

# EDUCATION DECENTRALIZATION AND FINANCE: RTI INTERNATIONAL EXPERIENCE

## *EDUCATION DECENTRALIZATION*

Significant education decentralization efforts are currently under way in every region of the world. Regional differences exist in the models of decentralization being adopted. Eastern Europe, for example, focuses more on local governments, Africa more on community schools, and Latin America more on school autonomy. Even more variation occurs within regions. The differences in decentralization models, combined with differences in country administrative capacities and local governance traditions, argue for technical assistance to countries which is *highly flexible and adapted to country circumstances*.

While many different decentralization models are in use worldwide, there are common needs for technical assistance and capacity building to facilitate implementation and to ensure attainment of the educational objectives of improved quality and efficiency. Typical problems that need to be resolved successfully to implement decentralization are discussed below. The boxes in this paper describe RTI experience in assisting developing countries in the design and implementation of education decentralization, including public finance of education in decentralizing systems. As one of the partners in the USAID-funded Education Quality Improvement Program (EQUIP2), RTI has taken the lead in sponsoring conferences and workshops, synthesizing knowledge, and preparing toolkits to help developing countries to successfully implement education decentralization and finance.

### **RTI Experience in Clarifying Responsibilities and Functions**

In *South Africa*, RTI worked for USAID on the District Development Support Programme (DDSP) helping implement legislation defining post-apartheid education. RTI helped draft legislation; develop funding norms; define the roles and responsibilities of provincial government and schools; and ensure that linkages between district and other key elements, including the private sector, were in place and functioning effectively. RTI has been actively involved in systems development and has worked both at the policy and implementation level.

In *Tajikistan*, RTI is currently designing an education sector development project for the ADB that will develop the systems, structures, and mechanisms needed to encourage increased local level involvement in and control over educational decision-making, especially as it pertains to financing.

RTI has been developing instruments and tools to support the USAID/African Bureau's provision of technical assistance to missions in the areas of teacher policy and management (e.g., remuneration, recruitment, qualification/training systems, supervision and accountability). RTI has developed models to evaluate the impact of HIV/AIDS on the labor supply of teachers and transition mechanisms for student teachers and contract teachers to be incorporated into civil servant career schedules. The objective of the contract is to have on hand instruments to support policy making for education human resource development.

In *Indonesia*, under the USAID CLEAN-Urban project, RTI provided policy advice to national ministries and agencies to help define roles in the context of decentralization.

In *Honduras* RTI provided advice to the Ministry of Governance on decentralization of the education sector, including training and policy dialogue on how to assign functions of the sector to different governance levels.

***Clarifying responsibilities and functions.*** Education decentralization often originates with Presidential or Ministerial decrees, or with amendments to general education legislation that state the objectives and principles of decentralization but do not provide operational rules.

Defining the rules of the game with a clear and transparent assignment of responsibilities across levels of government and across actors/stakeholders is often a long and arduous political process. Technical assistance can facilitate this process by informing diverse stakeholders of the successful experiences of other countries and by facilitating informed dialogue between actors/stakeholders to try to bring about resolution of conflict and agreement on the rules of the game. Clearly defining responsibilities for the recruitment, assignment, promotion, evaluation, and discipline of teachers and headmasters is of the utmost importance, as is ensuring that assignment of responsibilities is in alignment with stated decentralization objectives. Of equal importance is defining who is responsible for financing what.

***Building local capacity.*** Under decentralization, local capacity needs to be developed irrespective of the precise model adopted. In almost all cases, *the school community* (community leaders, teachers, parents, the school director) needs to develop the capacity to govern democratically, so that community members can learn how to participate effectively in a democratic setting, how to monitor schools, how to demand high performance, how to manage a school budget—even if it’s only for school maintenance—and how to interact with other levels of government to lobby for changes (and funds) required for effective schools. When education is decentralized to local governments, there is a need both to develop administrative capacity at the level of local government and to build civil society organizations (including PTAs and school committees) that allow parents and citizens a fuller degree of participation and a greater voice in resource allocation decisions. Technical assistance can help develop local capacity through many means—cascade training, facilitating mentoring (of weaker units by stronger units), and building local associations (e.g., national associations of municipal education officials, school boards, etc.) to facilitate networking.

