

Cost Sharing in Education

Changing Frameworks for Policy

The 1980s and 1990s brought a worldwide change of emphasis in the matter of cost sharing and cost recovery in education. This change of emphasis has affected Asia as well as other regions. Policy changes have not been evident in all countries to an equal extent; but the overall thrust of trends is unmistakable.

During the first four decades following the end of the Second World War, the dominant feature of international pronouncements was that public education should be free of charge, especially at the level of basic education. Article 26 of the 1948 United Nations Declaration of Human Rights stated that:

Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages.

The 1959 Declaration on the Rights of the Child stated that:

The child is entitled to receive education, which shall be free and compulsory, at least in the early stages.

And Article 13 of the 1966 International Covenant on Economic, Social and Cultural Rights declared that:

- (a) Primary education shall be compulsory and available free to all.
- (b) Secondary education in its different forms, including technical and vocational secondary education, shall be made generally available and accessible to all by every appropriate means, and in particular by the progressive introduction of free education.
- (c) Higher education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education.

The chief justification was that education was a major route for social mobility, and the possibility of poor people being excluded from education by fees was considered inequitable.

However, Article 28 of the 1989 Convention on the Rights of the Child brought a subtle shift. The Convention indicated that signatory states would:

- (a) Make primary education compulsory and available free to all;

- (b) Encourage the development of different forms of secondary education ... make them available and accessible to every child, and take appropriate measures such as the introduction of free education and offering of financial assistance in the case of need;
- (c) Make higher education accessible to all on the basis of capacity by every appropriate means.

Particularly obvious is the shift of philosophy concerning point (c). Education is still generally accepted as a public good that can benefit societies as a whole as well as individuals (Levin 1987; Solmon and Fagnano 1995), but especially in higher education, a general worldwide swing of opinion now favors fees, supported as necessary by loans and other mechanisms to protect the poor (Ziderman and Albrecht 1995; Tilak 1997a, 2000; Task Force on Higher Education and Society 2000).

Arguments in favor of fees at the tertiary level are partly based on the substantial private benefits that accrue to tertiary graduates and on the fact that tertiary education has high unit costs that cannot easily be borne solely by governments. Arguments favoring fees are also based on concern for equity. Among tertiary enrollments, students from rich families always form a much larger proportion than students from poor families, and it is widely considered unreasonable to subsidize rich families when that measure will reduce the resources available for allocation to the poor. It is of course recognized that students from poor families also study in tertiary institutions, and that proportions of such students should be increased. However, since tertiary graduates in general receive greatly enhanced lifetime earnings, it is argued that even the poor can finance their studies through loans that can later be repaid.

The cost and equity arguments are to some extent valid in secondary education, and can also be used to justify cost recovery at that level. However, unit costs to government are lower at the secondary level, and enrollment rates across socioeconomic groups are usually more balanced. These particular arguments are therefore less powerful at the secondary level.

At the primary level, the arguments are even more difficult to sustain. Unit costs are generally lowest at this level. In countries with low enrollment rates, school populations are likely to contain more children from middle-income and rich groups than from poor groups; but since all governments claim to wish to attract the poor to primary school, they are unwilling to discourage enrollments through imposition of fees. Moreover, in systems in which enrollments approach universality, fee-free education is likely to give greater government resources to poor families than to rich ones, simply because poor families are likely to have larger numbers of children than rich families. In addition, evidence exists from some settings (see e.g., Behrman and Knowles 1999) that where fees are imposed, they particularly discourage the school attendance of girls.

Political Forces and Budget Constraints

The above arguments would seem to favor charging fees for tertiary education to permit the redistribution of resources to the poor. One way to serve the poor

better, it has been argued, is to place greater proportions of government resources in the basic education sector (Tan and Mingat 1992; Colclough with Lewin 1993; Penrose 1993; World Bank 1995). However, political forces may not easily permit governments to demand substantial cost recovery at the tertiary level, especially where university students are familiar with a long legacy of free provision, come from politically well-connected families, and are prepared to make vocal protests. Moreover, even when governments recover some of the costs of tertiary education, it is not always easy to allocate the resources to primary and secondary education rather than to other sectors of public expenditure. And even in situations in which most or all income generated from tertiary fees can be allocated to lower levels of education, the sheer numbers of primary and secondary school students mean that the little money that is made available has to be spread thinly.

