FINANCING EDUCATION IN PAKISTAN
OPPORTUNITIES FOR ACTION

Country Case Study for the Oslo Summit on Education for Development

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This country case study is one in a series of country reports prepared for the Oslo Summit on July 6-7, 2015. The Summit – hosted by the Government of Norway in cooperation with the UN Special Envoy for Global Education, Gordon Brown – will bring together partner and donor countries, multilateral organizations, civil society, the private sector, foundations and academia. It aims at mobilizing a strong and renewed political commitment to reach the 58 million children who are still being denied their right to education and to strengthen learning outcomes for children and youth. The Summit will bring forward success stories and best practices that can be taken to scale by bringing in new partners and mobilizing funding, as well as illustrate bottlenecks and how they may be overcome.

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EXECUTIVE SUMMARY

In 2010, Pakistan’s constitution made education a legal right, deeming it the state’s responsibility to provide free and compulsory education for children aged 5-16 years. Article 25-A binds the state to bear the cost of education, and as such has financial implications for the government. The inclusion of the Right to Education in the constitution is an important signal of commitment to education by a democratically elected government. The challenge now is how to make this guarantee a reality.

Achieving this right will be a huge challenge for the country. In 2011, the Pakistan Education Task Force announced that Pakistan was facing an ‘education emergency.’ One of the challenges identified by the task force was the lack of funds required to expand learning opportunities. New reform initiatives have been implemented across the country since that time, but the education system is still in crisis and financing remains a critical issue.

This paper reviews the state of education in Pakistan, highlighting in particular the wide inequalities in educational outcomes that persist. The paper reviews the current state of financing for education, including domestic and external sources of finance. It notes the positive developments in recent years with regard to constitutional structures governing fiscal and administrative arrangements, which empower the provinces to meet the education goals and support the distribution of finances from the federal government to provinces according to need. The paper also details further challenges, notably the low levels of spending requiring wider reforms to strengthen the tax system and the need for redistributive financing within provinces to tackle inequalities. The paper concludes with a list of opportunities for action for the Government of Pakistan to achieve its education goals.
I. ASSESSMENT OF THE STATE OF EDUCATION

Key messages:

- Pakistan is still a very long way from achieving the Millennium Development Goal target of primary school completion, let alone the more ambitious post-2015 target of providing every child with 12 years of quality education by 2030.
- Planning and financing for achieving the target will need to focus on the most disadvantaged to ensure wide inequalities are not perpetuated in the future.

Despite some progress, Pakistan ranks amongst the worst in the world in education

Pakistan has shown some progress over the Millennium Development Goal (MDG) period. Taking into account both population growth and increases in enrollment, there are over 20% more children in primary school in 2012 than 1999. Furthermore, the gender gap in enrollment has narrowed, on average, with girls’ enrollment increasing as a proportion of the total from 39% in 1999 to 44% in 2012 (UNESCO Institute for Statistics database).

However, the country has not kept pace with other countries, and so ranks among the world’s worst performing countries in education. Access to primary school remains a major challenge and, for those who make it into school, many are not learning. In 2012, 5.4 million children were out of school in the country, second in the world behind only Nigeria (UNESCO Institute for Statistics database). According to national household survey data used by the government to track progress towards the MDGs, relative to the primary school-aged population, only 57% of children were in school nationally by 2012-13, an increase of just five percentage points since 2004-05 (Government of Pakistan 2014).

Inequality in education starts in primary school

Pakistan’s low access to primary school highlights the continued importance of tackling problems at this level with a focus on the most disadvantaged, as it will be otherwise impossible to make progress in secondary and higher education (Figure 1). According to DHS data, amongst the poorest half of the primary school-aged population, only 43% were in primary school in 2013.

It is notable that, in Pakistan, while the proportion of poor children who are in primary school is far lower than many low and lower middle income countries, the proportion of those who make it to higher education is greater, reaching 6% compared with no more than 1% in many other low and middle income countries (Ilie and Rose, 2015). Moreover, while there is a wide wealth gap in enrollment at all levels of education, only 67% of primary-school-aged rich children were in school in 2013.

Figure 1. Net attendance rates by level of education in Pakistan, 2013

Source: Authors’ calculations based on Demographic and Health Survey, 2013.
**Overlapping dimensions of inequality reinforce education disadvantage**

In Pakistan, major challenges persist with regard to children entering school. Their disadvantage starts from birth, with poverty, location, gender, and whether they have a disability having a strong influence over their chances of entering school. Inequalities affecting children’s ability to enter school are then reinforced by inequalities in completion of primary school.

Where a child lives is one important dimension of inequality. According to Demographic and Health Survey data, children from Balochistan are twice as likely to have never been to school compared with children in Punjab (47% and 24%, respectively). The disparity is of a similar scale between rural (37%) and urban (19%) areas, and these gaps are reinforced in primary school completion (Figure 2).

Wealth is a dominant factor holding back children’s chances to enter and stay in school, regardless of where they live. Given wide wealth inequalities within provinces, a poor child in Punjab does not have a much better chance to complete primary school than a poor child in Balochistan, for example.

Gender inequalities can also exacerbate wealth inequalities, particularly amongst the poorest. Among poor children in rural areas, 74% of girls have never been to school compared with 55% of boys. By contrast, there is no gender gap among wealthy urban children. In addition, overlapping geographical, wealth-related, and gender inequalities widen once children enter school. For example, only 15% of poor rural girls complete primary school, compared with 40% of poor rural boys.

Disability is likely to be a major source of educational inequality in Pakistan, although data are less readily available. One survey in 2006-07 from Punjab and Khyber Pakhtunkhwa found enrollment rates to be 10 percentage points lower among children with disabilities, with lower rates of participation amongst young women with disabilities compared with young men with disabilities. Notably, the Right to Education Act does not refer to children with disabilities, and they are currently invisible in most national and international education policies and programs in the country (Singal 2015).

There is, therefore, a dire need both to collect information on the education of children with disabilities and for strategies to be designed and implemented that address their educational needs more explicitly.
Improvements over time have not benefited the disadvantaged

There has been some progress in primary school completion over the past two decades, but this has not sufficiently benefited children from disadvantaged backgrounds, in some cases resulting in a widening of inequality. Between 1990 and 2013, much of the progress was among rich rural girls (increasing from 59% to 93%), such that they caught up with rich urban girls.

Far less progress was made among poor rural girls, with primary school completion increasing from an extremely low base of just 5% to 15%. Completion rates among poor urban boys and poor rural boys each increased by about 10 percentage points, but in 2013 each group was less than half as likely to complete school as richer boys in the same geographic areas. There are variations in progress across regions; the gender gap amongst poor children has narrowed in Punjab (by 16 percentage points) but widened in Balochistan (by 6 percentage points).

