

WHERE THE **MONEY FLOWS**

What We Don't Know About Financing
Education in Pakistan and Why It Matters

Ahsan Iqbal

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One

Follow the money

The wording of Article 25a of the Constitution of Pakistan is clear as day. Education is a fundamental right. "The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law."

The ground realities in Pakistan are also clear, stark and frightening. Pakistan is in the throes of an education crisis that threatens the future of the country. More than 25 million children are denied the right to be in school. The children that are in schools, study in broken buildings, often with no teachers, or teachers that are poorly skilled. The system fails not only those children that are out of school, it also fails those children that are in school, but are getting a poor quality education and an outdated curriculum. Rich and poor parents alike are opting out of the state school system, in droves, with one-third of all

enrolled children now being educated in private schools.

We have a moral obligation to fix this problem. A child entering school today can expect to stay in the workforce to 2070 and beyond. In that time, the demand for skills will continue to intensify. The ill-educated will be pushed further and further to the margins of society and will be starved of opportunities. They will have no chance to be proactive members of the global knowledge economy. We cannot allow this to happen. Concern for the security of the country also makes it imperative we act. Pakistan has a youth bulge that is reaching maturity. If its energy is not used productively, it will turn inwards and wreak destructive consequences. Pakistan will struggle to cope with the fallout from this demographic disaster. The challenge becomes even more critical in the wake of the new Knowledge Revolution era, which has put knowledge as the key to development and progress for any society.

And then there is the state's legal duty to educate. As Babar Sattar¹ recently pointed out, "federal and provincial governments have taken no steps to promulgate laws to give effect to the fundamental

¹Sattar, Babar, "Screaming for Help", The News, page 7, March 12, 2011
<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=35792&Cat=9&dt=3/12/2011>

right to education.” Over the next year, governments will - quite rightly - come under growing pressure to legislate, as the Supreme Court acts to enforce Article 25a. But lawmakers will quickly discover how hard it is to transform an education system that is failing so badly. They will find that the 18th Amendment, while providing the right to education with one hand, has weakened the state’s ability to provide it with the other.

The devolution process, triggered by the 18th Amendment, is changing the way public policy is formulated in Pakistan. While devolution has the potential to make

policy more responsive to the desire of the people, by giving provinces greater autonomy over what they spend, critical questions remain unanswered. As education is devolved, how will provinces cope, when they are already overstretched and lack both financial and human resources? Who will fund development

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needs for education, as salaries grab a rising share of scarce budgets? And how will the disparities between provinces be addressed, given the different challenges they face in providing education for all?

When Bob Woodward was trying to discover the truth behind the Watergate scandal that brought down the Nixon presidency, his chief source, code-named Deep Throat, offered some simple advice. He was told that if he wanted to find the truth, he had to “follow the money.” This is good advice. In this essay, I seek exactly to do this, to ‘follow the money’ by asking some simple questions about how we finance the education of our children in Pakistan. The answers, or lack thereof, reveal the complexities of the system through which we fund our schools. We discover a lot about what we don’t know - about how much we spend and where we spend it; about the return this money delivers; and about what we will need to invest if the right to education is finally to be delivered.

Two

What we don't know

Pakistani leadership has not been able to deliver a system of education that is commensurate with the country's needs - either those of today, or in the future. The trouble is not just that there aren't enough children enrolled in school, or that the quality of education is so low. If you are in problem-solving mode, then the challenge is more fundamental. No matter what reforms you want to implement, finding the money to make them possible is a gargantuan task.

As every man, woman and child in Pakistan knows, through watching the prices of essential commodities sky-rocket, the economy is in bad shape. The country has run out of fiscal space. For the democratic process, this is a major threat. Military governments have repeatedly set the stage for civilians to fail by bequeathing them an impossible fiscal crisis. A robust

programme of economic reforms must be supported by all elected politicians.

At present, however, the absence of a strong economic programme for Pakistan means that it must look to international lenders for support. Enter the International Monetary Fund (IMF) and the intense pressures it places on political governments, to cut deficits and raise revenue. These steps come at a heavy political price. More importantly, they are insensitive to the fact that in many social services, it is not a cutting of the budgets that is needed, but a significant increase. There is a real risk that we will end up balancing our books on the backs of the poor. The provinces too are in deep financial trouble, with the IMF demanding 'binding' controls on provincial expenditure in order to meet the deficit target it is trying to impose.²

In such trying times, education gets the short end of the stick. However profound the education emergency we face, it is very, very difficult to argue for it to be given priority. I know, because I have tried. Of course, without investment in human capital there can be no long term solution to Pakistan's economic problems. The government's own fiscal position relies on the ability of Pakistanis to earn more, and thus to pay

² Statement by an IMF Mission on Pakistan, Press Release No. 11/71 March 11, 2011
<http://www.imf.org/external/np/sec/pr/2011/pr1171.htm>

more taxes. Pakistan needs a growth strategy and growth will never be sustained unless there is an improvement in the quantity, quality, and relevance of the country's education.

