

# Policy Brief

## Financing Education in Pakistan

An overview



# Financing education in Pakistan

## Introduction

*The Government shall commit to allocating 7% of GDP to education by 2015 and necessary enactment shall be made for this purpose.<sup>i</sup>*

This was promised in the National Education Policy (NEP) 2009, yet the state has failed to even allocate half the promised share out of GDP. The state has only managed to spend 2.7%<sup>ii</sup> as the share of GDP by 2016. Although an increasing trend can be seen in the finances allotted to education since 2010, why hasn't the increase in finances translated to improvement in the education system?

Questions arise such as how much is allocated to education as a share of the total budget and GDP? How much is spent in absolute terms and is it enough? If not, how much more is required? How is the currently allocated money spent?

After the devolution of Education in 2010 through the 18<sup>th</sup> amendment, provinces have been given full authority on their education spending and allocations. Though, provinces have been given the autonomy, they are restricted by the amount of transfers from the federal. Resources are allocated on the basis of National Finance Commission Award (NFCA), which are to be held every five years to revise the formula of allocations. The latest successful NFCA consultation happened in 2009, 7<sup>th</sup> NFCA, where for the first time the formula was expanded in terms of the variables. Before this, provinces received resources on the basis of the size of the population only whereas the 7<sup>th</sup> NFC award included four variables; population size (82%), poverty backwardness (10.3%), provincial revenue collection (5%), and inverse population density (2.7%).<sup>iii</sup>

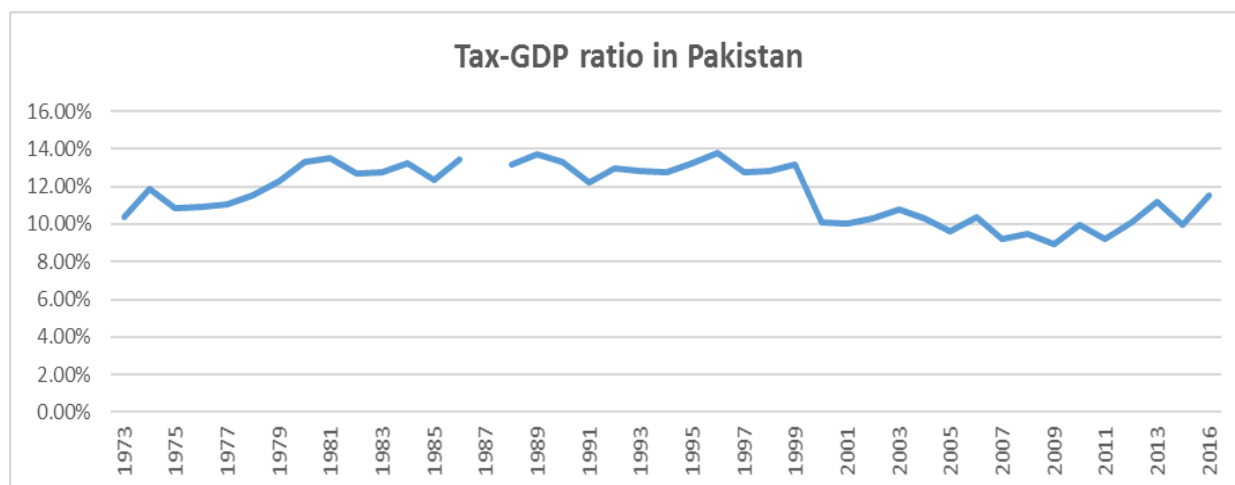
Similarly, provinces further allocate resources to districts on the basis of Provincial Finance Commission Award (PFCA) that operates with a similar logic to that of NFCA, except it takes into account the development needs of the districts. The variables included are more or less similar to the NFCA but their respective weights differ in each province. Each province conducts its own PFCA consultations, which should also be conducted every five years in an ideal situation but the provinces, just like the federal, fail to do so. This results in an inefficient allocation of resources as the latest demands and development needs in various heads, such as education, are not taken into account and monies are allocated on an anachronistic formulae.

