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4

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Decentralized Finance and Provision of Basic Education



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**Decentralized Finance
and Provision of Basic Education**

Donald Winkler

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Coordinator: Le Thu Huong
Copy-editing: Clive Wing
Design/Layout: Prang Priyatuk
Cover photos:

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Preface to the Series

The Asia-Pacific Education System Review Series is published by the Education Policy and Reform Unit of the UNESCO Asia and Pacific Regional Bureau for Education (UNESCO Bangkok). The series aims to summarize what is known, based on research, about selected contemporary policy issues relating to the national education systems of countries in the Asia-Pacific region.

The series provides practice-oriented guidance for those engaged in the review of education policy and systems as well as in the implementation of reforms related to the specific topics that the booklets address.

The booklets are designed to serve as rapid and credible reference material for education policy makers, planners and managers, offering busy readers (a) an overview and quick analysis of pertinent education issues; (b) a choice of approaches and options to address these issues, based on experiences of countries in the region; and (c) a set of recommendations or guiding questions to consider when preparing a sector or sub-sector review and reform.





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List of Abbreviations

| | |
|--------|--|
| DAU | Government Block Grant (Indonesia) |
| BOS | Indonesian School Grant |
| EFA | Education for All |
| EQI | Educational Quality Inputs (Sri Lanka) |
| ESC | Education Servicing Contract (Philippines) |
| OECD | Organisation for Economic Co-operation and Development |
| PISA | Programme for International Student Assessment |
| PPP | Public Private Partnership |
| PTA | Parent-Teacher Association |
| SBM | School-Based Management |
| SEM | School Excellence Model (Singapore) |
| SLIP | School Level Improvement Plan (Bangladesh) |
| SMC | School Management Committee |
| SMI | School Management Initiative |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNICEF | United Nations Children's Fund |



Acknowledgements

This booklet is based on the papers and presentations delivered at the UNESCO Regional Policy Seminar on Education Finance and Decentralization in Asia: Implications for Service Delivery, which was held in Bangkok, Thailand, between 3 and 5 November 2010, and draws on the insights, knowledge and experience of the seminar participants. UNESCO wishes to thank the participants, without whom this booklet could not have been written.

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Foreword

Selecting the appropriate option for the provision and financing of basic education is a challenge for any education system. The challenge typically concerns the precarious balance between efficiency in the delivery of education and equity of access to education, and thus concerns making choices regarding the organization, delivery and financing of education services.

Many countries in Asia have embarked on a long and sometimes uncertain route towards the decentralization of education. This booklet highlights the fact that decentralization in the provision and financing of education can improve the efficiency and equity of public education services, if the underlying factors of decentralization are well understood and made the best use of. Although the evidence is mixed and information is sometimes limited, some important policy questions are now being uncovered. Studies have found that effective education decentralization requires the establishment of management and finance mechanisms that enable local authorities to exercise accountability in improving the access, quality and equity of the education services that are under their responsibility.

The target audience of this booklet are ministerial and institutional education policy makers, as well as managers and experts working in education policy and planning. As such, the booklet not only provides a theoretical exploration of the subject, but also critically analyses the issues involved and documents practical experience related to decentralization of the provision and financing of education.

It is hoped that the information presented in this booklet will contribute to the rich discourse on education financing and decentralization as well as provide countries in the Asia-Pacific region with more knowledge on the topic. Thus, it is hoped that this booklet will contribute to informed decision-making, leading to improvements in the design and implementation of education policies and reforms in the region.¹



Gwang-Jo Kim
Director
UNESCO Bangkok

¹ According to the UNESCO geographical region classification, the Asia-Pacific region comprises 48 countries. This region, as defined by UNESCO, does not necessarily reflect geography but refers to the execution of regional activities of the Organization. This booklet refers to the Asia-Pacific region but focuses specifically on Asia.



Section 1:

Introduction

This booklet was prepared as part of UNESCO Bangkok's programme on education policy reviews and analyses on sector planning, management and financing. The information contained in the booklet draws on the papers and presentations delivered at the Regional Policy Seminar on Education Finance and Decentralization in Asia: Implications for Service Delivery, held in Bangkok, Thailand, between 3 and 5 November 2010. As such, many of the facts and data cited in the paper come from the country presentations and, while they reflect what was discussed and debated in the Seminar, the sources cannot always be confirmed.

To meet the challenges attendant to the Education for All (EFA) goals, education services must be provided as efficiently and equitably as possible. With the aim of improving both efficiency and equity, governments face three important choices.

The first choice that governments face is the role of the private sector and extent of their participation.² This concerns an appropriate mix of the public and private sectors in providing and financing education. In some countries in Asia (e.g. Japan and Republic of Korea), the private sector has historically played a large role in both financing and providing education. In these countries, the role of the private sector is even more pronounced at higher levels of education. In other countries, the government tends to take on a much larger role, although in some countries this is changing, with household expenditures on tutoring services rising, and with rapid growth in the private financing and provision of tertiary education.

The attainment of universal basic education in many countries in Asia has increased the number of primary school graduates. This has led to an increased demand for secondary school and university education. In light of this growing demand, governments are facing budget constraints, and this has forced countries to rethink the role of the private sector in financing and providing education, especially at the secondary and tertiary levels.

² In this context, the "private sector" refers to non-state or non-public actors in education including companies, non-governmental organizations (NGOs), faith-based organizations, and community and philanthropic associations.



The second choice that governments must make concerns the organization and structure of the delivery of public education. This refers to deciding on the responsibilities and decision-making powers of the various levels of the Ministry of Education, or levels of government. The critical choice regards determining which decisions can be made at the central education ministry and which should occur closer to the point of service delivery (i.e. at the school or at the subnational administrative levels). Most Asian countries are in the process of decentralizing some part of the delivery system, either by moving decision-making to lower levels within the Ministry of Education bureaucracy or devolving responsibility for delivering education to lower levels of government. In addition, most governments are encouraging community participation in school governance, and some are giving school managers greater autonomy. A contributing reason for this shift in responsibility is a growing body of evidence that suggests that decentralization and school autonomy may stimulate innovation and academic performance.³

The third choice concerns how best to finance decentralized education service delivery. The options include [1] asking the subnational governments to raise their own tax and other revenues, [2] making transfers from the central government to subnational governments (grants), and [3] giving funds (fixed amounts per student) in the form of grants, directly to the schools. One can find examples of all three of these options in use in Asia.

