

## Chronic underfunding of non-salary expenses of schools: What can policymakers do about it?

**W**hile the budgetary resources for education have increased over years, its impact is severely eroded by inflation and large increases in salaries. Increase in school-related non-salary expenses has been disproportionately minimal. This has translated into a permanent deficit in school basic facilities, utilities, consumables and stocks of teaching and learning materials. This deficit rolls over year-on-year with negative consequences on ability of schools to attract and retain children. There is a need for prompt policy actions through replacement of fixed or centralized school budgets with formula-based school-specific budgets, incentives for greater spending on learning and teaching materials, and efficiency savings in salary budget for creating more fiscal space to finance school-specific budgets.

### Introduction

Education sector is the largest recipient of public expenditure on social services in Pakistan. In 2013-14, the federal and provincial governments together spent Rs. 516 billion on education<sup>1</sup>. While this expenditure is insufficient to deal with the huge gap in access and learning, all

governments have made some efforts to expand the resource base, however incremental, for education. Over a period of 4 years since 2010-11, total spending on education has gone up by 88 percent.

The impact of size and expansion of education expenditure however is severely eroded by inflation

### Policy Conclusions

- ✓ A funding formula should be established for all government schools which should replace the existing mechanisms of fixed or centralized allocation of non-salary grants for schools.
- ✓ Incentives need to be created to promote spending of non-salary budget on teaching and learning materials. There is a strong case for establishing and maintaining minimum stocks of teaching and learning materials at primary, middle, high and higher secondary levels.
- ✓ In the medium to long term, it is important to promote policies which generate savings from salary budget.



### Institute of Social and Policy Sciences (I-SAPS)

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and large increases in salaries. Since 2010-11, salaries and other employee-related expenses in the education sector increased by 98 percent in the provinces – equivalent to 170 billion rupees. In contrast, their non-salary expenditure on education increased by 32 percent – equivalent to 7.6 billion rupees. In relative terms, non-salary expenditure represents the smallest proportion of education budget in comparison to salary and development.

A chronic low importance attached to non-salary expenditure means that public sector schools are facing underfunding of their operational expenses and education-related supplies. This is a persistent problem which has negatively affected ability of public schools to attract and retain children for learning. This policy brief discusses key dimensions of this issue. It draws examples mainly from Punjab, but the findings and recommendations are relevant more broadly for all provinces.

### Why do schools need non-salary budget?

A regular flow of adequate amount of non-salary budget to schools serves two purposes. First, it enables the school to procure operational and education-related consumables needed in a given year. They most often include: teaching and learning materials; repair and maintenance of school building; provision of basic facilities such as drinking water and electricity; co-curricular activities; utility bills; medical supplies; photocopying and printing; cleaning; laboratory equipment, refreshments, rent, etc.

These needs may vary by type, size and location of a school. These consumables and resources are necessary for building and maintaining a learning environment which is safe, child-friendly, and suitable for delivering a

quality education (see Box 1).

Secondly, schools need non-salary budget to build stocks of teaching and learning resources which last longer than one year. Schools starved of such stocks cannot teach their students well even if they have plenty of good textbooks and qualified teachers. Science students, for example, can hardly learn from competent science teachers if the school fails to provide laboratory equipment for experiments due to unavailability of funds. Impact of government's huge investments in provision of free textbooks and teacher training is likely to be compromised seriously when schools do not get sufficient non-salary funds.

#### Box 1: What is the evidence about impact of non-salary expenditure on learning?

Schools use non-salary budgets on physical inputs, learning resources and basic facilities, etc. A number of studies have assessed their impact on learning. A few examples are given below:

- Impact of additional learning resources on student attainment is stronger than that of additional teacher resources (Fuller and Clarke, 1994).<sup>2</sup>
- Marginal product of additional physical inputs is much greater than that of teacher salaries or class size (Pritchett and Filmer, 1999).<sup>3</sup>
- In Uganda, a study found that conditions of classrooms had a strong effect on reading and mathematics scores for middle school pupils. Teacher experience and length of schooling of teachers had no effect (Glewwe and Jacoby, 1994).<sup>4</sup>
- In Philippines, schools with basic facilities, in particular electricity, achieved much better student progress (Bacalod and Tobias, 2005).<sup>5</sup>

Courtesy: Cambridge Education (2012)<sup>6</sup>

In addition, non-salary budget is also important for other parts of the education system, especially for administration and monitoring. Provincial Education Departments and District Education Offices need non-salary expenditure for office supplies, travel, post and telecommunication, etc. Associated institutions such as teacher training institutes, assessment and examination boards cannot perform their core functions without non-salary budget. Punjab Examination Commission, for example, can conduct credible examinations at any level only if it has sufficient funds for printing of question papers, vigilance and logistical arrangements at examination centers. The focus of this policy brief is mainly on school-related non-salary expenses.