## How is education financed?

Various channels of income are available to support expenditures such as export revenues, royalties on natural resources, taxes, and etc. Whereas one of the consistent revenue sources are considered to be taxes collected by the government. These reliable revenue sources are then suggested to be utilized on provision of basic necessities such as education and health to maintain a long-term uninterrupted investment. To cater for such needs international financial

institutions suggest that governments collect taxes at a minimum of 20% of their GDPs. Pakistan, however, has consistently fallen short of this target and currently stands at around 11.5%<sup>iv</sup> as a share of its GDP. Historical trends, shown below in Graph 1, show that Pakistan collected its highest Tax-GDP ratio in 1996 at a rate of 13.8%, which was also below the suggested figure of 20%.

**Graph 1<sup>v</sup>**



Other than revenues generated by the government, government education is also financed through grants from international donors but these amount to only a small percentage. For example, although, Pakistan is the second highest receiver of US aid for education, the total amount received per year is only 2% of the education budget allocated by the Pakistan government between 2010 and 2014.<sup>vi</sup> Thus, it will not be wrong to suggest that the state should not be dependent on external sources to finance its education system and rely on permanent revenue sources such as taxes, which means increasing the Tax-GDP ratio.

### **How much is allocated to education as a share of the total budget and Gross Domestic Product (GDP)?**

It is important to distinguish between the terms ‘*share of education out of the total budget*’ and ‘*share of government spending on education in the country’s GDP*’. When education finances are reported as a proportion of the total yearly government budget, it means that the government has planned to spend that particular percentage of the amount for education in the following fiscal year out of its total available resources whereas, government education spending as a share of GDP is a different concept.

To understand the latter, we must first understand the components of GDP. GDP<sup>vii</sup> is the sum of all consumption, investments, government spending, and net exports<sup>viii</sup> of a country. Since total government spending (the total budget of a government for a year) is a fraction of GDP, government’s education spending can then be explained as a percentage of this fraction. Thus, the share of government’s education spending out of GDP comes out to be much lower than percentage allocated out of total yearly budget. Nonetheless, it informs us of the relative

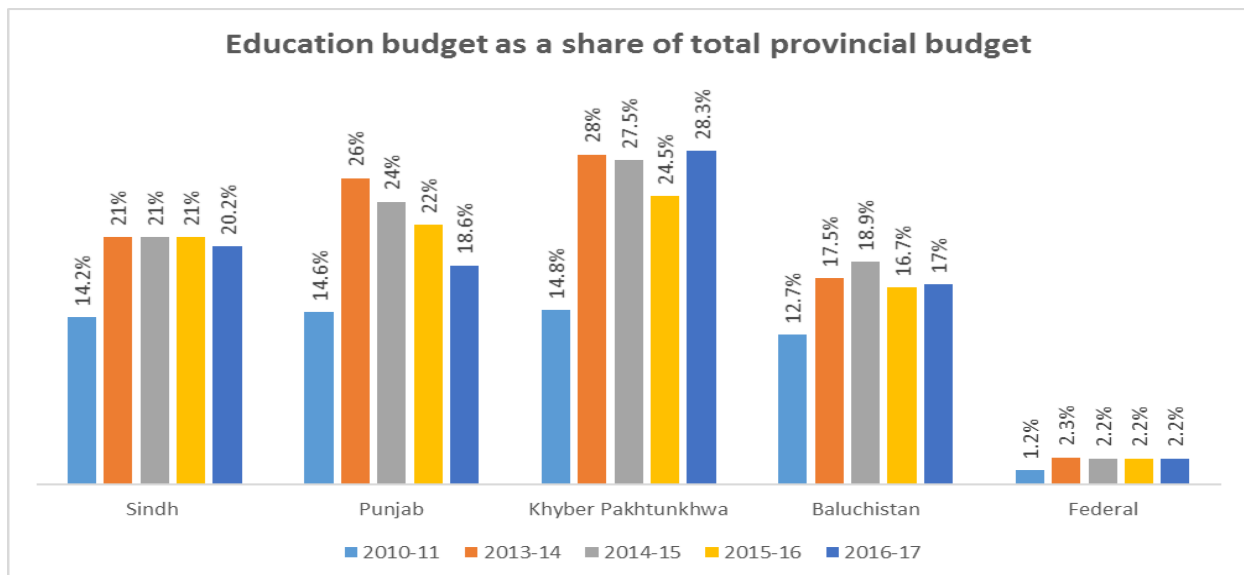
importance of education in the country in comparison to other sectors as this percentage of GDP can be directly compared with the percentage of other sectors.