While most countries in the region are in the process of decentralizing education, not all countries are moving in that direction. In particular, China has recentralized in order to ensure greater equality in spending. Indonesia is also feeling the pressures of recentralization, due in part to difficulties and malpractice observed in implementing decentralization.

Questions as to the appropriate role of the private sector, the organization of the delivery of public basic education, and the best ways to fund decentralized education are, of course, empirical ones. By exchanging experiences and reporting on the effects of various policy choices, we can improve our understanding of the impacts of education decentralization on education efficiency and equity.

³ See, for example, Lubienski (2009) for an analysis of data from both OECD and non-OECD developing countries.

Section 2:

Decentralized Finance and Provision of Basic Education – A Conceptual Framework

Defining Decentralization

Many Asian countries are in the process of shifting responsibilities for the provision of basic education from the central government to subnational governments or to the schools themselves. This process is referred to as education decentralization.

Decentralization is not a uniform process and can refer to strategies that vary in terms of the scope and the type of reorganization of financial, administrative and/or service delivery systems.

Moving the responsibilities for providing education from the central government down to regional or local governments is technically referred to as devolution. Moving responsibilities to the school itself is commonly referred to as school autonomy, or school based management. Giving lower levels of government education bureaucracy (lower administrative offices) enhanced decision-making responsibilities, while the centre retains overall control, is called deconcentration.

Measuring Decentralization

There is no easy way to measure the extent to which the provision of education is centralised or decentralised. Similarly, it is difficult to quantify the extent to which a country has decentralized its education system. One way of measuring the degree of centralization or decentralization is to ask where the decisions are made in regard to the areas listed below (in no particular order):⁴

- Core curriculum
- School construction
- School location

⁴ The distribution of decision-making responsibilities has been quantified by several OECD and PISA studies as the per cent of management decisions made at different levels of government and at the school level. The PISA surveys of 2000, 2003, 2006 and 2009 have provided a rich source of data on the extent of education decentralization.

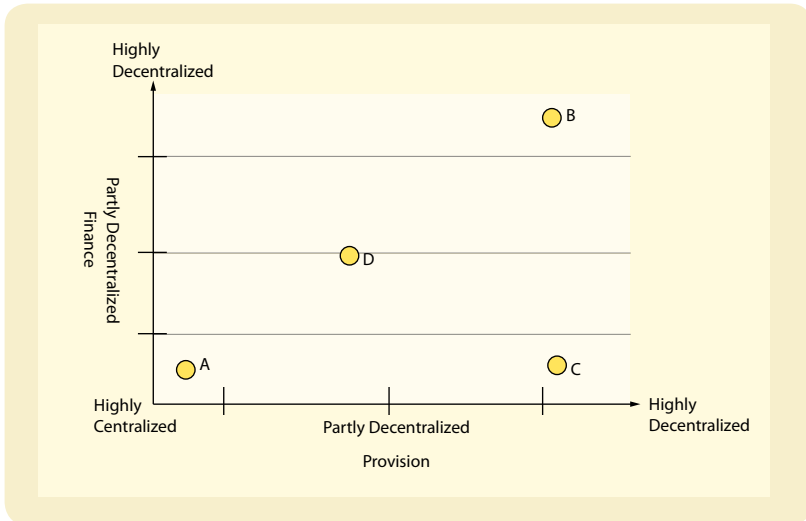
- School maintenance
- Teacher compensation
- Teacher recruitment
- Textbook selection

In a highly centralized system, the central government is the one who makes most of the decisions regarding the areas listed above. In contrast, if the school committee makes the majority of the decisions, the system is regarded as highly decentralized. There can be various types of partly decentralized systems in between the two extremes. The extent to which subnational governments or lower levels of education authority or schools can make decisions on the various areas of education service delivery will determine the pattern of partly decentralized systems. Even in decentralized systems, however, central governments are usually responsible for establishing the core curriculum.

Options for Finance and Provision

One can imagine a scenario in which the leaders of a country meet to draft a new constitution and debate what role the central government should have in ensuring that all citizens have easy access to high quality basic education. One choice, shown as point A of Figure 1, below, would be central government financing and providing all basic education. In financing education, the central government would raise revenues (mostly through taxes) and directly pay for school inputs. In providing education, the central government would employ teachers, construct schools, establish the curriculum and supply instructional materials.

Figure 1: Policy Choices in Education Financing and Provision



Another possible choice would be to leave all provision and financing of education to the private sector (non-public actors). In such a situation, all schools would be privately managed, and the funding for education would come entirely from the tuition fees paid by households (the private sector). This choice is illustrated by point B in Figure 1. Such a situation is considered less desirable, as not all households can afford to pay for education and such a situation would potentially have negative impacts in relation to access to education (equity) and the achievement of the EFA goals.

Many countries choose to have the central government finance basic education, but leave the provision of education to non-public actors and/or privately managed schools. This situation is illustrated by Point C in Figure 1. In the Netherlands, for example, the central government finances basic education, but education provision is by community or religious groups, which manage the schools. Likewise, in Chile the central government provides all the financing of basic education, but about half of all students attend privately managed schools. Many countries provide partial funding of some privately managed schools, especially those run by NGOs and religious organizations, but the Netherlands and Chile are unique in providing full funding to almost all privately managed schools.

In most Asian countries today, the central government plays the largest role in financing and providing education, but in no country does it have this role exclusively. All countries in Asia have some involvement of subnational governments and/or the private sector in education financing and provision. The position of Point D in Figure 1 depends on the extent to which key functions and decisions regarding education financing and provision are shifted either to sub-national governments or to non-public actors.