In the short term, however, we all need to be alert to the potentially disastrous impact of a tight budget on education expenditure. Under pressure from the IMF, the government is proposing a mini-budget which includes tax increases, but also deep cuts in development budgets. The Ministry of Finance has promised that the social sectors, including education, will be protected, but I am sceptical.

The truth is that Pakistani policymakers have little handle on what is currently being spent on education. The picture is becoming even more fragmented in light of the 18th Amendment. We need urgently to gain greater clarity over the current situation and also to analyse what needs to be spent if governments are to meet their constitutional obligations on education. This cannot be done by the provinces acting on their own. Both federal and provincial governments need to work together, assisted if necessary by Pakistan's top economists, to discover what we know about financing, and - as importantly

- what we don't know.

How the money flows

The first question to investigate is 'how does the finance get from taxpayer to school?' We need to know where the money comes from and who is responsible for spending it.

According to the Pakistan Economic Survey 2009/10, Pakistan spends 2.1% of GDP on education, which is less than Bangladesh (2.6%) and India (3.3%), and much below levels of expenditure seen in countries such as Malaysia (4.7%) and Vietnam (5.2%). Figures for how much of this money is spent on schools (as opposed to universities, colleges, etc.) are not readily available. However, a rough estimate suggests that school-level expenditure accounts for around 65% of total expenditure, or somewhere in the region of 1.4% of GDP.

Responsibility for financing school-level education is split between federal, provincial and district levels. The bulk of revenue - about 90% - comes from the Federal Government, with its receipts placed in the Federal Divisible Pool and divided among the

Federating Units on the basis of the National Finance Commission (NFC) award (with some grant in aid sent to provinces as well).

District governments then receive their share from provincial governments under the Provincial Finance Commission award. The transfer is a single line budgetary amount, with districts then adding their own revenues to the pot, although few have significant revenue raising capacity. Money has therefore flowed from top to bottom, down a pyramid. At each level of government, some of the money is spent, and some passed to the next level down. Of the overall budget for education, roughly half is spent by either federal or provincial governments.

The higher levels of government, however, spend much of their education money on further or tertiary education. According to figures drawn from the I-SAPS report on Public Financing of Education in Pakistan, only Khyber Pakhtunkhwa spends a significant proportion of its education budget on schools: 63% of actual expenditure in 2009/10. Balochistan spent 25%, Punjab 18%, and the Federal Government 4%. In Sindh, the figure was only 2%, due to a large underutilisation of the available budget

(the share was 12% in the previous financial year). This is part of a pattern of underutilisation of resources, with Balochistan spending 67% of its schools budget, Sindh less than half, and Punjab less than a third. Khyber Pakhtunkhwa goes the other way, overspending its budget by 50% in 2009/10.

It is also hard to know how inclusive these figures are. Education budgets only take into account the budgets of relevant departments like education and literacy. However, we know that part of the military budget is also spent on a large number of schools; so too is the railways budget, the PIA and other state-owned enterprise subsidies and other public sector organisations that run their own schools. There may be significant funds that are being used on education that we have no way to account for. This is a serious problem.

What is beyond question, however, is that the bulk of school expenditure occurs at district level, with districts spending all, or an overwhelming majority, of their money on schools. District expenditure on the government school system is more than ten times as great as the total spent directly by provinces and the federal government. In theory, districts allocate

available money between sectors, based on budgets that are approved by the Zila Councils. In practice, however, allocations are largely determined by the salaries they are liable for. This is especially true in the education sector.

Take the Prime Minister's home district, the district of Multan in Punjab. It has 1,818 schools, over 10,000 teachers, and an enrolment of 215,000 boys and 167,000 girls (note the marked gender disparity). Enrolment is heavily concentrated on primary schools, with 74% of students

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dropping out before they enter primary school. For every 100 girls starting school at the age of five, just two will succeed in reaching higher secondary school. The school infrastructure is in a dreadful state. 18% of schools require major repairs, while 6% are in a dangerous condition. Just half have electricity.

