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FINANCING OF EDUCATION

M. R. Fernando

SRI LANKA ECONOMIC ASSOCIATION

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FINANCING OF EDUCATION

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This paper is one of the 18 papers, published under a special series of publications by the Sri Lanka Economic Association (SLEA) with financial assistance from the United States Agency for International Development (USAID). The objective of these publications is to provide economic literature on current and topical themes on the economy of Sri Lanka to a broad audience that is interested in economic issues, but has little or no background in theoretical economics, while maintaining high analytical standards. Hence, the papers have been written in simple language avoiding the use of sophisticated technical terms, mathematical equations and models etc. which are normally found in economic literature.

FINANCING OF EDUCATION

Introduction

Education is a key factor in economic development. It is universally recognised as an important investment in human capital. Education is also widely accepted as a major instrument for promoting socio-economic development.

Education contributes to socio-economic de.e-lopment by endowing individuals with the means to improve their health, skills, knowledge and capability for productive work. Everyone knows that it is the 'human resources' of a nation, not its capital nor its material resources, that ultimately determine the character and pace of its economic and social development. Capital and natural resources are passive factors of production. Human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organisations and carry forward national development. In fact, the idea that human capital is a decisive factor in economic growth was advocated by several economists including a well known economist namely Theodore W. Schultz in early 1960s.

Often, education has been perceived as benefiting society more than individuals. Curricula are often designed to instil a sense of civic duty and to spread positive attitudes considered important by the

society, ideologies and languages. Literacy and numeracy - products of education - facilitate social and economic transactions, including the collection of taxes that finance the provision of public goods. The benefits of these activities accrue not so much to any single person but to society at large. Also, the acquisition of literacy and numeracy has been considered a basic human need, especially for those who cannot afford primary schooling. Thus, for societies as a whole, education enriches the political and cultural life of the community and strengthens the community's ability to exploit technology for social and economic advancement.

It is well known that the growth of any economy depends on the quantum of developed human resources, as well as favourable institutional, social and political climate. To the extent that education helps to provide these essentials, which it unquestionably can, it can be considered a good investment in economic growth. No one disputes the fact that the right kind of education in right amounts for the right learners at the right place and time could make a crucial contribution not only to economic growth but also to social development and to greater equality. The apparent connection between investment in education and economic growth evidenced in the industrialized countries and demonstrated in several research reports. According to an estimate made by Lau, Jamison and Louat (1990) using data for East Asia and Latin America, a one year increase in the average education level of the adult population can lead to increases of 3 - 5 per cent in real Gross Domestic Product[1].

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[1] Lau Lawrence, Dean Jamisen and Frederic Louat, 1990. "Education and Productivity in Developing Countries: An Aggregate Production Function Approach" Mimeo World Bank, Washington, D.C.

From an individual point of view, investment in education could well be more profitable than other types of investments. In every society, individuals spend more time and money to acquire a higher level of education which results in improving their capacity to earn more through modern sector employment. Because of the positive relationship between education and earning capacity, there is an increasing urge for more education by individuals in the society.

The principal institutional mechanism for developing human skills and knowledge is the formal educational system. The development of education has become a key concern everywhere, because the benefits are so broad and pervasive. For these and other reasons, governments have tended to provide and subsidise almost all educational services in many countries of the world.

Sri Lanka's education has been financed and provided predominantly by the government. Thus, public funds constitute the most important financial resource for organised formal educational activities in Sri Lanka and the most important expenditure item in the budget. There has been a rising proportion of public expenditures as post colonial development oriented governments of Sri Lanka have become committed to large scale, planned educational expansion in the country. However, due to various developments in respect of budgetary management, the outlook for public educational revenues is not rosy. Towards the early 1970s, the sharp upward curves of educational revenues began to taper off. Annual increases of 10 to 15 per cent in government

educational budgets, when the economy was growing at 3 - 5 per cent, could not have continued indefinitely. In the future, annual increases in public educational budgets cannot be expected to rise at a rate even equivalent to the general economic growth.

Today, the government of Sri Lanka, faces a dilemma in educational finance. On the one hand, the government has accepted the responsibility in terms of the constitution of Sri Lanka, to provide facilities for the purpose of complete eradication of illiteracy and the assurance to all persons the right to universal and equal access to education at all levels. The principle of universal and compulsory education is built into the constitution. Although several improvements have been made, there are many inadequacies in the system. The quality of education is declining, enrollments at higher levels are increasing and there are tremendous social pressures to improve education. Evidence also suggest that resources are not being used as efficiently as they might be. On the other hand, education uses a large proportion of the public budget, and its expansion has to compete with other pressing demands. Recent trends in public expenditure on education show that there has been a decline in the share of public funds allocated for education. Also due to new economic policies of the government, intersectoral competition for scarce public funds is intensifying, As a result, education system suffers from lack of funds and has become a victim of budget cuts. Recent reports from the field indicate that the financial crisis in education has worsened.

Therefore, the financing of education has become a very important issue that needs urgent attention of the government and the public at large. In this environment, an examination of education costs and financing is crucial for formulating appropriate policies for the sector's expansion. Choosing the right policies is essential for progress, because wrong policies can worsen present problems and might even reverse past achievements.

Objectives and Scope of the Paper

The main objective of this paper is to examine the problems of financing of education in Sri Lanka and to identify potential policy options that could be used to augment resources and improve efficiency to deal with the financial constraints. This study emphasizes the importance of adequate financial resources for education development and its allocation to maximize the returns for investment in education. This is because educational outcomes depend critically on the availability of resources, and its allocation in the sector. Allocation, in turn, is influenced by policy choices affecting costs and finance.

In examining the main issues of financing of education sector in Sri Lanka, an attempt is made to focus on the following aspects.

Section I of this study attempts to document the size of the education sector and its performance in Sri Lanka and current problems of financing the sector. Section II of the paper presents a brief description of financing arrangements during the early

periods of education upto the year 1948. Section III deals with a discussion on the patterns of financing during the last four decades. An analysis of the determinants of educational finance is made in Section IV. Section V examines the potential policy options to promote financing the sector and the conclusion is given in Section VI.

To avoid misapplication of findings, the main limitations innunciated in this study should be noted. Firstly, the study concentrates mainly on the formal education in Sri Lanka. Formal education is the hierarchically structured, full time, chronologically graded system, running from primary school through the university and generally controlled by a central Ministry of Education[1]. Secondly, the focus will be only on broad issues on financing problems and therefore rely mainly on aggregate data. The analysis is meant only to highlight policy issues of potential importance.

Thirdly, not all aspects of education costs and financing are addressed in adequate depth. The study relies chiefly on secondary sources of data and suffers from the scarcity of resource and materials on some topics. Moreover, some issues require survey rather than aggregated data for a meaningful analysis. Nevertheless, the existing data can yield useful insights. Aside from offering a broad overview of policy issues in the sector, the data helps to identify gaps in our present understanding, thereby suggesting the focus on future work.

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1 Manzoor Ahmed, "The Economics of Nonformal Education Resources, Costs and Benefits" Praeger Publishers, New York, Washington D. C. 1975, P. 10.

SECTION I

Sri Lanka's Education - Its Size, Performance And Financing

This section begins with a brief profile of the status of education in Sri Lanka.

In this country, education is a very big industry, probably the largest industry in terms of the amount of capital resource usage and the number of people participating. This sector absorbs a very large share of recurrent government expenditure. It occupies the time and activities of the greatest number of adults and children, and carries the greatest psychological burden of development aspirations.

Of the different educational categories, formal education is the largest industry and the greatest consumer of public expenditure. During the last 4 - 5 decades, Sri Lanka has invested huge sums of money in education, both as a proportion of national income and of national budgets and such funds spent on education have increased continuously. During 1950s, about 5 per cent of the gross national expenditure of the country was spent on education. The total public expenditure on education tripled during the 1960s. In fact, the increase in public expenditure on education in 1960s was more pronounced than any other sector of the economy and data shows that Sri Lanka was spending disproportionately large

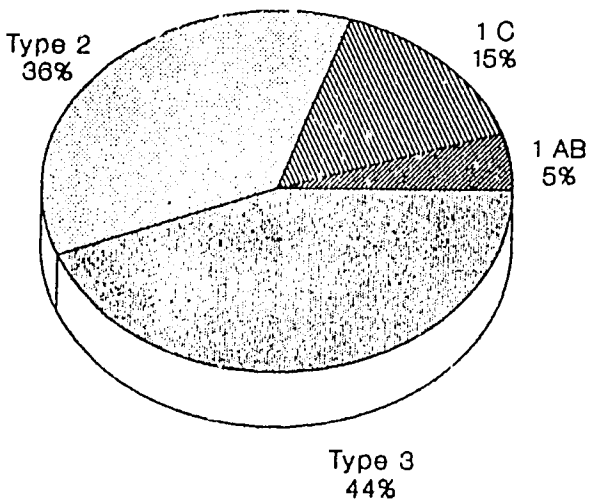
resources in education. By the end of 1970s educationl budgets were absorbing anywhere from 10 to 15 per cent of total government recurrent expenditure. Public expenditure on education after 1970s started to decline in terms of percentages of the gross national expenditure and government budgets. However, state expenditure on education even in the last twenty years continued to rise faster in terms of current prices than any other area of social welfare. By the year 1992, Sri Lanka was spending more than Rs. 12,000 million a year for education. While this is a sizable expenditure in terms of budget constraints, Sri Lanka nevertheless was still spending only US$ 13 per capita on public education in comparison with US$ 230 per capita spent in developed countries. This situation may have improved as a result of the changes made recently for the provision of free text books, free mid-day meals, free uniforms, other facilities and the recruitment of more teachers.