### Why do schools face underfunding of their non-salary expenses?

Pakistan spends about 2 percent of Gross Domestic Product (GDP) on education per annum<sup>7</sup>. The question of adequacy of this expenditure aside, distribution of the available resources itself is a matter of policy debate. About 80 percent of the education expenditure is absorbed in salaries and other employee-related benefits. The second biggest share of education expenditure goes to development schemes. Non-salary budget which is meant for operational expenses and consumables has historically remained a meager 2-3 percent of total education expenditure. This configuration of allocation is entrenched across the federal and provincial education budgets. The following analysis of Punjab budget further illustrates this pattern.

Punjab has one of the largest education systems anywhere in the world with 53,000 public schools and a private sector which is thriving in rural as urban areas. In 2013-14, the province spent Rs. 176.51 billion on primary and secondary education – Rs. 86.21 billion more than what it spent five years ago in 2009-10. Thus, the education expenditure expanded in nominal terms by 49 percent between 2009-10 and 2013-14. During this period, however, 98 percent of the increase in expenditure was absorbed in salaries. Overall, the spending on salaries has more than doubled from Rs. 73.24 billion to Rs. 157.60 billion in the last five years (Table 1).

In contrast, development expenditure fluctuated year-on-year, and without any substantial net growth. Only three percent of total provincial education budget goes to non-salary expenditure. In 2013-14, it amounted to Rs. 4.42 billion. From 2009-10 to 2013-14, the Punjab government spent an additional amount of Rs.84.36 billion on salaries in the education sector. During the same five years, additional amount spent on non-salary expenses was only Rs. 1.41 billion. This pattern is against the

**Table 1: Education Budget of Punjab (Rs. Million)**

Year	Current		Development	Total
	Salary	Non-Salary		
2009-10	73,244.26	3,000.49	14,047.99	90,292.75
2010-11	99,060.44	3,309.76	10,854.00	113,224.19
2011-12	118,759.76	3,277.00	17,570.46	139,607.21
2012-13	141,185.79	2,869.11	15,012.20	159,067.10
2013-14	157,603.27	4,416.06	14,487.00	176,506.33
Five-year average: % of total education budget				
2009-2013	86%	3%	11%	100%

Source: Punjab Budget Books

emerging evidence which indicates that impact of additional learning resources, physical inputs and classroom environment is greater than teacher salaries (see Box 1).

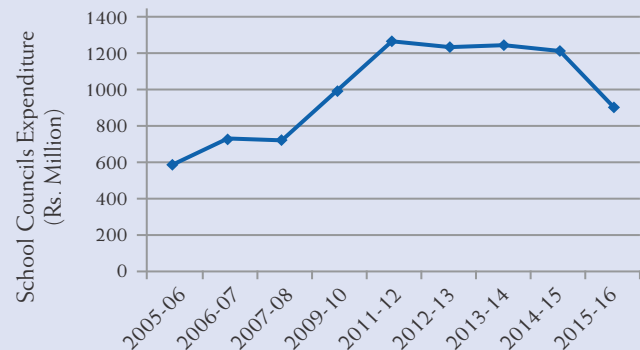
Allocative imbalance is obvious. This even problem is compounded by the fact that even the meager non-salary expenditure is not maintained. Even small incremental increases are not consistent due to which schools can't predict how much funds they would get every year. Non-salary budget for primary and middle schools is spent through fixed grants to school councils. Chart 1 indicates the unsteady and unpredictable path of school council grants.

Public education system is the largest employer in the social sector. There are more than 325,000 government teachers alone in Punjab<sup>8</sup>. The size of workforce, multi-grade teaching in classrooms, expectations of teacher unions and rise in cost of living due to inflation come together to exert pressure on the government to spend biggest share of budgetary resources on salaries - leaving little for development schemes and non-salary expenses.

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Centralized planning and budget-making process is also an important factor in this context. Historically, the provincial government provided non-salary budget arbitrarily through fixed grants for schools. In Punjab, for example, school councils are

**Chart 1: School Councils' Expenditure in Punjab (Rs. Million)**



Source: School Education Department, Punjab

allocated grants of Rs.20,000 and Rs.50,000 for primary and middle schools respectively. In Khyber Pakhtunkhwa, annual grants are made on the basis of number of classrooms and enrolment, but this criterion does not completely take into account differential needs of each school. Pakistan has a poor history of devolving powers to schools and enabling them to demand resources from the government based on their needs.

### **What have we learnt from formula-based non-salary expenditure in Punjab?**

Punjab is the first province in Pakistan which has introduced school-specific non-salary budgets in a phased manner. This is a transformative shift in resource allocation for schools because it can directly address the chronic underfunding of the non-salary expenses of schools.