Many children are not learning the basics

Children getting into and completing primary school does not guarantee they are learning. According to ASER Pakistan data, learning outcomes in rural Pakistan are desperately low, even among wealthier children; less than a third of the wealthiest quintile of children in Grade 5 have achieved the core numeracy and literacy skills that are expected of them in Grade 2 (Rose and Alcott, 2015). Even fewer children from poor households are learning, with only around one-quarter of those reaching Grade 5 achieving the basics in numeracy and literacy.
Learning inequalities are far greater taking into account whether children are both in school and learning. Comparing all ten year olds (the age at which children should be in Grade 5), wealthier children are three times more likely than poorer children to have learned the basics (Rose and Alcott, 2015). This is largely because poorer children are less likely to have entered and stayed in school, and thus had the chance to learn.

In addition, gender compounds wealth inequalities; core skills are less common among poor girls (18%) of Grade 5 age than among poor boys (22%) in rural Pakistan. However, this gender divide among the poor is almost entirely attributable to the fact that fewer girls than boys attend school; among poorer boys and girls in government schools, learning outcomes are identical (Alcott and Rose, 2015).
II. KEY BOTTLENECKS IN EDUCATION

Key messages:
- Political insecurity, poverty, and cultural conservatism holding back access to education interact with problems of supply and quality of teaching to create a severely disabling environment.
- These factors have a particularly detrimental effect on educational opportunities for children from disadvantaged backgrounds, and girls in particular.

Political insecurity remains a challenge in some parts of the country, with education being in the direct firing line of conflict. The tragic attack on Malala Yousafzai in 2012 and attack on the boys’ school in Peshawar in 2014 has brought this to the world’s attention. Over 800 attacks on schools have been reported between 2009 and 2012, more than any other country over this period (GCPEA, 2014). Hundreds of students and teachers have been subjected to violence; school buildings have been destroyed and hundreds of students and teachers have lost their lives. Together with international support, measures are being undertaken by the government to try and ensure the security of schools (World at School, 2015).

More broadly, poverty remains an important constraint. Even though education is mandated to be free following the Right to Education Act, in reality households bear a large part of the costs, putting it out of reach of the poorest households. The EFA Global Monitoring Report estimates that two-thirds of spending on education comes from households (UNESCO, 2015). High costs to households are largely driven by low government spending (see Section III).

Cultural conservatism, which may lead to early marriage, especially among girls, makes it more likely that they will drop out of school. UNFPA reports that 24% of women between ages 20-24 are married before they are 18. In rural areas, this proportion is as high as 40% for women who have no education, and 50% amongst the poorest quintile. Girls from poor households are more likely to marry early (UNFPA, 2012).

Supply side issues remain a key constraint to progress, particularly in more disadvantaged parts of the country. In Baluchistan, where the population is widely dispersed, out of roughly 12,000 settlements, 40% do not have access to a school (World Bank, 2014). A survey in Punjab and KPK found that low educational attainment was correlated with higher distances from schools (Bhatti, Malik and Naveed, 2011). Distance from school is especially a constraint for girls in the rural and semi-urban areas of all provinces. In Punjab, as distance to the closest eligible school increases, the drop in enrollment among girls is three to four times as great as that for boys (Andrabi, Khawaja, Das, 2007).

Quality of instruction is a primary factor associated with low learning outcomes in schools. One study demonstrated that while teacher competence levels in primary schools surveyed were adequate, teacher knowledge was not translating into improved outcomes for students. This highlights a gap in teacher training where teachers are not taught how to teach children the basics (Aslam, Jamil and Rawal, 2011). Low motivation resulting in low teacher effort and high levels of absenteeism are other factors affecting the state education system (ASER, 2012).

Multi-grade teaching at the primary level is a common practice in schools across the country, carried out by teachers untrained in how to manage differential ability classrooms (Aslam, Jamil, and Rawal, 2011). One study found that multi-grade teaching was being practiced in 22% of government rural schools and 11% of urban schools in Punjab. In multi-grade schools, on average one primary teacher was teaching more than three grades (Bari et al, 2013). The study also found that teachers are given an allowance for living in big cities (to compensate for living costs). This works as a disincentive for teaching in remote rural areas, where multi-grade teaching is also likely to be more prevalent, as no incentive is provided to...
teachers to work in these areas, which are also likely to have the most difficult conditions and worst education outcomes. Providing incentives for teachers in these areas is therefore needed, but would add to the cost of provision of education for lesser developed districts and areas (Bari et al, 2013).

Given the poor quality of government provision, private schooling is a growing phenomenon in Pakistan. According to ASER data, between 2013 and 2014, the proportion of children enrolled in private schools across the country increased from 20% to 24%. Many of these schools charge relatively low fees, and may not be registered with government and so remain unregulated.\textsuperscript{4}

Low fee private schools are particularly prevalent in the wealthier Punjab province, where the provincial government has recently announced that all new schools in Punjab will be established through public funding to support the establishment or subsidization of low fee private schools. The province has been particularly proactive in promoting these schools through public-private partnership (PPP) modalities that are managed and financed through the Punjab Education Foundation (PEF).\textsuperscript{v} The PEF was established in 1991 and restructured in 2004 into an autonomous and independent institution with the aim of promoting high quality education for the poor through partnerships with the private sector (Patrinos et. al. 2009). The foundation channels public financing to private sector schools through a number of initiatives ranging from vouchers to the Foundation Assisted Schools model.\textsuperscript{vi}

These initiatives appear to have supported the provision of education at lower cost. However, they give rise to equity concerns. Across the country, there are great discrepancies in who is able to access to private schooling amongst those surveyed by ASER; only around 10% of those in school from the poorest households in rural areas are in private schools, compared with 40% of those from the richest households. In addition, there is a clear gender divide amongst the poorest; after controlling for other factors, in rural Pakistan the poorest girls are 31% less likely to attend private schools than are the poorest boys (Alcott and Rose, 2015).

Although private schools may be better quality than government schools, on average many children are not learning regardless of the type of school they are attending, suggesting that problems of quality are endemic in the education system. Amongst 10-12 year olds in rural government schools who should have reached Grade 5, one-third cannot read sentences, with more than one-fifth in rural private schools unable to achieve this task, which they are expected to have reached by Grade 2.

Overall, wealth is of far greater importance than whether a child is in a government or private school; more wealthy children in government schools are learning than are poor children in private schools. And within both government and private schools, poorer children are around three times more likely to be unable to read a paragraph than wealthier children in the same type of school (Alcott and Rose, 2015). This highlights an urgent need to improve both access and the quality of education for the most disadvantaged.

