

FINANCING EDUCATION: PERSPECTIVES OF THE ASIAN DEVELOPMENT BANK

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I. Education in Asia

School Finance poses challenges for education systems found among member countries of the Asian Development Bank (ADB) and the Commonwealth Partnership. Consequently, Asian countries will have to decide the best way to maximize educational services at least cost if development is to occur. As neither economic nor social change is likely to occur without a literate and healthy population, education is a major determinant of development everywhere in Asia. Today, with over 3 billion people, Asia contains both the world's most populous countries and some of its smallest. The region's population growth rate during the last 10 years has decreased moderately but because of the large population base, it accounted for half of the yearly increase in the world's population in terms of numbers. Asia has a relatively young population (40 percent under age 15), but also rapidly growing numbers of people aged 65 and older (nearly 700 million, or 85 percent of the world total). Despite economic growth, Asia has more than half of the world's poor people, who live on less than a dollar a day, as well as nearly three-quarters of the world's illiterate population (about 880 million). Demographics will likely determine in a fundamental way the final success of economic development in the region. However, demographics definitely will determine the size and shape of the education systems in Asia, as well as their structure and costs for years to come. Governments will have to decide who to educate, what kind of education to provide and how to pay for it. The challenge for Asia is to find low cost solutions that offer quality basic education to half the world's population when its estimated public expenditures on education in 1997 amounted to 7 percent of the world's spending on education.

Table 1 compares regional education statistics from around the world (UNESCO, 2000). Partly because Asia is home to the two most populous nations in the world – China and India – the region dominates education systems worldwide in terms of numbers of children and classroom teachers. In 1997, 56 percent of all children in primary schools, 52 percent of all secondary school students, and over 45 percent of all teachers are found in Asia. Asia has not only a large population, it also has a wide range of sub regions including North Asia, South-East Asia; the Pacific; South Asia; and Central Asia where many former Soviet states joined ADB after 1990. Regardless of region, all nations seek a better life for their people through human resource development.

Table 1: Worldwide School Enrollment, 1997 (in millions)

Region (% World Educ. Expend)	Pop (%) Billions	Preschool (%) millions	Primary (%) millions	Secondary (%) millions	Tertiary (%) millions	Teachers millions
Developed/Trans ¹	(82) 1.25 (22)	35 (36)	90 (14)	117 (30)	45 (51)	21 (35)
AFARAL ²	(11) 1.35 (23)	21 (22)	203 (30)	69 (18)	16 (19)	13 (22)
Northeast Asia ³	(5) 1.84 (31)	33 (34)	215 (32)	113 (29)	17 (20)	18 (31)
South Asia	(2) 1.36 (23)	7 (8)	158 (24)	95 (23)	10 (12)	8 (14)
World Total	(100) 5.80 (100)	96 (100)	666 (100)	394 (100)	87 (100)	58 (100)

Source: compiled from UNESCO, 2000.

¹ North America, Europe, Russia and transitional economies in East Europe.

² AFARAL = Africa, Arabia, and Latin American countries.

³ Northeast Asia including China PRC (70% of total sub region), Southeast, Central Asia, Pacific Asia.

¹ The views expressed in this paper are those of the author and not necessarily those of the ADB, the Board of Directors, or the governments they represent.

II. Asian Development Bank Education Lending Patterns

ADB was established in 1966 through a multilateral agreement. Located in Manila, Philippines with field offices in 23 countries, ADB currently has 61 members of which 44 are in Asia and the Pacific. Similar to World Bank and other regional multilateral development banks, the ADB prescribes what lending and nonlending support will be provided to develop the region economically and socially through a set of policy dialogues, loans, technical assistance grants, guarantees and equity investments. While the development needs of Asia are immense, ADB has built up expertise in key sectors over the years and concentrates on providing support in transport and communication, energy, agriculture and natural resources, finance, social sectors, industry and nonfuel minerals. Since 1991, ADB loaned on average US\$5.5 billion per year.

Education lending since 1991 amounted to about US\$3.8 billion or about 6 percent of total ADB lending. Previous education lending went mainly for technical education, teacher education, secondary school science, and primary education and was often in the form of straightforward investment projects designed to build capacity and provide facilities and training. More recently, in addition to continued lending for basic education to reach the Millennium Development Goals (MDG), ADB lending has gone for new technologies such as distance education, early childhood development, human resource development funds, and capacity building for policy planning, management, finance and governance. These latter program approaches are often based on sector-wide approaches where several donors combine their funds to support education. The newer approach is output and performance based more than input based. However, this newer approach works well only where a government has capacity to effectively manage and administer its own basic education system. Specific investments by individual country indicate that some countries have benefited greatly from ADB assistance. For example, in 2001, India, Pakistan, Bangladesh, Sri Lanka, and Papua New Guinea borrowed about half of total ADB lending for that year. Generally, countries borrow from ADB to top up development funds needed for special projects that would otherwise not be undertaken due to shortage of development funds. Investment borrowing is advantageous to governments when short-term funding constraints limit the ability to provide programs and infrastructure immediately for use by future generations. Borrowing for the future is cost effective and economically productive when governments are stable, financial and governance institutions work well and there is a mutually agreed, well thought out development agenda prepared by stakeholders.