The quantitative development of the formal education shows that in 1992 there were 10590 schools in the country with a total number of more than 4.28 million (25 per cent of the population) pupils indicating at least 1 school for every 400 pupils. In 1946, when the policy to offer education at no cost was introduced there were 5946 schools for 593,400 students. Schools in the country today are divided into four broad categories. The distribution of schools by status for the year 1991 is given in the Chart I.

Of the existing total number of schools about 19 per cent have advanced level classes and 45 per cent have only primary or lower secondary level classes.

Chart I

Schools by Status - 1991



Government schools consist of 95 per cent of the total. About 22 per cent are small schools with less than 100 students and with one or two teachers only. Only 4 per cent of schools of the country have pupils over 1500 and better infrastructure facilities. The distribution of school population by gender shows that in 1992, the participation of males constituted 50.2 per cent and females 49.8 per cent. The number of teachers increased significantly from a level of 14242 in 1946 to more than 182500 in 1992, and constitute about 3 per cent of the total employment. During the last decade, there have been new admissions of pupils to schools on an average amounting

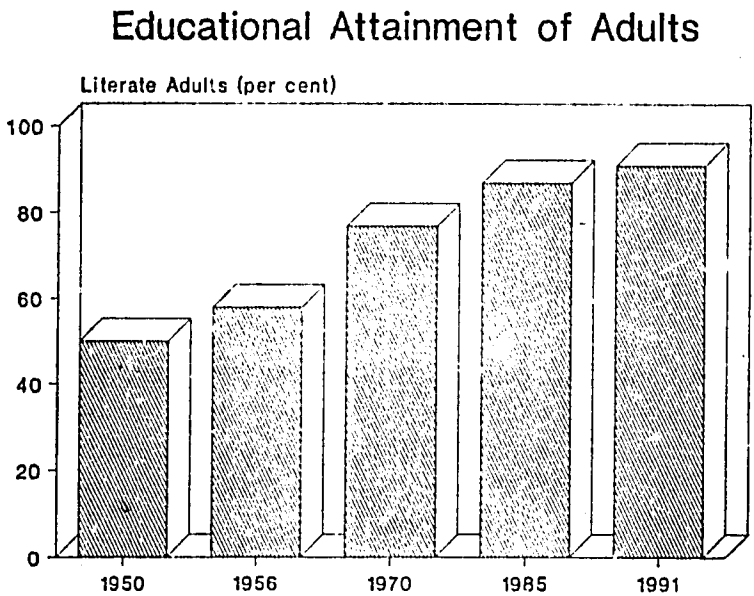
to 350,000 each year. The number of teachers has been increased sufficiently, to keep pace with the increase in pupil population. The pupil teacher ratio has in fact improved indicating reduction from 26 to 23 pupils a teacher in early 1990s.

The performance of education in Sri Lanka could be examined using such indicators as the schooling attainment of the adult population which reflects past investments in education, the present structure of enrollment, the government spending and its involvement in education and other benefits and costs to the economy.

Education system in Sri Lanka grew rapidly during the past 3 to 4 decades and is well developed particularly at the lower levels of formal education. With the advent of free education, rapid progress has been made in improving the general levels of education of the population. The fruits of that expansion are revealed by the extent of literacy among today's population and by their educational attainment. Literacy is considered as a key achievement indicator in the context of educational investment. Today, Sri Lanka's literacy rate ranks among the highest in developing countries. In 1956, Sri Lanka's literacy rate was about 58 per cent. As shown in Chart II this has increased to 79 per cent in 1971 and close to 91 per cent in early 1993.

Sri Lanka, right from the very beginning launched herself on to a distinction of achieving near universal literacy and education. Rest of the South Asian countries have still a far way to go. As a

Chart II



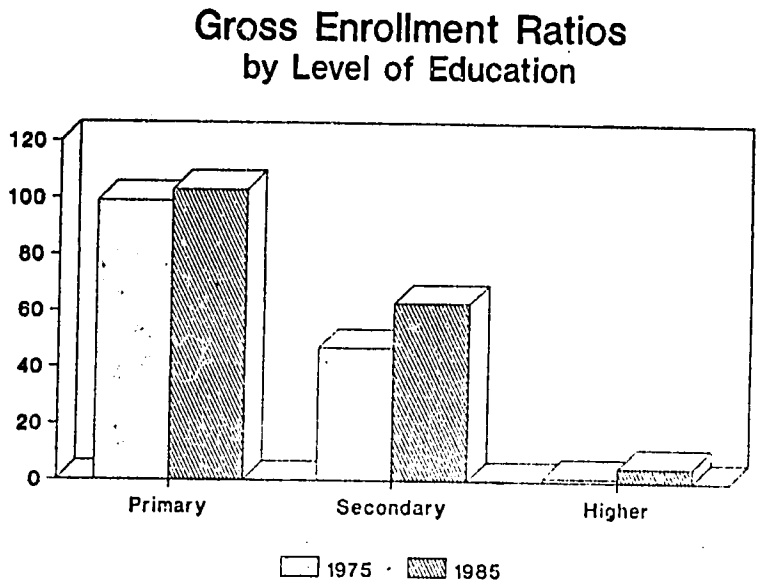
result of that effort, there are several positive spill-overs which the country is enjoying now. The more obvious one is the benefit of lower growth rate of population which Sri Lanka is having now-1.6 per cent per annum. If one takes emigration into account which is also education selective in its nature, the net rate of growth of population is still lower.

In respect of participation in education, there has been a spectacular increase in the total enrolments. The gross enrollment ratio in primary

education now exceeds 100 per cent. The expansion of coverage between 1960 and 1990 has been particularly remarkable. The gross enrollment ratio for secondary education jumped from 47 per cent in 1970 to 63 per cent in 1985 (34% increase) and in higher education it grew from 1.3 per cent to 5.1 per cent (392% increase) in the same period. Overall school enrollment (age 5 - 19 years) has increased steadily from 50 per cent in 1950 to 75 per cent in 1991. The overall enrollment rate among the age group 5-14 is around 90 per cent with a range of 78 to 95 per cent for different districts. Enrollments by gender indicate that the percentages of girls in the secondary and higher levels are higher than the male participation. The gross enrollment ratio by the level of education for the periods 1975 and 1985 are given in Chart III.

Schooling attainment for the average Sri Lankan adult is 5.3 years. Women receive less education than men-4.7 years compared with 5.9 years. Among the current population of children and youth, participation in schooling is widespread throughout the country. Sri Lanka is now close to universal primary level education and the annual rate is stabilizing, being determined mainly by the rate of pupil increase in the relevant age group. At the post primary level too, participation has steadily increased. While the number of pupils in primary schools fall marginally between 1950 and 1990, the number of pupils in the secondary schools rose quite significantly. In total, the number of pupils in primary and secondary schools rose by 500,000

Chart III



between 1950 and 1970 and by 600,000 between 1981 and 1991.

The pronounced shift to secondary education in the 1950s reflect both population pressures and the changes in the compulsory attendance laws following the 1944 Education Act and the raising of the school leaving age in 1950. The latter factor was also accompanied by a trend towards a longer school life. For example, from 1950 to 1970 the

secondary school population almost doubled while the percentage of pupils aged between fifteen and over attending schools rose from 6 per cent in 1950 to 10 per cent in 1970 and 15 per cent in 1990.

However, this statistically impressive picture hides a number of serious weaknesses, in that, the system has expanded without much consideration of the changes in manpower needs of the country. The content is heavily weighted in favour of humanities and the approach is too academic; thereby causing a mismatch between educational products and what employers require. Formal education both in method and content has moved somewhat off the target without increasing the capacity of the youth for skill development to enhance their well-being and that of the State. It is imperative that equal emphasis is laid on relating education to manpower needs; so that Sri Lanka will be in a position to develop the skills and knowledge of its people and use them effectively in the national development.

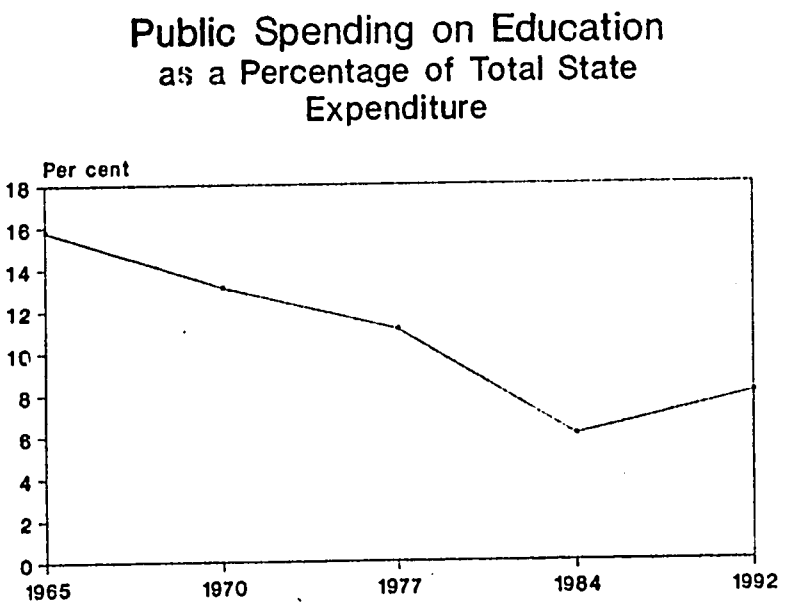
In respect of government sector involvements in education, the records show that after independence, education has been a government undertaking. During the periods of 1950s and 1960s the education budgets were expanding rapidly. Education sector has been funded almost fully by the government. The governments of the period 1948 to 1971 were wedded to a policy of social welfare. Apart from free 'education' this policy included a free health service and the distribution of a subsidized food ration. The big question facing policy makers and educational

managers in this period was, how best to allocate the sizeable annual increments among different educational levels and uses.