Many of the identified bottlenecks are linked to insufficient spending, particularly in districts where challenges are greatest. Notably, there is a need to estimate the costs of providing the most marginalized, including girls from poor families living in sparsely populated parts of the country and those with disabilities, with a good quality education, since reaching them is likely to be higher than average costs.
III. CURRENT STATE OF FINANCING

Key messages on Domestic Finance in Education

- The Government of Pakistan has increased its overall spending on education in recent years. However, resource allocations to education as a proportion of GDP are far below the government’s target of 4%. To achieve this target, there is an urgent need to increase overall tax revenues in the country.

- With increased devolution of planning and financing to provinces, the federal government has put in place a needs-based formula for resource distribution, increasing resources received by the least developed provinces.

- Provinces show a strong commitment to education, allocating at least 20% of their budget to the sector. There is a need to strengthen the capacity and efficiency of spending within provinces, although there are some signs of recent improvement.

- Within provinces, more needs to be done to ensure resources are better distributed in order to overcome inequalities in education. This requires planning and budgeting that is sensitive to diverse needs across districts and schools, paying particular attention to overcoming disadvantage.

High commitment but low spending on education

Domestic financing is the largest and most important source of finance for education. Pakistan’s commitment to education is reflected in its longstanding target of spending 4% of GDP on education. The target was set in 1992 and the pledge has been repeated at the highest levels of government in policies and education sector plans since then (Government of Pakistan 1992, 2008). This target was reiterated by the current government, with the aim of achieving it by 2018 (Government of Pakistan, 2013).

However, spending has so far fallen far short of this target. In recent years, the allocation has been no more than 2.5%, and only reached 2% of GDP in 2013-14 (Government of Pakistan 2013; ISAPS-2014). In absolute terms, in 2013-14 Pakistan spent $5.3 USD billion on education. As a proportion of total government expenditure at both federal and provincial levels, Pakistan spends no more than 10% on education.

Social sector expenditure has competed with military expenditure and debt-reservicing for decades. These two components together comprised 6% of the GDP in 2005-06, and the proportion has increased to nearly 7% in 2013-14, leaving little room for education and health. Each of these on their own receive a higher allocation than education (in 2013-14, for example, defense was 2.4% of GDP) (Government of Pakistan, 2013).

Given current spending patterns, Pakistan faces enormous financing challenges. According to calculations prepared for the 2015 EFA Global Monitoring Report, in order to meet post-2015 education goals by 2030, Pakistan would need to increase per pupil expenditure by 10 times its current expenditure at the pre-primary level, by 6 times at the primary level, and by 4 times at the lower-secondary level (Wils, 2015). The report estimates that Pakistan is amongst the minority of lower-middle income countries that will need to roughly double relative spending on basic education to reach goals by 2030, and will need to increase proportion of GDP allocations to basic education by almost 3 times.
Narrow tax base limits resources available for education

The small size of the education resource envelope in Pakistan is largely related to the government’s ability to raise tax revenue. Tax revenue is linked to both the resources generated by the economy and the ability of the government to tax these resources.

Declining rates of economic growth reduces the amount of resources available for allocation to social services, including education. Between 2007-08 and 2012-13, the economic growth rate averaged 3.2%, compared with the historical average of about 5% from 1970s onwards, and an average of about 7.2% in the four years prior (2004-07). The economic growth rate in Pakistan is also below that of other countries in the region.\textsuperscript{xii}

Moreover, the capacity of the government to raise revenue through taxation is extremely limited, as the federal government has not been able to raise the tax to GDP ratio for many years. Tax reform remains a huge public policy hurdle, with little will within the parliament to implement the measures required to improve tax revenues. While the Federal Board of Revenue's tax collection has increased in absolute terms, it has remained at just 8.7% of the GDP for the past ten years – amongst the lowest proportions in the world.

International targets estimate that governments need to raise 20% of their GDP in taxes to achieve MDG goals. According to the 2014 Education for All Global Monitoring Report, if the Pakistani government increased its tax revenue to 14% of GDP and allocated one-fifth of this to education, it could raise sufficient funds to get all of Pakistan’s children and adolescents into school (UNESCO, 2014).

Since 2009, provinces receive more funding distributed based on need

The responsibility of planning and budgeting for basic and secondary education lies with the provinces. There are two sources of revenues for the provinces: 1) transfers to the provinces from the federal divisible pool based on the National Finance Commission Award (NFCA); 2) tax revenue raised through sources within provinces.\textsuperscript{xi} The National Finance Commission Awards (NFCA) contains the terms of redistribution of the resource pool that comprises the federal government’s tax revenue. These federal transfers are the primary source of revenue for the provinces, accounting for around 90% of their resources. Provinces raise about 10% from their own sources.

Until 2009, provinces had received funds based on the share of their population.\textsuperscript{xi} The formula was regressive, as it did not account for levels of deprivation or underdevelopment in the provinces, or their ability to raise their own resources.\textsuperscript{xi} In 2009, the 7th NFCA, changed the calculus of distribution, and reduced the share it kept for itself by 10% to increase the transfers to the provincial governments. It also included three additional criteria for determining provincial revenue shares: poverty or 'backwardness,' revenue collection or generation, and inverse population density.\textsuperscript{xvi} These criteria are weighted as follows: 82% on population size; 10.3% on poverty backwardness; 5% on provincial revenue collection (2.5% to revenue generation and 2.5% to revenue collection); and 2.7% on inverse population density. The size of the transfers in absolute terms is determined by the amount of revenues generated. Due to these changes, the federal government increased provincial shares from 47.5% to 56% in 2010-11 and to 57.5% in 2011-12 (Mustafa, 2011).

Changes in redistribution have benefited the smaller, less developed provinces; Baluchistan now receives 9% of the share of the NFCA funds compared with its population share of 5%, while the relatively wealthier Punjab province receives 52% compared with its larger population share of 56% (Table 1).\textsuperscript{xiii} Given the differences in the population shares across the provinces, this results in the more sparsely-populated, poorer province of Baluchistan receiving almost 2.5 times more per capita in 2014-
15 compared with the wealthier, more densely populated Punjab provinces, suggesting that the formula has been effective.

