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Can Decentralization Improve Philippine Education? Lessons from Global Experience

Elizabeth M. King

Nonresident Senior Fellow, Brookings Institution, Washington, DC; Visiting Professor,
School of Economics, University of the Philippines,
and Adjunct Professor, Walsh School of Foreign Service, Georgetown University.
Email address: emking@up.edu.ph; bethking1818@gmail.com.

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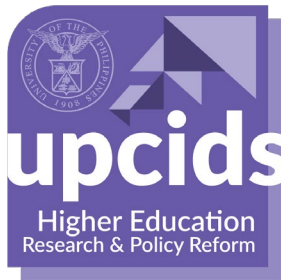
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The UP President Edgardo J. Angara (UPPEJA) Fellowship is a grant for pioneering policy research. It aims to promote high-level policy discussions and research on a wide range of topics that address national development goals and imperatives such as science and technology, economic development, environment and climate change, good governance, and communications.

The Fellowship was established by the University of the Philippines Board of Regents on September 29, 2008, in honor of the late Senator Edgardo J. Angara, who served as UP President from 1981 to 1987 and concurrent UP Diliman Chancellor from 1982 to 1983.

Angara, also a former Senate President, is known for his contributions to Philippine education, serving as the Chairperson of the First Congressional Commission on Education in 1990, which was credited with several pioneering reforms in the education sector, including its “trifocalization” and the Free Higher Education Act.

In addition to his notable contributions as a legislator, Angara’s leadership also gave rise to the **UP Center for Integrative and Development Studies (CIDS)**, which he initiated during his presidency.

Officially established on June 13, 1985, and originally called the University Center for Strategic and Development Studies (UCSDS), CIDS serves as a think tank that leverages the multidisciplinary expertise of UP to address the nation’s most pressing challenges. The core objectives of CIDS encompass the development, organization, and management of research on national significance, the promotion of research and study among various university units and individual scholars, the securing of funding from both public and private sources, and the publication and wide dissemination of research outputs and recommendations.

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I. Executive Summary

In most nations, the central government typically has the main responsibility for providing basic education. However, an increasing number of countries have transferred some of this responsibility away from the central authority and are sharing its responsibility with subnational governments and even with communities, often as part of broad governmental decentralization. This transfer has taken various forms, including the devolution of fiscal responsibilities and management to lower tiers of government, granting more autonomy to schools, involving communities in school management, expanding community financing, and encouraging private sector involvement in education.

The driving force behind education decentralization is often political or financial rather than educational, but proponents argue that it can address the shortcomings of education systems. The greater proximity of subnational governments to their constituents is expected to be an information advantage that can improve decision-making and outcomes. This advantage can also unleash local solutions to educational problems by mobilizing local energies, talents, and resources for change. In countries like the Philippines, an archipelago with more than 7,000 islands, 19 major languages, and a large and young population, decentralization can be what is needed to meet critical education goals.

But decentralization is not a policy panacea – and the reform process is never smooth. Lack of congruence between design and implementation, or between de jure and de facto decentralization, can be due to implementation lags, weak technical and administrative capacity in local governments, and the central government's lack of trust that transferring authority and resources will work for the better. However, international experience indicates that achieving an effective alignment of functions, powers, and resources and improving implementation and practice are possible with the use of smart *incentives* and appropriate *guardrails*.

Reviewing past country studies on decentralization, this paper first discusses the important design and implementation challenges that must be addressed in decentralization reform, reviews how countries have attempted to resolve those challenges, and distills the lessons that could apply to the Philippines.

A key lesson from the many countries that have decentralized is that a big-bang reform is likely to face tremendous implementation challenges, such as confusion about the functions and powers that are being transferred, political pushback, inadequate planning, and costly reversals. In contrast, this paper argues for a *phased, selective, and iterative reform process* with adequate time allotted for preparation, consultation, and implementation. It suggests the development of a readiness index to guide the process, specifically the choice of local governments that will be more quickly able to take advantage of the devolution of authority and responsibility to contribute to national education goals. And it calls for a combination of incentives and guardrails that encourage responsible decision-making by subnational governments while thwarting political capture by local rent-seeking interests.