In countries such as Brazil and the United States (US), the central government provides very little funding for basic education. Subnational governments in these countries are required to use portions of their own revenues to finance education. This is the situation reflected by the current position of Point D in Figure 1, above.

In other countries, schools that are funded by subnational government revenue also require households to finance portions of education through purchasing of textbooks, employing extra teachers, paying fees, etc. For example, it is a common practice in many Asian countries for parents to employ tutors for their children. In this situation, Point D would move upward from its current position in Figure 1.

Alternatively, in countries such as China, India and Indonesia, the central government provides funding to subnational governments, which then employ the teachers and manage the schools. In this situation, Point D would move downward from its current position.

There are clearly many possible options for the provision and financing of basic education. A country could fall anywhere on the continuum, and a variety of arrangements could transpire within any one country.

Most countries in Asia represent a combination of options A and B. That is, basic education is mostly financed and provided by the central government, but privately funded and managed schools also exist.

Sources of Education Finance

There are two main sources of education finance: [1] tax and other revenues of central and subnational governments (sometimes supplemented by external aid) and [2] education fees and charges paid by households. In Asia and most other regions of the world, the majority of taxes and revenues are collected by central governments; therefore,

education in Asia tends to be financed by central governments. In Cambodia, China, and Viet Nam, for example, less than 5 per cent of subnational government expenditures are funded from their own revenue sources. Subnational tax is more extensive in countries such as Thailand (11%), Indonesia (15%) and the Philippines (31%).⁵ Subnational governments that lack their own sources of revenue have less influence on education spending. In such situations, households often emerge as an important source of education finance, especially for certain inputs (e.g. textbooks, transportation and tutoring) and for certain types of education (e.g. early childhood education, technical and vocational training and higher education).

Options for Transferring Funds to Subnational Governments

Since central governments collect most of the revenue, decentralization of education financing requires that central government revenue be distributed to the lower levels of government responsible for education spending decisions. As a result of such intergovernmental transfers, government spending is considerably more decentralized (expenditure decentralization) than is government revenue (revenue decentralization). Table 1 provides data on the subnational shares of expenditure and revenue for six Asian countries (for which comparable data is available).

Table 1: Subnational Share of Expenditure and Revenue in Selected Asian Countries

| Country | Subnational share of expenditure % | Year | Subnational share of revenues % | Year |
|-------------|------------------------------------|------|---------------------------------|------|
| China | 53.85 | 1998 | 51.34 | 1998 |
| Indonesia | 10.08 | 1998 | 3.1 | 1998 |
| Malaysia | 19.14 | 1997 | 15.18 | 1997 |
| Mongolia | 32.16 | 1999 | 22.8 | 1999 |
| Philippines | 8.7 | 1992 | 4.69 | 1992 |
| Thailand | 8.4 | 1998 | 7.99 | 1998 |

Source: Wescott and Porter (2002).

⁵ McCullough (2006).

Central (national) governments can transfer funds to subnational governments for the purpose of providing basic education in a variety of ways. One option is for the central government to specifically earmark the funds for education. This ensures that the subnational governments receiving the funds spend a minimum amount on education. This requirement reduces the subnational governments' budgeting and spending autonomy, however, which some see as violating the basic principles of government decentralization. A second option is for the central government to transfer funds without earmarks, allowing the subnational governments to themselves determine how much to spend on education, how much on health care, etc. This option ensures the budgetary autonomy of subnational governments, but does not necessarily ensure that children receive a minimum level of education spending. A third option is for the central government to transfer funds without earmarks, but to then mandate that subnational governments provide at least a minimum level of education service delivery.

Options for Transferring Funds to Schools

When schools or school management committees are partly or fully responsible for providing education, the central government must find a mechanism for transferring financial resources to the schools or committees. The most common mechanism in Asia and elsewhere is to provide funds to schools using a formula-driven, capitation grant (fixed amount per student). In the case of the Netherlands, where autonomous schools purchase almost all the school inputs, the size of the capitation grant is about equal to the unit cost of educating a pupil. In countries where schools have less responsibility, the size of the grant is smaller and may be tied to specific purchases, such as textbooks, teacher training or school improvement projects and plans.

Section 3:

Country Experiences in Asia

Public and Private Sector Roles in Education

Mix of public and private sector management and financing of education

As noted earlier, one of the most basic choices countries face in education policy is the appropriate mix of public (i.e. government) and private sector involvement in financing and providing education. As with all policy choices, this education policy decision should be informed by evidence. The World Bank has carried out evaluations of programmes in countries around the world where the government provides funding to privately managed (non-profit private or community managed) schools. These include programmes that contract private schools to provide education targeted to students from households in poverty, voucher programmes and capitation grants to privately managed schools. Most of these studies examine schools in Latin America, Africa and member countries of the OECD very little research has been conducted in Asia.

What has been found in these countries is that, controlling for extenuating factors, students attending privately managed schools do better on standardized tests of reading and mathematics than do students attending government schools. For example, in the Philippines students in privately managed schools score 0.4 standard deviations higher on examinations than students in government schools. The reasons for this are believed to be due to: better management of privately managed schools - including monitoring and support of teachers; a greater focus on performance, which signals the importance of good quality results to students and their families; and increased responsiveness to the concerns of parents. These studies also indicate that decentralization in financing and expansion of public private partnerships (PPP) leads to increased access to education. More studies need to be conducted, however, to obtain conclusive evidence. Additionally, as many of these studies do not focus on the Asian region, it is difficult to determine if private management and funding would have the same educational advantages in the Asian context.

In Asian countries, most basic education is provided through government schools, with relatively few students enrolled in privately managed primary schools, as shown in Table 2. The percentage of students enrolled in private schools increases by level of education, however, with enrolments rising from an average of 11 per cent in primary school to 20 per cent in lower secondary school and 28 per cent in upper secondary school. As in other regions of the world, in Asia the private school share of all students is highest at the pre-primary and post-secondary levels. In Japan, for example, 75 per cent of all university students are enrolled in private institutions.