Allied to these matters is the acute budget austerity that has hit many governments during recent decades and that is unlikely to be greatly alleviated during the coming decades. The economies of many low-income countries have suffered severely from natural disasters, structural weaknesses, and external debt; and stagnation or decline in government revenues has been

Box 4: Fees and Cost Sharing in Nepal

The Government of Nepal, like governments in many other countries, has favored fee-free schooling in order to improve equity and access for the poor. At the secondary level, implementation of the policy commenced in 1992. However, abolition of fees in public schools has not had the desired effect. Since the Government was unable to give schools the resources they needed, institutions have been forced to demand all sorts of substitute payments. In many cases, whereas in the old system the burden of fees was spread over the year, the replacement payments are demanded as single lump sums. As noted by Bajracharya et al. (1997, 29):

The irony is that people were paying nominal fees spread over the twelve month period to schools and now as a result of free education they have to pay substantially more and in one installment. ...[Payments are demanded] from everybody irrespective of economic condition. This raises a serious question of equity in education.

A further problem is that communities have been unable to contribute adequately to education, not only because of poor economic conditions but also as a result of what Bajracharya et al. describe as inappropriate government policies that have discouraged contributions. And since the public schools, partly as a result of these policies, have become so starved of resources, many parents have abandoned them for the private sector where quality is better.

At the university level, ironically, fees are lower than in secondary schools. University fees have not been raised to keep abreast of inflation, and they do not reflect the cost of education programs. The proportion of students (or their families) who could afford to pay fees at university is greater than at the secondary level. A strong case exists for raising fees at the university level, accompanying the measure with loans and/or grants to maintain access for the poor.

accompanied by continued rapid population growth. The last decade has brought particularly severe economic difficulties to the former and remaining socialist states, but pressures have also been heavy in many capitalist societies. The result of these forces is that although most governments would like to be able to provide fee-free primary and secondary education – and some even enshrine this in their Constitutions – the practical realities of making ends meet require at least some contribution from parents and communities.

Reflecting these realities was the fact that the 1990 World Declaration on Education for All did not include a statement that schooling should be free of charge. Instead, the Final Report of the Conference (WCEFA 1990a, 31) included open discussion of fees; and Article 7 of the Declaration itself (WCEFA 1990b, 7) stressed the importance of partnerships:

National, regional, and local education authorities have a unique obligation to provide basic education for all, but they cannot be expected to supply every human, financial or organizational requirement for this task. New and revitalized partnerships at all levels will be necessary... [including] partnerships between government and nongovernment organizations, the private sector, local communities, religious groups, and families.

A subsequent meeting convened by the United Nations Economic Commission for Africa (1997, 2) emphasized that cost sharing in the form of user charges should be considered only after a thorough examination of other options for financing social services, but nevertheless countenanced cost sharing at all levels of education. In a related vein, the World Bank (1999, 19) has stated that "In principle, fees and other contributions paid by nonpoor beneficiaries could free up public resources for targeting to the poor."

Forms of Cost Sharing

The most obvious form of cost sharing is in fees (sometimes called levies or contributions) paid by the consumers of education services. Fees may be determined at the government level, which is particularly common in tertiary education, or at the school level.

Some education institutions also gain income from factories, businesses, and other enterprises. This was especially common in communist societies during the period of central planning, when factories were seen as part of the social fabric of their localities. The advent of market economies has required enterprises to pay more attention to profits, and in many instances reduced their willingness to contribute to schools. However, even in long-standing capitalist societies examples of enterprises contributing to schools may easily be found. Martin (1996) gave examples of corporations in the Philippines that have become part of an adopt-a-school program. In Manila, three elementary and two secondary schools have benefited, receiving inputs from an oil refinery, a match manufacturer, a detergent company, and a large multinational hamburger outlet. In Singapore, banks, supermarkets and other companies

have donated cash and goods to schools, and have been able to claim tax relief on these donations from the Government.

