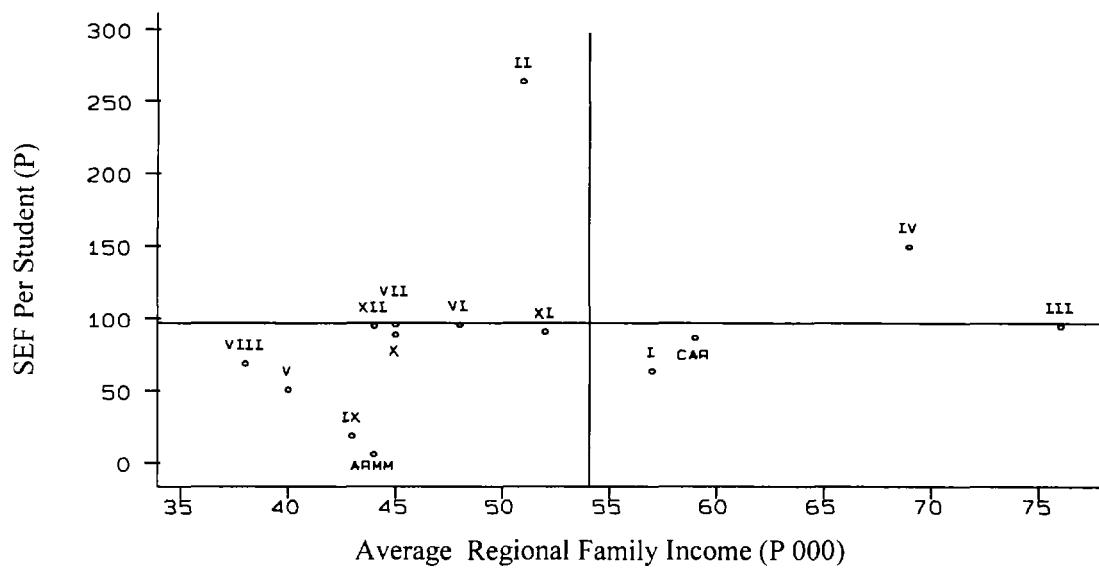
Special Education Fund

95. The Special Education Fund (SEF) is the largest source of local education financing. Since this fund is maintained from the local proceeds of the real estate tax, one might expect the magnitude of SEF resources available to LGUs to depend largely on the relative distribution of wealth among the country's widely different rural and urban areas. In this respect, the available data show that there is foremost a major imbalance in SEF endowment between the NCR and the rest of the country. The NCR alone, with only 10 percent of total enrollment in public schools, accounted for half of national SEF expenditure in 1993. By contrast, SEF expenditure in the combined five Mindanao regions, which account for 25 percent of total public enrollment, accounted altogether for only 10 percent of national SEF expenditure. Assuming that the bulk of SEF financing is for basic education (i.e., elementary and secondary schools), it was equivalent to about P890 per student in the NCR, while averaging only P70 per student in Mindanao.²⁸

96. Leaving aside the NCR, variations in SEF expenditure per student among regions are less extreme, and, surprisingly, only tentatively related to wealth differentials (Figure 3.2). Most of the low-income regions also had below average SEF expenditures per student in 1993. However, there are a number of interesting outliers. For instance, unit SEF expenditures were almost at par with the national average (excluding NCR) both in Central Luzon (region III) and Central Mindanao (region XII), even though average family income is the highest in the former region (P76,000) and one of the lowest in the latter (P44,000). Similarly, Cagayan Valley (region II) is close to the national average (excluding NCR) as far as income is concerned, but it had comparatively high unit SEF expenditures (P264 per student).

²⁸ According to the 1991 FIES, the average annual family income in the NCR is P138,000, with a poverty incidence of 15 percent, compared to P47,000 and 52 percent respectively in Mindanao.

Figure 3.2: Regional Income and Per Student SEF Expenditure (1994) ^{a/}



^{a/} Elementary and secondary levels are combined. The vertical and horizontal lines cutting the figure into 4 quadrants reflect the national average value of the respective variables. NCR region with SEF expenditure per student of 878 and family income of 138,000 is excluded. The Philippines' 15 administrative regions, most denoted by roman numbers, are defined in Figure 3.3. ARMM stands for the Autonomous Region of Muslim Mindanao.

97. The evidence thus suggests that regional variations in SEF endowment are perhaps as much related to variations in taxation rates and efficiency, as to differences in the relative size of the tax base. It also indicates, therefore, that there may be room for increasing local contributions to education financing through greater effectiveness in real estate tax collection, even in some of the less affluent provinces. In the long haul, however, local tax reforms and improvements in tax administration are likely to exacerbate rather than ease revenue disparities among LGUs. Some equalization mechanism at the center may therefore be required, to even out the most flagrant regional disparities.

General Funds

98. As far as the distribution of the IRA among LGUs is concerned, the 1991 Local Government Code, by significantly reducing the population size criterion in favor of equal sharing and, to a lesser degree, land area, tends to strengthen the financial situation of less populated, predominantly rural areas. However, the extra financial burden of devolved responsibilities and services by Central Government may weaken this advantage, and reinforce existing disparities. The net outcome, however, is unlikely to even out disparities in SEF endowment among LGUs.

99. Much remains to be learned about LGUs' willingness and ability to commit resources to education, over and above the statutory minimum level of earmarked SEF funding -- which is itself the outcome of the prevailing local taxation effort. Without formal devolution of educational responsibilities, local financial commitment to education remains indeed entirely voluntary.

Nonetheless, tentative evidence (Annex 2) suggests that the willingness to invest local resources in education is high, even though the ability may vary according to means. This is also confirmed by a cross-sectional analysis of local education financing in 1991 among 1,239 municipalities,²⁹ showing education expenditures per student to be significantly correlated with average per capita income, the local taxation effort, and per capita IRA entitlement.

Conclusion

100. There seems to be room for further increase in education financing by LGUs, particularly where the local tax collection effort can be strengthened and where IRA proceeds have so far exceeded the incremental cost of the simultaneous devolution of services from the center. Fiscal decentralization, however, has contributed to broaden initial disparities among LGUs in terms of their capacity for supplementing the shortfall in DECS financing. Local taxation improvements are likely to further sharpen those disparities. There is thus a real danger that this process will increase the quality gap of public education between rich and poor LGUs, and therefore widen regional differences in school completion rates and learning outcomes.

3.3 Social Targeting

101. Given its limited resources, relative to rapidly growing needs, DECS should increasingly seek to target its financing towards the most disadvantaged LGUs, population and/or income groups. It may also have to devolve some financial responsibilities to the most affluent LGUs. What is currently the pattern of DECS' resource allocation in this respect?

102. Table 3.5 compares the relative magnitude of 1994 central budget allocations for the two outlying regions on the family income scale. The comparison hardly needs commenting. It is interesting to note, however, that allocations per school, even more than per student, tend to favor the most affluent and urbanized region. Evidently, schools in the latter benefit inherently from economies of scale, which are not taken into account in the regional budget allocation criteria.

103. The reality is that present norms underlying DECS' regional budget appropriations do not aim at counterbalancing the regressive impact of fiscal decentralization on local education financing, not to speak of redressing initial disparities in schooling outcomes. Analysis of the DECS 1994 budget shows that per student allocations for MOOE among Divisions are confined within a relatively narrow range, both at the elementary and secondary levels, independently of actual needs (see Annex 1, Figures 3 and 4). NCR Divisions, which are being granted a substantially higher per student allocation than most other Divisions, are again a notorious exception.

²⁹Benjamin J. Diokno, "Devolution and Education Finance" (draft, University of the Philippines, 1994).

Table 3.5: DECS Resource Allocation: E. Visayas Region vs. NCR

	East. Visayas	NCR
I. Per Student Allocation (P.)		
<u>Elementary level:</u>		
Recurrent expenditure	2,451	2,527
Maintenance & other operating exp.	117	209
<u>Secondary level:</u>		
Recurrent expenditure	1,525	2,982
Maintenance & other operating exp.	175	344
II. Per School Allocation (P. 1,000)		
<u>Elementary level:</u>		
Recurrent expenditure	427	4,741
Maintenance & other operating exp.	20	392
<u>Secondary level:</u>		
Recurrent expenditure	806	11,231
Maintenance & other operating exp.	93	1,294

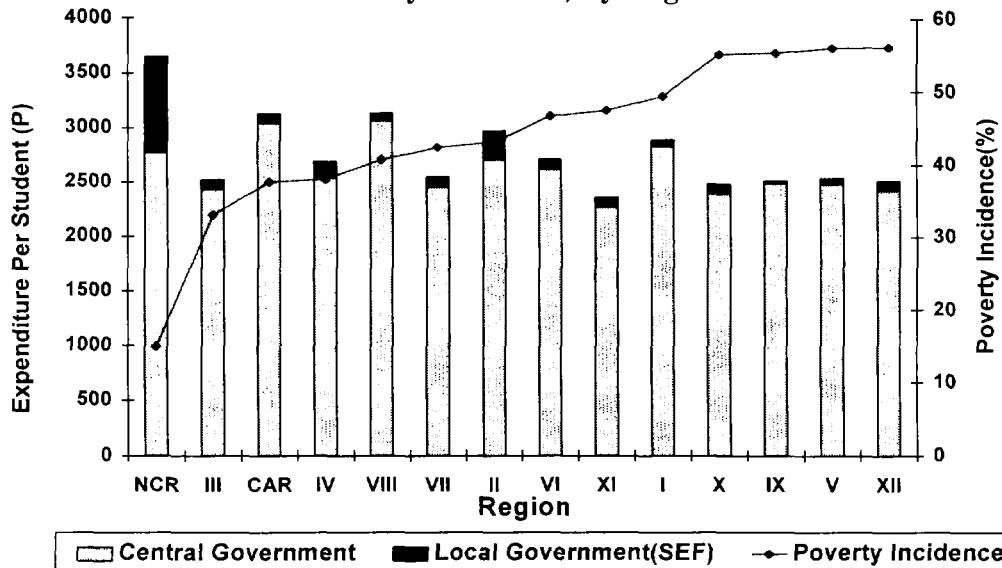
Source: DECS, 1994 General Appropriation Act

104. Figure 3.3 illustrates the extent to which the regional distribution of government expenditure for basic education is biased against the poorest regions. It shows central and local government recurrent expenditure per public school student³⁰ for the country's 14 administrative regions, ranked in ascending order of poverty incidence (measured on the right-hand vertical scale). Clearly, the lack of a coherent DECS strategy for actively targeting resources towards the most pressing needs, the most disadvantaged areas or population groups is an overriding issue in this context. The issue is essentially political. Continuous interference by the national and local legislature, both in the appropriation and execution of the education budget, is depriving DECS of the control required for effective social targeting. With a few exceptions, the outcome of this permanent tension between the legislative and executive branches of government is the generalized application of regional resource sharing criteria, without adequate reference to local circumstances, actual needs, and specific cost factors.³¹ The uncertain quality of education statistics and their ineffective use for education management, as well as critical weaknesses in the monitoring of the budget implementation process tend to compound the problem.

³⁰ Local recurrent expenditure are limited to those financed through the SEF. The breakdown of these expenditures by level of education is unavailable. Assuming that most of this financing goes to basic education, per student expenditure therefore relates to the combined total of public elementary and secondary school enrollment in each region.