Table 2: Percentage of Students Enrolled in Privately Managed Schools

| Country | Primary | Lower Secondary | Upper Secondary |
|-------------------|---------|-----------------|-----------------|
| Bangladesh | 40.3 | 97.7 | 91.9 |
| Cambodia | 1.2 | 2.8 | 4.9 |
| China | 4.2 | 7.2 | 11.5 |
| Indonesia | 16.1 | 37.2 | 51.4 |
| Japan | 1.1 | 7.1 | 30.8 |
| Republic of Korea | 1.3 | 18.3 | 46.5 |
| Lao PDR | 2.9 | 2.3 | 1.3 |
| Malaysia | 1.2 | 4.1 | 3.9 |
| Nepal | 10.3 | 13.0 | 16.6 |
| Pakistan | 31.9 | 31.8 | 30.7 |
| Philippines | 8.2 | 19.3 | 25.4 |
| Thailand | 18.0 | 12.4 | 24.3 |
| Viet Nam | -- | 1.2 | 29.7 |
| Average | 11.4 | 19.6 | 28.4 |

Source: Calculated from UNESCO Institute for Statistics (UIS) data for 2008. The country average is not weighted by population.

Private (household) Expenditure

In most countries, private education is funded through household payments of tuition. Furthermore, households also partially fund public education through their expenditure on textbooks, school running expenses and tutoring. Precise data on household expenditure on education is difficult to collect and is not readily available, however. Data that do exist suggest that private expenditure as a share of total

expenditure on education (primary to post-secondary) is high in the Asian region,⁶ with Lao PDR at 21 per cent (2004),⁷ Republic of Korea at 22.8 per cent (2001), Indonesia at 23.7 per cent (2001), India at 29.3 per cent (2002)⁸ and the Philippines at 33.2 per cent (2001).

The private share of total expenditure also varies by level of education, with the tertiary level generally accounting for a much bigger portion, as indicated in Table 3. In Viet Nam, households spend on average 4.4 per cent of income on education at the primary level and 7.4 per cent at the secondary level.⁹ In Cambodia, the most recent data shows that private spending, as a percentage of total education spending, was 55.6 per cent at the primary level and 65.9 per cent at the lower secondary level.¹⁰ Tutoring expenses are a large proportion of household expenditure in the country, and they increase by grade level, reaching 39 per cent of total household education spending in grade 9.¹¹

Table 3: Private Education Expenditure as a Percentage of Total Education Expenditure in Selected Asian Countries

| Country | 1999 | | 2000 | | 2001 | | 2002 | |
|-------------------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|
| | Prim. + Sec. | Tertiary | Prim. + Sec. | Tertiary | Prim. + Sec. | Tertiary | Prim. + Sec. | Tertiary |
| Australia | 14.6 | 46.5 | 15.2 | 48.1 | 15.6 | 47.8 | 16.1 | 51.3 |
| India | 4.7 | .. | 6.4 | .. | 6.3 | .. | 29.3 | 22.2 |
| Indonesia | 23.4 | 56.2 | 23.5 | 56.2 | 23.7 | 56.2 | 23.8 | 56.2 |
| Japan | 8.2 | 55.5 | 8.3 | 55.1 | 8.5 | 56.9 | 8.3 | 58.5 |
| Republic of Korea | 18.8 | 78.0 | 18.3 | 75.6 | 22.8 | 84.1 | .. | .. |
| Philippines | 33.2 | .. | 32.1 | 65.6 | 33.2 | 66.9 | .. | .. |
| Thailand | .. | 16.7 | .. | 19.6 | .. | 17.5 | .. | .. |

Source: World Bank, <http://go.worldbank.org/9QQK7QK8Y0>

6 On average, the private expenditures for all levels of education as a share of total expenditures on education for OECD countries are between 10 and 17 per cent in recent years, according to OECD statistics (Education at a Glance 2008 and 2010).

7 LaRocque and Lee (2011), based on UNESCO Institute of Statistics data.

8 World Bank EdStat database. <http://go.worldbank.org/9QQK7QK8Y0>

9 United Nations Country Team Viet Nam (2005).

10 Bray and Bunly (2005).

11 *Ibid.*

Household spending on education can impose a burden on poor families. For example, in Viet Nam, although fees are not authorized at the primary level, “voluntary” contributions are levied per child and vary little with the ability to pay. For the poorest and near poorest households, contributions accounted for 32 per cent and 27 per cent of the total private cost per child.¹² Household expenditure on education is especially high in those countries where tutoring of public school students is common, such as in China, Japan and the Republic of Korea. The Republic of Korea has exceptionally high proportions of household expenditure spent on tutoring; it is estimated to be 2.9 per cent of GDP.¹³ Tutoring expenditure is in fact one of the most significant factors contributing to inequality in education spending, with the rich much more likely to employ tutors than the poor.¹⁴

Government Finance of Privately Managed Schools

There are also examples in the region of governments that provide financing in one form or another for private or community managed schools. With its financial support of private community schools serving poor rural areas and its high subvention rate (80 per cent) for private secondary school tuition, Bangladesh is the region’s main example of government funding of private or community schools.¹⁵ In Bangladesh, both attendance and completion rates are significantly higher in privately managed compared with government managed schools.¹⁶ This is due to the demand-driven nature of the private schools, and the close relationship between the teachers and the communities in such schools. The Philippines provides another example of a policy to use government financing of education to increase enrolments of children from poor households in private schools. The Philippines Education Service Contract (ESC) provides a fixed tuition subsidy to students from low-income families who attend low-cost private secondary schools.¹⁷ The ESC exemplifies how subsidies to private schools can be cost-effective; the unit cost to the government of an ESC student is

12 United Nations Country Team Viet Nam (2005).

13 Kim and Lee (2010).

14 Lee and Jang (2008).

15 Behrman et.al. (2002).

16 Chabbott (2006).

17 LaRocque and Lee (2010).

59 per cent of the unit cost of public provision.¹⁸ Beginning in 2009, Viet Nam, with the support of the World Bank, introduced a programme similar to that of the Philippines, providing subventions to poor students so they can attend secondary schools of their choice. But as of 2011, there is not yet any data available that can be used to evaluate the impact of these subsidies.