From 1960s, the need to utilize a greater proportion of government reserves for capital expenditure gained a greater acceptance. Also through a variety of devices introduced by the government between the period 1970 and 1993 social welfare expenditure was contained. Thus, in the period after 1960s, while the government per capita real expenditure on education was maintained, state expenditure on education as a percentage of total state expenditure declined from 15.8 per cent in 1964/65 to 13.6 per cent in 1970, 11.1 per cent in 1977 and 8.0 per cent in 1990. Chart IV shows the trend in public spending on education as a percentage of total government spending. Today, with educational budgets frozen or shrinking, the daunting question is where to make the cuts?

It is true that education itself can lay claim to being an important contributor to economic growth and thus a legitimate petitioner for more investment funds. But due to budgetary constraints, meeting of such demands has become extremely difficult under the present circumstances. Today, the most crucial problem in education is the problem of financing the education: How to provide better quality and more relevant education for an increasing number of learners with the limited resources available. This has always been a challenge to educational managers, but it is a far greater one today than ever before because of the formidable financial

Chart IV



problems and related crucial issues that have recently overtaken the educational system.

This adverse finance situation is tied to several other critical educational issues that are currently plaguing Sri Lanka. They include the erosion of educational quality and relevance and the often dubious contribution of education to individual and national development, the increasing number of educated unemployed, the gross educational inequa-

lities that penalize poor in the society, the declining status and attractiveness of teaching as a profession and most worrisome of all, the waning public confidence in education.

The economy of Sri Lanka is projected to grow at a slightly higher rate in real terms averaging about 5-6 per cent between 1990-2000. The school-age population is forecasted to grow slowly by an average of 1.4 per cent a year. Although these favourable changes that are expected in the future may ease difficulties considerably, it does not guarantee future progress in education unless adequate financial resources are allocated for its development.

During the next 7 years upto 2000, the new additions of students at the primary level alone will be more than 2 million on the basis of the average additions during the last 10 years. This would create demand for more teachers, more school buildings and other material facilities. The latest available data (1991) on the stock position shows that there are 2.1 million students in the primary level with 70,000 teachers and another 2 million students in the secondary and tertiary levels with more than 100,000 teachers. The changes in the educational structure that have been taking place during the last 1 - 2 decades show that the addition to secondary and tertiary levels are increasing at a much faster rate than the primary level. The unit costs of operation at higher levels are very much larger than the unit costs at the primary level and therefore costs are tended to increase significantly. Not only quantitative items needed will

increase in the future but, due to pressure from the people to have better education, the qualitative improvements also will have to be undertaken. Higher education appears to be underdeveloped - its coverage is much below than what might be expeoted in a country with Sri Lanka's per capita GNP. These demands necessitate a considerable amount of increased financial resources in the future. The magnitude of such a demand could be reasonably estimated at two to three times of the present level of expenditure on education.

It is relevant to mention here, that more funds need to be allocated towards professional and technological studies in the fields such as engineering, medicine and electronics, although a substantial number of these professionals emigrate, finding lucrative jobs abroad without compensating the expenses incurred by the state and damages caused to the society. A retrieving factor is that those who are semiskilled and on whom the expenses incurred by the state in respect of their education is comparatively less, find jobs abroad and send in valuable foreign exchange thereby cushioning the coffers of the state.

The government action alone will not be sufficient to generate such a large amount of resources for financing the educational sector. For this formidable task of generating adequate resources, there is a strong need for co-operation and collaboration between the government and the private sector. While the government provisioning of funds needs to be increased as far as possible, the private sector

will have to assume a far greater role in the provisioning of resources for the development of education sector. In fact, increasing the reliance on private financing will have to be explored as an important alternative option for the sector's expansion.

SECTION II

Early Education and its financing arrangements

The features which characterize the educational development at a particular point of time are a product of the process of history. Therefore, it is important to take a brief look back at a few important facts of the past history particularly in regard to the financing of education during early periods.

Sri Lanka's educational system has a very long history. In the very old days, learning process started in Buddhist temples and people were able to learn reading and writing through the temple educational system. Technical skills such as the knowledge of engineering and hydraulics needed to construct reservoirs and canals were transmitted from generation to generation either by instruction from father to son or by craft apprenticeship. As the system of education was simple and operated mostly on a voluntary basis, there were no indications of having any financial problems constraining the system.

This system continued during the early colonial period too, and there was no marked change in the pattern of education. Buddhism continued to dominate education in many areas of the country except in coastal areas where dominant religion was Christianity. However, with the expansion of the western education, the traditional types of education have perished or become of much less importance.

Many of our educational structures that shaped present educational system emerged and developed by the Missionaries of Portugal, Holland and Britain. They were conversant with western education systems and sought to develop educational philosophies and institutions that would support their religious activities. These religious sects developed their own educational theories, established their own schools and structured their own curricula. The general impact of these activities on education was a push towards a general extension of literacy among the masses of population. In order to propagate their religion, the members of the various churches had to be made literate.

When the British took over the administration of the Maritime provinces of Sri Lanka in 1776, there were two systems of schools in the island. On the one hand, an elementary education in reading and writing, with a Buddhist background was imparted by the system of Temple Schools. On the other hand, there were Parish Schools. This was a well organised system of schools, Christian in atmosphere and confined to the coastal areas of the island. These were administered by Missionaries. The curriculum of these schools was limited to reading, writing and a little arithmetic, with Christianity as one of the main subjects.

During the British rule, an education in english and christianisation were considered to be the means of providing the essential intellectual and attitudinal preparation required for its political stability and advancement of commercial interests. These objectives

were mainly achieved through the mechanism of missionaries who were engaged in educational activities in Sri Lanka.

The educational efforts of the missionaries were encouraged and supported by the government because of these reasons. The scheme of assistance by the government to Parish schools began in 1843 when schools belonging to certain Protestant Christian denominations were given such assistance. During the first 30 years of the scheme, Protestant Christian denominations were the chief beneficiaries. However, the traditional schools run by Buddhists, Hindus and Muslims received a step motherly treatment and were languished for want of support. Due to the dualities in the school system there was inequalities in the distribution of money from the government for education, in the quality and quantity of educational facilities and in opportunities for employment and for higher education. The Roman Catholics, the Buddhist, the Hindus, and the Muslims gradually entered the support scheme and in the course of time the Roman Catholics, along with the Protestants came to occupy a position of dominance in the scheme.

The grant-in-aid system introduced by the government has resulted in a replacement of the traditional system of education with a system of private schools. Christian Missionaries were able to maintain a leading role in the education as they enjoyed a favourable hearing for their requirements from British officials. Christians though were a religious minority, had the advantage of obtaining more educational facilities compared to other religious

groups in the country. This partiality of the allocation of funds has created uneven results in the literacy levels of the population. Data for 1921 shows that the female literacy rate among the Christians was 50.1 per cent while the Buddhists had 16.8 per cent, Hindus 10.2 per cent and the Muslims only 6.3 per cent.

From the point of view of the ownership of the schools and the financial participation by the Government, the schools in 1939 were classified as follows:

Management	No. of schools
Government	1990
Buddhist	300
Hindu	102
Roman Catholic	636
Protestant	547
	3575

The total expenditure on education in 1939 constituted nearly 16 per cent of the total government expenediture for the year. The distribution of cost incurred by the government among different categories of schools was as follows:

Management	Net cost to Govt. (Rs.)	Percentage
Buddhist	1,245,830	19.3
Hindu	357,221	5.5
Roman Catholic	2,623,157	40.7
Protestant	2,221,266	34.5
Muslim	—	—
	6,447,474	100.0

The Christians, both Catholic and Protestant, constituted 4.3 per cent of the population and yet obtained 75.2 per cent of the government grant to denominational schools, while the Buddhists, Hindus and Muslims constituting 95.7 per cent of the population obtained only 24.8 per cent of the government grant.

In providing financial assistance, the government treated its own schools much less generously than it treated the assisted denominational schools. This is most clearly seen in regard to the number of pupils per teacher in government schools. In government schools, the number of pupils per teacher was 43, while in assisted schools the number of pupils per teacher was 35. In the case of english schools there were still fewer pupils per teacher. In both assisted english schools and assisted bilingual schools, the proprietors met part of the

salary bill, and they were able to provide facilities and employ more and better teachers. The net expenditure by government per pupil was Rs. 36.36 a year in respect of english schools, Rs. 25.08 a year in respect of bilingual schools, and Rs. 18.70 a year in respect of other schools.

There was a levy of school fees in english schools while government schools provided free education which ensured that english education would be the preserve of the economically privileged. Clearly, education in english schools was heavily subsidised by the government, and there was grave discrimination against the majority of children in the apportionment of public funds for education. The differential opportunities associated with the language medium, for higher education as well as for employment, added to the inequity of the system.

Until the year 1925, financial assistance to assisted schools from the government took the form of a grant in respect of attendance and results, but thereafter the system was changed to a salary grant. In the case of assisted government schools, the government met the total salary cost of the teaching staff to which the school was entitled by the attendance of its pupils; in the case of assisted english schools and assisted bilingual schools (which were all fee-levying), the government met about fifty per cent of the total salary cost of the teaching staff to which the school was entitled by the attendance of its pupils, the capacity to employ teachers with high qualifications being dependent on the resources of the management to supplement

the salary grant and make up the total salary payable.