³¹ A minor component of DECS' central MOOE budget is being allocated to each region on the basis of a development index which reflects regional differences in poverty incidence, literacy, participation rate and educational achievement level. It is unclear, however, how these resources are further distributed among Divisions and Districts. Overall, this modest element of social targeting does not appear to be noticeable at the school level.

Figure 3.3: Government Basic Education Expenditure Per Student (1994), and Poverty Incidence, By Region



I- Ilocos Region	V- Bicol Region	IX-Western Mindanao	CAR- Cordillera Administrative Region
II - Cagayan Valley	VI-Western Visayas	X-Northern Mindanao	NCR- National Capital Region
III- Central Luzon	VII-Central Visayas	XI-Southern Mindanao	
IV-Southern Tagalog	VIII-Eastern Visayas	XII-Central Mindanao	

School Construction

105. The national school construction program is a case in point. Reflecting the country's constitutional commitment to free public basic education, a political slogan is that there ought to be one public elementary school in every barangay throughout the country, and one public secondary school in every municipality.³² This slogan represents a major investment program, a significant part of which is not really necessary, hence diverting scarce resources from urgent priorities. Not every barangay needs or can accommodate a school, and there is little evidence that lack of immediate access is constraining actual school attendance. Moreover, it is estimated that about one-third of the existing stock of elementary classrooms is in urgent need of rehabilitation or reconstruction.³³

106. Even then, the proportion of barangays without school in each division is at least one criterion of relative needs, albeit a rather crude one, that can be applied for regional allocation of DECS' capital budget. The reality of school construction, however, is often different. In one region, for instance, the DECS Regional Office had established a plan, based on a bottom-up assessment of priority needs, for the distribution of the 1994 school construction budget among the

³² As of early 1994, there were altogether close to 11,600 barangays (27 percent of all barangays) without elementary school.

³³ DECS recorded 69,959 unused elementary classrooms in 1994. Dilapidated buildings appear to be one of the main reasons for these "excess" classrooms, which continue to be inventoried by school principals to boost their budget claims.

various divisions. The region's provincial Governors, however, decided to split the budget evenly. As a result, the least populated province received more than it could effectively accommodate.³⁴

107. Another example, in this context, is the introduction of a legislative proposal in the Senate, early 1994, with new rules for the distribution of DECS' school construction budget among congressional districts.³⁵ The bill's explanatory note states that the distribution of school building funds in the previous year had been inequitable, on account of the fact that one-third of congressional districts were allocated amounts in excess of the available average appropriation per district. To remedy this situation, the bill typically proposes that capital outlays be allocated among legislative districts as follows: (i) 25 percent equally; (ii) 50 percent proportionally on the basis of population size; and (iii) the remaining 25 percent "to be allocated through DECS on the basis of each legislative district's needs and requirements".

108. It is interesting to note that the above distribution formula is identical to the one adopted in the 1991 Local Government Code for the distribution of IRA, with DECS' authority being reduced to the equivalent of the "land area" component. The proposal thus amounts to devolution of three-quarter of DECS' present responsibility for school construction to legislative districts. In this respect, it reaffirms the original intent of the 1991 Local Government Code. On the whole, the bill is symptomatic of a reluctance to face the implications of the country's considerable geographic, cultural and social diversity, and accept discriminatory use of national resources for the sake addressing priority regional needs. A positive element, however, is that DECS is at least given explicit authority to allocate its remaining capital budget according to needs, which could provide an initial basis for more pro-active social targeting strategies.

109. Part of school construction is executed outside DECS' capital investment program, financed essentially through the SEF or other discretionary public funds.³⁶ The absence of a truly coherent national strategy for the expansion of the public school system, and DECS' lack of effective control of school construction at the local level, have critical implications for DECS' recurrent budget. Every new classroom requires a teacher and other recurrent commitments which eventually have to be absorbed in the DECS budget. Uncontrolled expansion, whether financed through DECS' capital budget or not, therefore leads to unplanned additional claims on the recurrent budget. This, in turn, reduces DECS' flexibility for effective expenditure targeting.

110. Moreover, such additional claims may become increasingly difficult to meet, and ultimately threaten the quality and sustainability of the public education system. Indicative of such a threat are the real decline in DECS' per student MOOE allocations, and the increasing number and duration of "extension teachers" remaining on LGU payrolls (see Annex 2).

³⁴To date, this province has not been allocated sufficient resources to operate the new classrooms.

³⁵Ninth Congress of the Republic of the Philippines, Second Regular Session, S. No. 1631, 1994.

³⁶Each congressman, for instance, is being allocated a so-called Countryside Development Fund from the national budget, which he may spend at his discretion. Typically, these funds are divided equally among congressional districts (presently about US\$1 million each). An unknown proportion of these funds are used for school construction.

School Staffing

111. Several uniformly applied staffing rules currently affect the relative quality of public elementary and secondary education in rural versus urban areas (see Annex 1). For instance, the criteria used for the allocation of new teacher positions³⁷ force schools in less populated areas to operate classrooms in multi-grade teaching mode. This is in itself cost-effective and desirable, but the fact that teachers have not been adequately trained for such a demanding teaching practice tends to turn it into a disadvantage. Local school authorities with the means of hiring additional teachers often do so to avoid having to operate multi-grade classrooms.

112. Similarly, the rules underlying the attribution of slots for school heads tend to favor more densely populated areas.³⁸ Only 25 percent of public elementary schools nationwide are managed by a ranking school principal. But in the NCR, all schools have a principal,³⁹ whereas in the Eastern Visayas region only 14 percent of schools do. Head teachers, the next in line school managers, cover another 22 percent of schools, leaving over half of the country's public elementary schools under the care of a teacher in-charge, the lowest level of school management. Regionally, however, the proportion of schools managed by a teacher in-charge ranges from zero in the NCR to as high as 73 percent in the ARMM.

113. Empirical research on effective schools has brought to light the important role of competent school management in securing quality education. For the Philippines, this is confirmed by a recent study of learning achievements in elementary schools,⁴⁰ which found, among other relevant factors, that the heads of high performing schools occupy the rank of principal. The cross-regional analysis documented in Annex 1 (Tables 5, 6 and 7) also shows a significant positive connection between the proportion of schools headed by a ranking principal and elementary completion rates. Even more significantly, the analysis shows the odds for elementary schools to be headed by a ranking principal to increase with provincial income levels.

114. Teachers in charge are largely exempted from teaching duties. They represent altogether about 6 percent of the total stock of teachers. But again, this loss of teaching staff to administrative duties ranges from zero in the NCR to twice the national average in the ARMM, Eastern Visayas, and CAR. This phenomenon contributes to raise actual student/teacher ratios in the poorest school divisions above the level implied by the conventional school statistics.

³⁷ At the elementary level, for instance, DECS applies the following norm for the approval of new teacher slots on the central payroll: classes of less than 15 pupils do not qualify for a teacher; classes of 15 to 55 pupils are entitled to one teacher; an extra teacher slot is approved when the number of pupils exceeds 55. The norm is uniformly applied throughout the country.

³⁸ Both at elementary and secondary levels, only schools with more than 11 teachers are awarded a principal. Above this minimum, the rank of a principal also increases as a function of the number of teaching positions. Schools with 8-10 teachers are headed by a "head teacher", and schools with less than 8 teachers by a "teacher in-charge". Head teachers are recruited among senior teachers with experience as teacher in-charge, and principals among senior head teachers. In addition to seniority, promotion through the ranks depends on the accumulation of in-service training credit points, and for principals also on pupil performance and community relations.

³⁹ In fact there are more principals than schools in the NCR (574 versus 469 in 1991/92).

⁴⁰ Patricia B. Licuanan. A Comparative Study of High Performing and Low Performing Elementary Schools (Ateneo de Manila University, 1995)

115. In addition, the seniority, hence qualifications and experience, of school principals is on average significantly higher in the more wealthy regions, particularly NCR, than in the others. The same applies with regard to the distribution of teacher qualifications; the proportion of lowest ranking, hence least experienced staff in the teaching corps tends to be highest in the poorest regions. A case in point is the appointment of master teachers, the highest ranking teaching staff, who have responsibility for providing pedagogical counselling and support to their junior colleagues. DECS' rule is that the allocated number of master teacher positions should not exceed 10 percent of the number of teachers in each school division. Nationwide, the actual proportion of master teachers at the elementary level (9.1 percent in 1991/92) appears to conform to the rule, but it is well below the national average in some of the country's poorest region and well above in others.

116. The misdistribution of master teachers is even more evident when related to the number of schools in each region. In principle, each school should have a master teacher, but the divisional ceiling set by DECS, combined with the difficulty of reassigning staff across school divisions, does not make this uniformly feasible. Nationally, there are three master teachers for every four elementary schools, an overall shortage of 25 percent. The NCR has on average more than 4 master teachers per elementary school, whereas there is only one master teacher per 3 schools in two of the poorest regions (ARMM and Eastern Visayas).

117. The discriminatory consequences of the uniform application of all these staffing rules are summarized in Table 3.6 for the two benchmark regions. The detailed cross-regional analysis in Annex 1 further supports the conclusion that DECS' school staffing norms favor the more affluent school districts in the country and that they account to a significant degree for the perpetuation of regional differences in educational achievements.

118. Raising the quality of school management through empowerment of school heads, increasing both their decision-making authority and their accountability for school outcomes, is an important element of DECS' emerging strategy towards improvement of the quality of basic education. Greater parity in the relative distribution of qualified managerial staff is required, however, if decentralization of management authority is to be a success. It may otherwise contribute to widen existing regional disparities in the quality of public education services.

119. DECS' ongoing policy of phasing out the function of District Supervisor, in the context of the government-wide effort at streamlining the bureaucracy, is a related issue. This policy weakens the system's management capability at the basis, thus appearing at odds with the aim of decentralized sector management. In the absence of a district supervisor, his function is being taken over by a coordinating elementary school principal, usually the most senior principal in the district. The function being a full-time job, the acting district supervisor has to leave the day-to-day management of the school to the most senior teacher. The policy thus leads to a de-facto loss of the most experienced school managers equivalent to the number of departing district supervisors, and, in turn, to a corresponding loss of experienced teachers.⁴¹ Although the policy applies in principle

⁴¹ Each performing at a higher hierachic level without corresponding promotion, which explains why the measure is vastly unpopular.

equally to all regions, the evidence indicates that the poorest and outlying areas are at a disadvantage.⁴²

Table 3.6 School Staffing Characteristics: E. Visayas vs. NCR

	Elementary Level (1991/92)		Secondary Level (1992/93)	
	East. Visayas	NCR	East. Visayas	NCR
Average no. of students per:				
School	174	1,876	529	3,766
Classroom	28	59	n.a.	n.a.
Teacher	29	32	34	27
Average no. of teachers per:				
Principal	43	46	85	169
Master Teacher	24	13	35	26
Average no. of master teachers per School	.3	4.4	.4	5.0
% lowest level:				
Principals	82	49	51	7
Teachers	63	52	84	67
% of schools headed by:				
Principals	15	100	18	89
Teachers In-Charge	65	0	36	0

Source: DECS

120. DECS' ongoing policy of phasing out the function of District Supervisor, in the context of the government-wide effort at streamlining the bureaucracy, is a related issue. This policy weakens the system's management capability at the basis, thus appearing at odds with the aim of decentralized sector management. In the absence of a district supervisor, his function is being taken over by a coordinating elementary school principal, usually the most senior principal in the district. The function being a full-time job, the acting district supervisor has to leave the day-to-day management of the school to the most senior teacher. The policy thus leads to a de-facto loss of the most experienced school managers equivalent to the number of departing district supervisors, and, in turn, to a corresponding loss of experienced teachers.⁴³ Although the policy applies in principle equally to all regions, the evidence indicates that the poorest and outlying areas are at a disadvantage.⁴⁴

⁴²In the combined Bulacan and Valenzuela divisions, both contiguous to Metro-Manila and relatively affluent, there were 32 district supervisors in function for a total of 40 districts. In the Benguet division, in the Cordillera region, only 5 of the 14 school districts have an actual supervisor.