#### **RTI Experience in Building Local Capacity**

Under DDSP, RTI was instrumental in supporting School Governing Bodies (SGBs) in South Africa, helping these locally elected bodies extend their democratic capacity. RTI helped implement the election process for SGBs by ensuring communities understood: what SGBs were, how to choose candidates for office, and how to hold SGBs accountable. RTI developed materials for the SGBs explaining education legislation; outlining the roles and responsibilities of SGBs and their members; and detailing SGBs’ relationship to schools, school directors, the community, and district school officials.

RTI is currently engaged in establishing an Education Reform Support Unit in Tajikistan. Working for the Open Society Institute, RTI is helping build technical and political capacity to mobilize and engage stakeholders in informed discussions over matters pertaining to systems analysis, vision development, strategic planning, and performance monitoring. Although not a decentralization project *per se*, it represents a critical component of any decentralization effort.

In Nigeria, RTI has been developing a model to provide training and develop participatory education policy making at the local level, including the participation of different stakeholders. RTI is innovating by applying the model to facilitate the integration and management of both public and Qu’oranic schools, with their respective constituencies. This successful project has resulted in the coordination and production of more consistent education data.

In El Salvador, RTI is strengthening the participation of the Salvadoran population in the local democratic process and improving local governments’ capacity to respond to citizens’ needs. RTI is also strengthening NGOs that support the project municipalities. Within the citizen participation component, RTI is focusing on developing a process to identify community leaders, develop a local agenda, and introduce participatory mechanisms such as open budget hearings, radio talk shows, and other activities to increase citizen participation in local governance.

RTI has extensive experience in building the capacity of local municipal associations, having worked with such associations through training, study tours, and organizational development in Bulgaria, Ukraine, Krgyzstan, Russia, Slovakia, Hungary, and Poland. In Russia, RTI worked with municipal and oblast officials to design and construct tools to increase capacity in effective financial management and budgeting techniques.

***Providing transparent information.*** Good education decisions require that the decision-makers have reliable and transparent information. In a decentralized setting, information must be not only reliable and transparent, but also widely disseminated in an easily understood form. While some information (e.g., on the value-added of schools in creating knowledge) is difficult to obtain in poor countries, other information (e.g., student and teacher absenteeism, parental participation in school affairs, parental satisfaction with the schools, basic finance and expenditure data) is more easily collected and reported in the form of school report cards or other dissemination devices. Information is a vehicle for motivating parents and local citizens simultaneously to demand more from their schools and to become involved in local governance, thus reducing the risk of capture of the schools by the headmaster and/or the local elite. Technical assistance can help develop management information systems, survey parents and local citizens, and create the means for effectively disseminating information and then using it in decision-making

### **RTI Experience in Providing Transparent Information**

In South Africa, RTI is developing a comprehensive information system in the Eastern Cape, Kwa-Zulu-Natal, Northern Cape, and Northern Province. The system is linked to a National Assessment System that RTI designed and is operationalizing alongside this EMIS. The information system not only provides key stakeholders basic information on enrollment, human resource use, efficiency indicators, and finance, it also feeds back into the system information on student performance so that parents know how well learners and schools are doing, schools know how well teachers are doing generally and specifically (e.g., which teachers need to improve on teaching double-digit multiplication); and districts and provinces know how well schools and districts are performing. The information is then used to prepare programs to address specific weaknesses.

RTI is designing an education sector reform project for the ADB in Tajikistan, which focuses on providing transparent information. The data/information situation in Tajikistan's education sector is confusing at best. Having inherited a system dominated by the former Soviet style of management, information was, and still is, used only for reporting purposes, and stakeholders do not have access to information for purposes of holding public officials accountable. Information systems and the structures integral to information flow and effective use will be the hallmark of the new education system RTI implements in Tajikistan.

Apart from these two examples, it should be noted that informed dialogue is the calculus on which almost all of RTI's work has been based, be it in the education, health and population, D&G, or local government sector. RTI has pioneered tools, techniques, structures, and systems aimed at facilitating informed dialogue throughout the public sector and, in so doing, has opened up reform process to more stakeholders and furthered the chances that decisions will reflect decision-making based on data rather than the political whim of elites.