A third form of cost sharing may involve communities. Such communities may be of many kinds, including ones based on geographic proximity, religion, ethnicity, and race. In several countries of the region, community financing reaches significant levels. For example:

- In Bhutan in 1998, 115 community primary schools operated in parallel with 128 fully government primary schools and 42 government junior high schools with primary sections (Bhutan 1999, 25).
- In the PRC in 1994, 32.4 percent of primary teachers, and 7.4 percent of lower secondary teachers, were "minban" personnel, most of whom were employed by collectives and village communities (PRC 2000, 55).
- In Bangladesh, government primary schools constituted only 48.7 percent of all formal primary schools in 1993. Nongovernment schools, of which the majority were operated by villages and other communities, and some of which were not registered with the Government, formed 22.2 percent; and the remainder were Islamic madrasahs (World Bank 1996, 29).
- In Nepal, 18 percent of secondary schools in 1991 were operated by communities with little or no support from the Government (World Bank 1994b, 2, 4).

Linking back to the point about religious diversity made at the beginning of this booklet, religious bodies in the Asian and Pacific region are involved in education to greatly differing extents. Islamic communities are prominent sponsors of schools not only in Bangladesh but also in Indonesia and Pakistan, while Christian communities are prominent sponsors in such countries as the Philippines and Vanuatu. Buddhist, Hindu, and other religious communities also play major roles in some settings.

When it works well, community financing can spread the burden of resourcing education so that it does not rest solely with either governments or parents, while community financing can also promote local interest in schools. However, governments commonly view community financing with ambivalence because it can also exacerbate regional and social inequalities, and does not always operate efficiently (Bray 1996b; Bray with Lillis 1988). Partly for these reasons, the PRC Government aims to phase out community employment of teachers. Between 1994 and 1998 the number of community-employed teachers was reduced significantly, though the reduction was offset in some parts of the country by an increased number of substitute teachers employed on comparable terms (PRC 2000, 56). Moreover, in other systems communities have been given greater rein than before. In Cambodia, for example, communities used to be prohibited from employing their own teachers, but this has been permitted since 1991.

Alternatives to Cost Sharing

The chief alternative to cost sharing is a system of taxation that generates sufficient revenue for the government to pay for services. Of course even in such a system, society, which includes the consumers of services, still ultimately pays for the costs incurred; but the payment is indirect rather than direct.

Table 19 provides some figures on the scale of central government tax and nontax revenues in selected countries. The fact that it shows figures only for central governments is a weakness; but the table is nevertheless useful. In this sample of countries, the average of both tax and nontax revenue formed a larger share of GDP in 1995 than in 1980. However, the capacity and/or

Table 19: Central Government Revenues as a Percentage of GDP, Selected Developing Member Countries

Country	Tax revenue		Nontax revenue		Total revenue	
	1980	1995	1980	1995	1980	1995
Bangladesh	7.7	—	2.9	—	10.6	—
China, People's Republic of	—	5.7	—	4.6	—	10.3
Indonesia	20.2	16.4	1.8	6.2	22.0	22.6
Korea, Republic of	15.3	17.7	8.0	6.5	23.3	24.2
Malaysia	23.4	20.6	4.4	6.6	27.8	27.2
Mongolia	—	20.3	—	5.0	—	25.3
Nepal	6.6	9.1	2.9	4.3	9.5	13.4
Pakistan	13.3	15.3	5.5	7.2	18.8	22.5
Papua New Guinea	20.5	18.9	2.8	2.3	23.3	21.2
Philippines	12.5	16.0	5.9	4.9	18.4	20.9
Singapore	17.5	17.2	4.0	4.6	21.5	21.8
Sri Lanka	19.1	18.0	5.4	10.8	24.5	28.8
Thailand	13.2	17.1	6.6	7.4	19.8	24.5
<i>Average</i>	15.4	16.0	4.6	5.9	20.0	21.9

— Data not available.