⁴³Each performing at a higher hierachic level without corresponding promotion, which explains why the measure is vastly unpopular.

⁴⁴In the combined Bulacan and Valenzuela divisions, both contiguous to Metro-Manila and relatively affluent, there were 32 district supervisors in function for a total of 40 districts. In the Benguet division, in the Cordillera region, only 5 of the 14 school districts have an actual supervisor.

Government Assistance for Private Education

121. Social targeting has inspired the creation of the GASTPE programs (Government Assistance to Students and Teachers in Private Education), funded through the DECS budget, to enable youth from lower income households to attend private highschools and colleges. GASTPE support at the secondary level is channeled through two different schemes: Tuition Fee Supplements (TFS), and Educational Service Contracting (ESC). The TFS scheme subsidizes a P290 portion of annual tuition fees for students enrolled in private highschools. The TFS program was allocated P187 million for the 1994/95 schoolyear, for 644,000 beneficiaries (41 percent of total private enrollment at that level).

122. ESC is an innovative financing scheme designed to enable students to enroll in participating private schools, in communities where there is no public highschool, or where there is excess enrollment in existing public highschools.⁴⁵ Private schools participate on a voluntary basis, and must meet certain quality criteria. The ESC subsidy amounts to P1,500 per year, paid directly to the school. This amount was apparently determined on the basis of the average per student cost of public schools, but it is in reality considerably below the actual cost of both public and private schools. Qualifying students may enroll in more expensive schools, but have to pay the cost difference. ESC funding totals P280 million in 1994/95, for 187,000 secondary students (12 percent of private enrollment).

123. GASTPE plays a considerably less prominent role at the tertiary level. It consists of:

- (a) A TFS scheme similar to the one for secondary schools -- P10,000 per student, for about 17,650 beneficiaries in 1994/95 (1.5 percent of private enrollment at that level).
- (b) The Study Now Pay Later student loan scheme -- also P10,000 per student, for 2,890 beneficiaries (.2 percent of private enrollment).
- (c) A College Faculty Development Fund -- P29 million for 550 beneficiaries.

124. Total funds allocated for GASTPE programs increased from P686 million in 1989/90 to P849 million in 1992/93, but remained at that level in the next year, and declined to about P700 million for the current schoolyear. Meanwhile, the share of support to secondary education declined from 75 to 48 percent in 1992/93, and was raised again to 67 percent in 1994/95. Within this component, the size of ESC increased steadily at the expense of the TFS scheme. The reverse is taking place at the tertiary level, tuition fee supplements gradually displacing the student loan scheme.

125. How effectively is GASTPE targeted to lower income groups? From a regional distribution perspective, GASTPE might be seen as an example of successful targeting. Regional

⁴⁵Student enrolled in public schools beyond the maximum allowable class size of 55 are considered "overflow" students, eligible for free enrollment in a private school.

allocation of GASTPE funding by and large favors the poorest regions. Relative to total private enrollment, elementary and secondary combined, the 1994/95 allocation for the highest income NCR amounts to about P30 per student, compared to almost P484 for the lowest income Eastern Visayas region. GASTPE thus subsidizes a higher proportion of private enrollment in the latter region than in the former.

126. At the grassroots level, however, a DECS commissioned survey of ESC beneficiaries provides mixed findings with respect to targeting effectiveness.⁴⁶ Half of the responding parents of student beneficiaries were either farmer (26 percent) or jobless (23 percent), with another 11 percent labeled as semi-skilled workers. The reported income of a vast majority of respondent families would appear to have been below the poverty line. Most likely, however, family income was considerably under-reported. As much as 20 percent of respondents reported to have no fixed income, which may be characteristic for farmers and self-employed but not necessarily related to poverty. More importantly, the reported educational attainment of parents were significantly above the national average for low-income households, which seems at odd with the reported income profile.⁴⁷

127. The essential admission criterion for ESC beneficiaries is to have been declared overflow students. Although preference is in principle to be given to students from lower income families, the procedure in itself does not guarantee that this happens. Since Government has a constitutional obligation to provide free secondary education, any applicant qualifies for ESC regardless of family income. The above mentioned DECS study identifies a number of problems related to the selection of ESC grantees, which tend to confirm the intrinsic weakness of the selection process. Apparently, students declare themselves "overflow" without being officially certified as such. This practice is implicitly encouraged by private school principals who personally select ESC grantees without the required certification of overflow. On the other hand, there are also principals of public highschools who do not declare overflow students when class size exceeds the limit.

128. Another drawback of the present GASTPE system is the rather low level of subsidization relative to actual costs per student. The TFS subsidy obviously only benefits students who can afford to pay the substantial unsubsidized portion of total costs. The ESC scheme does not cover total costs either. First, it only covers tuition fees, leaving textbooks and other school fees at the charge of students. Secondly, the imposed tuition fee ceiling of P1,500 is unrealistically low (see Section 3.4), leaving the difference with actual fees again at the charge of ESC grantees. Altogether, the unsubsidized cost of private school attendance remains prohibitive for students from the poorest families. The same holds for the tertiary GASTPE programs.

⁴⁶See "Government Subsidy to Private Secondary Education: A Review and Assessment", Secondary Education Development Project, Research Monograph No. 2 (DECS, 1992). This study was in part based on a nation-wide survey of 640 participating highschools with 3,395 student beneficiaries, and a random control sample of 946 non-ESC students. The survey was conducted during the 1991/92 schoolyear.

⁴⁷Of the ESC parent respondents, 19 percent had less than elementary school completion, and 52 percent less than secondary completion. For the total 15-64 age population, the corresponding achievements were 21 and 41 percent respectively (NSO, 1992 Labor Force Survey). For the lowest three income decile of the 15-64 age population, however, these achievement levels were 26 and 61 percent respectively (NSO/NEDA, 1992 Socio-Economic Survey of Special Group of Families).

129. With respect to ESC, finally, there is also evidence that the low tuition fee ceiling, as well as reported substantial delays in the payment of the subsidy, has discouraged qualified private highschool from continuing their participation in the program. There is thus a danger that the ESC scheme, in its present form, fosters the emergence of a third tier secondary schooling system: i.e., private but low quality highschools for subsidized students from lower income groups.

130. It seems that so far, with a given budget allocation, GASTPE has essentially sought to maximize the number of student beneficiaries. These indeed represent a substantial, and in some regions even imposing, proportion of private enrollment. If GASTPE is to benefit the poor, however, the selection of beneficiaries ought to rely on effective means testing. It might also be wiser to increase the level of subsidization, even if it means reducing the overall number of beneficiaries. More effective targeting criteria for the selection of beneficiaries is also needed.

Conclusion

131. DECS' regional budget appropriations are based on conventional resource sharing norms and criteria without adequate reference to local circumstances, actual needs, and specific cost-factors. As such, the overly centralized budget process fails to address priority needs at the periphery. Lack of effective control over the appropriation and execution of its own budget also limits DECS' scope for more pro-active social targeting strategies, aimed at reducing existing regional disparities in schooling outcomes. The GASTPE program, subsidizing access to private education, was an innovative social targeting initiative. For this program to be truly pro-poor, however, means testing ought to become a key criterion in the selection of beneficiaries.

3.4 Public Versus Private Education

132. As discussed in Section 2.4, education financing from private sources plays an important role in the Philippines, both with respect to private and public schools. This direct private contribution is to a large extent the counterpart of a relatively inefficient public resource mobilization effort, reinforced by the rather weak progressivity in national taxation. The question may therefore be raised whether the distribution between public and private education financing is appropriate, from a social equity point of view.

133. The following analysis is based on 1994 estimates of the per student cost (unit cost) of educational services in public and private schools at the respective levels of education. For better understanding of relevant recent changes, these estimates are compared with corresponding unit cost estimates for 1986, documented in the World Bank's 1988 Education Sector Study. Conceptually, both sets of estimates are roughly comparable, combining central government and LGU budget data, school-based data, and relevant information from household surveys.

Unit Recurrent Costs

134. The total cost of educational services consists of: (i) the operating cost of schools; (ii) direct private costs other than school fees (transportation, books and pedagogical supplies, etc.);⁴⁸ and (iii) the cost of DECS' sector management and operational support (curriculum development, student examination, school inspection, etc.), serving both public and private education.⁴⁹ Estimates of the average recurrent cost per student in public and private education are shown in Table 3.7.

**Table 3.7 Unit Recurrent Cost of Public and Private Schools
by Level of Education (1994)**

	Level		
	Elementary	Secondary	Tertiary
Unit Cost (P.):			
Public	4,085	4,846	24,870
Private	4,580	6,101	14,170
Public/private ratio	.89	.79	1.76
Ratio to public elementary level:			
Public	1.00	1.19	6.09
Private	1.12	1.49	3.47

Source: Table 2.10, DECS

135. A first conclusion emerging from these numbers is that private education is somewhat more expensive than public education at the elementary and secondary level (12 and 26 percent respectively). Public tertiary education, however, is considerably more costly (76 percent) than its private equivalent. Secondly, public and private unit costs are moderately progressive from one level to the next; the cost of secondary education exceeds that of public elementary education by a 20-50 percent margin, while the cost of one tertiary student would accommodate 3 to 6 public elementary students. Thirdly, relative to per capita GNP, both private and public unit operating costs are comparatively low, particularly at the secondary level (Table 3.8). At the tertiary level, the unit operating cost of public institutions lies somewhere between the levels prevailing in Indonesia and Korea in the mid-1980s, but substantially below the resource commitment of Malaysia in the early 1990s. On the other hand, the unit cost of private tertiary education in the Philippines is not only far below its public equivalent, but also below regional norms.

⁴⁸Unit costs, as defined in this section, exclude the cost of school uniforms, meals and boarding, as well as the opportunity cost of students' forgone earnings.

⁴⁹This cost is distributed pro-rata of enrollment in public and private schools at the respective education levels.

**Table 3.8 Unit Operating Costs as Percentage of GNP per capita:
Philippines versus Comparators in East-Asia**

	Philippines (1994)		Comparators ^{a/}			
	Public	Private	Malaysia (1992)	Indonesia	Korea	Asia ^{b/}
				(mid-1980s)		
Elementary	12	11	14	13	17	10
Secondary	15	15	25	23	23	19
Tertiary	85	40	171	91	71	149

Source: Philippines (1994) and Malaysia (1992) - World Bank; other - Mingat and Tan, Education in Asia (World Bank 1992).