***Learning from experience.*** Decentralization is a dynamic process. The chaotic and varied nature of this process makes it extremely important to establish benchmarks with respect to finance and expenditure, governance and administrative processes, and school behaviors and outcomes and to monitor how processes and measurable intermediate outcomes change over time. Careful monitoring also allows the identification of successes and failures and shortens the feedback loop to improved decentralization design and implementation. Technical assistance can help local officials identify appropriate indicators to be benchmarked and monitored and to develop the local capacity to do the monitoring and reporting. Also,

### **RTI Experience Learning from Experience**

RTI's information systems and SGB work under the DDSP is targeted at ongoing system-learning—establishing and operationalizing the ways and means of learning from experience and putting the resultant intellectual capital back into the system to improve its overall effectiveness.

RTI's work in establishing reform support units (Education Foundation, South Africa; Reform Support Agency, Republic of Georgia; Education Reform Support Unit, Tajikistan; Summit Education Initiative, Ohio) has focused on creating the structures and mechanisms that drive ongoing reform. Without such units in place, the status quo settles in and a static equilibrium dominates that ignores lessons learned. For this reason, RTI has consistently pursued the establishment of reform support units, believing they are the means to doing something meaningful with lessons learned.

In El Salvador, RTI assisted COMURES in developing a strategy for City Sharing as a forum to disseminate best practices and innovative approaches to municipal development and strengthening under the USAID-funded Municipal Development and Citizen Participation Project.

modest amounts of technical assistance can have a large impact when directed at the creation of learning networks among key actors in the decentralized education system: municipal education officials, school board presidents, headmasters, etc.

The Benedictines have a saying, “Always we begin again.” Reform is not something that is done after a USAID or World Bank project comes to an end. Nor is it over after the 10 years during which a National Education Development Plan has been implemented. Reform is an ongoing process. Unfortunately, most donors seem to overlook this reality. In so doing, they fail to think about or establish and institutionalize those structures and systems that drive ongoing reform. These structures and systems include stakeholder forums that (1) help level the political and economic playing fields upon which reform takes place; (2) facilitate informed democratic deliberation over system-wide performance, goals, priorities, and tradeoffs; (3) establish institutionalized mechanisms for informing these discussions –civil advocacy organizations that can do for marginalized stakeholders what teachers unions do for teachers—; and (4) support tiers of civil society organizations that ensure that all stakeholders have an informed seat at the table. It is one thing to learn from one’s experience. It’s quite another to ensure that the optimal solution is derived from that learning experience.

### ***DECENTRALIZING EDUCATION FINANCE***

Education finance defines who has the decision-making power and provides powerful incentives that influence the behavior of teachers, bureaucrats, and organizations. Unfortunately, education policymakers too often look at education finance only in terms of the volume of resources provided to education, as opposed to the incentives implicit or explicit in financing mechanisms. Decentralized finance and the provision of education services presents a unique set of risks and opportunities (discussed below). The problem of perverse incentives and the misuse of resources due to agency problems (e.g., information asymmetry and differing principal and agent objectives) also exist in abundance in centralized settings. Fear of corruption or of the misuse of funds often results in rigid, line-item budgets with local managers having no expenditure autonomy or responsibility. In extreme cases even education ministries have no power to reallocate monies; all decisions are made by a finance ministry using mechanical conventions. When countries face an uncertain revenue picture (sometimes complemented by IMF restrictions on budget deficits), finance ministries may be reluctant to release much of the year’s budget until near the end of the fiscal year, when it’s too late to spend. Thus, education ministries in poor countries often simultaneously have too little and too much money. These problems of poor, centralized countries are difficult to remedy by focusing on

#### **RTI Experience in Education Finance**

In Barbados, RTI, under *The Primary Education Programme* sponsored by the InterAmerican Development Bank/EduSystems Inc., produced a series of tools for developing targeted research reports, a cost effectiveness analysis report, and modeling intersectoral finance allocation for supporting decision-making. All of these information sources were used in the development of Annual Strategic Plans for Education.

In South Africa, RTI played a role in: a) helping design inter-governmental fiscal transfer formulae for both block grants and categorical grants, b) design the system for funding and provisioning schools, c) carried out production studies to estimate the degree of productive inefficiency in schools and the scope for managerial improvements, d) carried out studies of inter-provincial and intra-provincial equity.