The position as at 1939 was that education in sinhalese schools and tamil schools, both government and assisted, was entirely free, while school fees were payable in english schools and bilingual schools, both government and assisted. In other words, the language of instruction determined whether fees were payable or not, and whether the government or the private sector provided the schools was not a material factor.

The tendency to rely on private organisations to provide education and the policy of limiting english education to a small elite came under attack in the first quarter of the twentieth century. During the 1940s the national leaders and other public personalities became increasingly aware of the many weaknesses of this multidimensional dualistic structure of education, which had not only institutionalised many discriminatory practices, but had also enthroned an elitist system, which conferred unfair advantages to a society's privileged minority. Thus, agitation for the democratization of a socially discriminative educational system, in the hope of affording greater opportunities, particularly, for the socially under-privileged masses, to meet the educational needs of their children gained momentum during the 1940s.

The government appointed a Committee under the chairmanship of Dr. C.W.W. Kannangara to look into these matters. The Kannangara Committee,

considering that english schools, which provided courses of study leading to the best opportunities of employment and higher education, were fee-levying and therefore patronised only by the well-to-do, recommended that in order to make equality of educational opportunity a reality, education should be made free in all schools. It also recommended that education should be free in the institutions of tertiary education as well. For the proper implementation of its recommendations, the Committee wanted to extend the principle of free education to embrace the entire field of education inclusive of the university. For the first time, Sri Lankans were allowed to control education policy through a Minister of Education and an Education Committee in the Legislature.

The proposals placed before the State Council in 1944, were as follows:-

1. In assisted or state primary and post - primary schools and training colleges, in the state technical, agricultural and trade schools and in the university no tuition fees shall be levied.

2. The full salaries, according to prescribed scales, of teachers constituting the "eligible" staff of assisted primary and post-primary schools and training colleges shall be met from public funds.

3. An equipment grant shall be paid annually to assisted schools at prescribed rates provided that equipment so procured remains the property of the state and provided that no fees, other

than games fees, towards the cost of providing equipment shall be charged in assisted schools from pupils therein.

Objections to these proposals came from two groups. The British rulers expressed the view that the proposals involved expenditure on a scale which the government cannot possibly afford. They claimed that financial implications were so considerable and uncertain and implementation of any recommendation approved by the State Council must depend on the financial position of the country from time to time. A group of wealthy and prominent citizens in the country too objected to the proposal and asked to defer it on the grounds that if the recommendations were adopted in principle, they would materially affect not only their education system but also their entire social and economic organisation in the island.

Although there were objections, the regulations known as the School Grants (Revised Conditions) Regulations, were approved by the Board of Ministers and placed before the State Council on 24th August 1945. The effect of the regulations was to enable the managers of assisted schools to enter the free scheme with effect from 1st October 1948. As from the date on which a school entered the free scheme, it should levy no fee other than a games fee not exceeding Rs. 6/- a year from each pupil. The government for its part would meet the other costs.

By end of the 1940s, the government had emerged as the sole contributor of funds and the manager

of the school system. The period of expansion for Christian missionary schools had ended. There was the introduction of 'free education' that is free tuition from the primary grades, upto the university. The english secondary schools which had levied fees were given the option of abolishing fees and receiving state grants or continuing as unaided schools levying fees. Most schools opted to abolish fees and while this extended educational opportunity it also increased the leverage available to the government at the centre.

Thus, at independence, Sri Lanka inherited a system of education which was centralised, with a complex mixture of private and government schools and the government becoming the major funding agency.

SECTION III

Main features and patterns of educational financing in Sri Lanka

This section highlights the main features of the educational expenditure during the last 4 decades. What are the trends in the flow of resources into education? This will be examined in terms of the allocation of funds among different levels of education, the behaviour of unit costs, and the extent of private and government financing. The pattern of educational expenditure reflects the combined effect of a range of policies in the education sector, the structure of the enrolment pyramid, the structure of unit costs, the public - private split in providing and financing education and so on. The pattern also gives a brief view of the government's priorities in the sector.

During 1950s several expenditure profiles emerged. These have affected the present condition of educational expenditure and financing. The spending pattern for education in this period reveals that the government had been making strong fiscal efforts in favour of education. The recurrent expenditures of the government for both primary and secondary levels increased from about Rs. 130

million in 1950 to Rs. 290 million in 1960. Educational expenditure as a proportion of GNP increased all through the fifties from about 3 per cent in 1952 to about 5 per cent in 1964. As a result there had been a substantial increase in allocation of resources in real terms. Another feature of educational expenditure was that a substantial part of the total expenditure had to be allocated to cover salaries of teachers. The teacher costs in fact increased during this period from a modest level of 62 per cent to about 79 per cent of educational expenditure in 1964. Another feature was the declining trend in expenditure on facilities fee as a proportion of educational expenditure. The proportion on administrative expenditure also registered a declining trend during the period. The pattern of unit cost of general education showed an increasing trend during this period. For both primary and secondary levels it increased from Rs. 76 to Rs. 112 by about 150 per cent. Of this, the teachers costs increased from Rs. 54 to Rs. 85.

During the 1960s too educational expenditure was increasing in response to the increasing enrollment due to the policy of universalization of education. The recurrent expenditure on the primary and secondary levels increased during 1960-68 by 174 per cent. The total current public expenditure on all education during 1960 and 1969 registered an increase of 163 per cent from Rs. 290 million to Rs. 472 million. Total educational expenditure as a proportion of GNP moved around 4 to 5 per cent but registered a decline during the the late sixties. The amount of expenditure which was being

spent by Sri Lanka in the early sixties, was already moving towards the higher range level of the educational expenditure suggested by UNESCO.

As the per unit cost at the secondary level is prone to be a multiple of the per unit cost at the primary level, the total impact on the educational bill was even greater than the level warranted by the magnitude of enrollment effect. For example in the year 1969, the average current expenditure per pupil at the second level was Rs. 327 whereas at the first level the amount was only Rs. 117. As a result, the distribution of expenditure, was biased in favour of secondary and higher education.

Most of these features of the educational expenditure that prevailed in the 1950s continued through the sixties. The unit cost of education continued to grow through the period. The teachers' salary component continued to increase, to as much as 89 per cent in 1968. The increase in teachers' salaries in recurrent expenditure was more on account of expansion in the system. The proportion of facilities fees and administrative expenses continued to decline. The educational expenditure started registering a decline as a proportion of GNP in the late sixties. All the above features characterise a situation wherein under the pressure of expansion, institutions were being opened and teachers were being appointed, but little else was being provided by way of materials, equipments, instruments, etc.

Another feature of educational financing is that there has been a massive shift in the proportion

of finances devoted to each level of education. During the early periods, intersectoral allocation of public funds indicate that there has been a more pronounced emphasis on primary education. The share of public finance spent on primary education later fell from earlier levels and the proportion of total outlay devoted to secondary education rose gradually. This allocation towards secondary education was also accompanied by a substantial increase in the proportion of total finances devoted to tertiary education. By the end of 1980s, the share of public spending devoted to primary education was 43 per cent compared to 41 per cent for secondary education and 16 per cent for higher education.

When examining the cost across levels of education, the appropriate statistic is the operating costs of education. Following common practice, unit costs are expressed as a percentage of per capita GNP. The unit cost of primary education in Sri Lanka has been estimated as 6.1% per cent of the per capita GNP. Accordingly, Sri Lanka, compared to other Asian countries, is considered as a low-cost country. In secondary education too, Sri Lanka is considered as having lower costs of education. The unit operating cost in the secondary education, as a percentage of per capita GNP is estimated to be 8.6 per cent. This figure is very much less than the average of 23 per cent reported for Asian region. But the situation is very much different in the case of higher education. The unit cost of higher education in Sri Lanka was 83.3 per cent of per capita GNP and amounts to

9 times the unit cost of secondary education and 15 times the unit cost of primary education. The higher unit cost of higher education could be due to educational inputs that command higher prices. Some inputs are more expensive mainly because they have to be imported.

Most of the variations in unit costs stems from differences in the enrollments and the use and price of pedagogical methods and materials in each level of education. Primary and the secondary sectors of the education consist of about 59 and 35 per cent of the total enrollment respectively. The low levels of cost in these two levels are due to very high pupil-teacher ratios and relatively low teacher salaries. Available statistics show that the secondary cycle is now taking over the primary level and accounts for disproportionately large resources. It does so for both reasons-greater per unit cost as a proportion of per capita GNP as well as larger participation of students in secondary schools due to the cascading effect of growth in the primary cycle.

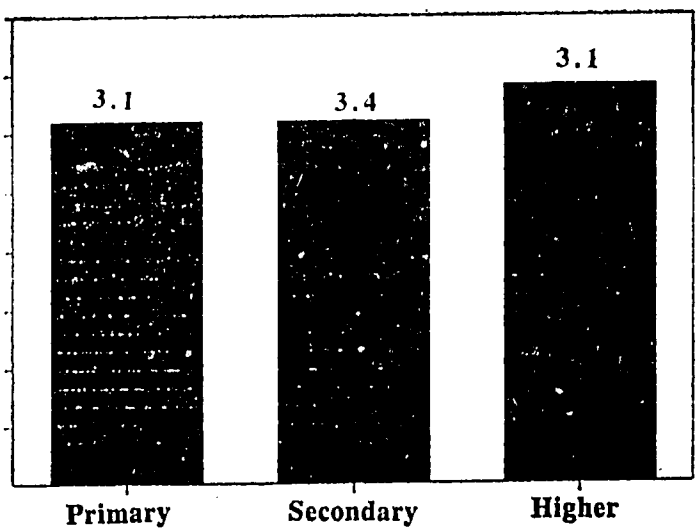
In respect of public - private split of educational expenditure, the main feature has been the dominance of public expenditure in education. Generally, more than 95 per cent of the educational expenditure has been from the government. The significant features of household contributions to educational revenue are that firstly, even though information is scanty about proportions and magnitudes of direct household payments for education, they constitute an important source of educational funds,

second only to public funds. Secondly, education ranks high as an expenditure priority in household budgets. Even in cash-starved rural areas, families spend money sending children to primary and secondary schools. The payments for private tuitioning confirm that households are willing to spend substantial amounts for educational services that they consider of some value. Additional resources are also generated by school development societies from income earning activities such as fund-raising events, sale of school production and through donations from local communities and parents.