Under the Punjab Education Sector Reforms Program II, the Schools Department has designed and implemented a formula for non-salary budget based on a school needs survey with support from the World Bank. The formula takes into account a range of characteristics of schools and students - fixed

costs of schools, needs of students, deficiency of furniture, and building operations. Punjab notified this mechanism for transfer of non-salary funds for primary and elementary schools to the accounts of the respective school councils.

This program was first piloted in 9 districts in 2013-14. Primary and elementary schools utilized Rs. 3.49 billion on furniture, boundary walls, and other facilities. In 2014-15, the program is being scaled up to 18 districts with a budget of Rs. 7 billion. In other districts, old mechanism of fixed grants to primary and middle schools will remain operational till the time the formula-based mechanism is rolled over across the province.

There are a number of potential benefits of formula-based mechanism. It devolves financial management powers to teachers, parents and communities as members of the respective school councils to identify school-specific needs and overcome deficit in school infrastructure and resources. Whilst more time is needed to quantify the impact of Punjab's experience with formula-based non-salary expenditure program, it is evident that schools have more resources at their disposal to build a learning environment which is safe and child-friendly.

According to a survey carried out for Punjab's non-salary program, an amount of Rs. 5.02 billion was required for need-based school

budgets in nine districts<sup>10</sup>. The actual non-salary allocation for all 36 districts in 2013-14 was Rs. 4.42 billion. This indicates that the gap between needs of schools and actual allocation is extremely high and calls for immediate attention of policymakers.

**Unless the federal and provincial governments shift from arbitrary or fixed resource allocation to decentralized needs-based non-salary budgets, schools will face a permanent deficit in school infrastructure and teaching and learning materials which will roll over year-on-year.**

Unless the federal and provincial governments shift from arbitrary or fixed resource allocation to decentralized needs-based non-salary budgets, schools will face a permanent deficit in school infrastructure and teaching and learning materials which will roll over year-on-year. This deficit has negative effects on ability of schools to attract and retain children. It can also give rise to big unforeseen challenges. In the aftermath of Peshawar terrorist attack which left 130 school children dead on December 16, 2014, the federal and provincial governments are struggling to manage a big chunk of resources that are needed to raise boundary walls of schools and install security systems. This financial stress could have been much lower had the governments ensured a steady flow of adequate non-salary budgets to schools on annual basis.

### **What can policymakers do about this issue?**

Pakistan is facing an "education emergency": 25 million children are out of school<sup>11</sup>; those in schools are not learning to an acceptable

"From 2007-08 to 2010-11, the Punjab government spent Rs. 235 million per annum on school-related expenditure. This translates into Rs. 19 per day per school, which is extremely inadequate".

Source: World Bank (2013)<sup>9</sup>



standard. Conflict and security crisis are making the schooling choices more fragile. The biggest challenge is to make the schools secure and an attractive place for parents and children. Any shortfall in non-salary budget for schools will weaken the ability of schools to live up to this challenge. How to respond to the chronic underfunding of non-salary expenses of schools? What steps are needed in the medium to long term to create a sustainable basis for needs-based school budgets in constrained fiscal environment? Policymakers can take a number of actions:

1. A funding formula should be established for all government schools which should replace the existing mechanisms of fixed or arbitrary allocation of non-salary grants for schools. The formula should take into account the wide range of school-specific needs. In this regard, other provinces can learn from Punjab's experience with non-salary expenditure program.
2. The federal and provincial governments should benchmark the minimum teaching and learning resources required to deliver quality education in classrooms at primary, middle, high and higher secondary levels. All schools should be required to build stocks of these resources over the next 3-4 years. Non-salary budget should be "guaranteed" for this purpose.
3. If all government schools have to be progressively shifted to needs-based budgets, governments may find it increasingly difficult to create additional budgetary resources beyond a point. Therefore, it is extremely crucial
4. Decentralization of financial powers – through school-specific budgets – will require parallel efforts to improve public financial management at school level. Mechanisms for financial management of non-salary budgets may vary in provinces, but will invariably involve a role of district education office, school councils or parent teacher committees (PTCs) and Drawing and Disbursing Officers (DDOs). There is a strong case for clearer government policy for efficient use of funds through these mechanisms. This requires a shift from donor-dependent projects to a regular mechanism for support and capacity building of PTCs and DDOs.

### References

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8. PMIU, May 2014
9. World Bank, *Government of Punjab and DFID (2013), Punjab Social Sector Public Expenditure Review*, Islamabad.
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### **Institute of Social and Policy Sciences (I-SAPS)**

House No. 13, Street No.1  
Sector G-6/3, Islamabad  
UAN: 051-111-739-739  
Fax: 051-2825336  
E-mail: info@i-saps.org



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