### Government education budget as a share of total government budget

Pakistan’s education budget as a share of the total yearly government budget has increased significantly since 2010. It has almost doubled from PKR 304 billion in 2010 to PKR 790 billion in 2016<sup>ix</sup>, but the figures peaked in 2013-14 and then have been decreasing after that. According to the suggested figures by international organizations, governments must spend 15-20% of their annual budgets. The provincial figures comparing 2010-11 and 2016-17 are as following, but a yearly image from 2010-11 to 2016-17 has been shown in the graph 2 below.

- Sindh has increased its education budget from PKR 60 billion<sup>x</sup> in the fiscal year 2010-11 to PKR 175.98 billion<sup>xi</sup> in the fiscal year 2016-17. In terms of percentage out of the total budget, it has increased from 14.2% to 20.2%<sup>xii</sup>.
- Punjab has increased its education budget from PKR 53.99 billion<sup>xiii</sup> in the fiscal year 2010-11 to PKR 313.2 billion<sup>xiv</sup> in the fiscal year 2016-17. In terms of percentage out of the total budget, it has increased from 14.6% to 18.6%.
- Khyber Pakhtunkhwa has increased its education budget from PKR 43.53 billion<sup>xv</sup> in the fiscal year 2010-11 to PKR 142.98 billion<sup>xvi</sup> in the fiscal year 2016-17. In terms of percentage out of the total budget, it has increased from 14.8% to 28.3%.
- Baluchistan has increased its education budget from PKR 19.4 billion<sup>xvii</sup> in the fiscal year 2010-11 to PKR 49.33 billion<sup>xviii</sup> in the fiscal year 2016-17. In terms of percentage out of the total budget, it has increased from 12.7% to 17%.
- Federal has increased its education budget from PKR 34.5 billion<sup>xix</sup> in the fiscal year 2010-11 to PKR 108.94 billion<sup>xx</sup> in the fiscal year 2016-17. In terms of percentage out of the total budget, it has increased from 1.2% to 2.21%<sup>xxi</sup>.

Graph 2<sup>xxii</sup>

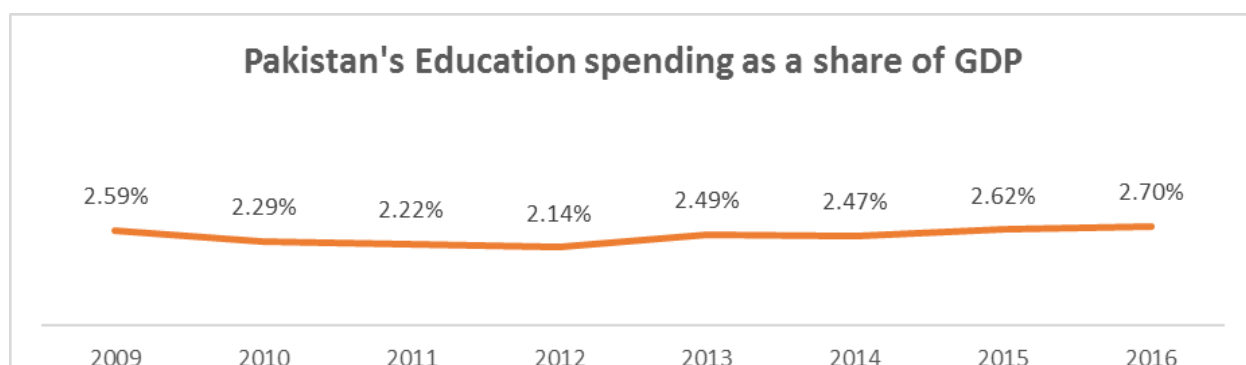


## Education spending as a share of GDP

Pakistan has promised in its national and international commitments to spend between 4% and 6% of GDP on education. However the state's education spending as a share of Pakistan's GDP has consistently remained below 3%, let alone reaching the promised figure of 7% in the NEP 2009. Although, it has increased from 2.29 %<sup>xxiii</sup> in 2010 to 2.7%<sup>xxiv</sup> in 2016, there remains still remains a large gap between the targets that needs to be achieved. In fact, Pakistan's spending as a percentage of GDP remains to be one of the lowest among all South-Asian countries.<sup>xxv</sup>