In Sri Lanka, private funding for education has frequently lagged because the government has been providing education at no cost to the private individuals. However, this does not mean that there are no educational costs to the household sector. Many schools in the country collect either directly or indirectly, certain fees in the form of tuition and other charges. But in aggregate, these sources yield relatively little income for public education and fees collected finance a very small proportion of the costs of public expenditure as indicated in the following chart.

Chart V

Fees for Public Education
as a Percentage of Unit Operating Costs
Mid 1980s



SECTION IV

Determinants of Educational Expenditures and Revenues

Any study dealing with the subject of educational finance must examine the determinants of educational expenditures and revenues. In order to formulate proper policies, for the development of the sector, educational planners must be able to make realistic projections of educational costs and of the revenues likely to be available to cover these costs. To do this one must understand the main factors that influence educational expenditures and revenues. In the first part of this section an attempt is made to discuss the determinants of educational expenditure.

Determinants of Educational Expenditure

Several factors seem to reinforce each other to generate a sustained demand for more financial expenditure for education. Each country has its own particular pattern in respect of such demand. An assessment of these factors gives us a better understanding of the pressures for more financing.

Financial expenditure requirements for education to a very great extent depend on the demand for education. Therefore, in making decisions about the required level of financing, it is necessary to monitor demand variables, otherwise the financial aspects would run out of control. Demand for education stems mainly due to its relationship with the earning capacity of an individual.

As a general rule, persons with more education obtain higher levels of income especially over a period of time. This relation between education and income holds and people are well aware of it. Therefore, the principal motivation or demand for education is due to the desire for economic improvement by means of better access to highly paid jobs. In Sri Lanka, the higher levels of earning by more educated individuals are reported in several survey reports. For example, the Central Bank Report on Consumer Finances and Socio-Economic Survey 1981/82 records that the median income of a university graduate despite a comparative decline in the 1970s was still four times that of an illiterate person with no schooling. Data from such surveys in the 1970s and 1980s, have indicated that workers with secondary education earn significantly more than those with primary education. These differences in salaries have widened considerably during the past decade due to the implementation of market oriented economic policy by the government.

Because of this awareness, people themselves, both rich and poor, have exerted tremendous political pressure for the expansion of education. Parents have realised that in an era of scarce skilled manpower, the more the schooling and academic certificates that their children can accumulate, the better will be their chances of getting secure and well-paid jobs. For the poor, especially, more years of schooling have been perceived to be the only avenue of hope for their children to escape from poverty. As a result of these forces on demand, there has been a tremendous acceleration in public

expenditure on education during the last 3 - 4 decades. The requirement for more finances will increase in the future as such demand for education is expected to grow considerably.

After the second world war, the demand for universal literacy and therefore, for compulsory primary education spread all over the country and this demand was based upon a political and social belief in education. After independence, the cry for more and better schools in rural areas became stronger than before. Almost all governments promised to improve the conditions and facilities available in schools. The interest of individuals in more education was matched by the interest of governments. The latter has been due to increasing demands and scholarly reports that showed education makes an important contribution to economic growth. At the same time, international organisations convinced developing countries of the need of establishing universal free and compulsory education and of devoting a larger fraction of GNP to education. Due to these reasons the principle of universal and compulsory education is built into Sri Lanka's constitution which refers to "the complete eradication of illiteracy and the assurance to all persons of the right to universal and equal access of education at all levels". The provision of education to all the children who require it, has become a responsibility of the government and this has been the greatest single cause of increased finances and expenditures.

The unprecedented growth in population, particularly after the second world war has also affected significantly the demand for education. As a result of the improvements in medicine and nutritional levels associated with health and social welfare programs of the Government, there has been a marked decline in infant mortality and morbidity rates. Between the period 1950 and 1990, infant mortality declined by 76 per cent and child mortality by 60 per cent. Thus, the child population which began to increase dramatically in early 1950s continued through 1960s. In addition, the growing popularity of early marriage has also boosted the birth rate. Available data shows that during the forty five years from 1901 to 1946 Sri Lanka's population rose by a total of 86 per cent and the next forty years 1946 - 1986 it rose by a phenominal 138 per cent.

Although these factors resulted in a very high rate of growth in population during 1950s, 1960s and 1970s, there has been a reduction in this growth rate, due to effective family planning programs, started after 1970s. At present, the size of the child population has tended to stabilize or even to decline slightly. It is estimated that the population of those under 15 years of age will decline from 31 per cent in 1991 to about 26 per cent in 2001. In spite of a decrease in the rate of growth of population in the last two decades, the size of the annual additions has remained in the region of about 350,000 to 400,000 per annum. Thus, this population growth alone requires considerable amount of finance to provide necessary school facilities. It is important, therefore, to keep in

mind that even with the present rate of increase in population, more schools have to be built every year, more teachers recruited and more equipment purchased just to maintain educational standards at the existing levels.

The demand for education is also based upon the size of the child population and their participation. Today, child population (age 1 - 14 years) in Sri Lanka is estimated to be more than one fourth of the total population of 17 million. Children's participation in education has increased considerably during the past 3 - 4 decades particularly with the adoption of universal primary education for every child. In the early 1960s, Government launched heroic efforts to make the primary level education as close as possible to universal and to do this as rapidly as possible. Impressive progress has been made since then in expanding primary education. This led eventually to great upsurge in demand for secondary further and higher education. The number of students enrolled in secondary schools increased - from about 65,000 in 1950 to 225,000 in 1960, a phenomenal expansion of secondary school enrollment - a growth of 246 per cent within a decade. Indeed, the first decade of independence was one of spectacular quantitative growth in education. The total number of students enrolled in school grew by 72 per cent within a decade and the total number of schools in Sri Lanka rose by 31 per cent. Looking at historical data, in 1901, barely one fourth of the children of school going age were attending school, and out of a total population of 3.6 million as many as 2.8 million

were considered illiterate. Today, close to 4.3 million pupils attend to school education. The rise of a variety of private institutions largely in urban and semi-urban areas testifies to a continuing and a rising interest in education among parents and adults.

The secondary school enrollment has kept rising steadily. It reached 360,000 in 1970 and reached the half million mark by 1975. By 1980 there were over 1.2 million students in secondary schools in Sri Lanka. In other words, while first level enrollments have not kept pace with the rise in population after 1960, secondary school enrollments have risen at a greater velocity, increasing five - fold in twenty years. Demand for additional funds will increase in the future due to the continued change in the structure of school population.

Over the past few decades another important cause of the rise in the demand for education has been the increase in the average number of years spent by each person undergoing formal education. In early days education was limited to a smaller number of years in the school. With the announcement of the changes made in respect of the elementary education that was made compulsory, the literacy became universal and led eventually to great upsurge of demand for secondary further and higher education. As a result, the number of years a pupil spends in the school has increased causing a heavy demand for expenditure.

Demographic changes are not the only factors that affect the demand for education. The changes in the economic activities and the proliferation of new manpower requirements generated by the spread of new technologies do have similar or sometimes stronger impacts on the demand for education. Because of technological changes, the growing complexity of the economy requires a complex and diverse range of skills at all levels, which cannot be provided through apprenticeship. The capital structure of the economy whether in manufacturing industry, the service sector or in agriculture, indicates a wide range of technical skills which the community must possess if it is to function. Although these skill requirements could partly be satisfied by on-the-job training of pick-up-as-you-go-along, the full requirements have to be satisfied mainly by formal education.

The demand for education will also tend to increase due to limited job opportunities available. With growing unemployment there has been a tendency to seek higher formal educational qualifications as a means to secure a job. The minimal level of education required to qualify for entry to almost all traditional jobs has been rising steadily. As individuals want an educational edge over others who are competing for scarcer jobs, the demand for education has grown. Demand for more resources result in an escalation of costs because each new level involves higher costs per student. Now that demand is reaching the university level in many occupations, the corresponding unit costs may be 10-20 times those of the primary level. Employers

on their part, often raise the minimum education levels specified for a particular post to restrict the large number of qualified applicants. Thus, employment situation seems to accelerate the demand for schooling at all levels. Therefore, additional demand has a multiplicative effect on financing.

Several other factors such as educational technology may also have a strong impact on financing. Technologically, education is a highly labour-intensive activity and compared to many similar fields such as transportation, communication and health, educational technologies have not changed radically for generations. Therefore, when the demand for education increases due to various reasons, there are no effective ways and means of reducing costs through advances in technology. In fact, any technological changes that could be suggested for further improvements may send the unit cost per student upward rather than reduce costs. These difficulties are bound to continue so long as educational institutions cling to their traditional technologies and practices. Most educational planners say that several cost reducing measures have negative effects on the quality of education.