Status of Education Decentralization

Education Decentralization Policies

Decentralization is a process rather than an immediate action. Of the 23 Asian countries for which information is available, 17 have adopted legislation and begun implementing decentralization.¹⁹ Most countries have adopted measures to increase parental participation in school governance, mainly through the creation of School Management Committees (SMCs) or increasing the role of the Parent-Teacher Associations (PTAs). Others have devolved responsibilities to regional or local governments, often as part of a wider government decentralization strategy.

Table 4, below, which compares the locus of education management decisions in 1998 and 2003 as perceived by educators for five Asian countries, shows how rapidly decision-making powers in education can change. Cambodia has retained much of the decision-making at the central government level but has created school management committees with some decision-making power. China, on the other hand, simultaneously decentralized and recentralized, moving decision-making powers and expenditure authority from both the central government level and the school level to the county level. While the objective of recentralization in China was to reduce funding disparities, it also had the effect of recentralizing other powers at the county level. In 2001, Indonesia undertook a radical devolution of powers to regional (i.e. district) governments, with the result that by 2003 the three levels of government (central, regional and local) had similar proportions of decision-making power. Educators perceived both the Philippines and Thailand as recentralizing education in this time period, although there were no explicit policy pronouncements to that effect.

18 Alba (2010).

19 Le (2010).

Table 4: Percentage of Management Decisions Taken, by Level of Government

| Country | Central government | | Regional government | | Local/School | |
|-------------|--------------------|------|---------------------|------|--------------|------|
| | 1998 | 2003 | 1998 | 2003 | 1998 | 2003 |
| Cambodia | -- | 75 | -- | 11 | -- | 14 |
| China | 21 | 3 | 33 | 77 | 46 | 20 |
| Indonesia | 63 | 36 | 7 | 28 | 30 | 35 |
| Philippines | 37 | 62 | 24 | 20 | 39 | 18 |
| Thailand | 55 | 75 | 0 | 6 | 45 | 20 |

Source: di Gropello (2007)

A review of literature on the topic indicates that countries in Asia have adopted a variety of policies in decentralizing their education systems. In recent years, decentralization in Cambodia, Lao PDR, Nepal, Thailand and Viet Nam has meant deconcentration (i.e. moving responsibilities down within the central government education bureaucracy) and greater school autonomy through the creation of school management committees. In other countries, such as in India and Pakistan, decentralization has meant a continued devolution of powers to regional and provincial governments. And some governments, such as Hong Kong (China) and Singapore, have begun considerable delegation of powers to principals and school committees (i.e. greater school autonomy).

Responsibilities for Education Service Delivery, by Level of Government

In the absence of a definite measure that permits one to easily conclude whether or not the delivery of public education is centralized or decentralized, a proxy measure can be used, based on the recruitment, employment and payment of teachers. Research on the determinants of good quality learning consistently shows that teachers are the most important school input. In addition, teacher salaries are by far the largest expenditure category in the basic education budget, often comprising 70 per cent or more of recurrent education spending. Thus, asking which level of government selects, manages and pays teachers is perhaps the best and simplest indicator of the extent to which basic education is decentralized.

In all countries in Asia the central government sets teacher pay scales. For most countries in the Asian region the central government recruits, manages and pays teachers, but there is some variation. Table 5, below, indicates which level of government is the locus of teacher employment in 15 Asian countries. In Cambodia, for example, teachers are central government employees, but the education ministry's provincial offices of education are responsible for teacher deployment. On the contrary, in India the state governments employ the teachers. In China, county governments employ teachers, but other responsibilities are sometimes delegated to the township governments. In Indonesia, employment of teachers is also delegated to the local level, with district governments employing teachers, but Indonesia is a complicated case in which teachers are supposed to be district government employees but in reality most teachers are central government employees, hired prior to decentralization. The districts distribute their salaries as part of the central government's annual block grant to the districts. The district selects new civil servant teachers, however. In addition, many schools employ their own teachers using the school grants (BOS) they receive from the central government.²⁰ In Japan, the 47 prefecture governments employ and assign teachers, with recommendations from municipal governments; the prefectures also fund about two thirds of teacher salary expenditure.

²⁰ World Bank (2010).

**Table 5: The Locus of Teacher Employment
(selection, management, and payment of teachers)**

| Country/ government | Central government | Regional government | Local government | School |
|------------------------|-----------------------|------------------------|---------------------|--------|
| Bangladesh | x | | | |
| Cambodia | x | | | |
| China | | | x (County) | |
| Hong Kong (China) | | | | x |
| India | | x | | |
| Indonesia | x | | x (District) | x |
| Japan | | x | | |
| Lao PDR | x | | | |
| Malaysia | x | | | |
| Mongolia | | x | | |
| Nepal | x | | | |
| Philippines | x | | | |
| Singapore | x | | | x* |
| Sri Lanka | | x | | |
| Thailand | | x | | |

Note: * Only accredited schools.

Source: Country questionnaires completed by participants of the UNESCO Regional Policy Seminar on Education Finance and Decentralization in Asia: Implications for Service Delivery (2010).

Among OECD countries, the Republic of Korea, which consistently ranks among the top performers in international student achievement tests, is one of the most centralized in terms of government employment, with 69 per cent of all public servants (including teachers) employed by the central government. In the 2006 OECD Programme for International Student Assessment (PISA) survey, only 22 per cent of respondents reported that schools in the Republic of Korea play a role in staffing decisions, compared with 32 per cent in Japan and 88 per cent in Hong Kong (China).²¹ In only two jurisdictions: Hong Kong (China) and Singapore, do schools play the most important role in recruiting and managing teachers, and in Singapore this applies only to a subset of elite schools that have been accredited as “autonomous”.

²¹ Ho (2010).