Pakistan is currently spending a little below PKR 790 billion on education that amounts to around 2.7% as a share of the GDP, whereas to reach the international set target of 4%, Pakistan should have allocated around PKR 1156 billion, which is more than PKR 360 billion than the current allotted amount. Moreover, it must spend more than PKR 1220 billion by 2018 to reach 4% as a share of GDP.<sup>xxvi</sup>

Graph 3<sup>xxvii</sup>



## Issues with allocation

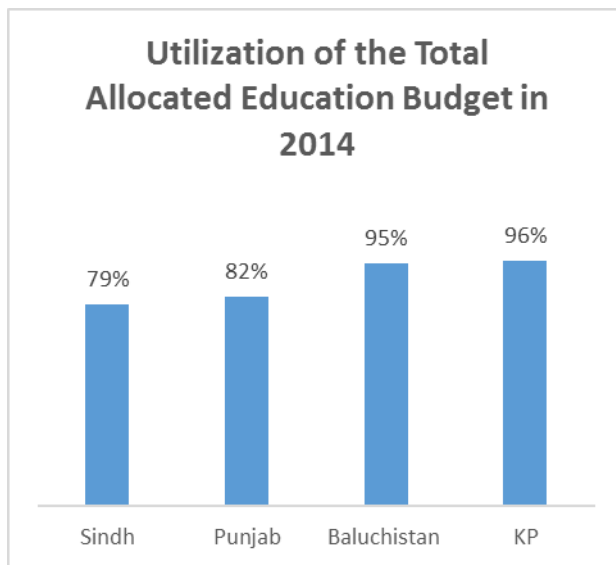
- Pakistan cannot increase the government spending on education as a share of GDP without increasing its *Tax to GDP*<sup>xxviii</sup> ratio. As education is a promised right to all citizens, its allocation cannot be increased based on temporary financial receipts. Pakistan's current *Tax to GDP* ratio is around 11.5%<sup>xxix</sup> whereas the international target suggests this ratio to be more than 20%<sup>xxx</sup>.
- Provinces are already spending the suggested percentages (i.e. between 15-20%) from their annual budgets and further increasing the education share will result in cutting down other important sectors such as health.
- Increasing the education budget without reforms to the sector will only increase the amount of leakages and salaries to non-performing teachers.<sup>xxxi</sup>

## How is the money spent?

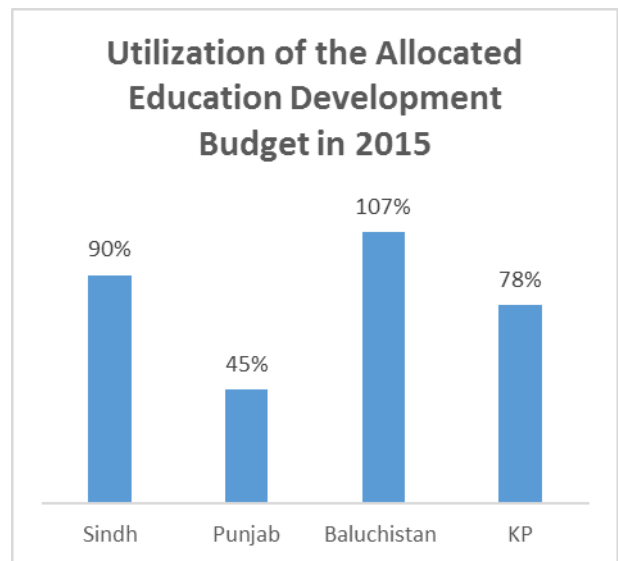
Though provinces are allocating more than 15% of their annual budgets to education, there remains the concern of how that money is utilized; whether or not the allotted money is utilized 100%. Moreover, what are the relative shares of *current* and *development budget* in the allotted education budget? The *current budget* is utilized for paying the recurrent costs such as teacher salaries and maintenance activities whereas the development funds are utilized for creating new facilities and upgrading the existing ones.