^{a/} Unit operating costs of public education

^{b/} Bangladesh, China, India, Indonesia, Korea, Malaysia, Nepal, Philippines, Sri Lanka and Thailand

136. Private education in the Philippines is widely considered to be both less costly and of better quality than public education.⁵⁰ This perception had a major impact in shaping government policy towards private education, from reluctant acceptance and overregulation to active partnership and support (as reflected, for instance, in the GATSPE program). Leaving aside the quality aspect for the time being, the 1994 unit cost estimates provide grounds for challenging this view. First, as shown in Section 2.1, budgetary constraints since the early 1990s have led to a significant decline in unit MOOE expenditure, particularly at the secondary and tertiary levels. Moreover, there is ample evidence that the operating cost of private schools has caught up with public schools, particularly as regards teacher salaries.⁵¹ Deregulation of tuition fees charged by private schools has reinforced this tendency. This is also confirmed by the respective growth of unit operating cost in private and public schools between 1986 and 1994, as shown below.

Implicit 1986-94 annual growth of unit operating costs
(in %, at constant prices)

	Private	Public
Elementary	7.6	4.5
Secondary	10.6	2.7
Tertiary	18.9	8.2

⁵⁰The World Bank's 1988 education sector study, among other studies, made a strong contribution to the general understanding and acceptance of the evidence in this respect.

⁵¹A recent comparative study of salary levels for a selection of matching public and private sector occupations found substantially higher remuneration packages for private school teachers and principals than for their public counterparts [study by The Wyatt Company (Philippines) for the World Bank, October 1994]. Although the private sample appears to be somewhat biased towards elite schools, this finding is confirmed by other sources.

137. Secondly, unit cost comparisons between public and private education in the Philippines usually focus on school operating costs only, overlooking the cost of other privately financed school inputs. As might be expected, such direct social costs are substantially higher for private than for public schools. Private elementary school students spend almost twice as much on school-related inputs than their public school counterparts. Thus, while the unit operating cost of public elementary schools is indeed higher than that of private elementary schools, the differential impact of direct social costs more than bridges the gap (Table 3.9).

Table 3.9 Private/Public Unit Cost Ratios

Level of Education	Operating Cost		Direct Social Cost^{a/}		Total Unit Cost	
	1986	1994	1986	1994	1986	1994
Elementary	.70	.89	4.87	1.85	1.15	1.12
Secondary	.66	1.18	1.46	1.42	.83	1.26
Tertiary	.22	.47	1.30	1.47	.36	.57

Source: See Table 2.11; DECS.

^{a/}Cost of privately financed school inputs other than school fees (books and school supplies, contributions to PTA, transportation).

138. Table 3.9 compares the private/public ratios of unit operating costs, direct social costs and total unit costs for 1986 and 1994. The comparison shows that relative costs in elementary and tertiary education have not changed; elementary education has remained more expensive in the private sector, purely on account of the private-public direct costs differential; and tertiary education remained more expensive in the public sector, whether in terms of operating or total costs. A crucial change, however, has taken place at the secondary level, where the cost of private schooling was below its public equivalent in 1986 but now exceeds it. Since the private/public ratio of direct social costs hardly changed during that period, this shift is obviously the combined outcome of upward adjustment of private school fees and financing constraints with regard to public highschools.

139. Unlike in secondary and tertiary education, there has been a sharp decline in the private/public ratio of direct social costs at the elementary level, from about 5 in 1986 to 2 in 1994. This suggests that cost containment in public elementary schools, imposed by government financing constraints, has to a significant extent been mitigated through an increasing recourse to direct parental financing. At aggregate level, this phenomenon is reflected in the earlier findings of an increasing proportion of private education financing benefiting public education (Section 2.3), and of an increasing share of elementary education financing originating from private sources (Section 2.4).

140. That private elementary and secondary schools, on the whole, have higher unit costs than public schools does not necessarily mean that the latter are also more cost-effective. This depends on the relative internal efficiency of public and private schools, as well as on the relative quality of education delivery, as measured by learning achievements. From this perspective, public education does not compare favorably with its private counterpart (Table 3.10).

**Table 3.10 Comparative School Performance Indicators in Basic Education
(Ratio of Private to Public Indicators)**

Performance Indicators	Elementary	Secondary
<u>Internal Efficiency (1990/91):</u>		
Repetition rate	.36	.55
Drop-out rate	.64	.60
Completion rate	1.48	1.05
<u>Final Examination Scores^{a/}</u>	1.40	1.10
<u>Total Unit Cost (1994)</u>	1.12	1.26

Source: DECS

^{a/} Elementary: NEAT (National Elementary Achievement Test) 1993/94;
Secondary: NCEE (National College Entrance Examination) 1992/93.

141. All school performance indicators favor private education,⁵² but less so at the secondary level. Thus, the total cost of producing one elementary graduate, presumably with a higher level of learning achievement, may well prove to be lower in private than in public schools, even though the annual per student cost of school attendance is somewhat higher. This, however, is most unlikely to be the case at the secondary level, given the narrower margin in school performance and the larger difference in unit costs.⁵³

142. Cost-effectiveness is an issue in the public elementary cycle, as will be argued in the next section, but privatization is obviously not a realistic option. The issue is different at the secondary level, where public and private sector compete for student enrollment. Government has the constitutional obligation of guaranteeing universal access to secondary education. It does so both by operating public highschools, and by subsidizing students to attend private schools. The public system is of lower quality than its private counterpart. At the same time, however, its total private cost (school fees and direct costs) is about 60 percent below the private sector equivalent. The more affordable parental cost of public school attendance is largely reflected in the fact that public secondary enrollment has been growing much more rapidly than private enrollment -- 6.5 and 1.5 percent p.a. respectively since the nationalization of LGU-operated highschools.

143. Under those circumstances, one may wonder whether the premises underlying government's subsidization of private secondary school students are still rational. On average, the annual subsidy of P1,500 granted under the GASTPE Educational Service Contracting scheme

⁵²Education statistics show that this is generally true both across regions and throughout the years.

⁵³Student cohort analysis shows the number of schoolyears required for one private school graduate to be only slightly below the public school equivalent (6-7 percent, both at elementary and secondary level). This is essentially because reported repetition rates are very low, both in private and public schools. Failing students seem to drop out of school altogether rather than repeat grades. School statistics, however, are highly unreliable and most of the detailed data required for this type of analysis are unavailable.

covers only 40 percent of the operating cost of private secondary schools. As argued in the preceding section, this is either a loosing proposition for the schools, if forced to accept students at this rate, or prohibitive for lower income households, if they are required to pay the difference. Similarly, the P290 Tuition Fee Supplement granted to 40 percent of students enrolled in private highschools covers merely 5 percent of the total private cost of school attendance, a futile assistance when it comes to the poor. A case can therefore be made for GASTPE funding to be reallocated to public secondary education, where it would make a first contribution towards improving quality and securing affordable access for children from lower income households.

144. The substantial public-private unit cost differential at the tertiary level is more difficult to interpret because this sub-sector is far less homogeneous, in terms of the types of institutions and courses offered, than the preceding cycles. The public tertiary sub-sector, for instance, includes the University of the Philippines, which is both the most prestigious and costly higher education institution in the country. The chartered State Universities and Colleges (SUCs) also have a comparatively high concentration of student enrollment in high-cost disciplines, such as medicine and science. Private institutions, on the other hand, tend to concentrate in less costly fields, such as law, accounting and business. While cost-effectiveness is certainly an important issue in public tertiary education (see Section 3.5), unit cost comparisons with the private sub-sector are only meaningful at disaggregated level.

Cost Sharing in Public Education

145. A major part of the 1986-94 increase in unit costs in the public education system appears to have been charged to households, both in terms of fees and other private costs (Table 3.11). At the elementary and secondary level, government's contribution to unit cost financing grew by 40 and 30 percent respectively, whereas parental contributions increased five-fold at the elementary level, and almost two-fold at the secondary level. Tertiary education is again an exception; not only was the overall increase in unit cost higher than at the preceding levels, but most of the increase was also financed by Government, with only a nominal adjustment in parental contributions.

146. As the evidence in Table 3.11 indicates, Government now subsidizes a higher percentage of unit costs in tertiary education than it does at the elementary level. At the secondary level, the rate of Government subsidization has fallen below 60 percent. Paradoxically, Government's failure to sustain adequate funding for secondary education implies that today, on average, parents assume a higher share of the cost burden than prior to the nationalization of local highschools.

147. Since access to public education is supposed to be free at elementary and secondary levels, it is not surprising that most of the increase in private costs has been in the form of direct costs other than school-based fees. The latter account for only 20-25 percent of the overall 1986-94 increase in private costs in basic education. The distinction between fees and other direct private costs thus appears to be flexible. It seems that part of the shortfall in government funding of schools' operating cost, which cannot legitimately be recovered through fees, is being shifted into

the realm of other direct private costs.⁵⁴ This conclusion also finds support in the fact that private non-fee costs rose more rapidly in public than in private schools, where there are fewer constraints on increasing fees.⁵⁵

**Table 3.11 Cost Sharing in Public Education, 1986-94
(Government and private shares in % of total unit cost)**

Financing Sources	1986	1994	1994 Index (1986 = 100)
I. Elementary:			
Government	87.9	69.1	139
Households	10.6	30.4	507
Fees	(—) ^{a/}	(4.9)	(—) ^{a/}
Other Private Costs	<u>(10.6)</u>	<u>(25.5)</u>	<u>(392)</u>
Total ^b	100.0		177
(id. in P., 1994 prices)	(2,305)	(4,085)	
II. Secondary:			
Government	66.5	57.3	132
Households	33.5	42.5	195
Fees	(12.6)	(10.1)	(123)
Other Private Costs	<u>(20.9)</u>	<u>(32.4)</u>	<u>(238)</u>
Total ^b	100.0	100.0	154
(id. in P. 1994 prices)	(3,155)	(4,846)	
III. Tertiary:			
Government	73.9	78.1	193
Households	26.1	17.9	125
Fees	(13.3)	(8.1)	(111)
Other Private Costs	<u>(12.8)</u>	<u>(9.8)</u>	<u>(140)</u>
Total ^b	100.0	100.0	183
(id. in P., 1994 prices)	(13,615)	(24,870)	

Source: See Tables 2.10 and 2.11.

^{a/}The World Bank's 1988 Education Sector Study did not record any school fees in public elementary schools in 1986.

148. The argument can be made that, even in public elementary schools, parents are apparently willing to pay some price for educational services, and that this is no burning issue as long as those services remain affordable for lower income households. The evolution of student enrollment at the elementary level, however, suggests that this may no longer be the case. The growth of elementary enrollment is lagging behind the rate of population growth. At the same

⁵⁴For instance, the Manila Bulletin of June 14, 1995, reports that the Governor of Bulacan Province "... has warned public elementary and highschool teachers in this province against collecting unauthorized fees and other kinds of contributions from students ...". The warning was aired after several complaints had been received that "...some teachers were requiring the students to pay exorbitant fees supposedly needed before enrollment...".