Keywords: Education decentralization, local governance, school autonomy, fiscal responsibility, implementation challenges

II. Why decentralize?

In the majority of countries worldwide, responsibility for providing primary and secondary education has traditionally resided with the central government. However, a growing number of countries have been transferring this responsibility away from the center, typically as part of a wider reform to decentralize government functions across different sectors. Since the 1990s, many developing countries have decentralized their education system, a widespread trend that is partly motivated by “disenchantment with previous centralized modes of governance, owing partly to a perception that monolithic government breeds high levels of rent seeking, corruption and lack of accountability of government officials” (Bardhan and Mookerjee, 2006), but perhaps primarily also as a means for central governments to share the burden of financing and providing public goods with subnational governments to meet a growing demand for such goods. The promise of decentralization, it is argued, lies in giving more voice and power to local officials and stakeholders who presumably know more about local needs and preferences than national officials, thus reducing information asymmetries in the system.² In addition, local politicians have strong

² Bardhan (2002, p. 185) summarizes the benefits of decentralization as follows: “It is often suggested as a way of reducing the role of the state in general, by fragmenting central authority and introducing more intergovernmental competition and checks and balances. It is viewed as a way to make government more

incentives to respond to the needs and priorities of their local constituents. In countries with large education systems, such as the Philippines, generating local solutions to educational problems and mobilizing local energies and resources to apply those can yield large dividends.

Despite its potential benefits, however, decentralization is not a panacea. Numerous studies have raised doubts about the benefits of decentralization.³ The trajectory and outcomes of the reform depend on underlying motivations, initial conditions in the country, and the political dynamics among key stakeholders. Unequal fiscal, administrative and technical capacities among local governments, for example, can lead to sporadic progress punctuated by setbacks, breeding frustration and mistrust. Careful attention to design aspects and implementation specifics will be critical for achieving success.

Whether to judge decentralization reforms as a success or failure and what circumstances or factors have contributed to their outcomes are often not clear. Summarizing the literature on this, Faguet (2004, p.10) writes, “studies tend to show that decentralization has achieved moderate success in some countries, moderate failure in others, and both in many, with the underlying reasons poorly identified,” and it has been difficult to conclude whether weak outcomes are “due to inappropriateness of the policies implemented or weaknesses in their implementation, and more difficult still to recommend improvements.”⁴

The Philippines’ Local Government Code in 1991 (1991 LGC) was the basis for decentralizing several government sectors (health, social welfare, local public works, agriculture) to local government units (LGUs), but it was not applied in the same way

responsive and efficient. Technological changes have also made it somewhat easier than before to provide public services (like electricity and water supply) relatively efficiently in smaller market areas, and the lower levels of government have now a greater ability to handle certain tasks. In a world of rampant ethnic conflicts and separatist movements, decentralization is also regarded as a way of diffusing social and political tensions and ensuring local cultural and political autonomy.”

³ Among the relatively recent studies that have spelled out the perils of decentralization are De Mello Jr. (2000), Bird & Vaillancourt (2003), Shah et al. (2004), Treisman (2007), Faguet & Sanchez (2008), Beraldo, Piacenza & Turati (2012), Albornoz and Cabrales (2013); Dick Sagoe (2020), and Khilji et al. (2022). Shah et al. (2004) reviews 56 studies published since the late 1990’s, chronicling that decentralization in some cases improved, and in others worsened, service delivery, corruption and growth across a large range of countries.

⁴ Treisman’s (2007) more recent survey is bleaker still. “To date,” he says, “there are almost no solidly established, general empirical findings about the consequences of decentralization” (p. 250). The lack of consensus on decentralization’s effects over 25 years and literally hundreds of studies is striking.

to the country's education system. Elementary, secondary, and tertiary education remained the responsibility of the national government, although LGUs were permitted to establish their own schools and universities, which operated under the overall supervision of the corresponding central government agencies. Twenty-five years since the adoption of the 1991 LGC, reviews of the Philippine experience with decentralization have found only mixed evidence about its impact (Manasan, 2009; Diokno, 2012; Llanto, 2012; Abrigo, Tam & Ortiz, 2017; Diokno-Sicat, 2018).⁵ These mixed results are due to significant variation in how the reform was implemented across LGUs and the wide heterogeneity in the political and economic conditions at the outset, among other reasons. As the 2024 Philippine legislature considers further decentralization of the country's vast education system, it is crucial to review the lessons learned from previous experiences with decentralization, especially in comparison to other countries that have also decentralized their education systems.