Table 1. Distribution of population and resources across provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>Punjab</th>
<th>Sindh</th>
<th>KPK</th>
<th>Baluchistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population* (000)</td>
<td>73,621</td>
<td>30,440</td>
<td>17,744</td>
<td>6,566</td>
</tr>
<tr>
<td>Population share (%)</td>
<td>56</td>
<td>23</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Share of NFCA** 2006</td>
<td>56</td>
<td>26</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Share of NFCA** 2009</td>
<td>52</td>
<td>25</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Total Budget 2014-15 USD Billion</td>
<td>10.95</td>
<td>6.86</td>
<td>4.05</td>
<td>2.16</td>
</tr>
<tr>
<td>Real per capita expenditure USD Billion (2007-08)</td>
<td>36.5</td>
<td>54.4</td>
<td>37.2</td>
<td>76.1</td>
</tr>
<tr>
<td>Real per capita USD Billion expenditure (2014-15)</td>
<td>64.3</td>
<td>106.1</td>
<td>101.6</td>
<td>151.3</td>
</tr>
</tbody>
</table>

*1998 Census; **National Finance Commission Award; ***population shares applied to total population estimates from National Institute for Population Studies (NIPS). Source: PES 2013-14; I-SAPS (2014); Mustafa (2011); National Plan of Action 2013-16

Provinces only raise a small proportion of their revenue through local taxes

In addition to the federal transfers, provinces also collect resources through taxes that are collected and retained within provinces. However, the capacity of provinces to raise resources in this way is limited; only about 10% of their total revenue receipts are obtained through their tax revenue that is retained at the provincial level, on average. The proportion varies for each of the provinces depending on their capacity. In 2013-14 Punjab raised 11% in own taxes (World Bank, 2014); by contrast, Baluchistan was only able to raise only 3% in its own taxes on average (GoB, 2013). The taxes that fall within the provincial ambit include agricultural income tax, sales tax on services, property tax (or urban immovable property tax), and excise duties, stamp duties, and property transfers. Each of the provinces has set up a dedicated department (the revenue authority) in order to administer and collect these taxes.

If properly designed and implemented, provincial taxes can be an important source of revenue, and transferring responsibility to the provinces increases the incentives for improving the efficiency of tax collection. However, the importance of the type of tax and potential benefits varies by province. For example, Punjab and Sindh will stand to benefit considerably from agricultural income tax, as both have a sizeable agricultural sector. Punjab and Sindh also benefit from the sales tax on services, as these are wealthier provinces with bigger economies and more developed service industries. KPK and Baluchistan are not able to benefit to the same degree from these taxes, but have large natural resource reserves. Therefore, they potentially stand to benefit from federal transfers that relate to natural resources.

In 2010, responsibility for education planning and funding devolved to provinces

In April 2010, an amendment to the constitution (18th Amendment) devolved a set of policy responsibilities to the provinces for a number of sectors, including education. As a result, the responsibility of planning for, and financing of, basic, secondary, and higher secondary education was devolved to the federating units (provinces). The federal government retains authority for funding and planning for higher education and some regulatory oversight, but its overall role has been reduced considerably. The responsibility for planning for access, curriculum, teacher recruitment and retention, assessments, running formal and non-formal schools, stipend programs, public private partnerships, and
all other matters has been devolved to the provinces. The provincial governments are also responsible for making budgetary allocation decisions, such as the allocation of resources to various subsectors, development programs, etc.

The 7th NFC Award (granting provinces considerably more resources) and the decentralization of planning are linked; the federal government allows the provinces to make policy decisions in key areas and allowing the resources available to them to function autonomously. As a result, policy documents, plans, and budgets are more closely reflect the needs of each of the provinces.

**Strong commitment to education in the provinces, but capacity to spend remains low**

Increased revenues made available following the 7th NFC Award in 2009 has allowed each of the provinces to allocate close to 20% of their total budgets to education. This indicates a strong commitment to education within the provinces. Punjab allocated close to 24% of its total budget on education, Sindh has allocated 22%, KPK 26%, and Baluchistan 19% (I-SAPS. 2014).

Recurrent expenditures make up close to 90% total expenditure on education. The salary expense accounts for close to 90% of recurrent expenditure in all provinces (I-SAPS, 2014). Development expenditure, comprising around 10% of total allocations, refers primarily to infrastructure undertaken by provincial governments. This includes building new schools, upgrading schools, and the provision of missing facilities. The trends in these proportions have remained constant over the years.

Despite the signal of strong commitment, a significant proportion of allocated funds remain unspent. Budget tracking exercises over the past couple of years reveal patterns of under-spending for both recurrent and development expenditure in all provinces. Between 2010-11 and 2013-14, 9% to 13% of Punjab’s education budget remained unspent. In absolute terms this ranges between $210-270 USD million. This money could support 1.1-1.5 million primary school children. Data for Sindh also reveal erratic patterns in spending of education funds; nearly a quarter of the education budget remained unspent in 2013-14, equivalent to a total of $310 USD million. This amount could support 2.7 million primary children in schools in Sindh. Spending in the smaller provinces – KPK and Baluchistan – appears to be better, with Baluchistan spending more than its allocated budget in some years (I-SAPS, 2014). Under-spending in development funds appears to be more severe, with proportions as high as 60% of development budgets remaining unspent in Sindh, for example.

A closer investigation reveals a number of reasons that may be contributing to under-spending at the provincial level. It appears that they could be as much to do with capacity constraints within provinces in spending the available funds as they are to do with technical problems of accounting and spending procedures.

With respect to capacity constraints, some provinces were not sufficiently prepared following the devolution of authority for planning and spending as part of the 18th Amendment in 2010. Provinces have had to prepare education sector plans linked with outcome targets and costs linked with budgetary allocations within a short time, which was inevitably a challenge.

Furthermore, construction of schools, upgradation, and provision of missing facilities requires working closely with the government works department. Short-term planning cycles mean that the scheduling of spending is often not in line with the reality of the difficulty of spending money. According to government officials, finding adequate capacity in the most deprived districts in Punjab, like Rajanpur to help with construction, for example, proves to be so difficult that annual deadlines to achieve targets are not realistic. To address this problem, the Punjab government has recently instituted a Medium Term Budgetary Framework (MTBF) in an attempt to link spending to outputs and costs, allowing for planning to be undertaken over a multi-year time period, rather than relying on annual planning cycles (Social Sector Planning Review: Punjab 2013).
Interviewees spoke about the necessity of coordination between the finance and education departments to plan and implement MTBFs effectively. Sectoral departments at the provincial level have not bought into the MBTF model yet, as they do not yet have technical capacity to undertake such target-based budgeting.

There are hopeful signs that capacity to spend allocated funds is improving. Over the period since the implementation of the 18th Amendment, both education allocations and expenditure have been increasing in each of the provinces in real terms (I-SAPS, 2014).

**Education spending at higher levels of education benefits the rich**

Primary education receives the largest proportion of spending in most provinces (Figure 3). In 2013-14, Punjab spent 43% of its education budget on primary education, Sindh spent 47%, and KPK spent 44%. The most striking point is that in 2013-14, Baluchistan spent only 28% of its budget on primary education – the lowest proportion of the three provinces. Baluchistan’s indicators are the worst amongst the four provinces. One reason for the relatively low level of primary sector expenditure is likely to be due to low teacher salaries and the low number of teachers at that level; Baluchistan has the highest proportion of single-teacher, multi-grade schools (GoB, 2013).

Reflecting the changes following the 18th Amendment in 2010, federal spending is mainly focused on higher education. In addition, all the provinces are spending between 10 and 15% of their total budgets on higher education.