In Eastern Europe, in particular in Poland, RTI did studies to establish formulae for the funding of secondary schools by municipalities, estimating for example the impact and needs of small schools on total funding requirements.

In many countries, such as Swaziland and Namibia, RTI has developed education cost projection and analysis models that allow policy makers to assess key tradeoffs in the education system.

only one sector. The solution typically requires a more far-reaching public sector reform. However, technical assistance can identify the problems and their consequences for efficiency and performance and can bring about dialogue between central government officials in the ministries of education and finance in both the capital and regional or district offices.

Fiscal decentralization presents risks as well as opportunities. One risk is that of unequal spending. To the extent local governments depend on own-source revenues, fiscal decentralization often produces problems of serious expenditure inequity. Governments can address this inequity through policies that, in effect, guarantee a minimum level of expenditure. One opportunity is that central governments can leverage their financing through policies that require local jurisdictions, or even parents, to match government grants. Another opportunity is that central governments can create incentives for schools (or local jurisdictions) to improve their performance. One means of doing so is the competitive school improvement grant. Policies that address these risks and opportunities are described below.

***Ensuring equity in expenditures.***

There are two basic means of addressing problems of expenditure inequity under decentralization. One is for the central government to finance a large share of total education spending, with local government spending essentially supplementing the central government base. Chile offers a good example of this. While Chilean municipalities are responsible for financing and delivering education, in fact, the central government capitation transfer is so large that municipalities fund only 10 percent of total costs. The result is a substantial degree of spending equity, made all the more so by a capitation formula that increases funding for rural or high poverty schools, for which instructional and transportation costs may be higher. Another way of addressing the expenditure inequity problem is for the local government to generate most the revenue to finance local schools, but for the central government to provide additional revenues to those schools located in jurisdictions of low fiscal capacity. Brazil (and many of the states in the United States) provides a good example of this policy. In the face of very high inequality in education spending, the Brazilian central government shifted some revenues out of general revenue sharing and into a special fund that ensures that all children receive at least some minimum level of spending.

There are two basic means of addressing problems of

**RTI Experience Ensuring Equity**

RTI is experienced in providing support to countries facing the challenge of equitably financing education in decentralized environments. As prime contractor for USAID's Local Governance Initiative in Bulgaria, RTI is leading an effort to analyze and reform the system for funding education at the municipal level. This work represents an extension of RTI's long-term involvement in intergovernmental finance issues in Bulgaria and a strong programmatic focus on education finance. RTI's goal is to establish funding mechanisms that allow municipalities—even the most resource deprived—to meet legal-regulatory mandates and provide an adequate level of education to children. We are providing direct technical assistance to the Ministry of Education, the Ministry of Finance, the National Association of Municipalities, and a group of six pilot-study municipalities.

For the SOROS-funded education Reform Support Agency in the Republic of Georgia, RTI developed policy-focused reports and analytical tools focused on funding for and spending by Georgia's raions (local administrative and government units). RTI's work clearly established that raions with low own-revenue generation capacity are only able to fund meager levels of operational expenditures for schools—in many cases, only teacher salaries. RTI developed a detailed simulation model of financing mechanisms designed to better address the needs of poor raions.

Other financing mechanisms to ensure equity in a decentralized context are more specific in nature. Thus, many governments provide financing for school lunches for children in poor jurisdictions, or provide financing for scholarships for students from low-income homes, or

provide subsidized textbooks to children living in predominantly poor areas. These financing policies may help improve equity in a decentralized context, but they may also work in a much more centralized environment.

***Improving accountability and efficiency.*** Decentralization is often viewed as a means of moving decision-making closer to the client and, thus, improving accountability and efficiency. The extent to which this happens may depend on the proximity of the decision-maker to the client. In Pakistan's devolution to district governments, parents only indirectly elect the political leaders of a large, general-purpose district government, and most resource-allocation decisions were centralized at the district level. In Chile's devolution to general-purpose municipal governments, parents have very little means of holding schools accountable aside from electing new political leaders every four years or putting their children in privately managed (but publicly financed) schools. On the other hand, in El Salvador's EDUCO program, community members directly elect a school board that allocates monies (received from the central government) and recruits teachers; evaluations show significant differences in both parental participation in the schools and in teacher behavior (e.g., sharp reductions in teacher absenteeism). Increasingly, one finds a similar phenomenon occurring in Africa, where governments are beginning to finance community schools, which have many of the characteristics of the EDUCO model, in hopes of more rapidly increasing access in remote areas. This model is becoming especially common for school construction, where the community directly manages (public) funds, procures contractors, et cetera, with better results and lower cost than centralized management and procurement. Indeed, many African countries are unlikely to meet the MDG EFA goals if they continue to operate in a highly centralized manner.