Budget allocations, however, are not driven by the imperative of fixing these problems. Just 6% of the total district budget for education in 2009-2010 was allocated to development expenditure (building and improving schools, buying textbooks and other equipment, etc.). The average for all districts across Pakistan is slightly higher, at 10%, but this is still a paltry sum given the scale of the developmental challenges in the school sector. Experience suggests, meanwhile, that even the small budgets available for development will not fully be spent. In 2008/09 in Multan, less than 70% of the development budget was actually used; and in 2007/08 only half. Funds are often released late, or not at all, leaving development expenditure especially prone to cuts if money runs short elsewhere.

Meanwhile, the lion's share of the money in all districts (and at provincial levels) is sucked into the

current budget, which pays for recurring expenditure. Most of that goes to salaries. In Multan, 85% of education expenditure is used to pay the wages of teachers (and a much smaller number of non-teaching staff). As a result, budget allocations are not determined by any clear analysis of need. Instead, the number of teachers on the payroll, and their place on the pay scale, is largely responsible for determining how much is spent on school-level education.

The black hole

As this brief overview of financial flows for education has demonstrated, the system suffers from a number of structural deficits.

Budgets are heavily skewed to current rather than development expenditure. The budgeting process is fragmented and largely determined at district level. Actual expenditure bears little relationship to budget allocations, with development budgets often not fully spent despite dire need. The need simply to keep paying teachers' salaries is the key driver of school-level budgets, rather than any systematic attempt to make funding decisions against a set of clearly

articulated strategic priorities.

This is part of a general failure to use finance data systematically to make decisions in the education sector. At Federal level, the Ministry of Education has been weak and is due to be abolished. The Ministries of Finance and Planning Commission do not see education as a priority investment area, and therefore pay little attention to the sector. In provinces, especially the ones with the worst education indicators, there is a lack of capacity, with few, if any, trained economists who are focused on the provinces' human capital requirements.

Reasonable quality data on education expenditure is available from PIFRA, the government's computerised accounting system. However, no-one sees it as their job to submit it to the robust financial analysis that would enable proper planning for the future. What is spent on the school system as a whole? We can make a reasonable estimate, but this figure is rarely cited and, seemingly, never used. What is spent per pupil in primary, middle, and secondary schools? How does expenditure vary from province to province, and between rural and urban areas? How does value for money compare with that provided in the private

sector? What is the marginal cost for each new student added to the existing system? To answer these questions, and many others, at the moment we can rely on little better than a guess.

One striking problem is the lack of data on the school age population. In the absence of a population census since 1998, we simply do not know how many children there are between the ages of 5-16, much less how this number, and its distribution between age groups, will change over time. The estimates that are available project forward from the census and are therefore only valid at a population level (even then they will be inaccurate if birth rates have fallen at a different rate than expected). Disaggregated estimates at district level are not possible as internal migration cannot be calculated with the given information sets. This seriously impedes decentralised decision making. As a result, we are over-reliant on household surveys, such as the Pakistan Social and Living Measurement Survey or the Annual Status of Education Report for rural areas. These provide some alternative to an up-to-date census, but are not a replacement for one.

We are also faced by the problem that there is extremely poor information about the functioning of

the private sector, which has grown explosively and probably educates around a third of Pakistan's children. Only one province includes private schools in its Education Management Information System (EMIS). Ministry of Education figures for private schools are therefore estimates and may underestimate the growth of the sector. We certainly lack any figures at all for how much parents are spending on private education, although the amounts are substantial and growing. It is an extraordinary situation. An alternative school system has emerged that caters for over 12 million children and it has barely been factored into our education planning.

Finally, the role of international donors in financing education in Pakistan should briefly be mentioned. We know that they play a significant role, especially in providing funds for development expenditure. Funds are provided, however, through an incoherent mix of on and off budget support. There is little transparency of what is funded, and why, while donors are poorly coordinated in most provinces. Clearly, they have a role to play in helping end the education emergency, but what that role is has never been fully or clearly articulated.

An emergency plan

Let me conclude by highlighting some questions that Pakistani policymakers need to seek urgent answers for, if we are to successfully respond to our education emergency.

First, we need to know with a much greater level of precision how productive our investment in education really is. What value is each rupee delivering and how is that value changing over time? Given the dominating role paid by salaries in current budgets, this is really a question about teachers. Given current levels of salary (which have recently increased by 50%), what can we do to increase the productivity of teachers and therefore the productivity of existing education budgets?

Second, we need to explore, in a systematic fashion, where and how money is lost as it makes its way from taxpayer to the child being educated in school. Losses from corruption have never been estimated, but anecdotal evidence suggests that it abounds. Inflated procurement rates, commissions on constructions, and ghost schools and ghost teachers are common issues. Most important, however, is the

politicisation of the entire appointment system, with teacher positions treated as a commodity within the political process.