A further major influence on higher demand for educational funds is the number of teachers and the nature of teacher salary structure which provide for automatic increases based on years of service. According to the latest information available, there are more than 182,500 teachers attached to formal education and their salaries represent a very high percentage (80 per cent) of

the total cost. If teachers' salaries rise according to overall increments in productivity, the impact on financing, may be moderate. However, if teachers are unionized and obtain a powerful bargaining position, wages may be additionally increased and such costs may tend to increase in the future.

Pressures for more resources for education also stem from increases in the number of repeaters and dropouts. This situation has resulted in much higher costs per completer and a heavy waste of scarce educational resources. The high repetition rate in Sri Lanka reveals that the actual time taken by many children to complete a normal level of education is longer. For example, to complete primary education program it needs seven or eight years. This has resulted in an increase in the cost of education in the primary and secondary levels. According to the data available, the number of repeaters in some years were higher than the total number of new admissions to schools in these years. On top of this, the high dropout rate adds still further to the number of years invested per completer resulting in increases in expenditure on education.

The second part of this section deals with the factors that affect the revenue side of the education system.

Determinants of Educational Revenues

An assessment of the determinants of educational resources that are available and those that exist for potential use is extremely important for the purpose of rational allocation and deployment of resources and the probable generation of new resources.

Educational revenues mainly depend on the country's capacity to increase overall public revenues which in turn will depend on the growth of the economy. In the past, education budget was growing each year at a faster rate than the increases in the rate of public revenue. However, with the changes in the government policies, the total social sector allocations have shown a decline from 1979 onwards both as a percentage of government budget and of GDP and in per capita real terms and this has affected the education sector as well. The share of GDP allocated to education expenditure increased marginally from an average of 2.46 per cent to 2.70 per cent between the first and second halves of 1980s, but has fallen again to 1.91 per cent during 1991-92 periods. According to the government forecasts on public investments for the period 1992-1996, the expected increase in educational expenditure from the government sources will be low due to resource constraints. It also indicates that greater emphasis will have to be placed on the maintenance of existing assets and improvements in management efficiency for the purpose of saving funds for reallocations.

From the pattern of educational expenditure, it is clear that the funds coming from the government sector cannot be expected to be increased in the future. Even if there is an increase, it will not be same as before. In the circumstances, educational system will have to find alternatives to escape from a suffocating financial squeeze. Such possibilities relate to additional sources of income to supplement central government funds and efficiency measures and innovations designed to reduce unit costs. Whatever

the source is, whether public or private, the important point here is that any future increase in educational finances will depend primarily on the growth of the economy. The economic growth target for the period 1992-1996 has been set at an average of 6 per cent per annum. This, according to the public investment program will depend on the required level of investment, normal weather conditions and the political stability. If these targets could be achieved, one could expect a reasonable level of inflow of resources into the education sector during the period upto 1996.

Another important factor that affect the level of revenue of the education sector is the competing demand for public funds from other sectors of the economy. During the early periods, education enjoyed a highly favourable budgetary priority and increasing percentage share of the total budget was devoted to educational developments. However, overall budget from late 1970s, has been under pressure and claims for other pressing public needs such as agricultural and industrial development, national security and foreign debt service which have grown more urgent. This situation is unlikely to change substantially in the foreseeable future.

Inflationary tendencies in the economy also affect the educational revenues as it reduces the real value of such funds. With the present annual level of inflation of 14-15 per cent much of the increases in public funds for education have been eaten away the inflation and reduced to a lower level in terms of its purchasing power. If this situation prevails in the

future years, more funds will have to be generated by the government as well as the private sector at least to maintain the present status of the education sector.

From this analysis of the determinants of expenditure and revenue of educational sector, it is clear that the factors that affect expenditure tend to keep the rising levels of educational expenditure in the future and the factors that affect the revenues tend to reduce the quantum of funds available for expansion of the sector. Therefore, it is imperative to find alternative sources for the development of the educational sector in Sri Lanka.

SECTION V

Alternative sources:

In the face of adverse financial circumstances, the principal challenge to educational managers is to find ways to use their limited resources more efficiently and effectively and to augment these resources by tapping new sources of revenue.

There are no simple remedies that exist for overcoming the financial problems the education sector faces. To cope with these problems efficiently, it will require a combination of bold, inventive and persistent measures, involving far-reaching changes in traditional educational forms and practices, as well as sizeable changes in the economic, social and political environment surrounding education.

The main concern in this section is to examine how the resource base for formal education can be stretched and unconventional resources can be generated. From the foregoing analysis it is clear that the government will not be in a position to make available all necessary funds for the educational development in the future. Therefore, the government has to search for alternatives that would generate sources for meeting essential funds to educate a large number of pupils entering the educational stream. Also, the broadening of the

scope and purpose of education cannot be achieved without devoting more resources to education. Due to the declining trends observed during the past few years the demand for better quality education has been growing among every sector of the population. Greater efforts, therefore, for the mobilization of financial and other resources will be needed if Sri Lanka wants to make progress in meeting the demands of its population's minimum essential learning needs.

Some rough estimates show that the magnitude of increase needed will be of the order of at least a two to three fold increase in real educational resources from the present level within the next decade. This appears to be a reasonable estimate. But it will require a massive effort for the mobilization of all real resources for education as well as far reaching changes in the educational structures and processes to make the educational efforts more efficient and effective. There is an urgency therefore to develop planning and analytical approaches that will help channel more resources to education and increase the pay-off from their use.

Generally, there are two broad ways through which this problem could be tackled - by stretching resources and tapping unconventional resources.

An important way of stretching resources would be to reduce the average cost of production of educational output. The reduction in cost could be achieved by way of improving internal as well as external efficiency of education. This will reduce

the unit cost while maintaining or improving the quality of education. In other words, wastage has to be reduced and the organization improved. Evidence suggests that resources are not being used in schools and universities as efficiently as they should be. The unit cost of education is relatively high particularly in higher education, because of factors such as unexploitation of economies of scale and inadequate incentives for greater cost - consciousness among students (consumers) and educational managers (providers). This is mainly due to the financial mechanism that has been adopted within the system. The financial and administrative arrangements in the education sector are centralized and these restrict the operations of competition for efficiency. Channelling schemes of public funds do little to encourage its efficient use. School managers have little budgetary leeway. And too little is spent on other inputs relative to teachers' salaries. This problem is reinforced by the lack of competition between schools because school managers are only remotely accountable to students and parents. They have little incentive to find, the most cost-effective way to provide the type of education families desire. As these conditions are bound to continue, there is little leeway for planners to make adjustments in the cost structure for the purpose of reducing unit costs of school education.

This does not mean that there are no ways at all to reduce cost and augment resources. There are several resources that are required for proper functioning of the educational system. These include, educational time, instrumental materials, buildings,

physical facilities, equipments and supplies of various sorts. The academic calendar of formal education itself imposes a cost burden. Long vacations, holidays and weekends take up almost one-half of the calendar year. In general, classes are held for 6 - 7 hours a day, during which time only a part of the total facilities-laboratories, libraries, playgrounds, and gymnasiums are used. All of these add up to the total cost. The more expensive the facilities, such as those in technical and higher education, the higher the cost of this wastage. Wastage of this sort certainly contributes to inefficiency. Inefficiency implies high costs.

This shows that certain resources are being utilised only for a limited period during the year. In the balance period, these facilities are available for use, probably to get the same amount of output that generate in the working period. Therefore, in order to reduce the unit cost of education, many of these items could be utilized more efficiently. Avenues will have to be found out for the utilization of playgrounds, laboratories, gymnasiums and classrooms during holidays, so that additional incomes could be generated and thereby lowering unit costs.

Fee-levying educational programmes could be organised using the existing physical facilities during off-seasons. Language courses. computer training programmes, vocational training programmes are some of such activities that are relevant for consideration by educational managers. Through such activities schools could earn funds that could be used during working seasons so that more improvements will become possible. Therefore, possibilities of this sort, particularly to augment such resources

exist. Although these possibilities are available, due to the reasons mentioned earlier, the capacity to increase resources by way of improvements within the system - by way of technological changes-is limited. Even these limited possibilities, according to educational managers, are difficult to put into action due to political and social problems and the low level of income among the population.

Therefore, policies will have to be designed to tap new sources of funds. For number of years almost all funds for educational activities came from the government. In respect of government financing, the general belief that has been prevailing is that the societal objectives of equity and efficiency are better served when education is publicly financed. Two main arguments are commonly cited to support the predominant role of governments in financing education. The first is that education is viewed by many as a public good. Education is a good that generates more benefits to the society than individuals capture privately. Without government financing, people would invest in less than the socially optimal amount of education, particularly where majority of the population are poor and cannot afford to invest privately in education. The second argument for public financing in education is that it promotes equity by removing the ability to pay as a condition for access. When education is publicly financed, entry to schools can be more on academic aptitude than on income. Moreover, free public education increases the chances that the intelligent students would be able to get into positions of responsibility in society. Because of these reasons

no effective attempts were taken either by the government or the educational planners to shift the financial policies towards non-conventional sources.

However, the share of public spending on education is now so large that it is unlikely to grow much more. In addition, the government now faces adverse macro - economic conditions which tend to increase the intersectoral competition for public funds. As a result, investment in education is curtailed, despite its high social returns. So there is no alternative other than to assess whether a change in the direction of greater private financing -non conventional resource - would ease the fiscal constraints and improve the efficiency and equity of the education system. The important point to note here is that the suggested change is not for the choice between a system of education that is fully subsidized and one that is completely financed by fees charged from the students. This proposal involves a choice of moving from a heavily subsidized system of education towards one that is less heavily subsidized.