This paper is organized as follows: Section II provides a brief overview of the definition of decentralization in its various forms. Section III reviews the literature on decentralization choices that different countries have adopted, focusing on the role of central government, distribution of decision-making authority to local governments, fiscal allocation, and subnational inequalities, with evidence drawn mostly from studies on Asia and Latin America. Section IV addresses specific design issues related to the transfer of functions in an education system, detailing which decisions should typically have been assigned to different levels of government, communities, or schools. It also reviews the evidence on community participation and school-based management. Section V discusses previous decentralization efforts in the Philippines, highlighting lessons learned and challenges to effective decentralization. Finally, Section VI offers five recommendations regarding the design and implementation of a future reform approach in the Philippines.

III. What decentralization means

Numerous studies have examined the motivations behind governments' adoption of decentralization reforms. These inquiries explore the political economy that has

⁵ Abrigo, Tam & Ortiz (2017) cite the large knowledge gap that needs to be filled to fully understand the impact of decentralization on health in the Philippines because the analytical method used in previous studies does not lead to causal inference.

driven the decision to undertake such reforms, the specific forms they took, and the speed of their implementation (to name a few, Rondinelli, 1981; Bardhan & Mookherjee, 2000; Besley & Coate, 2003; Feidler & Staal, 2012). In essence, decentralization entails the transfer of authority from a central government to subnational entities, such as local governments or communities, as well as service providers. Governments worldwide have experimented with various modalities of this reform, ranging from delegating administrative functions to lower tiers of government or communities and to a broader transfer of financial control and obligations. Fiscal decentralization extends beyond mere delegation of authority or responsibility. It entails empowering lower tiers of government to generate and manage public resources, directing them towards local initiatives and services. The capacity of local governments to generate revenue, utilize it efficiently, and ensure accountability to various stakeholders determines the effectiveness of decentralization (Bahl, 1999; Yilmaz, Aslam, & Gurkan, 2010).

Decentralization has been categorized into three types, each involving varying degrees of power transfer: *Deconcentration* involves the partial transfer of sectoral responsibilities from the central government to subnational entities. Under this model, central ministries retain decision-making authority while local representatives manage service delivery. For instance, local governments may oversee public services but do not have the power to hire or dismiss personnel, set salary scales, or alter the structure of service facilities. *Delegation* entails transferring implementation functions to subnational bodies for service delivery. Through delegation, the central government delegates responsibility for service facility administration to local governments, including those not wholly controlled by central ministries. Delegation typically does not grant authority for significant changes to personnel functions such as salary scales or service standards. *Devolution* represents a deeper level of decentralization, involving the transfer of administrative and/or fiscal decision-making power to subnational authorities. Subnational entities are legally empowered to hire, promote, or terminate personnel, as well as establish and determine staff salaries.

In addition to these three types of decentralization, we can add *privatization*, which is granting ownership and/or management of service providers to private entities. In education, there have been efforts to expand the presence of the private

sector in different ways: giving direct subsidies to privately-owned, privately managed schools, issuing vouchers to students to use in private schools, devolving the management of public schools to private entities (as in the case of academies in the U.K. and charter schools in the U.S.), and transferring specific school programs, such as school meals, textbook production and distribution, and transport services for students, to private contractors.

Countries have also explored decentralizing authority to citizens through elected regional, state, or local leaders, as well as through community-based organizations such as school boards. Political decentralization empowers communities and local citizens to make decisions that are aligned with their specific interests. Local institutions, rooted in communities, are better equipped to gather information, monitor behavior, and enforce contracts, tasks often challenging or costly for governments or non-community-based entities (Bardhan, 2002; Park & Shen, 2008; Saguin & Ramesh, 2020). This form of decentralization fosters active citizen engagement in governance, facilitating consensus-building, policy formulation, and implementation to ensure the equitable distribution of national wealth (Fung & Wright, 2001). Participatory governance can serve as a mechanism to mitigate market and government failures, potentially reducing rent-seeking, corruption, and enhancing government accountability (Mansuri & Rao, 2013).