School-Based Management

School-Based Management (SBM) is viewed as a means of deepening local participation in decision-making that is relevant to schools, and as a way of expanding access to education and improving its quality. Many countries in Asia, in particular those in South-East Asia, have introduced or are introducing SBM as a strategy to improve education service delivery. For example, Hong Kong (China) introduced SBM in 1991, Thailand in 1997, Cambodia in 1998, Indonesia in 1999 and the Philippines in 2001.²² The rationale behind this trend is that a stronger voice and strengthened accountability can play a critical role in raising access, improving learning outcomes and empowering people to secure the education of children. SBM varies greatly in terms of level and type, as well as its impact on student learning, however, from one country to another, making comparison across countries difficult. In addition, empirical research on SBM to date is not sufficient to make a thorough and definite conclusion regarding its effectiveness. While several countries in Asia have made policy pronouncements about SBM, not many have had notable success to date. Analysis of the cases of Cambodia, Indonesia and Thailand reveals a dichotomy between the policy intention and its implementation and practice at the school level. In particular, initial evidence on SBM in Indonesia shows that it has not necessarily had a favourable impact.²³ More successful experiences have been observed in Hong Kong (China) and Singapore.

Hong Kong's School Management Initiative (SMI) provides perhaps the best example of SBM in Asia. Table 6, below, indicates that Hong Kong's schools have considerably more decision-making responsibilities than OECD schools at large. Beginning in 2000, all schools in Hong Kong (China) were required to have school management committees, and the schools were given the authority to recruit and manage teachers. In addition, block grant funding was provided to the school management committees, enabling them to determine their own spending priorities as well as develop three-year school development plans.²⁴ The implementation of SBM in Hong Kong (China) has been facilitated by the fact that the best schools (Grant Schools) are governed by independent sponsoring bodies. At the same time, the

22 Shoraku (2008).

23 *Ibid.*

24 Huen (2003).

SBM system also faces a lot of challenges: Teachers resisted the change and many actors felt the new responsibilities and power dynamics were confusing and unclear, which led to setbacks and frustration. Furthermore, many felt that local actor empowerment and capacity development in school management tasks was missing.²⁵

Table 6: Percentage of Headmasters Reporting that Schools have Decision-Making Responsibilities

| Decision-making responsibilities | Hong Kong (China) | OECD (average) |
|--|-------------------|----------------|
| Appointing teachers | 91 | 64 |
| Dismissing teachers | 92 | 58 |
| Establishing teachers' starting salaries | 38 | 37 |
| Preparing the school budget | 98 | 68 |
| Textbook selection | 100 | 94 |
| Course content | 98 | 77 |

Source: Analysis of PISA survey data as reported by Ho (2010)

Singapore has adopted its own version of SBM, called the School Excellence Model (SEM). Beginning in 1994, the government created a class of “autonomous” secondary schools that satisfy a number of performance criteria, including high value-added in terms of contributions of the school to test scores, and these schools are granted an increased budget and management autonomy. Currently, about one quarter of all schools in Singapore are accredited as being autonomous.

Japan is mixed in terms of school autonomy measures, with teachers and principals having significant responsibilities with regard to deciding course content, choosing textbooks and establishing which courses to offer, but have limited responsibilities when it comes to staffing matters.

Bangladesh, with 41 per cent of students attending community and privately managed primary schools, has by far the largest number of students in autonomous schools of any country in Asia.²⁶ Over half (54 per cent) of Bangladesh's primary schools are non-government schools. The findings with regard to school performance and student

²⁵ Cheng and Chan (2000).

²⁶ Ministry of Primary and Mass Education (2010).

learning outcomes are mixed, but seem to indicate improvements in access for girls, and positive outcomes in terms of cognitive learning among students attending NGO schools.²⁷

Impact of Decentralization on Student Performance

Various approaches and efforts have been pursued in Asia to decentralize education, but little is known so far about its impact on student performance. This is because apart from the difficulty in measuring decentralization, it is also difficult to assess student learning, through which student performance can be evaluated, and this is a matter of great debate.

The single most important body of research with regard to evaluating education decentralization, concerns PISA data. Studies using international PISA data for 2000, 2003 and 2009 consistently show that the extent to which schools influence staffing decisions is positively related to student learning, controlling for other variables. In addition, the positive effects of school autonomy are larger for the most disadvantaged students. On the other hand, there is little evidence to date that the devolution of education responsibilities to subnational governments in Asia has a positive, independent impact on student outcomes. Patrinos (2009) provides evidence on evaluations carried out in several countries, but mostly in Latin America.

There is, however, growing evidence from the impact evaluation of programmes in several countries around the world that privately managed schools or community-managed schools obtain better student performance, controlling for other variables, than do traditional government schools. Unfortunately, there are few rigorous impact evaluations of similar programmes in Asia. One exception is the Philippines, where SBM was implemented in 23 districts participating in a World Bank funded project between 2003 and 2005. Under this project, randomly selected schools were required to develop a school improvement plan in partnership with parents and the community. Participating schools received operating funds in cash, as opposed to in-kind resources. In addition, participating schools were required to prepare and disseminate an annual report card to the community. An evaluation of treatment and control groups found that there was a statistically significant (though small) positive correlation between SBM

²⁷ Behrman, Deolalikar, and Soon (2002), Latif (2004), Ahmed, Saleh, Nurul and Romij (2007).

and student test scores in the subjects of English and science. Another evaluation carried out in the Philippines looked at the Education Services Contracting (ESC) programme that allows poor students to attend privately managed schools. Controlling for background factors, students who participated in the ESC programme had test scores in mathematics one third of a standard deviation higher and test scores in science two fifths of a standard deviation higher than students attending public secondary schools.

Financing Decentralized Education in Asia

With the exception of some countries, such as Japan, government revenues in Asia are generally collected centrally. This implies the need for mechanisms to transfer central government revenues to subnational governments and to schools, since decentralized education involves greater spending authority devolved to these governments or schools. This commonly takes the form of intergovernmental and school grants.