To this end, several policy options could be suggested, possibly to be implemented as a package. These options could result in an increase of resources flowing into education, improve their use and ensure more equitable access to schooling.

User Charges

One such option would be to introduce or raise user charges at different levels of education. This

measure will help to recover at least part of the cost of education. When this is implemented it will result in shifting part of the burden of financing education from the government to the private sector —to the individual beneficiaries and it would ease the fiscal constraints, permit expansion of a highly profitable social investment and promote equity in education.

The problem of private sector financing of education has arisen mainly due to the fact that the government financing has become a heavy subsidy for the private sector for a very long period. The larger the subsidies, the greater is the difference between the private and social rates of return. This feature is especially prominent in higher education. As private returns derived from a subsidised system are much higher, there are strong incentives to enroll and demand pressures to expand, particularly higher education. Due to political reasons, the government is compelled to meet such a demand. The result has been the over expansion of education and persistent unemployment among graduates and school leavers.

Heavy subsidies on the other hand tend to create several inefficiencies within the system. It also affects the poorer segments of the population adversely. A common feature of heavy subsidized system of education is excess demand for places. This problem arises from both sides of supply and demand. When public spending on education has reached budgetary limits, it becomes financially difficult for the government to provide more subsidized

places in schools and universities. Heavy subsidies also boost private returns which in turn encourage a strong demand for education. If places cannot be expanded with limited budgets, it creates an excess of demand.

Another factor that creates inefficiencies in the government funded education system has been the rigidities in resource allocation in schools and universities. The allocation of the resources and the management of the system as explained earlier, are highly centralized and the government restricts the operations by imposing standard systems to channel funds. Strict controls prevail, in respect of curricula, teachers' qualifications, salaries and other inputs. More importantly, the government is more or less obliged to retain all the teachers employed and to continue paying the existing salaries. These payments account for more than 80 per cent of the total current expenditure on education. Therefore, reallocation possibilities for improvements are extremely limited. As a result there are no incentives for anyone in the educational system to find the most cost-effective way to provide the service. In a system such as ours that depend heavily on public financing, the incentives for efficient resource use are weak because neither users nor suppliers bear the cost of wastage directly. These factors show that in addition to its limitations, the government subsidized system creates more inefficiencies than a solution. Therefore, there is a case for private financing of education for the purpose of improving efficiency and equity in the educational system.

In implementing the option of user charges, a more appropriate step would be to introduce selective user charges particularly at higher levels of education. Given the heavy subsidization of higher education, imposing of charges at this level would be a suitable starting point for increasing private contributions for education. Evidence indicates that people are willing to pay for education. This is because, private returns to higher education are very high. One manifestation of high private returns is the strong persistence of excess demand for education especially at the university level. Of the total number of students who pass advanced level examination, only a fraction gets the opportunity to enter into the university. It shows that there are more willing students than places available. Demand for education at the secondary level is also excessive since there are not enough places in some schools to accommodate all those who wish to enroll. This happens because, of the total number of schools in the country, only 5 per cent have advanced level science classes.

This excess demand for education is not only reflected in the large number of applications to enter into higher education but also in the large number of students who apply to foreign universities. Although the costs at foreign institutions are very much higher, many parents are prepared to use their savings or sell their properties or borrow from relatives and friends to obtain the necessary funds. The composition of the student body shows that, the students from the middle class and above are over represented in higher education. A fair

proportion of them are children of high ranking officials in corporations, private companies, salaried employees, professionals and businessmen in the modern urban sector. These students can afford an increase in their private costs of higher education. Evidence shows that many Sri Lankan students have been paying their full educational expenses in advance, amounting to in some cases US$ 20,000 to 25,000 to obtain admission to foreign educational institutions. Even locally, most well-to-do families send their children to International schools - (the number of such schools increased to 50 in 1993) - by paying large sums for tuition and other expenses.

Therefore, the available evidence suggests that in Sri Lanka, excess demand is so great that an increase in fees for education especially higher education would not affect overall enrollment much. Studies also show that households' demand for such education is relatively unresponsive to increase in private cost - price inelastic as economists say. This implies that, within limits, fees could be imposed without causing a large proportion of those currently enrolled to drop out. If this is implemented, students from poor families are more likely to drop out. But this adverse outcome can be mitigated, if not neutralized through several measures. First, students from poor families can be given scholarships or bursaries or exempted from paying fees. University fees could be pegged to family income, so that poor students pay lower tuition fees than the more wealthy. Second, loan schemes can allow students to defer payment until after their graduation.

Details regarding the loan scheme will be discussed later in this section. Through these schemes, the excess demand for higher education could be reduced without affecting the overall enrollment.

This method would certainly increase the efficiency and equity in the public education system as it would help to expand the most productive form of educational investment and reallocate subsidies granted to wealthy socio - economic groups to the poorest. In Sri Lanka, gains in efficiency and equity are likely to be substantial due to more unequal distribution of income prevailing in the country. Historical data show that most of the benefits of subsidized educational system that have been prevailing in the country have gone to children from wealthy families. Most of these families can afford to pay for their children's education.

Therefore, it could be argued that the introduction of fees in higher education would improve efficiency within the system, because it would provide appropriate incentives to both students and managers, to scrutinize costs more closely. Greater cost-consciousness among students would also encourage them to become more aware of the cost of their education. A greater demand for admission to the more efficient institutions would signal providers to expand such institutions. As a result, efficiency in the overall system is likely to improve.

Efficiency is likely to improve on at least two further counts if fees were charged. First, student selection would improve since those with little chance

of succeeding would be discouraged from applying. Second, charging fees would lead to a better match between student ability and selected fields of specialization. Indeed, if heavy subsidies to higher education were reduced, the risk of failure would be shifted to some extent from the government to the individual. As a result, students would be encouraged to behave more like investors and pay close attention to their chances of completing their education.

Also increased fees would generate extra revenue and these could be distributed among other levels of education so that it will expand the total investment in education. The extra funds could also be used to expand the supply of school places or to improve educational quality through increases in expenditure per pupil. In allocating the resources generated by the increases, private financing should be used to expand educational investments where the marginal social rate of return is highest. In a country like Sri Lanka, where primary enrollment is almost universal, any additional funds utilized in this sector may not derive a satisfactory return. However, expanding primary education through increased private contributions in higher education would enable those who are now denied even basic education to acquire literacy and numeracy. Although this proportion (2 per cent) is very small in Sri Lanka compared to many other neighbouring countries, by using additional funds admission could be granted to every child for primary education. On the other hand, equality in the distribution of public expenditures on education

would improve dramatically if extra funds could be used to provide grants to students from poor families.

As Sri Lanka has attained or almost attained universal primary education, the generated resources by imposing user charges could be used to improve educational quality. The quality of primary education is often low due to lack of basic facilities in schools. In particular, the pedagogical inputs at the primary level are not available in sufficient quantities. More funds from the increase in private contributions could also be devoted to the financing of secondary education that could further the expansion of education.

The choice between these two levels of education again depends on the relative returns to additional investment in the two levels of education. Generally, it might be more profitable to expand secondary education since unit costs tend to rise in the secondary education relative to primary education.

In brief, recovering some of the cost of higher education and spending the revenue on the most efficient use, which could range from improvements in primary school quality to the expansion of selected fields of higher education, would be an improvement upon present arrangements. Also, the policies suggested would tend to equalize the social rates of return among the three levels of education.

Loan schemes for cost recovery

combined with temporary grants

Loan schemes are a mechanism for increasing the private financing of education and need to be implemented along with user charges as a part of the package of policy options. Through loan schemes students can pay for education today by mortgaging their future incomes. Especially when user charges are implemented, it might keep qualified students from poor families out of school unless they have access to loans or grants for their education. In Sri Lanka, a loan scheme was instituted to provide loans to University students earlier, but this has experienced difficulties. There were several reasons why it was not possible to continue with the scheme continuously. The main reason was that many students lack collateral for bank financing. Many individuals, therefore, could not borrow to finance their own or their children's education even though the returns on such investments are high. On the other hand, there was no effective backing from the government for the implementation of the scheme.

In such situations, the government can play an important role in alleviating students' difficulties in obtaining educational credit. The government either could make arrangements to grant loans through a government institution or guarantee commercial bank loans, because the government is strong enough to absorb risks that private lenders cannot or will not bear. In addition, collection of repayment may be less problematic since most

graduates can be traced through the government bureaucracy or through the income tax system. If loans are under governmental authority, employers may also be willing to make deductions from former students' salaries, for loan repayment. The government's intervention of a loan scheme is essential until a financial market developes to cater students' financial requirements. This way, instead of providing direct funds to the education sector, the government could guarantee a loan scheme, so that private banks would be encouraged to give bank loans.

Critics of loan schemes argue that they are difficult and expensive to administer. The two main problems are high default rates and the high costs of collecting small loans over ten years or more from highly mobile graduates. But, these sometimes reflect poor record keeping by the loan agency or a failure to establish appropriate eligibility criteria for loans. On the other hand, if loan agencies select weak students who are more likely to drop out and not have enough earnings to repay their loans, defaults would be the result. Therefore, if any education credit schemes are to succeed, eligibility must be closely evaluated so that loans are provided only to students who are likely to succeed in their studies.