**Figure 3. Sub-sectoral allocations of education expenditure, by province, 2013-14**

<table>
<thead>
<tr>
<th>Sub-Sector Allocation Percentage</th>
<th>Baluchistan</th>
<th>KP</th>
<th>Sindh</th>
<th>Punjab</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>28%</td>
<td>45%</td>
<td>47%</td>
<td>44%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>41%</td>
<td>28%</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>13%</td>
<td>13%</td>
<td>15%</td>
<td>13%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>13%</td>
<td>10%</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Note: ‘Others’ includes budget for regional institutes for teacher training and budget under the head secretariat, policy and curriculum.


Combining national financing data with data from the Demographic and Health survey, our analysis shows that primary education expenditure is pro-poor in Punjab, Sindh, and KPK; the proportions of primary spending for the poorest half of the population in each province range from 62% in KPK, to 56% and 57% respectively in Sindh and Punjab, to 51% in Baluchistan. Expenditures on secondary education is pro-poor in Punjab and Sindh, but favor the wealthy in Sindh and Baluchistan, where the poorest 50% of the population receive approximately 33% and 42% of each province’s secondary expenditures. As such, efforts are needed to improve the allocation of resources so that they benefit the poorest in Baluchistan in particular.
Resource allocation within provinces is inequitable

The changes in the formula for resource distribution between the federal government and the provinces (7th NFC Award, 2009) were based on recognition of the disparate needs of provinces, and an explicit accounting of regional deprivation and underdevelopment. On paper, the Provincial Finance Commission Award (PFCA) – whereby the provincial governments distribute resources to districts – is based on logic similar to that of the NFCA, taking into account development needs in addition to population sizes. However, district level expenditure reviews reveal a bias in spending towards the more developed districts. The social sector expenditure review for Punjab by the World Bank has noted that per capita allocation of development spending indicates that the least developed districts receive the least funds. Independent analysis has shown the same pattern for education expenditure (I-SAPS).

In Punjab, for example, two districts get 9% of the total education budget (Lahore and Faisalabad) while eight of the poorest performing districts get 8% of the total budget. In KPK, three of the top performing districts receive 23% the total budget – Peshawar, Mansehra and Mardan, while four of the poorest performing districts receive only 4% of the total budget. Improving the equitable distribution of resources within provinces is, therefore, needed to help to address wide inequities in educational opportunities (I-SAPS, 2014). Our analysis finds that, in all provinces, district budgets are generally lowest where the proportion of out of school children is the highest and thus where needs are greatest.

Out-dated administrative rules contribute to under-provision of state facilities in the more underdeveloped regions. The rule for establishing primary schools is based on population densities, thus increasing the distance between school and home in places with more scattered populations. Another outcome of this is that districts receiving fewer funds have the highest proportion of single-teacher schools, and tend to have the worst facilities. These districts need a greater share of resources to hire more teachers and to train teachers to deal with the challenges of multi-grade classrooms.

In addition, the cost of education service delivery is higher in more underdeveloped areas, such as in Baluchistan, parts of KPK, and South Punjab, due to topography, inadequate basic infrastructure, and the needs of the population. These issues interact to compound the disadvantages faced by the geographically distant and economically poor regions. It is unclear the extent to which the provinces are accounting for differences in district level need and underdevelopment in their resource distribution formulae.

Key messages on External Finance in Education

- While small relative to domestic spending, aid to education in Pakistan makes an important contribution to education spending.
- A large number of donors are present, making coordination difficult. Nevertheless, there are recent signs of improvement.
- Key donors are shifting from general budgetary support to projects via NGOs and international private companies for delivery, with management by results increasingly important to them. The impact of this approach, including on equity of education, has yet to be determined.
- Donor funds do not seem to be distributed in a way that reflects where most needs are within the country, although there are signs that the Global Partnership for Education could help to fill some of the gaps.

Aid to education has grown in recent years

Domestic spending is the most important source of funding to education in Pakistan. Aid as a percentage of the total government budget has varied from 10% in 2002 to 7% in 2013 (OECD DAC). Even so, Pakistan is a significant recipient of bilateral and multilateral aid to education, and these funds are important for supporting the education system. Aid to education has increased dramatically in
absolute terms from $20 USD million in 2002 to $432 USD million in 2012 (Figure 4). Moreover, the country is amongst the top 10 countries receiving aid to education. One potential reason for the relatively large amount of aid it receives may be that donor countries are keen to continue engagement for geo-political and security reasons.

**Figure 4. Trends in aid to education, proportion of multi and bilateral aid (2002-12)**

OECD DAC data show that, between 2002 and 2009, bilateral aid sources were the most important; more than 80% of total aid to education was from bilateral sources. Multilateral sources of aid assume importance from 2010 onwards primarily due to increasing contributions from the World Bank, with multilateral contributions jumping to 41% of total aid received that year. These proportions have fluctuated. In 2013, multilateral aid accounted for 25% of total aid to education, for example.

Aid to basic education has been the main focus of ODA in Pakistan, accounting for more than 50% of total aid to education since 2002 (Figure 5). It is notable that the proportion of aid to higher education exceeds spending on secondary education and its share has been increasing, despite the low numbers reaching secondary school.
A reason for changing priorities within education is both related to a shift in priorities by some key donors, as well as the relative importance of different donors over the years. USAID has been the most important donor over most of the period 2005-13 (Appendix Table 1). Even though its share has declined due to other donors increasing their contributions in more recent years, it continues to provide around one-third of aid to education. Over the period, USAID’s priorities have shifted from mainly funding primary education to a more recent significant investment towards capacity building of university faculties across the country.

Australia and the Netherlands are amongst the other main donors, although their relative importance is likely to decline given the reduction in Australia’s aid budget overall, and the Netherlands move away from funding education. Meanwhile, DFID has increased its sector allocable funding for education considerably in recent years, resulting in it becoming the third largest sector allocable donor to education in Pakistan in 2013 (after USAID and the World Bank).

**From general-budget support back to project-based aid**

Most donors are funding provincial programs that are multifaceted and multiyear, as well as aligned with the provincial governments’ education sector reform priorities. Multilateral donors still channel aid directly to the government. However, reflecting the global trend, there is a shift away from general budget support in Pakistan.

Bilateral donors are relying increasingly on channeling funds through INGOs. In addition, there is a significant shift towards increased reliance on international development consultancies, such as McKinsey and the Adam Smith Institute, not just to implement projects and provide monitoring and evaluation support, but to become the primary technical assistance providers to provincial governments. An interview with one bilateral donor revealed an explicit and conscious shift in the modality of technical assistance to inject the principles of business management into development cooperation. In Punjab, this is known informally as the ‘McKinsey model.’ One of the reasons for this is to
address the fiduciary risks for dealing with provincial governments. Funding for infrastructure development in particular is channeled through non-state implementing partners, though the decisions regarding the location and nature of development are made by the provincial governments. There are concerns that these modalities of engagement could be further weakening the state's capacity to plan and deliver reform.