Intergovernmental Grants

When subnational governments have responsibilities for recruiting and paying teachers and providing other school inputs, as is found in China, Indonesia, India and elsewhere, central governments must transfer funds to the subnational governments to cover salaries and other school inputs. In Indonesia this is done through a block grant (DAU) to district level governments. India's central government makes block grants to state governments in addition to funding special projects (Centrally Sponsored Schemes). Although block grants can be designed to provide incentives for good performance, or for efficiency or to leverage spending by subnational governments, this is not commonly done in Asia. Indeed, by covering all public employee costs, the Indonesia grant provides an incentive to district governments to increase employment. To ensure block grants operate toward the delivery of quality, efficient, and equitable education service delivery, – the formula and mechanisms of these grants must be designed with care. There is a delicate balance between spending autonomy at the decentralized level and accountability of the education sector to responsible use of limited resources.

School Grants

Central governments (and in some cases subnational governments) that wish to delegate responsibilities to the schools must find mechanisms to transfer funds to the schools or their governing boards. Almost non-existent a decade ago, school grants today represent a significant portion of the central government education budget in some countries. In Indonesia, for example, they represent 23 per cent of all central government education spending, while in Thailand grants made to schools comprise 17 per cent of the education ministry budget. These grants represent smaller, but significant, expenditures in countries such as Bangladesh and Sri Lanka.²⁸

The Indonesia school grant (BOS) was created in 2005 as a means of transferring funds to primary and secondary schools, both public and private. Through the requirement that school committees sign off on school spending plans, the grants help foster local school governance. Schools spend about 30 per cent of the funds they receive to contract teachers.

In both Indonesia and Thailand, school grants are formula-driven, with the amount received by any school dependent on enrolments and other characteristics, including weighting disadvantaged students more than the advantaged. As a result, a grant varies between 47 and 400 US dollars (USD) per student per year.²⁹

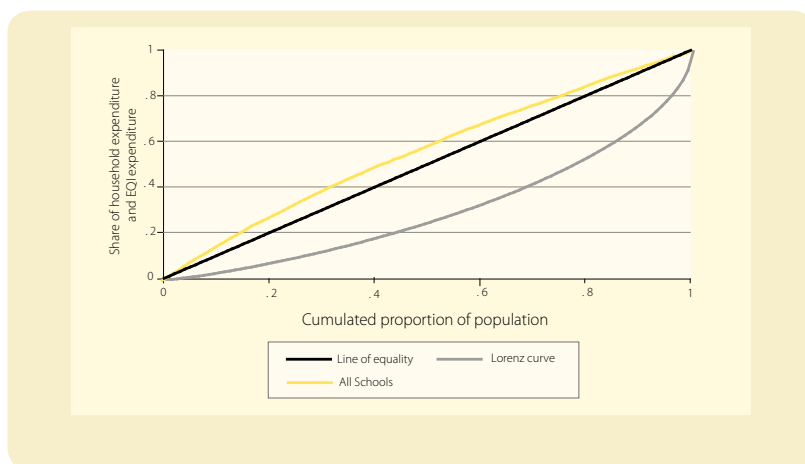
Sri Lanka adopted a formula-based school grant, the Educational Quality Inputs (EQI) scheme, in the year 2000. The formula includes higher weights for rural schools, small schools and schools serving the disadvantaged. As shown in Figure 2, the result is a distribution of funding that is pro-poor.³⁰ The Lorenz curve is represented by the red line in Figure 2 and is calculated for the total EQI expenditures per household at the national level. It is relatively close to the line of equality, indicating an equitable distribution of EQI funds. Thus, at the national level, EQI expenditure for all school cycles is progressive.

²⁸ Country presentations delivered at the regional policy seminar “Education finance and decentralization: Implications for service delivery”, Bangkok, Thailand, 3 -5 November 2011.

²⁹ *Ibid.*

³⁰ Arunatilake and Jayawardena (2010).

Figure 2: Distribution of Funding – Sri Lanka



Source: Arunatilake and Jayawardena (2010).

School grants are sometimes tied to schools adopting a school improvement plan. In Bangladesh, for example, the United Nations Children’s Fund (UNICEF) is assisting government supported schools to establish school level improvement plans (SLIPs). This programme awards grants to schools that develop innovative plans that include collaboration with civil society institutions.

Across Asia, the designers of school grants face a number of challenges. Complicated formulas and lack of transparency for the general public, as in Sri Lanka, with several variables reflecting the cost structures of schools, are commonly cited challenges. On the other hand, simple and transparent funding formulas, such as basing how much a school receives on enrolment figures and nothing else, can be both inequitable and inefficient. The goal is to find a compromise that simultaneously satisfies the criteria of fairness, efficiency and transparency.

Section 4:

Looking Forward: the Future of Education Decentralization in Asia

Many countries of Asia have embarked on a long and sometimes uncertain route towards education decentralization. The larger countries, such as China, India, Indonesia and Pakistan, have devolved responsibilities to subnational governments, while other countries have created school level governance bodies and delegated to them some authority and budgets. Elsewhere, such as in the Philippines, Sri Lanka and Thailand, governments have created school grants that convey a significant amount of financial control to schools and school management committees. Two jurisdictions: Hong Kong (China) and Singapore, have fully adopted the school based management or autonomous schools model, including giving schools the authority to select and pay their own teachers. At the other extreme, some countries, for example Lao PDR, have simply deconcentrated responsibilities within the education bureaucracy.

The country experiences presented in this booklet show that the nature, level and impact of decentralization of basic education financing and provision vary greatly, depending on circumstances and institutions. In some circumstances, decentralization has indeed improved the performance of education systems. However, research so far indicates that the magnitudes of these impacts are often small, and that there are many countries with centralized, predominantly publicly-delivered education that do well on international tests of academic performance. While more rigorous research evaluations are needed specifically for the Asia region, the experiences so far suggest that decentralization can offer a solution to some problems of education, if the opportunities it creates are well seized. For example, while decentralization may not have a very large impact on students' test scores, it can improve access to education as it enables diversification of education service provision to meet the needs of different target groups. Also, by moving decisions closer to the point of service delivery, decentralization can help improve efficiency in education systems by reducing delays in the processing of decisions. Furthermore, decentralized financing of education can bring in greater, though not necessarily more equal, resources for education. In this regard, caution must be exercised to take into

account the affordability of education services for parents and pupils, as there is some evidence that decentralization can exacerbate the existing disparity in education spending among different population segments and territorial areas. This can occur because even when access to education is free, attending school involves costs such as transport, textbooks and learning materials, and the opportunity cost of labour (of children attending school instead of helping with the family livelihoods).