## How much is utilized?<sup>xxxii</sup>

- Baluchistan utilized 95% of the total allocated education budget for the fiscal year 2014 and 107% of the allocated development budget in the fiscal year 2015.<sup>xxxiii</sup>
- KP utilized 96% of the total allocated education budget for the fiscal year 2014 and



Graph 5<sup>xxxv</sup>



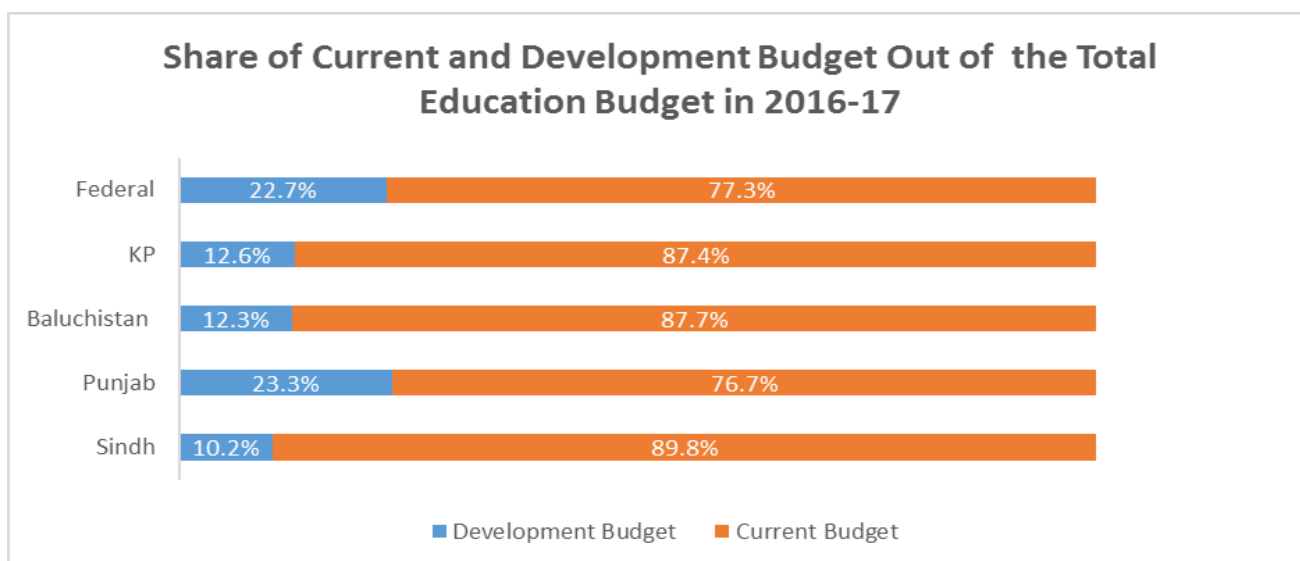
Graph 4<sup>xxxiv</sup>

- utilized only 78% of the allocated development budget in the fiscal year 2015.<sup>xxxvi</sup>
- Punjab utilized 82% of the total allocated education budget for the fiscal year 2014 and only 45% of the total allocated development budget in the fiscal year 2015.<sup>xxxvii</sup>
- Sindh utilized only 79% of the total allocated education budget for the fiscal year 2014 and utilized 90% of the total allocated development budget in the fiscal year 2015.<sup>xxxviii</sup>