The basic principle of ADB's education policy is to maximize leverage and impact by orienting ADB support to education sector policy development and reform, particularly related to poverty reduction. Corollary principles (i) encourage multiple, sequenced interventions; (ii) increase the amount and quality of sector and policy work; (iii) use a greater variety of lending modalities, especially those suited for supporting policy reform; (iv) increase cross-sector coordination to better address poverty. Priorities include reducing poverty, helping females, facilitating economic growth. Subsidiary priorities include increasing equity, access, retention, quality, management capacity, stakeholder participation, and innovative strategies. ADB reviews MDGs and other education statistics to monitor basic education and compile data on key indicators for inclusion in country strategies (Education Policy, 2002).

III. ADB's Educational Finance Strategy for Asia

Schooling represents a vast human development industry because education confers status and affects life chances of every citizen. Simultaneously, education is both investment and consumption, a public and a private good, and has public and private costs and benefits. Social benefits usually outweigh private benefits due to many positive externalities from education that

accrue to society, but often the social costs are less than private costs due to market failures. Consequently, public funds are required to off-set this imbalance. Governments claim the right to intervene in provision of education as a public good to ensure adequacy of spending, distributional access and equity, and efficiency in delivery of services to all citizens. Reasons cited for government intervention include overcoming market failures, information gaps, capital deficiencies and the possible divergence between benefits to individuals from spending on education and the benefits to society. As many under-served populations are ill informed about educational choice and most children are incapable of understanding the need for their own basic education, governments provide compulsory education as a safety net. ADB assists with these policies to improve access, quality and equity.

The choice of interventions to fund education will vary from country to country depending on the economic level, size and development needs of nations. World trends indicate that MDGs are rising slowly. Attaining universal primary education will take time and must be sustainable. Students must enter school, stay in school, learn and enjoy school if enrollment is to grow and all children complete the cycle of basic education. Yet, while basic education is necessary, it is not sufficient for economic development. Hence, secondary, tertiary, and technical education must also be considered. In basic education where unit costs are low and the supply is large, often the demand is constrained because poor groups do not see the need for basic education. Financing primary education also is costly to ensure universal coverage and often requires compensatory payments to the poor to induce demand and reduce inequities. On the other hand, in secondary and higher education where unit costs are high but supply is limited relative to demand, which is skewed in favor of the middle class, government often does not have the funds to provide full coverage. At these higher levels, private costs appear prohibitive, yet many private schools successfully cater to students. Public-private partnerships broaden the financial base and improve efficiency of education systems.

Educational finance is tied to political economy. Policy makers must learn to establish their priorities given available resources and decide who is to be educated, for how long, in what way and who should pay. Policies may include more private funding through open markets especially in higher education or may be more focused on basic education for those not yet in schools. A balanced set of priorities should be chosen based on efficiency as well as equity considerations to support national development goals. Asian realities suggest that schooling is labor intensive. Over time as costs of living rise so too will salaries. Increased enrollments at the same rate of expenditure by necessity will require a combination of additional funds, reduced quality and cost-effective learning efficiencies. Recent strategies to alter these trade-offs between equity and efficiency include greater private participation, more cost-recovery from households and more cost-effective learning technologies such as distance education.

The general paradigm advocated by ADB (ADB,1997) emphasizes low cost solutions to improve both the internal and external efficiency of education systems at different levels of schooling. Figure 1 demonstrates the relationships between efficiency in and out of school for basic and secondary schooling. Overall, basic education is seen as a public good for which social rates of return must be kept high (literacy and numeracy for the benefit of good citizenship). In this case, ADB assists countries attain full coverage of primary school age-cohorts so that gross enrollment exceeds 100 percent. To obtain high enrollment, students have to stay in school through completion of basic education. When successful the external efficiency of basic education produces literate and numerate citizens who eventually lead productive and useful lives as contributors to the whole society. In the second instance, ADB supports secondary school and above through curriculum offerings that lead to larger numbers of educated citizens.

The external efficiency goal produces marketable skills in the correct proportions so that those seeking employment are able to ply their skills at a living wage.

Figure 1: Educational Finance Paradigm

Level of Schooling	School Efficiency	Internal Efficiency	External Efficiency
Basic Education		High Pass rates, Drop-out Prevention	Good Citizenship Literacy/Numeracy
Secondary Education and Above		Cost effective Approaches to Service Delivery of education	Market-based skills Wage Employment On-job training

IV. ADB Lending Profiles in Asian Commonwealth Countries

In 2002, over half of all bank lending went to ADB member countries that belong to the Commonwealth. Lending in education followed along similar lines in 2001 and will follow similar patterns in 2003.