**Limited but improved donor coordination**

Donor coordination has always been difficult in Pakistan. With close to 30 donors working in the education space, it has been a tough task to coordinate activities and funding. One reason for lack of effective and sustained coordination has been a lack of a strong position by the federal government to spearhead initiatives. A donor coordination group has existed, but has not consistently maintained its activities.

Over the past couple of years, a number of initiatives have been instituted with the specific objective of improving donor coordination. Some are donor-led, while others are being driven by various relevant government departments:

1. The Economic Affairs Division (EAD) is developing a Foreign Assistance Development Policy, which will outline the protocols for aid disbursements, help track aid flows, and set out the protocols for INGO operations in the country. Traditionally, all aid money coming into the country has been tracked through EAD. It was channeled to federal budgets and then to provincial budgets. Following the passing of the 18th Amendment, some things have changed; while budget support and IDA loans still remain the main modalities of support (and money is tracked through EAD), donors are working more directly with provincial governments. Funds channeled through INGOs are not tracked by EAD. Recently, a need was felt for a systematic policy that would help track aid through all modalities. The policy is expected in the coming year.

2. The Global Partnership for Education (GPE) has been active in Pakistan since 2012, and the Local Education Group is now functioning.

3. At the request of the Government of Pakistan, the World Bank agreed to establish and administer a Multi-Donor Trust Fund (MDTF) to respond to the needs resulting from the crisis in the northwestern border areas of Baluchistan, KPK, and the Federally Administered Tribal Areas (FATA). The MDTF finances projects identified by local and provincial governments (World Bank, 2014)

4. USAID is funding the establishment of a Secretariat, tasked with collating and maintaining records on all aid inflows, convening stock-take meetings between donors, and helping coordinate activities. The key innovation in this coordination initiative is that the implementing partner is a local NGO, rather than a donor office. The intent is to allow institutional memory to build.

5. The federal minister has initiated Inter-provincial Ministerial Meetings with the intent to coordinate donor activities and provide a stronger link with government departments.

Following the 18th Amendment, donors have shifted their operations to the provincial level. A regional division of labor has emerged between donors, with the World Bank and DFID focusing on Punjab and KPK, and USAID and EU focusing on Sindh. A number of reasons are cited for this divide, but coordination is low on the list. Rather, donors' history of working in particular regions provides them with a comparative advantage of sorts in the form of good networks with the bureaucracy, as well as with political and community stakeholders. Baluchistan, which is the province most in need of resources from the perspective of lowest educational performance, has seen the least intensive donor activity due to reasons of political uncertainty and instability. Multilateral donors, including the World Bank and UN, have worked in the province, mostly on girls’ education.
The Global Partnership for Education aims to help fill funding gaps in Pakistan where most needed

Pakistan joined the Global Partnership for Education (GPE) in 2012. The GPE has augmented the amount of international aid available for education by providing additional funds, and is acting to coordinate donors. Following country level consultations through the Local Education Group (LEG), GPE has allocated funding for projects in Sindh and Baluchistan. The decision was made on the basis of educational outcomes and financing needs.

In Sindh, GPE is injecting $66 USD million, of which 50% is for primary education, 25% for secondary, and 25% as a public administration component. The proposed GPE project is part of the larger Sindh Education Sector Plan and, informed by lessons from earlier projects, is focusing on ‘the pre-requisites of strengthening particular governance and accountability mechanisms to ensure the effective implementation of the larger share of essential education sector reforms and activities to improve (basic) education outcomes as included in SESP.’

In Baluchistan, GPE is investing $34 USD million into primary education with a focus on bringing out of school children to school. This investment is going into the implementation of the Baluchistan Education Sector Plan 2012-2017, which is considered to be a well-costed and realistic plan prepared with the help of key donors and local education partners (World Bank, 2014).

Representatives of the donor community feel that the Partnership is adding value by encouraging a consultative process of decision-making and engaging donors to coordinate in meaningful ways. The responsibilities of coordinating and implementing agencies help achieve this. The coordination and use of existing mechanisms to channel new funds is seen to avoid creating parallel mechanisms and duplication of activities, which overwhelm provincial governments and have been a negative outcome of uncoordinated activities in the past.

Government officials have, however, raised some concerns about the slowness with which funds have been received and appear less clear about the extent to which coordination via GPE has occurred. As of 2015, funds have not yet been made available for spending within the provinces.

Promoting private schooling is one response to poor quality government provision, but is it equitable and sustainable?

Given the poor quality of government provision, some donors are promoting the role of private actors through various reform interventions in Pakistan. DFID is funding access to finance initiatives for low fee private schools on a large scale. There is a strong focus on developing entrepreneurship models of education service delivery (edupreneurs), with support being provided by setting up a large innovation fund. DFID has also established a company with functions very similar to the Sindh Education Foundation for funding public private partnership mechanisms – ones specifically focused on promoting private school establishment in low-income communities (UKAID, 2012).

The World Bank and USAID are also encouraging private sector involvement through public private partnerships. The World Bank is set to scale up funding for Punjab Education Foundation’s (PEF) Assisted Schools, a program where low fee private schools are subsidized to make education services free at the point of delivery. The World Bank has been supporting PEF since its inception in 1994. USAID is assisting the Sindh government to put in place a legal infrastructure for channeling funds to private for-profit and not-for-profit actors, and begin to implement a charter school model in the more deprived districts, whereby management fees and operational costs will be provided from the provincial education budget to non-state actors to run free schools. This model is known as the Education Management Organizations Model (EMO).
There may be a number of interrelated factors contributing to the focus by donors on private actors: 1) for the bilateral donors, a reflection of the political positions influencing policies at headquarters; 2) arguments about the comparative cost and efficiency of private sector provision; and 3) views of the difficulty of political economy of reforming state institutions.

There are, however, concerns about the push for low fee private provision within and outside the donor community, particularly in the absence of a strong state-led and state-implemented regulatory framework for private schools. For example, there are concerns amongst policy researchers about a conflict with the official mandate that donors, such as DFID, have, which is to work to strengthen governments’ capacity. An aggressive push for private sector providers may be seen as a violation of this mandate, and of the Right to Education clause added to the constitution (Article 25-A). Promotion of fee-charging schools as a matter of policy is interpreted to be a violation of the right to education.