In many instances, repayment difficulties arose not because graduates could not generate enough income to repay the loans but because of faulty administration of the loan scheme. The establishment of an effective administrative institution is a prerequisite for a successful loan scheme. As the public becomes

more aware of it, and as administrators or even private financiers acquire more experience, the scheme could then be enlarged gradually. In the initial stages, student loans will have to be subsidized in terms of low interest rates. The government could cover lenders' administrative costs. Such subsidies may be necessary initially to make student loans acceptable and to relieve hardship for families, unemployed graduates, or other disadvantaged groups. But dependence on subsidies implies that loan programs will never become self-financed. Therefore, subsidized loan schemes will have to be restricted to a limited period of time.

A system of loans is also much more equitable than the unselective subsidies that Sri Lanka now use. In general, a loan scheme can ensure that poor students who anticipate benefits but lack current means to pay fees or living expenses are not excluded. Such a scheme gives families or students access to finance when needed and enables them to repay the debt when they can afford it.

Until a proper loan scheme - the government guranteed student loan scheme - is established, a scholarship scheme could also be implemented simultaneously. Scholarships are also desirable for influencing individual decisions to invest in education. Even where loan schemes are well established, some people might be unable to obtain credit - not because they lack academic potential but because they are considered high-risk borrowers. Such persons tend to come from the poorest families. They are less likely to borrow for education, even if loans are

available. Thus, a better complement to increased cost recovery, is, widely available student loans, coupled with selective scholarships that are awarded on the basis of economic need and academic potential.

This shows that through a proper loan scheme, cost recovery could be achieved. These schemes also help solving of inefficiencies by increasing the contribution of private financing and reducing demand for higher education.

Relaxations of Management

With the continuation of present financial and administrative mechanism, the proposals given in the preceding sections for the purpose of increasing private sector financing for education cannot be implemented. Today, almost all schools in Sri Lanka are owned, administered, and financed by the central government. With these restrictions, educational managers cannot respond adequately to their constituents' changing needs. As a result, not enough school places are offered, and the type and quality of education may not be what parents and students want. These inefficiencies create costs in providing education. Therefore, the government needs to relax their administrative and financial control over educational systems. Private sector should be given freedom to mobilize additional resources through fees without depending solely on government financial assistance. School authorities then would become accountable to both central authorities and local groups, including parents and students.

The decentralization of management does not mean a necessity to abrogate Central Government

authority. The changes considered here suggest a need to relax the government intervention. Then only the private sector, educational managers, parents and students could play a greater role in choosing the quality and type of education they want and the means of delivery. To choose wisely, they must have information about educational alternatives. An important role for the central authorities would be to provide this information.

This way easing restrictions on private and community school operations, as well as channeling funds through user charges and educational loans coupled with selective scholarships in addition to public funds, increases competition among schools. In turn, competition increases the numbers of educational services, lowers costs, and gives parents or students a wider choice of schools. Increased competition within the system means higher efficiency through greater managerial accountability.

The reforms suggested here are feasible and may not be implementable, at once, but by stages. In Sri Lanka, private schools are once again being allowed to operate. A private University should be encouraged to meet the increasing demand for higher education. This will also mean that there would be substantial savings in the foreign exchange that is now allocated for higher studies abroad.

Under the new investment guidelines of the government, the Board of Investment could encourage a joint venture with a foreign investor to establish a super grade International Private University in the

Free Trade Zone area. Fees may be charged from foreign as well as local students in foreign exchange. Sri Lankans may be permitted to utilise their funds in their NRFC/RFC Accounts and those who do not have such accounts may be permitted to utilise their foreign exchange entitlements for study abroad. The salaries and other remunerations of the academic staff could be paid in foreign exchange. This would encourage the highly qualified Sri Lankans teaching in foreign universities to return to Sri Lanka and render a service for the educational development in the country. This scheme would also create a competitive environment among local universities for further improvements.

With the implementation of the above policy package, there will be an increase in the amount of resources flowing into education. User charges, loans and selective scholarships for education adds benefits on almost all counts. These reforms will improve student selection and equity by allowing talented students from poor families to compete for places in higher education. Relaxations of administration of education encourage the community and private schools mobilize additional resources for education from families and other local sources. More importantly, this policy increases efficiency in schools by increasing competition among public schools and between private and public schools.

SECTION VI

Conclusion

Impressive achievements characterise Sri Lanka's educational performance over the past 45 years, largely due to the utilization of a considerable amount of financial resources mainly public funds. Relatively speaking, educational conditions in this country are more favourable than many neighbouring South Asian countries. However, a closer examination reveals that Sri Lanka is not doing well as is made out to be. There has been a deterioration in the quality of education in Sri Lanka. Education's contribution to economic growth has not kept pace with its potential. The shortage of skilled workers is discouraging investments. There are many young job seekers with a few years of secondary education and insufficient academic performance. It is a constraint on investors and a source of dissatisfaction among the country's youth. From the point of view of consumers, individuals and the society as a whole, the allocation of resources has not been made efficiently. At present, the availability of finance for the development of the sector is grossly inadequate.

There is no doubt that the government has a responsibility to spend its resources in education. As the benefits of education very often go to the

society more than the individual, public funds will have to be allocated for the development of education more than private funds. The principal concept of public financing of education and distribution of resources are the promotion of equity and access to education. The distribution of public spending is likely to have a significant effect on income distribution and hence on some aspects of poverty. Secondly, a longer term effect on equity arises because access to education is a powerful vehicle for individual's social and economic advancement in society and is determined to a large extent by the pattern of public spending in the sector.

However, a heavily subsidized educational sector through government funds, has created several inefficiencies and shortcomings. In addition, the allocation of adequate funds by the government itself has become a problem. The problems of financing arise due to the acceptance of responsibility by the government alone without getting its due share from the private sector individuals of the society, although individuals too benefit immensely from the education. They were able to derive their benefits at a negligible cost, since government has been providing free education. This inappropriate financing arrangement has created a discrepancy between the social and private rate of return. Particularly in higher education the discrepancy is larger for some specializations than others which explains partly the popularity of some courses. Because of the strong private demand, there has been pressure to expand higher education in general and popular courses within higher education. This

resulted in over expansion of public expenditure and persistent unemployment among graduates, particularly when there are rigidities in the labour market.

On the one hand, the financial mechanisms result in the misallocation of scarce public funds on education. Under this system there is lack of competition between schools and between universities. The managers of these institutions are not accountable to the students and parents on their activities in managing the system. They have little incentive to find the most cost-effective way to provide the most desirable type of education to the students and the country. On the other hand, the traditional mechanisms of the public sector educational financing cannot continue due to fiscal constraints of the government. As a result of the adverse macroeconomic conditions and intersectoral competitions for public funds, government's ability to continue expanding educational funding has declined. At the same time, the potential contributions of the private sector are limited by the current financial arrangements. The results are underinvestment in education, inefficient and inequitable use of resources, and untapped resources of the private sector.

There are several broad policy options that could remedy these problems. These alternatives would generate sources for meeting the essential funds and could be categorised as selective user charges coupled with loan schemes and scholarships, bursaries and pegging of fees to family incomes. A private university with a joint collaboration of a foreign investor could be established in order

to improve the higher educational system and to save substantial amount of foreign exchange leaving the country.

These are intended as rust proof links in the chain of support to the state and in addition to improvements suggested for internal as well as external efficiency of education. Adverse outcome of the fee leving schemes could be mitigated as suggested in the scheme of scholarships and bursaries. The scheme of private financing would increase the efficiency and equity in the public education system and would help to reallocate the subsidy of the wealthy socio-economic group, to the poorer section of our society and equalise the social rates of return among the three levels of education.

For the implementation of the above proposals it is imperative that the state must relax their administrative and financial control over the education system. Decentralization of management does not mean the abrogation of Central Government authority. The changes suggested are aimed at relaxation of Government intervention thereby providing greater freedom to generate funds and to make the students and educational managers to be cost conscious.

One has to be mindful of the fact that there could be problems in implementing these proposals due to various reasons. More analytical work is, therefore, needed in order to device appropriate steps for the proper implementation of these proposals. Also, this study offers only a guidance

to formulate the required policies for the purpose of enhancing the financial resources in the education sector. A detailed design of the policies would require additional research and evaluation of the suggestions made in this paper.

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Table 1

Quantitative Development in School System - 1946-1992

Year	Schools	Pupils	Teachers	Pupil/Teacher Ratio
1946	5,946	593,400	14,242	41.6
1976	9,683	2,572,000	115,710	23.2
1986	10,100	2,864,200	152,720	26.2
1992	10,590	4,285,286	182,597	23.7

Source: Ministry of Education.

Table II

Government Expenditure on Mid-day Meal, Free Text Books and Uniforms (Rs. Mn.)

	Mid-day Meal	Free Text Books	School Uniforms
1978	25	—	—
1979	22	—	—
1980	28	61	—
1981	39	57	—
1982	48	67	—
1983	40	73	—
1984	38	62	—
1985	31	154	—
1986	25	102	—
1987	61	108	—
1988	147	314	—
1989	653	135	—
1990	1644	134	—
1991	1402	146	—
1992	1899	175	—
1993 (Budget)	1700	275	650

Source: Government Estimates.

Table III

Public Expenditure on Education (Rs. Mn.)

	Current Expenditure	Capital Expenditure	Total Expenditure
1949/50	18.8	156.6	175.4
1950/51	18.5	172.1	190.6
1955/56	20.7	155.4	182.1
1960/61	33.4	264.2	297.6
1965/66	22.0	324.5	346.5
1970/71	43.6	483.4	527.0
1975	52.9	654.7	707.6
1980	457.5	1388.2	1845.7
1985	930.0	3523.0	4453.0
1990	1042.0	8529.0	9571.0
1992	3163.0	8888.0	12051.0

Source: Central Bank of Sri Lanka.

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