Note: Figures in italics are for years other than that specified.

Source: World Bank 1997e, 240-1.

Table 20: Regional Breakdown of Taxation Revenue by Type of Tax (percentage of GDP)

Country Type/Region	Average GNP per capita (\$)	Total taxes	Income taxes	Domestic taxes	Foreign taxes	Social security	Wealth & property	Other
Industrialized	13,477	31.2	11.0	9.4	0.7	8.9	1.1	0.1
Developing	1,241	18.2	5.5	5.2	5.1	1.3	0.5	0.5
Africa	621	19.5	6.7	4.8	6.8	0.4	0.4	0.4
Asia	743	14.8	4.5	4.5	5.5	0.0	0.2	0.2
Europe	3,361	21.9	5.8	6.9	2.8	5.1	1.1	1.1
Middle East	2,339	14.7	4.8	2.3	4.2	1.2	1.5	1.5

Notes: Figures are weighted averages for the three years closest to 1987 for which data were available. Income taxes include individual and corporate taxes. Domestic taxes include general sales taxes and excises. Foreign taxes include import and export duties.

Source: Burgess 1997, 316-7.

Box 5: Locally Imposed Taxes for Education in the PRC

In the PRC, local governments are permitted to raise additional resources for education through various means of taxation. Local governments are granted considerable latitude in the nature and scale of these taxes. Lewin and Wang (1994, 73) give the following example from Ansai County in Yan'an Province. Resources have been raised by collecting:

- Y2 from each farmer each year;
- Y1 from each government employee earning less than Y69 a month, and Y1.50 from employees earning Y70-100;
- 0.5 percent of the sale value from collective enterprises and private businesses;
- Y2 for each square meter of construction from the state and collective organizations that build apartments or offices with two or more floors for themselves;
- Y1 for each square meter used for production or business from oil, coal, and other industries; and
- 5 percent of the maintenance and equipment fund of buildings in urban areas.

willingness to generate income from taxation was lower in some countries than in others. The PRC, for example, had moved to a market economy, and did not have the type of taxation infrastructure of more established capitalist economies. Similar comments apply to Lao PDR, Mongolia, and Viet Nam (Rana 1993, 12), though the figure for Mongolia in Table 19 suggests that in that country the capacity of the taxation system had been considerably increased by 1995.

To facilitate understanding of broader patterns, Table 20 shows aggregates by country type and region. Taxation in industrialized countries formed a considerably larger proportion of GDP than in developing countries, while at 14.8 percent, Asia was almost the lowest, next to the Middle East. Income taxes were the lowest in Asia, and were less than half the proportion in industrialized countries. More money was raised by foreign taxes, while social security, wealth, property, and other taxes were almost negligible.

Burgess has argued that taxation is the only sustainable way to finance basic education in less developed countries. Aid, debt, and inflation finance, he pointed out (1997, 309), are not sustainable and may ultimately reduce financing capacity. Contributory social security schemes are not a promising source of additional funding for most developing countries, and Burgess argued (p.342) that the bulk of additional finance should come from broad-based domestic indirect taxes such as value-added taxes. Direct taxes, he suggested, are less suitable, both because of difficulties in collection and because of their limited scope for achieving redistribution.

Yet even when governments have the capacity to raise substantial revenues through taxation, for political and/or economic reasons they are not always willing to do so. In such cases, governments may still insist on cost sharing. Particularly at the level of tertiary education, governments may

consider it appropriate for users to pay directly for at least some of the costs of their studies. They may also find that individuals are more willing to do this than to countenance general increases in taxation.

A compromise policy, which at least allows taxpayers to know precisely where their money is going, is to impose taxes designated specifically for the education sector. This is common practice in the PRC, where many local governments have taxed enterprises either on their total volume of business or on their profits (Lewin and Wang 1994, 29). Local governments may also raise revenue from farmers, government employees, and owners of buildings (Box 5).