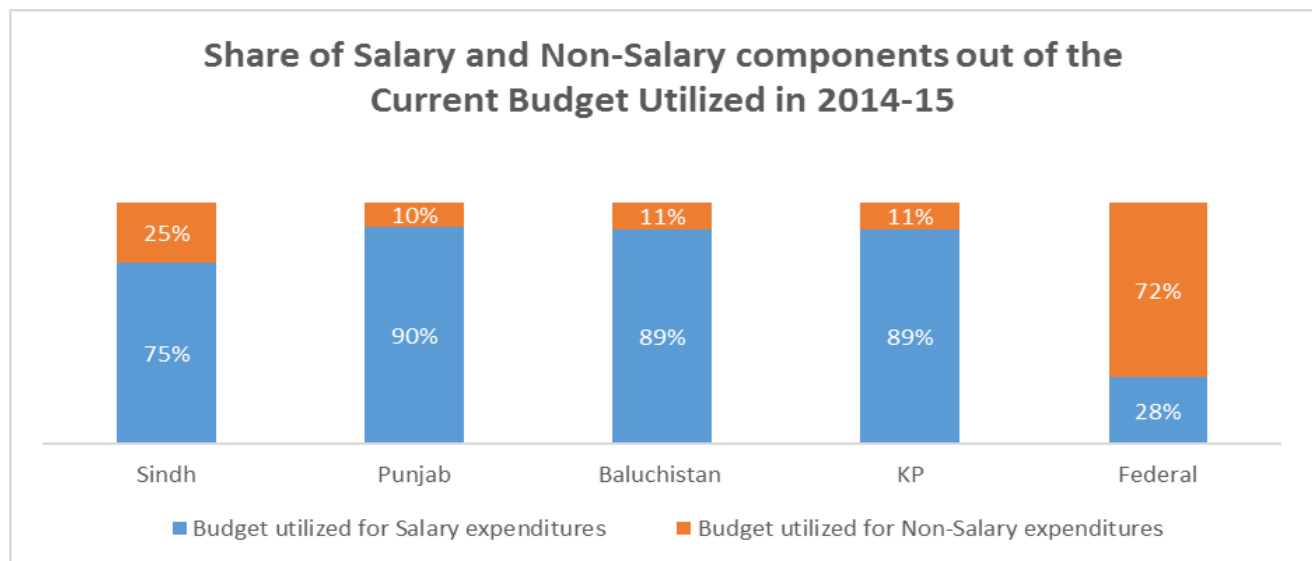
## Where is it utilized?

- Sindh allocated 10.2%<sup>xxxix</sup> for development purposes, and the remaining was devoted for current expenditure for the fiscal year 2016-17. Even out of the current budget, 75% of the resources were utilized to cover salary expenditure and only 25% was devoted non-salary heads in 2014-15.<sup>xl</sup>
- Punjab allocated 23.3%<sup>xli</sup> of the total education budget for development purposes for the fiscal year 2016-17. 90% was utilized for salary expenditure out of the total current budget used and only 10% was dedicated to non-salary heads in 2014-15.<sup>xlii</sup>
- Baluchistan allocated 12.3%<sup>xliii</sup> of the total education budget for development purposes for the fiscal year 2016-17. Out of the total budget utilized under current expenditure,
  - 89% was utilized for salary purposes and 11% was dedicated to non-salary expenditures in 2014-15.<sup>xliv</sup>
  - KP allocated 12.6%<sup>xlv</sup> of the total education budget for development purposes for the fiscal year 2016-17. Similar to Baluchistan, KP also utilized 89% of the total current expenditure on salary heads compared to its spending of 11% on non-salary heads in 014-15.<sup>xlvi</sup>
  - Federal allocated 22.7%<sup>xlvii</sup> of the total education budget for development purposes for the fiscal year 2016-17. Compared to provincial utilization rates, federal allocated the major chunk, 72%, to non-salary heads compared to 28% expenditure on salaries in 2014-15.<sup>xlviii</sup>

Graph 6<sup>xlix</sup>



**Graph 7<sup>1</sup>**



### **Issues with utilization of the allocated resources**

- No formal planning mechanisms exist to utilize the development budget, and these funds are released based on political patronages rather than needs.<sup>li</sup>
- Provinces receive the money too late in the year from the federal to utilize all the funds and often get less than promised.<sup>lii</sup>
- Technical and capacity constraints of provinces that result in underspending.<sup>liii</sup>

### **Recommendations**

Education is a long-term investment, and thus policies need to be designed accordingly. Measures taken on ad hoc basis do not create lasting impacts and are often not sustainable solutions. Some of the recommendations are given below, which may help in formulating an overall policy structure.

- Government urgently needs to make tax reforms and formulate plans to increase *Tax to GDP* ratio to a minimum of 20% in the next 5-10 years.
- Education should be financed through revenues collected through domestic sources such as taxes to sustain education financing.
- Build more progressive systems of taxation which can progressively realize the Article 25-A as promised by the Constitution.
- Reform education sector policies regarding budget distribution between *current and development* budgets, and utilization of development budget. This can be done through training the staff at school level to draft budget proposals keeping in mind the needs of every school.