#### **RTI Experience in Improving Accountability and Efficiency**

RTI recently began implementing a project to improve city management processes and services in Panama City, Panama. A component of the project is to target operational efficiency and effectiveness. The team will identify key procedures in Panama City; make recommendations for redesigning those that could lead to the greatest improvements in terms of operating costs, revenue from fees or taxes, or quality of community services; and work with city officials to teach them skills to make and sustain the changes.

RTI has evaluated an innovative process to manage schools in the State of Ceará, where school headteachers are being trained to qualify for school elections. These headteachers produce school development plans that are shared with the community to increase informed participation in the decision-making process and community ownership of the school development process.

The way schools are financed plays a large role in determining whether accountability and efficiency will improve or not. Public monies must reach the community or the school, and, unlike in much of Eastern Europe, when those monies do reach the community or the school, the village or school board must have some latitude for making decisions. The rigidly defined curriculum, staffing requirements, and other central government regulations in some Eastern European countries work against both accountability and efficiency; essentially, parents and local governments have no voice even when they receive the budget. In short, fiscal decentralization—sending government grants for education directly to the village or the school—is only one part of the recipe for accountability. The other parts include deregulation, a governance mechanism that ensures the client has a voice, and information that creates an informed client.

***Designing intergovernmental education transfers.***

There exist, in theory and in practice, a large number of ways in which central governments can transfer revenues to local governments, communities, or schools for educational purposes. Some countries use block grants—the transfer of revenues from the central to local governments without restrictions as to their use—to provide revenues to local governments. If the amount of the block grant is a residual (the difference between needed resources and own-source revenues), there may be a powerful disincentive to local governments to generate their own revenues. If the amount of the block grant is determined by formula (e.g., including the number of students enrolled or in attendance), there may be strong incentives to local governments to develop programs to keep kids in school. If local governments are expected, by and large, to generate their own revenues for education, one can expect that education will be under-financed, not because the local governments have a weak tax base, but because they do not capture the social benefits of education.

**RTI Experience in  
Intergovernmental Education  
Transfers**

RTI has been active in work related to intergovernmental finance and education-focused transfers, particularly in Bulgaria and the Republic of Georgia. In Bulgaria, the technical support we are providing relates to the movement from a system of block grants to municipalities (with no earmarking for education) to a system of education-specific transfers. RTI is developing tools to identify likely winners and losers in this transfer and to help smooth the adjustment for “losers.” In the Republic of Georgia, our transfer-related work focused on ways in which a poorly designed and dysfunctional “residual” transfer system could be improved.

RTI offers technical assistance in evaluating reforms in financial transfer and in developing and supplying training for implementation. For example, we are currently helping design improved intergovernmental financial systems in South Africa, Bulgaria, and Indonesia.

A block grant may be for education alone, or it may cover more than one sector. In addition, the amount of the grant a government receives may be determined by some form of revenue-sharing formula, or it may be determined by a formula that takes into account the amount of the service the local government will need to deliver. In general, local governments prefer to receive block grants without strings, while educators prefer that there be earmarking to ensure minimum expenditures on education. However, there is very little research to suggest that budgetary allocations to education are smaller in the absence of earmarking.

***Managing School Grants.*** School grants are an increasingly popular mechanism used to finance decentralized education. School grants may be earmarked for specific uses or not, allocated competitively or using an entitlement formula, and used to accomplish a wide range of objectives, including strengthening parental involvement in governance, stimulating teamwork by teachers and parents, raising quality through financial rewards for high performing schools, and increasing efficiency through local procurement of goods and construction. School grants are used in numerous developing countries and are often supported by education development projects financed by multilateral and bilateral organizations. RTI has recently helped governments in Guinea, Indonesia, and Nigeria to design, implement, and manage school grant programs.