Third, we need to use the new census to generate the information that will enable us to plan for the development of the school system over the next decade and beyond. How many places are needed at each level, in order to meet the commitments made in Article 25a? This will enable us to develop a costed plan for fulfilling the constitutional commitment. It will increase the planning capability of each province and also enable Pakistan to make strategic use of donor funding, using it to respond to the education emergency, while we plan in the long-term to ensure that there are sufficient domestic funds to meet our education needs.

Fourth, we need much better information on learning outcomes, especially for the basic skills of literacy and numeracy, and we need to tie them to financial data. What impact does each percentage increase in salary, development expenditure, and the overall budget have on what children actually learn? Which provinces gain the best learning outcomes at the most efficient cost? How does the public sector and

private sector compare? What about public-private hybrids, such as the Punjab Education Foundation?

Finally, we need a financial roadmap that will take us from where we are now to a fully-funded system that provides equal opportunity, quality education for all Pakistani children. Clearly, the immediate priority is to make sure that existing budgets are protected, even as the fiscal crisis deepens, while using development assistance as a stopgap measure. But if we know exactly how much we need to spend on schools (and I am not talking about vague aspirations to dedicate 4% of GDP to education), then we can set out a series of steps for steadily increasing funding over the coming years. Effective response to any crisis relies on the systematic execution of a proper strategy. The education emergency is no different.

Three

Where next?

2 011 is an opportunity for Pakistan finally to begin to confront its education challenges.

My advice has been to follow the money. Here are some simple steps that I believe need to be taken if we are to get on top of the sector's financing challenges.

Without better data and much more robust analysis, we are lost. The government should therefore ask a commission of eminent economists urgently to prepare a definitive report on what we know, what we don't know, and what we need to do to correct deficits. Their report should include recommendations on how we ensure the forthcoming population census generates the right data for the education sector, and does so in a timely fashion. It should provide an audit of the quality of all financial data, as well as

data on quality and access. And it should set out a comprehensive data strategy that will correspond to modern standards for integrity and openness.

The second step is to determine what support is needed at federal levels for school-level education. Clearly, the provinces will remain responsible for the implementation of education reform. Equally clearly, however, they will not be able to act on their own. A mechanism is needed to support planning at provincial levels, to turn the focus to learning outcomes, and to ensure high standards of quality control. I am strongly in favour of a national education commission that would play a similar role to the one the Higher Education Commission plays in the tertiary sector.

The third step is to improve inter-provincial and inter-party coordination. Federal and provincial finance ministers should meet urgently to explore financing issues for education. They should be accompanied by their counterparts from planning and education. The decision to abolish the Ministry of Education in the centre should be re-considered. All federations have a central Ministry of Education to set, monitor, and evaluate national standards and curricula. If a

revival of the Ministry of Education is not feasible, then a 'National Education Commission' should be set up comprising of Provincial Education Ministers and eminent educationists and professionals under a Council of Common Interest (CII), whose Chairman should be

nominated by the Prime Minister, having the status of a Federal Minister. The education emergency is so serious that it demands a response from across government. Chief Ministers should also meet, while political parties should

sign a charter committing all to a 20-year effort to provide Pakistan with the education system it needs to survive in the 21st century.

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Finally, we need the international community to get serious about education. If the IMF is to continue to play a pivotal role in Pakistani governance, then it must do so through a proper Poverty Reduction Growth Facility that focuses on the need for the state to provide basic services to the poor, especially in education and the other social sectors. Donors need to support an intensive effort to improve standards of data collection and analysis, and planning. They also need, once and for all, to adhere to the principles of the Paris Declaration on Aid Effectiveness. It is a scandal how poorly coordinated their efforts in the education sector remain.

In education, as in so many other areas, Pakistan faces a grave crisis. As I have shown, we start our response to this crisis knowing far too little about what needs to be done. It is time to get serious. We must act now, before it's too late.

About the Author

Ahsan Iqbal is a former Federal Minister for Education (2008), and is serving his third term representing the people of Narowal as a Member of Pakistan's National Assembly. He is Secretary Information for the Pakistan Muslim League-N and heads 'Better Pakistan Foundation', a non-government public policy and knowledge development advocacy group. From 1998 to 1999 he was the Deputy Chairman of the Planning Commission of the Government of Pakistan. He initiated and authored Vision 2010 for Pakistan, and helped lead the process of formulating Pakistan's first National IT Policy in 1999.

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