- Develop equitable spending mechanisms which target Out of School children especially the girls and compensate for the disadvantage through weighted funding
- Scrutinize budget proposals and spending for their differential impact on girls and their access to education through gender and inclusion audits
- Open planning and budgeting processes to civil society organizations through participation in official government partner groups in education planning such as the Local Education Groups.
- Pass the RTI legislation in provinces where there is no legislation as well as make Project for Improvement of Financial Reporting and Auditing (PIFRA) receipts open to public

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## Endnotes

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- <sup>i</sup> (National Education Policy 2009, 2009)
- <sup>ii</sup> (Naviwala, 2016)
- <sup>iii</sup> (Pakistan, National Finance Commission 2009, 2009)
- <sup>iv</sup> (Rana, 2016)
- <sup>v</sup> Data for this graph was obtained from The World Bank website
- <sup>vi</sup> (Naviwala, 2016)
- <sup>vii</sup>  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
- <sup>viii</sup>  $\text{Net Exports} = \text{Exports} - \text{Imports}$
- <sup>ix</sup> (Naviwala, 2016)
- <sup>x</sup> (Sindh, Budget Speech 2010-11, 2010)
- <sup>xi</sup> (Naviwala, 2016)
- <sup>xii</sup> Calculated as PKR 60 billion out of PKR 422 billion for the year 2010 and PKR 175.98 billion out of PKR 869.1 billion.
- <sup>xiii</sup> (Punjab, Budget speech 2010-11, 2010)
- <sup>xiv</sup> (Naviwala, 2016)
- <sup>xv</sup> (Nation, 2010)
- <sup>xvi</sup> (Naviwala, 2016)
- <sup>xvii</sup> (I-SAPS, 2015)
- <sup>xviii</sup> (Naviwala, 2016)
- <sup>xix</sup> (Pakistan, 2010)
- <sup>xx</sup> (Naviwala, 2016)
- <sup>xxi</sup> Calculated as PKR 34.5 billion out of PKR 2764 billion for the year 2010 and PKR 108.94 billion out of PKR 4915 billion.
- <sup>xxii</sup> Budget figures have been taken from yearly government budget documents.
- <sup>xxiii</sup> (UNESCO, 2017)
- <sup>xxiv</sup> (Naviwala, 2016)
- <sup>xxv</sup> (Ailaan, 2016)
- <sup>xxvi</sup> Ibid.
- <sup>xxvii</sup> Data has been taken from The World Bank website and Alif Ailaan
- <sup>xxviii</sup> Tax to GDP ratio is the share of GDP financed through tax collection by the state.
- <sup>xxix</sup> (Rana, 2016)
- <sup>xxx</sup> (Malik & Rose, 2015)
- <sup>xxxi</sup> (Naviwala, 2016)
- <sup>xxxii</sup> Utilization figures are only available till the fiscal year 2014.
- <sup>xxxiii</sup> (Naviwala, 2016)
- <sup>xxxiv</sup> Based on the sources used in the above sub-heading
- <sup>xxxv</sup> Based on the sources used in the above sub-heading
- <sup>xxxvi</sup> Ibid.
- <sup>xxxvii</sup> Ibid.
- <sup>xxxviii</sup> Ibid.
- <sup>xxxix</sup> (Sindh, Budget 2016-17, 2016)
- <sup>xl</sup> (Tabassum, Zahid, & Saleem, 2016)
- <sup>xli</sup> (Punjab, White Paper 2016-17, 2016)
- <sup>xlii</sup> (Tabassum, Zahid, & Saleem, 2016)
- <sup>xliii</sup> (Baluchistan, 2016)
- <sup>xliv</sup> (Tabassum, Zahid, & Saleem, 2016)
- <sup>xlv</sup> (KP, 2016)
- <sup>xlvi</sup> (Tabassum, Zahid, & Saleem, 2016)
- <sup>xlvii</sup> (Pakistan, Federal Budget 2016-17, 2016)
- <sup>xlviii</sup> (Tabassum, Zahid, & Saleem, 2016)
- <sup>xlix</sup> Based on the sources used in the above sub-heading

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<sup>xix</sup> Based on the sources used in the above sub-heading  
<sup>xiii</sup> (Nawiwala, 2016)  
<sup>xiii</sup> Ibid.  
<sup>xiv</sup> (Malik & Rose, 2015)