While there is recognition that the private sector has helped absorb a considerable demand for schooling, there is considerable skepticism amongst local policy researchers about the sustainability of these initiatives. Some in the government have the view that private schools can be a stop-gap measure at best. One government official, for example, expressed the opinion that subsidization of private schools builds capacity of school owners, not of the education system to deliver in the long run, and is not sustainable. Rather, in this individual’s view, the sort of partnerships that can help are those in which the private sector steps in to build capacity of state teachers to teach and/or to provide support for school management in state schools.

The issue of private providers and donors’ support of them is complex. The difficulty of political economy of reform (particularly with regard to improving quality in state schools), the slow pace of state expansion, the poor quality of state schools, and a genuine concern about the cost-effectiveness of the traditional state school model provide the impetus to engage with private schools. However, in the eagerness to treat private schools as a sustainable model of education service delivery, donors are potentially overlooking concerns of equity, quality gaps in low fee private schools themselves, and the inability of the provincial governments to regulate these schools. A better understanding of these issues is needed to ensure that all children receive a good quality of education, regardless of what type of school they attend.

**Results-based aid aims to strengthen education outcomes, but its impact is unknown**

Donors have a long history of supporting provinces in putting together social sector plans to translate policy goals into implantable targets over five year periods. This engagement has become more direct and extensive since devolution of planning and financing to provinces in 2010.

Donors are helping provincial governments improve their planning and reform implementation processes by building their capacities to link funding to results, monitor performance by using information systems, and improve accountability of district government officials. Since 2003, the World Bank, DFID, and CIDA have been supporting a large-scale multifaceted multiyear reform program in Punjab, called the Punjab Education Sector Reform Program (PESRP), through development policy credits (soft loans). A results-based specific investment credit, the Punjab Education Sector Project (PESP), operational since 2009, is part of this support. In April 2011, the Punjab government, with the help of key donors and INGOs, introduced an Education Sector Reform Roadmap, ‘which focuses the provincial leadership’s attention on dramatically improving schooling outcomes through holding delivery agents accountable for performance.’ The second Punjab Sector Education Reform Program (PERSP II) implemented between 2012 and 2015 - had a results-based component that accounted for 97% of the total investment. For PERSP II, the results-based approach focused on promoting teacher quality as a key factor influencing school quality and learning outcomes by providing resources and support as well as monitoring and accountability. Another component of the interventions is tying teacher compensation more closely to school performance, as measured by improvements in learning outcomes.
As part of the results-based approach, donors have also invested heavily in the development of information management systems. The GPE projects in Baluchistan and Sindh have technical assistance components focusing on the development of such mechanisms.

While the focus on outcomes is desirable, it raises questions about whether results can be achieved most easily and visibly for the less disadvantaged. More broadly, the impact of these approaches is not yet known.

In addition, both bilateral and multilateral donors are working closely with provincial governments to build capacity for public financial management. Governance components of education programs, as well as standalone governance programs, have become increasingly important in the work donors are doing in Pakistan. This is a reflection of the importance of focusing on the political economy of reform and addressing the need for increased tax revenue.
IV. OPPORTUNITIES FOR ACTION

Based on the analysis in this paper, which has highlighted the urgent need to address inequalities in both educational access and quality, we identify five opportunities for action. Addressing these areas will be important steps towards achieving the government’s commitment towards the Right to Education and global commitments towards the Sustainable Development Goals.

1. Reform the tax system at federal and provincial levels to increase resources available for education.

Given that the tax-to-GDP ratio currently only reaches around 9%, fulfilling the government’s commitment of spending 4% of GDP on education can only be achieved through tax system reform.

Allowing a greater share of tax revenues collected by the provinces to remain within provinces could provide an incentive for them to strengthen their tax collection. However, this would need to be weighed against the current system of resources being redistributed from the federal level to provinces according to need, recognizing that poorer provinces have fewer opportunities to raise tax revenue.

The formula to calculate provincial share of federal transfers includes revenue collection/generation as one of the criteria (equivalent to 5% of the weighting). Increasing the weight given to this component, while maintaining or further increasing the weights given to poverty and population density (which affect the ability of some provinces to raise their own funds through taxes), could be one way of encouraging provinces to raise more revenue through taxation. Furthermore, the federal government currently has at its disposal special grants, straight transfers to compensate for shortfalls due to differences in need and capacity for revenue generation.

Some donors are already engaged in supporting the government in tax reform initiatives. This needs to become an even greater priority for donors to ensure that their commitments to education are realized.

2. Improve and strengthen coordination at various levels to ensure available resources are used effectively.

To make the 4% of GDP target a reality, the federal government needs to coordinate more directly with provincial governments. A coordinating body at the federal level is needed to ensure each of the provincial education departments are allocated, and able to spend, the amounts necessary for the total educational expenditure to add up to 4% of GDP. Provincial Chief Ministers’ offices and finance departments will need to be part of this committee.

Better coordination is needed within provinces between ministries of finance and ministries of education, notably in relation to planning and implementing the medium-term budgetary frameworks.

While initiatives are improving coordination amongst donors, more needs to be done to strengthen effective engagement between donors and the government, in particular to ensure that donors are focusing on areas of the country where needs are greatest. GPE’s Local Education Group has the potential to fulfill this role.

3. Strengthen capacity within provinces to ensure allocated resources are spent where they are most needed.

Greater devolution of responsibilities to provinces for planning and financing of education has potential advantages for being more responsive to local realities. However, provinces require continued support, including from the federal government and donors, to ensure they are able to plan and spend effectively.
An important aspect of this is to ensure provinces have the capacity to implement the needs-based formula for distribution of resources. The formula appears to be used effectively at the federal level, but is not yet being adopted to allocate resources according to need between districts within provinces.

4. **Improve data available for planning.**

Effective planning both at the federal and provincial level is seriously hindered by a lack of data. Notably, the last population census was carried out in 1998. To ensure distribution of resources between and within provinces is based on the reality of the distribution of the population across the country, there is an urgent need to fulfill commitments towards carrying out a population census next year.

To complement this, it would be beneficial to carry out a school census, with the aim of having a complete picture of all types of schools (both private and public) and their locations.

In addition, better financial data is needed. Using a budgetary tracking tool would be beneficial to ensure combined information is available stating the amount and distribution of all sources of government resources at both federal and provincial levels. This should be combined with information on the amount and distribution of philanthropic resources (which is currently not available in a systematic form) as well as the allocation of donor spending across different parts of the country.

5. ** Undertake rigorous, independent assessment of the impact of key donor reforms on equity,** notably related to the private sector and results-based approaches to aid.