⁵⁵In 1986, parents were paying about five time more for non-fee items in private than in public elementary schools; this ratio is estimated to have dropped to two by 1994. The same tendency is apparent at the secondary level, albeit to a much lesser extent.

time, enrollment in public elementary schools has been growing at a much lower rate than in private schools (1.4 versus 3.7 percent p.a. respectively over the period 1987-93). The evidence on the incidence of economic factors on school participation discussed in Section 3.1 (Table 3.2) is also a warning sign in this respect.

149. What is the relative incidence of the private cost of educational services, from the perspective of households opting for public or for private education? According to the 1991 Family Income and Expenditure Survey, average family expenditures for education in the lowest income decile represented less than 5 percent of the corresponding average in the highest income decile where families are most likely to send their children to private schools. Given the inequality of income distribution, however, both levels of education spending represented about the same proportion of total family income. The relative cost incidence of public and private education is further explored in Box 3.1. The analysis suggests that, in spite of government subsidization, the private cost burden of public education is higher for lower income households than the cost of private education is for the better-off households.

BOX 3.1: Relative Incidence of Private Educational Costs

According to the Philippines' 1991 Family Income and Expenditure Survey (FIES), average family expenditures in the first seven income deciles were below the national average, while family expenditures in the upper three income deciles were above this average. It is assumed, for the sake of the analysis, that the second group of households (the better-offs) are those most likely to send their children to private schools, whereas children from the first group would normally attend public schools. Under this assumption, one may relate the respective private cost of public and private schools to the average expenditure of both groups of households.

Extrapolating the 1991 household survey data to 1994 on the basis of the intervening nominal growth of per capita GNP, average expenditures of families in the first seven income deciles are estimated at P46,140, and at P168,630 for families in the upper three deciles. The private cost of public and private schools, expressed as a percentage of the average expenditures of each group of households, are shown below.

Private annual cost per student in % of average family expenditure

	Public schools for lowest 7 deciles	Private schools for upper 3 deciles
Elementary	2.7	2.6
Secondary	4.5	3.3
Tertiary	9.6	7.0

Conclusion

150. There has been a substantial de-facto increase in cost-recovery in the public basic education system, particularly at the elementary level. As a result, it would appear that today public schools are more expensive for lower income households than private schools are for upper income households. In view of the rather inequitable distribution of income in the Philippines, moreover, the present imbalance between public and private financing of education is to the disadvantage of a

relatively large segment of the population. Continued reliance on private sources to fill the shortfall in central government financing increasingly requires compensatory measures to protect the poor.

151. In the public education system, there is foremost a need to reduce the private cost of elementary schooling, with special focus on the poorest areas in the country. There are three venues to achieve this objective:

- (a) Improving the cost-effectiveness of education delivery in elementary schools (see Section 3.5), so as to reduce the need for extra financial contributions from parents;
- (b) Increasing cost-sharing with LGUs, where further possible, with more selective targeting of central government financing towards disadvantaged areas; and
- (c) Selective direct subsidization of private costs for children from the poorest households.

152. Cost-recovery at the secondary level need not necessarily be reduced, but selective subsidization for children from lower income households is a must. To that end, cost-recovery ought to be regularized notwithstanding the constitutional guarantee of free access. At present, guaranteeing affordable access to quality secondary education seems to require a higher level of government resource commitment, part of which for investment in expansion of the public enrollment capacity. At the tertiary level, obviously, both the cost-effectiveness of operations and the extent of cost-recovery are targets for drastic improvement.

3.5 Cost-effectiveness in Public Education

153. Priority needs for additional funding of public schooling have been identified with respect to the following objectives: (i) improving the quality of elementary education, with particular emphasis on greater availability of resources at the school level; (ii) expansion of enrollment capacity and quality improvements at the secondary level; (iii) improving the equity of the system, by reducing the private cost of basic education for lower income households; and, more specifically, (iv) special support for basic education in priority provinces targeted under Government's poverty reduction program. Eventually, the secondary cycle will have to be lengthened from four to five years, which will require a considerable additional commitment of resources.

154. Current budget appropriation levels are insufficient for DECS to satisfactorily meet those priority needs. However, given the prevailing global resource constraints, and in view of the emerging imbalance in cost-sharing between Government and households in basic education, improving the cost-effectiveness of basic education seems the most realistic option. Greater cost-effectiveness works on two fronts: generating savings for alternative use, and raising the returns per unit of expenditure. Several issues related to cost-effectiveness have already been raised in the foregoing. Briefly summarized:

- (a) The need for improving the effectiveness of budgetary processes in DECS, particularly for strengthening budget implementation monitoring. A particular concern in this respect is the extent to which budget appropriations for MOOE, a large proportion of which is not directly allocated to operations, are eventually used for the intended purpose.
- (b) The need for increasing the extent, and improving the efficiency of expenditure targeting by DECS towards priority needs identified at the basis of the education system. This would require decentralization of sector management. Redesign or reallocation of the GASTPE program also falls in this category.
- (d) The need for achieving better coordination of expenditure programs and objectives between DECS and local school boards (provincial and municipal) in order to achieve more effective joint targeting of priority needs. The issue is particularly relevant with regard to school construction, where local initiatives may have unexpected recurrent financing implications for DECS.

155. In the long run, the most promising venue for raising the cost-effectiveness of the system is of course to improve its internal efficiency, with particular focus on the country's lowest performing school divisions and districts. This, however, requires considerable initial investment in quality improvement.⁵⁶ In the immediate, the following options for easing DECS resource constraints warrant further consideration: (i) reducing the cost of the SUCs to central government, which would make it possible to increase DECS' share in the total education sector budget; (ii) rationalizing DECS' staff deployment; and (iii) devolving DECS' remaining responsibilities for school construction and maintenance to LGUs. The basis for these recommendations is provided in the remainder of this section.

State Universities and Colleges

156. The case has already been made in the preceding section for much higher, if not full cost-recovery for educational services provided in SUCs. So far, prevailing regulations and privileged budgetary treatment of these institutions have stifled incentives towards cost-recovery, as well as for greater financial autonomy. Unlike private tertiary institutions, SUCs have yet to start mobilizing private financing for research and extension services.

157. The combined budget of SUCs, more than anything else, illustrates their lack of cost-effectiveness. In 1994, the operating costs of higher and advanced education services provided by SUCs accounted for less than 40 percent their total recurrent budget, the rest being absorbed by administration (33 percent), support for auxiliary, research and extension services (8 percent), the operation of non-tertiary education services (elementary, secondary, non-formal, and technician education, altogether 5 percent), and recurrent costs associated with projects (15 percent).

⁵⁶It is the intention of the World Bank to provide financial support for quality improvement at the elementary level through a Third Elementary Education Project, identified and prepared jointly with DECS.

158. Rationalization of the SUCs stands high on the Government agenda. The recent creation of an inter-departmental Commission for Higher Education, which de-facto relieves DECS from the overall management responsibility for this sub-sector, hopefully paves the way for reform. On another front, DBM stopped scrutinizing the budget proposals submitted by SUCs in 1993, and started to grant them flat subsidies based on enrollment and other criteria, instead of providing line-by-line financing. This is a first step, but it still amounts to indiscriminate input-based financing, instead of promoting cost-effectiveness based on specific output performance criteria.

159. The establishment of SUCs, at the charge of the national budget, is usually motivated by local interests. It seems therefore appropriate to decentralize the financial responsibility for these institutions, and granting them full autonomy for independent resource mobilization. Decentralization would have the additional benefit of making SUCs more responsive to the specific needs of the various regions, hence fostering the external efficiency of their course offerings. Continued subsidization from the national budget would remain desirable where SUC-delivered services serve a national interest that is not or insufficiently covered by the private sector. Even then, it would have to be selective rather than across the board, based on output performance rather than input criteria. Equity considerations would require higher cost recovery to be accompanied by compensatory adjustments in scholarship and student loan programs. To a large extent, such adjustments could be co-financed by LGUs.

160. The outlined strategy would gradually reduce, and eventually eliminate the burden of SUCs on the national budget. These savings would have to be retained in the education sector, to increase DECS' resource basis. In all fairness to the SUCs, however, it has to be acknowledged that their inadequate cost-effectiveness is in part due to the sub-standard learning achievements of highschool graduates. Therefore, according to experts, the first two years of higher education include inordinate amounts of remedial secondary level instruction. This thus clearly an area of joint responsibility for DECS and SUCs, with potentially significant mutual benefits.

DECS Staff Deployment Norms and Practices

161. DECS had a total of 437,600 staff in 1994, slightly less than in at the beginning of the decade. Total DECS staff can be broken down into three categories: teaching teachers, teachers in non-teaching positions, and other non-teaching personnel (Table 3.12). Teaching teachers accounted for 88 percent of total in 1992, the remaining position being almost equally split between the other two categories. Central administration staff in the Office of the DECS Secretary accounts for a rather modest .5 percent of total DECS personnel.

**Table 3.12 Teaching versus Non-Teaching DECS Staff in 1992, by Level of Education
(% Distribution)**

	Teachers		Non-teachers	Total Staff
	Teaching	Non-teaching		
Elementary ^{a/}	89.8	6.2	4.0	100.0
Secondary ^{a/}	85.4	5.4	9.2	100.0
Tertiary ^{b/}	66.0	2.5	31.5	100.0
Office of the Secretary	--	27.1	32.9	100.0
Total Staff (same in P. 000)	87.8 (389.4)	6.0 (26.5)	6.2 (27.3)	100.0 (443.2)

Source: DECS (the breakdown of tertiary level staff is based on mission estimates.

^{a/} The proportion of teaching staff varies among regions, between 85 and 93 percent at the elementary level, and between 72 and 94 percent at the secondary level.

^{b/} Excluding SUCs.

162. The proportion of non-teaching staff (teachers and others) is somewhat higher at the secondary than at the elementary level (15 versus 10 percent respectively). Such rates do not suggest an excessive burden of non-teaching staff on the DECS payroll.⁵⁷ At the regional level, however, there are rather wide disparities in the proportion of non-teaching staff, particularly in secondary education.⁵⁸ This may reflect prevailing institutional rigidities with respect to the reassignment of teachers,⁵⁹ both teaching and non-teaching, across school divisions. Relaxing the impediments to greater regional mobility of teachers, if politically feasible, would certainly contribute to achieving a more efficient use of available teacher resources.

163. Although there is no major explicit diversion of teachers into non-teaching positions, there is evidence of teachers in teaching positions assigned part- or full-time to administrative or other support functions in school or, to a lesser extent, at the district office. *Local designation*, as this practice is called, appears to be limited to regular and master teachers in elementary schools. Nationally, it affects over one-fifth of this teaching force, again with considerable regional variations. According to 1990/91 DECS data, the percentage of teachers with local designation ranged between 10 percent (of which 7 percent at school level) in the Western Mindanao region, and as much as 38 percent (31 percent in school) in the Ilocos region.

164. Local designation may to some extent may reflect a shortage of regular administrative and support personnel in schools and district offices. This is suggested by the fact that in 1990/91 teachers with local designation made up 80 percent of total personnel in administrative and support

⁵⁷The very small DECS-managed tertiary sub-sector (essentially non-chartered colleges) is an exception.

⁵⁸The proportion of non-teaching staff ranges between 6 and 28 percent in secondary education, compared to a 7-15 percent range at the elementary level.