To avoid the potential drawbacks of decentralization or to overcome the issues surrounding decentralization, it is important to understand the factors underlying the adverse effects of decentralization on education service delivery. Some common factors that can be observed from the Asian countries' experience include lack of capacity at sub-national government level; misalignment of responsibilities (e.g. while local authorities may be responsible for education, higher levels of government directly pay teachers); lack of clarity in the functional roles of different levels of government and the interplay between actors in delivering services. In addition, there can also be problems associated with intergovernmental fiscal transfers, user affordability and local financial autonomy over the use of funds.

All policy choices hold both promises and problems; therefore careful consideration is required in the design and implementation of education reform policy. What matters is that the option taken is appropriate to the institutional, administrative and financial context where it is applied, and that responsibilities are balanced by resources, accountability and institutional capacity.

Ensuring Equity

The principal risk of devolving educational functions and finance to subnational governments is inequality in educational spending, which may also lead to inequality in educational outcomes. This was one result of China's education decentralization of the 1980s, which permitted villages to supplement county government funding with surcharges for school attendance. The result was unequal spending and a heavy financial burden on poor, rural families.

Unequal spending is often addressed by centralizing education finance, with higher levels of government assuming the responsibility for ensuring some minimum level of spending. This was China's response in the early 2000s, increasing central government funding of education and restricting local capacity to generate revenues from fees. Other federal countries, such as Brazil and the US, have adopted similar policies that increase the central or regional government's role in funding education as a means of equalizing spending across schools.

Building Accountability

One of the reasons for decentralization of financing and provision of education is that it promotes a voice for the people, which enables them, namely pupils and parents, to demand accountability from the authorities responsible for the delivery of basic education services. Building accountability requires clearly defined responsibilities, school-level governance and user information. Asian countries have made some progress on these three requirements, though there is still much to do.

The vehicles of school governance and management in Asia, notably in South-East Asia, are, in most cases, SMCs and community councils consisting of community members.³¹ This feature has an important policy implication since the composition of school governance bodies will determine the extent to which head teachers can be held accountable. Another feature is that while these school governance bodies are being set up in many education systems, their powers, responsibilities and abilities to hold schools accountable for performance vary greatly. In many cases, there are also tensions and even contradictions in their roles and responsibilities, which undermines their effectiveness in strengthening school level governance. Therefore, a first task for those involved in implementing education decentralization is to ensure that an appropriate school level governance body is set up and to clearly define its roles and responsibilities.

To hold schools accountable for performance, people must know how the school performs relative to benchmark standards and relative to similar schools. The same applies to the whole education system, i.e. to hold education policy makers and managers accountable for

31 King and Guerra (2005).

education system performance, it is necessary to build a rigorous accountability system into the education system. Analyses of the determinants of performance on PISA show that measures of school autonomy have greatest impact when combined with standards-based external examinations that hold schools accountable for results.³² There are of course other measures that can be used to evaluate school performance, but this measure is probably the easiest to quantify, given the available data and political issues surrounding education. What is important here is that the accountability system should generate transparent, thorough and timely data and procedures that allow schools to pay close attention to standards and performance.

In Asia, both Hong Kong (China) and Singapore measure and report on schools' absolute performance and value-added performance, the latter controlling for factors other than the school that may affect educational outcomes. India, Philippines and other countries are experimenting with the production of "school report cards", which provide information to parents and the community with regard to schools' scores in terms of selected performance indicators. In general, however, most Asian countries have far to go in terms of informing parents and the community about school performance.

An effective accountability system should be able to provide both support and intervention when and where needed. Although this sounds contradictory, it is not. Support here refers to capacity building for the lower levels of government, as there is no point in holding people accountable if they lack the capacity to fulfil their responsibilities. At the same time, it should also be possible to intervene in persistently failing situations. Balancing accountability support and accountability intervention is obviously a difficult task, but this is precisely how an enabling accountability system should be.

Building Local Capacity

The accountability system is unlikely to function well if it is not grounded in a capacity building mentality. Here, the capacity building should be delivered through policies, training, professional development, ongoing support, etc., enabling schools and communities to not only pursue but also sustain improvements at the local level within the national context of policies.

³² Schütz et. al (2007).

The Road Ahead

To realize the potential benefits of education decentralization, governments must assign clear roles and responsibilities for financing and providing education; have equitable and transparent funding mechanisms; engage parents and the community in school governance; and provide information on school finance and performance to parents, administrators and supervisors alike. Several Asian countries have initiated these and other kinds of reforms. However, as explained in this booklet, the road to reform is paved with numerous potholes that affect both the speed of implementation and the effectiveness of decentralization reforms. There is still a way to go on the road towards the implementation of well-designed, effective decentralization reforms.

While Asian countries face a number of continuing challenges to implementing decentralization and making it work to improve educational equity and efficiency, the progress that has been made over the past two decades is impressive and augurs well for the future.

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Decentralized Finance and Provision of Basic Education

This booklet was prepared as part of UNESCO Bangkok's programme on education policy reviews and analyses on sector planning, management and financing.

The booklet provides a conceptual framework for understanding the issues involved in decentralizing the financing and provision of education. Through exploration of various country experiences in implementing education, the paper describes the challenges that Asian countries have encountered in this process and provides a basis for well-informed decision-making regarding future education decentralization efforts, with a view to improving education equity and efficiency in the Asian region.



United Nations
Educational, Scientific and
Cultural Organization

UNESCO Bangkok

Asia and Pacific Regional Bureau for Education

- Mom Luang Pin Malakul Centenary Building
- 920 Sukhumvit Road, Prakanong, Klongtoey
- Bangkok 10110, Thailand
- E-mail: epr.bgk@unesco.org
- Website: www.unesco.org/bangkok
- Tel: +66-2-3910577 Fax: +66-2-3910866