- ADB Commonwealth contributing countries such as Australia, New Zealand, Canada and the UK along with transition economies such as Singapore, and Malaysia provide technical grant assistance, expertise, information sharing, conference venues and partnership link programs to many of the developing member countries in ADB. This support in addition to other non Commonwealth contributing country assistance allows borrowing countries to achieve strong ADB project lending pipelines. Knowledge transfer and information sharing have been beneficial to economic development in Asia.
- Pakistan is a nation of 140 million with a gross enrolment rate of about 80 percent but high dropout in elementary school. Given the historical ties to modest public education spending, it has been difficult for the provinces to provide universal education especially in rural areas. Consequently, ADB has emphasized basic education as a means to get more students enrolled especially girls. ADB has provided loan assistance for elementary and secondary school girls, secondary school science, elementary education, teacher education, technical education and social sector service delivery under the newly devolved administrative system of approximately 100 districts nationwide. ADB will continue to support federal, provincial and especially district efforts to reform education.
- Bangladesh is a nation of 125 million with a gross enrollment rate of about 95 percent but high dropout in elementary school. Given the historical ties to modest public spending, it has been a struggle to provide universal education especially in remote

areas. Consequently, ADB has emphasized basic education as a means to enroll more students, especially girls, in elementary education. Many NGOs and private institutes such as the BRAC have entered into the provision of primary education in rural areas. These efforts have helped to remove pressure on the public education system that still lacks capacity to provide universal basic education. ADB has taken a lead role in mobilizing donors to assist Bangladesh basic education sector through wide programming. ADB also supports nonformal, secondary and teacher education in Bangladesh.

- India is a nation of 1 billion inhabitants and has a gross enrollment rate of about 90 percent. Given the large number of rural inhabitants, it is difficult to keep large numbers of students in school where the relative opportunity cost to rural labor is high. ADB does not provide assistance in education to India partly because India does not qualify for soft loans from ADB and partly because the government believes that it can meet the needs of its children without external aid. This decision to fund basic education mostly from local resources has far-ranging implications and only time will tell if the decision was appropriate.
- Sri Lanka is a nation of about 20 million inhabitants. The gross enrollment rate is over 100 percent for many years so attaining universal basic education is not as pressing as in other South Asian nations. ADB supports secondary and postsecondary education in Sri Lanka usually through skills development and human resource endowment funds. Also, ADB has assisted Sri Lanka implement distance learning in the Open University as well as provide computers in secondary schools to improve teaching and learning.
- The Maldives, numerous Pacific island nations and Papua New Guinea are smaller Commonwealth members in Asia that borrow ADB funds for education. Again, distance education technologies and youth employment skills are recurring themes directed at these island nations.
- Finally, there are many non-Commonwealth Nations that receive education assistance from ADB in Asia. Key countries include Cambodia, Vietnam, Thailand, the Philippines, Indonesia, Nepal, Afghanistan and many of the Central Asian Republics. Many of these countries borrow for early childhood education, secondary schooling, school decentralization, and technical and teacher education. Funds for these countries total about 50 percent of annual lending for education.

V. New Directions for Financing Education in Asia

ADB and other donors are fully supportive of Education For All and achieving the MDGs especially in those countries that lag behind in universal basic education. Currently, the international community is debating how best to provide the substantial resources to get children into school and then keep them interested to pursue studies through at least primary and elementary classes. Unfortunately, this is not easy when many students who do not attend school are located in rural areas where schools and teachers are not readily accessible and where opportunity costs limit attendance. New methods of financing basic education need to be found if countries like Pakistan, Bangladesh, parts of India are to successfully provide sustainable low cost quality basic education to their children. The sustainability issue is especially important because until South Asian countries sufficiently develop economically to absorb the cost of public education (as a public good), it is not likely that tens of millions of

students can be accommodated adequately especially when South Asia has 23 percent of the world student population but spends only 2 percent of the world's total public expenditure on education. Financing education in South Asia is a real dilemma for which no simple answers presently exist.

A second area of educational finance that arises in Asia has to do with reorganization of education systems to accommodate decentralized decision-making. Decentralized control is especially difficult to achieve because national and provincial resources remain the primary source of funding while the districts are asked to carry out the day-to-day operations with little discretion over budgeting. ADB is currently assisting Pakistan, Indonesia, Philippines and to a lesser degree, Vietnam, Cambodia, Sri Lanka and Bangladesh with efforts to increase local participation in decision making at the school level.

A third area of investigation in Asia concerns supporting new technologies and innovations in education. These include learning technologies such as distance education in Sri Lanka at the Open University, and in Mongolia for teacher education. Early Childhood Development is a new model that is currently being adapted in Pakistan, Central Asian Republics, Vietnam and the Philippines and may prove to benefit the poor especially if nutrition, medicines are made available to children.

Finally, due to large populations of young unemployed adults, out-of-school youth including those who migrate from rural to urban areas, there is immense need for skills development programs that lead to wage employment at all levels and that can be linked to technical education and to human resource development funds. ADB is undertaking these programs in Sri Lanka, Maldives, selected Central Asian Republics and several Pacific Island countries where governments are concerned about education and training opportunities for unemployed neighborhood youth.

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