⁵⁹The Magna Carta for Public School Teachers, enacted in 1966, stipulates that "... no teacher shall be transferred without his consent from one station to another." In principle, the law gives the school superintendant, at the divisional level, the authority for transferring teachers where such is required by the exigencies of the services. His decisions, however, are open for appeal to DECS' central administration.

functions in elementary schools, and 60 percent in district offices. A parallel interpretation may be that administrative demands on schools and district offices, particularly as regards reporting obligations to higher levels in the DECS hierarchy, are excessive.

165. Whatever the interpretation, the fact is that a substantial part of the teaching force is either temporarily or permanently diverted from actual teaching. Since there is no information on teacher time allocated to non-teaching activities, it is impossible to quantify the overall loss in teaching time generated by local designation. More productive use of available teachers has potential for cost-savings. This is therefore an issue that warrants further investigation.

166. Another issue, in this context, is the large apparent salary differential between teaching and non-teaching staff in the DECS hierarchy, as illustrated below.

DECS 1992 Average Basic Salary Ratios

(teaching teacher =100)

	Regional Operations	Office of DECS Secretary
Teaching teachers	100	---
Non-teaching teachers	147	158
Other non-teaching staff	72	107

167. Teachers are promoted into non-teaching positions and correspondingly higher remuneration rates after several years of teaching services. The above ratios thus reflect normal career patterns rather than discriminatory remuneration rates. The present salary structure provides nonetheless a strong incentive for teachers to eventually move out of their profession. Teaching thus tends to lose its most experienced practitioners. It may therefore be worth to consider extending career opportunities within the teaching profession.

168. DECS school staffing norms not only puts rural and underpopulated areas at a disadvantage, as argued in Section 3.3, they also tend to promote padding of student enrollment declared by schools. Per student, per teacher, and per classroom regional resource allocation norms, applied for most non-personnel items on DECS' budget reinforce this tendency.⁶⁰

169. In addition, the combined system of sector staffing and resource allocation norms has fostered a preference for large schools. It may also explain some of the reluctance towards smaller multi-grade schools, perceived as under-privileged in terms of attribution of operating resources and educational inputs. This attitude also prevails in low population density rural areas, where slow gradual creation of relatively costly 6-classroom schools is preferred to a more rapid network extension of smaller schools with multi-grade classrooms. Much of the annual school building program thus consists of adding classrooms to existing schools. In addition, a sizable stock of

⁶⁰References to this issue regularly surface in the context of elementary education. Whether it is also relevant at the secondary level is, at this stage, unknown.

dilapidated classrooms, which are no longer in use, are nonetheless kept on the books and periodically reported to DECS in expectation of more favorable resource attributions.⁶¹

170. There is an urgent need for a thorough in-depth survey of teaching, administrative and support staff deployed in elementary schools, and possibly highschools, with a view to assessing how and to what extent DECS' operational staff might be used more effectively. The study should also provide a comprehensive assessment of the efficiency and equity of existing allocation processes with regard to school inputs, with particular focus on the prevailing system of staff deployment and career development norms and practices.

School Construction

171. Centralized responsibility for financing and execution of school construction and maintenance a particularly wasteful proposition in the highly diversified context of the Philippines. Long chains of command between central resource appropriation and local execution, with multiple intermediate level decisions and weak coordination between planning and executing agencies, often lead to final outcomes not matching effective needs.

172. Uniform standard architectural designs are being used throughout the entire country, which causes many cost-raising adaptation problems in specific regions. Similarly, a single unit price norm determines budgetary allocations for school construction, irrespective of site location. Where actual construction costs are above the norm, essentially where difficult access increases transportation costs, school construction stops as soon as this cost reaches the fixed financial ceiling and school buildings remain uncompleted.

173. Locally financed and executed school construction, by contrast, generally proves to be less costly, of better quality, and more suitably adapted to local circumstances. Local involvement in school construction and maintenance have the additional benefits of strengthening community commitment towards the school, and of providing some income-generating activity for local craftsmen.

174. All in all, there is a strong case, on grounds of cost-effectiveness, for decentralization of school construction and maintenance. Full devolution of this responsibility to LGUs, which is in line with the intent of the 1991 LGC, would have the added benefit of freeing DECS resources for use in priority alternatives. Selective compensatory support would have to be provided to financially disadvantaged LGUs. Ways of granting this support without discouraging local taxation efforts, or resource commitment to education, need to be identified.LGUs. Ways of granting this support without discouraging local taxation efforts, or resource commitment to education, need to be identified.

⁶¹ According to 1994 DECS estimates, there is an "excess" of reported elementary classrooms, accounting for as much as 23 percent of the total stock. Discounting these unused classrooms raises the national students/classroom ratio from 33 to 42. Not all excess classrooms are dilapidated, though, as there may be other reasons for their not being used.

Conclusion

175. Government's education strategy, the result of an ongoing extensive national consultation effort, is essentially directed at improving the quality of basic education, with particular emphasis on the elementary cycle where achieving universal completion is a must. A major, and potentially very costly issue to be addressed, in this context, is the need to increase the length of the secondary cycle, which is presently limited to four years. A begin has been made with the rationalization of budget support for the SUCs, but without appreciable savings. Subsidization remains input- rather performance-based. Government is also conscious of the social equity issues facing the public education system. It is addressing these in the context of its Social Reform Agenda, presently targeting 20 of the poorest provinces (see Annex 1).

176. Government's objectives call for considerable additional resources to be made available to public elementary and secondary schools, particularly in view of the need to lighten the direct costs of school participation for the poor. Since the allocation of public funds to the education sector already absorbs a substantial part of the national budget, the required additional resources will have to be mobilized primarily through reallocations within the overall education sector budget, and by raising the cost-effectiveness of DECS operations.

Annex 1: Poverty and Regional Equity in Basic Education

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POVERTY AND REGIONAL EQUITY IN BASIC EDUCATION

Introduction

1. This annex documents the results of a regional cross-section analysis of the connections between public education and poverty in the Philippines. The analysis focuses on three sets of linkages, both for elementary and secondary education:

- a) the relation between poverty and school participation;
- b) the relation between poverty and the regional distribution of educational inputs; and
- c) the relation between school staffing characteristics and schooling outcomes.

The findings provide much of the empirical basis underlying some of the issues raised in Chapter III.

2. Admittedly, this type of analysis is at times somewhat ambiguous when it comes to interpreting the direction of causality between two phenomena -- e.g., poverty and educational outcomes. In the main, however, the purpose of the analysis is to establish that there are relevant poverty-related educational characteristic, which call for more elaborate policy analysis.

3. The analysis combines four sources of information: (i) DECS education statistics; (ii) the 1990 Family Income and Expenditure Survey (FIES); (iii) the 1991 Population Census; and (iv) DECS and LGU budget data. The unit of observation is, in principle, the province -- in total 97 observations, including 20 cities with provincial status. In the administrative structure of the basic education system, the province is generally equivalent to a DECS school division. In a number of cases, regressions are based on regional data -- i.e., 15 observations.

4. Two alternative measures of poverty have been used throughout the analysis: average household income, and the percentage of households below the poverty line. The former measure yields uniformly more significant regression outcomes. Two factors, most probably jointly pertinent, may explain this phenomenon. First, the provincial poverty incidence data are based on regional poverty lines, the computation of which is open for several inaccuracies and biases. Secondly, average household income is likely to reflect the influence of relevant developmental variables beyond the strict measurement of poverty.¹

5. There is nonetheless a relatively strong correlation between average family income and the incidence of poverty,² as shown in Figure 2. Expectedly, however, the link between the two alternative measures of poverty weakens as the average level of income increases. Distributional

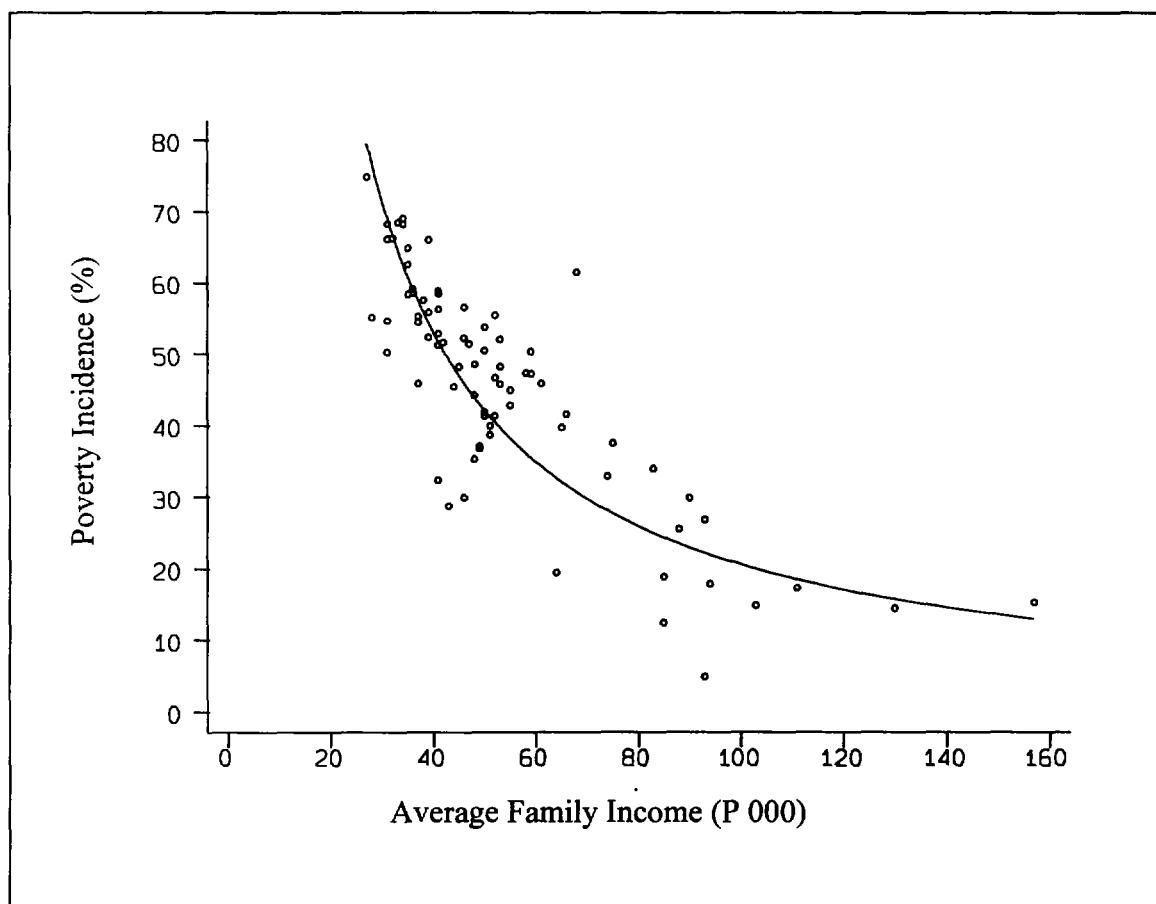
¹ For instance, the overall level of economic development, employment diversification out of agriculture, urbanization, social attitudes towards education.