In the light of the serious challenges that exist in relation to low levels of access and poor quality of education, donors are implementing reforms focused on improving educational outcomes through working directly with the private sector and adopting results-based approaches. While a focus on improving outcomes is welcome, it is less apparent that these initiatives are taking sufficient account of the wide inequalities that are holding back progress in education. There is, therefore, a need for independent, rigorous assessment of the implications of these reforms on inequality.
People interviewed

Muhammad Baligh-ur-Rahman  Minister of State for Federal Education and Professional Training
Dr. Randy Hatfield  Sr. Policy Adviser and Manager (USAID Sindh Basic Education Program)
Dr. Salman Humanyun  Director (Institute of Social and Policy Studies)
Baela Raza Jamil  Director (Idara Taleem o Agahi)
Vibeke Jensen  Representative Director (UNESCO Islamabad)
Asfandyar Khan  Education Advisor (GIZ)
Afzal Latif  Elementary and Secondary Education Department, Govt. of KPK
Sceneryzad Latif  Education Advisor (World Bank)
Dr. Thomas LeBlanc  Director Education (USAID)
Nighet Lone  Governance Advisor (GIZ)
Dr. Hanid Mukhtar  Economic Advisor (retired) (World Bank)
Laura Norris  Economic Advisor (DFID)
Qaiser Rasheed  Additional Secretary (Dept of Schools Education, Govt of Punjab)
Anfal Saqib  Education Advisor (DFID)
Naveed Sheikh  Deputy Secretary (Education and Literacy Dept, Government of Sindh)
Nargis Sultana  Education Advisor (Open Society Foundation)

References


**Appendix Table 1.** Trends in top ten donors to education in Pakistan

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ENDNOTES

18th Amendment: http://rtepakistan.org/legislation/relevant-articles-of-the-constitution/

ii This is similar to the Demographic and Health Survey’s net enrollment rate in 2013, but lower than
the net enrollment rate provided by UIS, which indicates that 72% of primary school-aged children
were enrolled in 2012. A reason for the difference is likely to be due in part to population estimates,
with the UIS figure based on extrapolation from the 1998 census.

iii ASER Pakistan included questions on disability as a pilot in its 2014 survey. It will be important to
learn from this to improve information available in the future.

iv We define core numeracy and literacy skills as the ability to divide and to read a story, respectively.

v The National Education Census in 2005 found that around one in five of private schools were not
registered. With the growth in private schools in recent years, this might have increased.

vi In Sindh, the Sindh Education Foundation similarly promotes private-public partnerships, but its
activities have been less extensive compared with the PEF.

vii All schools in the Foundation Assisted schools program are low-fee private schools that forgo
their fee-charging model in lieu of a stipend on a per-child basis ($4.50 USD per child), conditional on
the school meeting the performance criterion set as part of the initial assessment as well as
continuous assessments. The relative cost-effectiveness has generated great policy interest in this
mechanism; FAS per enrolled child is $4.50 USD compared with $20 USD per enrolled child in a
standard government school. However, it is important to note that these comparisons: a) do not take
into account the cost of the large monitoring force (PEF staff) that ensures standards are
maintained in the assisted schools; and b) overlook that the source of the low costs is predominantly
very low teacher salaries. If teachers’ salaries were to even comply with standard labor laws in
Pakistan, the model would become unsustainable at current cost.

viii Private philanthropy is another potential source of funding. According to a survey of private
philanthropy, total donations by private limited companies amounted to $400 USD million in 2012,
although there is not a breakdown by sector (PCP, 2012). This makes up less than 0.1% of the total
expenditure on education by the government in Pakistan in 2012, which was $4.4 USD billion.

ix Health receives an even smaller proportion of GDP than education; less than 1% of the GDP is
spent on health. Social protection mechanisms receive 1.8% of GDP in resources.

x This figure does not include Gilgit Baltistan and Kashmir.

xi Easterly (2002) calculated that Pakistan has historically spent 3.3 percentage points of GDP more
on defense than other countries of its income level, an amount roughly equal to Pakistan’s under-
spending on the social sectors compared to other countries.

xii Provincial rates of economic growth also differ.

xiii Taxes that become part of the total divisible pool are collected by the Federal Board of Revenue,
and redistributed as federal transfers.

xiv The last census was held in Pakistan in 1998. Since then, no accurate estimates are available.
Projections put the proportions of the population across provinces at roughly the same levels today
as in 1998 (see Table 1).

xv The federal government had relied on a system of development grants for the more deprived
provinces, but these were not determined in a systematic and predictable manner.

xvi The minutes of the discussion on the new formula recorded objections and recommendations
from the provinces. KP, for example, argued for poverty to be included as a criterion; while
Baluchistan pushed for inclusion of the inverse of population density in the calculus. Sindh wanted
substantial share for revenue (sale tax, services collection) on the grounds that it generates the
largest share of tax revenue in the mentioned categories. By contrast, Punjab - with the largest
population - argued for population size as the sole criteria.

xvii The education sector plans for Punjab, Sindh, and Baluchistan acknowledge the positive impact
the change in the redistribution calculus has had.

xviii Provinces have their own collection machinery for taxes that they are constitutionally
empowered to retain (agricultural taxes, property taxes and general sales tax on services etc).

xx The 7th NFC Award guarantees Baluchistan an assured minimum share of $830 USD million (in
case of a revenue shortfall), and a gas development surcharge and royalty arrears of $100 USD
This is a sizeable amount in the context of Baluchistan’s overall budget of $2.5 USD billion in 2014-15.

 Until 2009, education had existed as part of a concurrent list where the planning and spending for basic, secondary, and higher education would be undertaken both at the provincial and federal level.

 Punjab and Baluchistan have registered decreases in the proportion of spending on primary education between 2010 and 2014, while KPK and Sindh have increased the proportion of spending on primary education.

 While higher education is primarily a federal responsibility, provincial spending on higher education includes provincial colleges and universities institutions and scholarship program.

 The Benefit Incidence Analysis uses data from the Demographic and Health survey to calculate enrollment by wealth deciles. For each province, expenditures on each level of education have been allocated to the wealth deciles based on their share of enrollment into that respective level of education, regardless of the age of the persons enrolled.

 The finance department at the provincial level handles the funds transfers. District level authorities are responsible for disbursing salary and recurrent expenditure (teachers are district employees). The provincial education departments retain the responsibility for undertaking development expenditure and non-development (this includes non-salary transfers to schools) spending.

 A large-scale project is building education faculties in 17 universities across the country, with an aim of improving teacher training and B.Ed and M.Ed degrees. Three university-level collaborative exchange programs are being set up in the areas such as energy and food security.

 DFID was designated as the Federal level Coordinating Agency (CA). For Sindh, the EU was designated as the CA, the World Bank was designated the Supervising Entity (SE) for the program implementation grant, and UNICEF was designated as the Managing Entity supporting the development of the Sindh Education Sector Plan (SESP). The SESP is more comprehensive than SERP and, as such, the latter is considered an integral part of the former (World Bank, 2014).

 Legend: Donor (percentage share of donor’s aid to education as a share of all donors’ aid to education), donor disbursement to education (2013 constant prices). Source: OECD DAC.
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