² $\ln P = -1.03 \ln F + 7.77$ $R^2 = .64$
 (11.6)

where P = % of households below the poverty line, and F = average family income.

considerations, in the context of poverty, become obviously prevalent at the upper income levels (see Annex Figure 1). The results presented in this annex are based on average family income, but the corresponding outcomes with the percentage of households below the poverty line as poverty measure are available on request.

Figure 1: Average Family Income versus Poverty Incidence (1991)



Poverty versus School Participation

Public versus private school attendance

6. Private education plays a very important role in the Philippines, particularly at the secondary and tertiary levels. As a first step it is therefore interesting to explore the relationship between income levels and the distribution of enrollment between public and private schools. Table 1 shows the correlation between the share of public education in total enrollment (dependent variable) and average family income.

Table 1: Poverty and Public Education

% Public/Total Enrollment (1990)	Average Family Income (P. 000)		
	Coeff.	T-Stat.	R ²
Elementary cycle	-.21	11.85	.60
Secondary cycle	-.23	4.33	.17

7. At the secondary level, where the share of public enrollment varies between 25 and 100 percent with a relatively weak but significant impact of income differentials, private schools are in direct competition with public schools for the global student market.¹ At the elementary level, however, public schools clearly represent the main, if not the only education opportunity for the poor. This justifies government's strategic focus on elementary education, emphasized in the present analysis.

School mapping

8. Until recently, it was thought that lack of physical access to schools was the main factor limiting the participation of children from lower income households in elementary schooling. A popular slogan, therefore, was that there should be one elementary school in every barangay throughout the country. The evidence does not support this view. The percentage of barangays without elementary school is available for each of the 97 provincial units, varying between 0 and 68 percent. Regression of this data with average household income, on the one hand, and with elementary school participation rates,² on the other hand, shows that the regional distribution of elementary schools bears little or no relation with poverty, nor with school participation (Table 2).

School participation

9. At any point of time, youth may be prematurely out of school (i.e., non-participating) either because it never entered school in the first place, or because it dropped out, temporarily or definitively, before completing the cycle. Whereas participation rates are a global indicator of this dual phenomenon, completion rates³ are a more direct measure of school effectiveness in retaining students, once in school. In the present context, completion rates are thus an important, albeit crude, indicator of school participation outcomes. The relation between income and, respectively, school participation and school completion is shown in Table 3. Strictly speaking, the causality of this relation is undetermined. In the long term, human capital theory would identify school participation and completion as determinants of income. In this paper's medium term policy focus, however, income is the independent variable.

¹ Government subsidization of private secondary education through the GATSPE program, although criticized in Chapter III from a point of view of social targeting efficiency, may have some impact in this respect.

² School participation rates are the proportion of the population in a given school-age group reported to be actually attending school. Unlike enrollment rates, which are based on school data and subject to overreporting, participation rates are derived from the population census.

³ The proportion of new entrants who ultimately complete the school cycle.

Table 2: Physical Access, Poverty, and Elementary Participation

Dependent Variable	% Barangays w/o Elementary School		
	Coeff.	T-Stat.	R²
(a) Participation rate (1991)	.04	.90	.01
Average Household Income			
	Coeff.	T-Stat.	R²
(b) % Barangays w/o elementary school (1993)	.21	1.30	.02

10. The effect of regional income differentials on school participation appears to be about equally significant at the elementary and secondary level. The nature of this effect, however, is fundamentally different in each cycle. At the elementary level, where access has already been shown to be a relatively minor constraint, poverty affects school participation essentially through low school retention of students from lower income households, as evidenced by the very strong correlation between income and school completion. Comparatively, the relation between income and school completion is rather marginal at the secondary level, suggesting that financial constraints limiting access are a more important factor underlying income-related participation differentials. This is also confirmed by the results of recent surveys of out-of-school youth (see Chapter III, Table 3.2).

11. These findings have important policy implications. Raising the retention of elementary schools in the poorest areas through quality improvements in educational services and school management are a top priority. Achieving universal elementary education in the Philippines is not so much a matter of expanding school enrollment capacity, but rather of making sure that children will complete the cycle after admission, and have a qualitatively relevant learning experience. At the secondary level, on the other hand, effective targeting of scholarships or school subsidies would appear to be a higher priority.

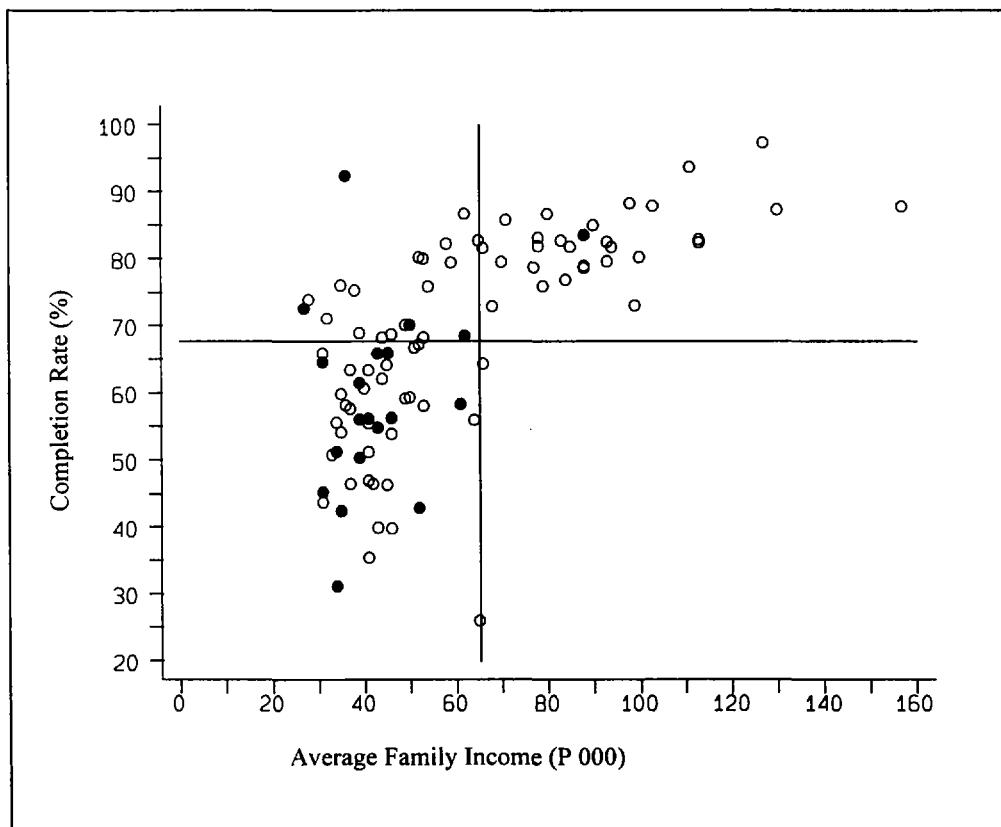
12. The above results have also strategic implications for social targeting. This is illustrated in Figure 2, which plots average household income against elementary completion rates. The graph is divided in four quadrants by the national average of both variables. The lower left quadrant thus contains provinces with both income and completion rates below the national average. These are the areas which require priority targeting of educational resources. Although poor, the areas in the upper left quadrant show comparatively favorable educational outcomes. This is a reminder that government strategy ought to be differentiated across areas according to circumstances and needs. The education component in government's overall anti-poverty strategy thus requires a higher weight in the lower than in the upper left quadrant.

Table 3: Poverty and School Participation (1991)

Dependent variable	Average Household Income		
	Coeff.	T-Stat.	R²
A. Participation rate			
Elementary cycle	.18	5.05	.25
Secondary cycle	.20	4.74	.23
B. Completion rate			
Elementary cycle	.38	8.63	.44
Secondary cycle	.15	3.58	.12

13. The targeting framework shown in Figure 2 is particularly relevant in the context of the Philippines, where government has adopted a Social Reform Agenda targeting 19 priority provinces for special anti-poverty support, including prominently for elementary education. Most of these officially targeted provinces, indicated in dark in Figure 2, are located in the lower left quadrant.

Figure 2: Poverty and Elementary School Completion (1991)



Poverty and Educational Inputs

Financial allocations

14. Figures 3 and 4, for public elementary and secondary education respectively, plot provincial MOOE allocations per student from the DECS 1994 budget against the incidence of poverty. At both levels, but particularly at the elementary, per student MOOE allocations are confined within a relatively close range, and apparently unrelated to actual needs. There are a number of prominent outliers, many of which in the NCR region, which are being granted substantially higher per student MOOE allocations than the national average. The evidence illustrates the lack of a coherent DECS strategy for actively targeting resources towards the most pressing needs, the most disadvantaged areas or population groups.

Poverty Incidence and MOOE per Student, 1994

Figure 3: Elementary Education

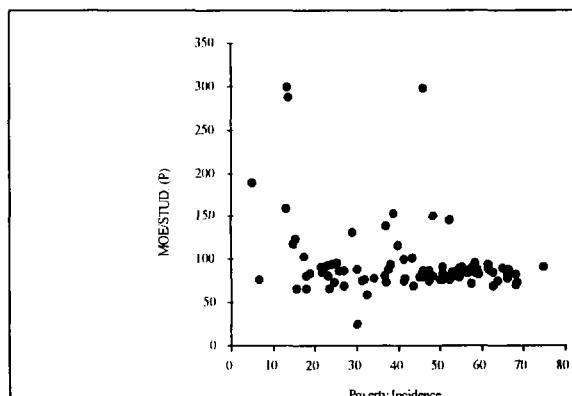
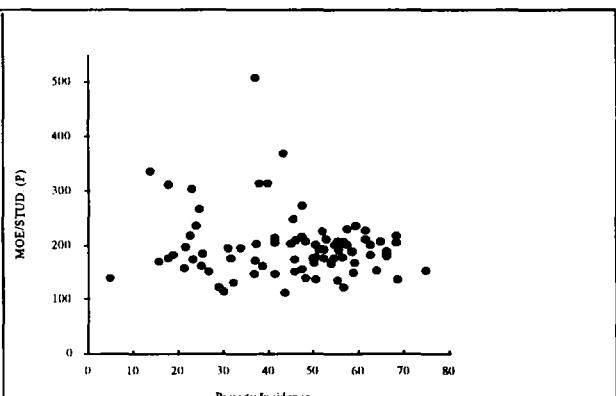


Figure 4: Secondary Education



School management and teaching staff

15. DECS applies student-based school staffing norms for teachers and principals, both with regard to the number and professional grading of staffing positions granted to elementary and secondary schools. These norms are, documented in the main text, are uniformly applied throughout the country and tend to favor urban, and generally more affluent areas. This subsection documents for the public elementary education system⁶ how such norms affect regional school staffing characteristics at varying income levels.

16. Table 4 shows the correlation between the following school staffing ratios and average household income:

⁶ The analysis was also carried at the secondary level. The results, although less significant at the provincial level but much more so at the regional level (n=15), tend to confirm the findings for primary schools, both as regards linkages with income and school outcomes.

- * school principals / schools
- * school principals / classrooms
- * school principals / teachers
- * highest ranked principals / total principals
- * teachers / classrooms
- * highest ranked teachers / total teachers

The underlying hypothesis is that these staffing characteristics affect the quality and effectiveness of school and classroom management at the local level, and, ultimately, schooling outcomes.

Table 4: Poverty and Elementary School Staffing Characteristics (1992)

Dependent variable:	Average Household Income		
	Coeff.	T-Stat.	R²
principals/school	.23	9.91	.51
principals/classroom	.05	5.14	.22
principals/teacher	.02	2.14	.05
highest/total principals	.15	7.34	.36
teachers/classroom	.05	5.79	.26
highest/total teachers	.03	1.67	.03

17. The above results confirm income-related imbalances in the regional distribution of elementary school staff, both as regards numbers and professional experience, with lower income regions suffering the greatest shortages. The relationship is particularly significant with respect to school principals.

School Staffing Characteristics and Schooling Outcomes

18. Having shown how both school completion and the quantitative and qualitative distribution of school staff correlate positively with income, this section explores the relationship between school staffing characteristics and elementary completion rates (see Table 5). Staffing is only one of several inputs determining the quality of education and, ultimately, schooling achievements. But it is a very important one and the inference is that equity in the regional distribution of educational inputs is a condition for achieving regional equity in schooling outcomes.

19. Elementary school completion (dependent variable) is taken as a measure of schooling outcomes. Admittedly, it does not measure actual learning achievements. But it does say something about the ability of schools to retain students long enough to meet any given learning achievement standard. This is the main concern of this analysis, which justifies the choice of this indicator.⁷

⁷ The pass rate in the final graduation examination has been used as alternative measure of schooling outcomes. Because of the uneven quality of the examination material and varying scoring criteria, this indicator does not measure student learning achievement either.

20. The evidence, however crude and partial, thus strongly suggests that more effective targeting of available educational resources towards the poorest areas is needed, in order to reduce regional gaps in schooling outcomes in the country. The results confirm the important role of school principals in this respect. This is particularly significant in view of DECS', Bank-supported, strategy towards decentralization of school management.

Table 5: Elementary School Completion, as a Function of Provincial School Staffing Characteristics ^a

X1	X2	X3	X4	X5	R ² adjusted
.14 (6.52)					.25
	.33 (5.62)				.20
.08 (3.11)		.10 (2.99)	.18 (2.84)	.06 (1.33)	.33
	.18 (1.84)	.13 (4.21)	.08 (.79)	.09 (1.86)	.29

X1 = principals/school
X2 = principals/classroom
X3 = highest/total principals

X4 = principal/teacher
X5 = highest/total teachers

^a The t-statistic is given between brackets under coefficient.

21. The analysis is repeated at the regional level with even more significant results (see Table 6), suggesting that, in some policy aspects, a regional approach superimposed on provincial targeting might be desirable. This is notably the case with respect to school staffing, where legal restrictions severely limit the ability of school authorities of transferring staff across administrative regions.

**Table 6: Elementary School Completion, as a Function of
Regional School Staffing Characteristics^a**

X1	X2	X3	X4	R ² adjusted
.13 (3.78)				.51
	.35 (3.09)			.40
		.43 (1.66)		.12
			.24 (1.36)	.06
.05 (.56)	.29 (1.17)	.49 (3.54)	.16 (1.53)	.80
.11 (1.44)	.10 (.45)	.55 (3.91)		.77
.07 (.55)	.19 (.53)	.26 (1.83)		.57
.14 (6.15)		.47 (3.37)	.10 (1.07)	.79
	.43 (6.58)	.49 (3.72)	.19 (2.17)	.81

X1 = principals/school

X3 = principal/teacher

X2 = highest/total principals

X4 = highest/total teachers

^a The t-statistic is given between brackets under coefficient

SELECTIVE EVIDENCE ON LOCAL EDUCATION FINANCING

1. The following information is based on field visits, including meetings with: (i) the provincial authorities and DECS representatives of the Bulacan school division; (ii) the municipal authorities Mayor and DECS representatives the Valenzuela division (Metro-Manila); (iii) the staff of DECS' regional office for the Cordillera Administrative Region (CAR), as well as School Superintendents, District Supervisors and School Principals for the Benguet and Baguio Divisions in that region; (iv) the Mayors of the Kabayan and Kibungan municipalities in Benguet province; and (v) the Principal, teaching staff, and PTA representatives of an elementary school in La Trinidad (Capital of Benguet Province).

2. Bulacan and Valenzuela, both in the vicinity of the National Capital Region, are among the most affluent school divisions; so is the Baguio Division in CAR. Average family income in Benguet province is close to the national average -- with pockets of severe poverty in outlying mountainous districts, but about 40 percent below the national average in the CAR's Mountain province.

Extension teachers

3. There is ample evidence of locally paid elementary and secondary school teachers, largely through the SEF-funded budget of provincial and municipal schoolboards, but also through LGU general funds, and even by PTAs.¹ These teachers are usually called "extension teachers", a reference to new teaching positions generated by expansion in enrollment capacity. Extension teachers are usually financed locally until integrated in the DECS payroll, which normally should happen before the start of the next schoolyear. In reality, teachers remain on local payrolls for much longer periods of time, if not indefinitely.

4. In Bulacan province, out of 163 new elementary teacher slots allocated by DECS for 1993/94, only 56 were actually filled, of which 18 locally financed. Similarly, at the secondary level, only 8 additional positions had been allocated, but 60 new teacher were actually recruited, all locally financed. The estimated need for additional teachers in Bulacan is based on much lower student/teacher norms than those applied by DECS. This is also the case in Valenzuela, where 15 elementary and 20 secondary teachers are on the municipal payroll.

5. Extension teachers are no less prevalent in CAR, where there have been major DECS and locally financed investments in new school construction. There are presently 20 extension teachers on the provincial schoolboard budget in Benguet, and 7 in Mountain province. In 1993, moreover,

¹ The use of SEF and general LGU resources for the payment of teacher salaries is, in principle, a violation of the 1991 LGU code. With regard to SEF, the practice is officially condoned. Teachers paid through LGU's general funds, mostly out of a 20 percent portion earmarked for "development" purposes, are not labeled as such.

UNICEF funded 14 extension teachers in the region; there were great difficulties in getting these teachers integrated in the DECS budget after UNICEF funding stopped. In Kibungan, one among the poorest municipalities in Benguet, the PTA is currently paying two extension teachers because of delays in DECS' approval of extra positions for new classrooms.² Two teachers were also on the PTA payroll in the elementary school visited by the mission in La Trinidad, and three more are needed. New classrooms in both Kibungan and La Trinidad were not financed by DECS.

6. Even in Benguet province, however, locally paid extension teachers may not be just a frictional phenomenon. Examples were given of quasi-permanent employment contracts with municipal schoolboards, which may reflect local concern about the DECS staffing norms, particularly the desire to avoid multi-grade teaching.³

Teacher salary supplements

7. Many LGUs pay salary supplements to attract or retain teachers. These supplements, usually financed from LGU general funds, are expressed as a percentage of the DECS basic salary. Supplement rates vary widely across the country, from zero in the poorest LGUs to over P1,000 per month in the most affluent areas around the National Capital. The Bulacan division pays a P800/month supplement, Valenzuela P900/month.⁴ In the Cordillera Region, on the other hand, no supplement is being granted in the Mountain division and most of the Benguet division, and only P300/month in Baguio City.⁵

8. These regional salary differentials lead to inequitable outcomes, reflected in the regional distribution of the most qualified and experienced teachers (see Annex 1).⁶ Moreover, it may lead to wasteful use of available teaching staff. For instance, there is an excess of 7,000 teacher in the Manila division, but these refuse to be reassigned to the adjacent Quezon City division, where there is a shortage, apparently because salary supplements in Quezon City are lower.

School construction

9. Even in the case of DECS financed school construction, it is the responsibility of LGUs to provide, mostly to purchase, an adequate schoolsite. DECS' school construction program for the CAR is quite important. Altogether, the region was allocated P94 million from DECS' 1994 capital

² The Kibungan municipality (population 14,000) has a schoolboard budget of P50,000, too little for even one extension teacher.

³ The Itogo municipal schoolboard (total 1994 budget of P1.8 million) has been paying 7 teachers for over seven years; in the Taban municipality, the schoolboard (budget of P.8 million) is financing 5 teachers for the last five years; and the Bugias municipality is paying 7 extra teachers, also for over five years.

⁴ Rumor has it that local teacher salary supplements in the National Capital Region are actually much higher than officially admitted. In Makati, the most affluent school division in the Nation, the supplement is persistently said to fully equal the DECS basic salary.

⁵ Some extra benefits may likely be provided directly from PTA funds in the relatively better endowed municipalities. In Kibungan, an isolated municipality with rather hazardous terrain, teachers receive a special hardship allowance from DECS.

⁶ Teachers can not be reassigned outside a school division against their wish. They may, however, voluntarily apply to a position in another division.

budget (3.1 percent of total regional appropriations for 1.9 percent the national population), of which P88 million for school construction.

10. Locally financed school construction, however, is also important. The Kabayan Municipality was awarded P700,000 in 1993 and P240,000 in 1994 from the provincial SEF for that purpose. The Kibungan municipality, on the other hand, received P460,000 from the provincial country-side development fund for the construction of a two-classroom elementary school in 1993, and was also awarded one complete elementary school through a congressional insertion initiative. It is interesting to note, in this context, that all school construction in Kibungan was executed by government, whereas in Kabayan contracts are often awarded to PTAs, which is much cheaper and provides some labor income to PTA members. There are apparently less strings attached to local SEF funding than to congressional funds.

11. In La Trinidad, the elementary school visited by the mission received P5 million from the provincial SEF in 1994 for the addition of a home economics building, and had a new six-classroom building under construction with about P2 million financing from the country-side development fund.

Other local education expenditures

12. According to the Bulacan school authorities, as much as 80 percent of maintenance and other operating expenses (MOOE) are financed by DECS, another 10 percent by local government, and the rest from private sources (including PTAs). In Benguet province, however, the mayors of Kabayan and Kibungan stated that their municipality were not receiving any MOOE funding from DECS. The SEF appears to be the main source of MOOE funding, at least in that region. About half of the SEF-funded municipal and provincial schoolboard budgets are in fact spent on repair and maintenance of the local school infrastructure.

13. Both in Kabayan and Kibungan (population 10,400 and 14,000 respectively), the municipal schoolboard has a total budget of about P50,000, most of which goes for MOOE. General funds are too limited to permit any extra spending on education, but significant ad-hoc contributions are received from the provincial schoolboard --for instance, P35,000 in 1993 for Kibungan. In La Trinidad, a relatively affluent municipality, the elementary school PTA collected P18,000 in fees in 1994 from about 700 members, and an additional P55,000 through various fundraising activities. It also receives member contributions in the form of materials and labor. The PTA pays the school's water and electricity bills, as well as for basic repair and maintenance of the facilities. The school also has special "class" PTAs which are responsible for proper maintenance of specific classrooms -- one such PTA installed electricity in a renovated classroom. In addition, the school received P55,000 from the municipal schoolboard for classroom repairs. All in all, one can not escape the impression that even within the same division, some public schools are better off than others.

14. Ironically, an additional source of local financing are school principals and teachers, who unanimously declare their out-of-pocket expenses for basic classroom necessities to be about three times higher than their official "choke allowance" (P500 per year for teachers).

IMAGING

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