But to realize the benefits of decentralization requires being able to address the competing dynamics that the reform unleashes. Decentralization can intensify regional disparities within a country, with better-off geographies able to take advantage of the greater fiscal and administrative autonomy that the new regime affords them, while poorer areas may have to contend with the loss of economies of scale, weak institutional environment, shortage of qualified personnel, and administrative inefficiencies (Prud'homme, 1995; Oates, 2001; Bardhan & Mookherjee, 2006; Bonet, 2006; Rodriguez-Pose & Ezcurra, 2010;⁶ Beraldo, Piacenza & Turati, 2012). Largely due to economies of scale, the provision and

⁶ Rodriguez-Pose & Ezcurra (2010) analyzed panel data of 26 countries (19 developed and 7 developing) for the period between 1990 and 2006, and found disparate effects of decentralization on regional disparities. In high-income countries, fiscal decentralization has been associated with a decrease in, or no effect on, regional inequality, while in low- and middle-income countries, it has been associated with a significant rise in regional disparities.

management of public services is typically more cost-effective in large local jurisdictions, enabling them to provide a higher level of public services at a lower tax rate. In contrast, poor areas may lack sustainable funding sources, adequate fiscal instruments, and mechanisms to hold officials and providers accountable. Even non-tax revenues, such as user charges and fees, may be limited in scope. Fiscal inefficiencies and disparities across diverse localities motivate the use of intergovernmental grants and other financial mechanisms to achieve efficient and equitable outcomes (Bellofatto & Besfamille, 2018).

Critics of decentralization also argue that, compared to the central government, lower levels of government may be more susceptible to capture by local elites, leading to more corruption (Bardhan, 2002; Bardhan and Mookherjee, 2006; Neudorfer & Neudorfer, 2015). At the community level, elite power comes from various sources, including land ownership, kinship, education, employment, political party affiliation, education, ethnic or religious affiliation, and length of residence in the community (Dasgupta & Beard, 2007). More bribery has also been linked to the larger number of government or administrative tiers and a larger number of local public employees in a decentralized regime (Fan, Lin & Treisman, 2009), although the evidence about this correlation is quite mixed (Fisman & Gatti, 2002). Further, it has been argued that under a grant-dependent decentralization, politicians may favor organized interest groups in return for political backing and may engage in vote-buying, underscoring the vulnerability of decentralized systems to political manipulation (Khemani, 2010).

IV. Decentralizing education systems: choices and lessons from countries

This section discusses key lessons from the experience of countries, particularly those in Asia and Latin America, that have decentralized their education system. The education system is one of the most complex parts of any public sector. It has many actors and stakeholders at different levels of education, working with a multitude of inputs and outputs in thousands of separate schools and classrooms, and producing outcomes that may take years to produce (e.g., basic and technical skills) and that may not even be directly visible (e.g., beliefs, values, self-identity). Decentralization has been regarded as a way to improve the system's efficiency and effectiveness and to ensure that it is able to deliver education to all population groups, despite vast

regional disparities in resources and technical capacities. Also, although the larger part of education systems lies in the public domain, many systems are a private public mix of provision and may involve complex relationships between government and nongovernment sectors, including business enterprises and religious organizations. Lastly, it is useful to recognize that households are not only the consumers of education but also co-producers of it and potentially strong advocates for more financing, better management, and higher quality (Gunnarsson et al., 2009; Glewwe & Muralidharan, 2016; Saguin & Ramesh, 2020).

Lesson 1: No one path to effective decentralization

Decentralization reforms have taken different paths; there is apparently no one optimal decentralization design that fits the needs of every country. Countries have struggled to find the design that effectively addresses their most important education goals and challenges, frequently resulting in instances of advances and reversals (Bird & Vaillancourt, 2003). For example, the leaders of the People's Republic of China long debated the advantages and disadvantages of decentralizing the country's vast educational system. It decentralized its education system before recentralizing it, but in 1985, China's Communist Party decided to bring back decentralization. This time, the decision was for the central government to retain a guiding and monitoring role for major policies, principles, and the general plan (Hawkins, 2000). In 1993, the State Council issued the Program for China's Educational Reform and Development to address weaknesses in the education system. The policy stipulated multiple layers of supervision involving the National Educational Supervision Agency as well as corresponding agencies in local governments (Hawkins, 2000; Bahl, 2003; Wang, 2004). The central government would keep its role as the arbiter of rules and regulations; the provincial level would take responsibility for developing specific local policies and regulations in line with national education objectives; and the local government (the township level in rural areas and the district level in urban settings) would be responsible for ensuring that all children receive nine years of compulsory education. Earlier implementation of this design, however, revealed that township governments did not have the capacity to manage schools, so the local responsibility for financing and managing basic education in rural areas was transferred back to the county level in 2001.

In the 1990s, Indonesia was one of the world's most centralized nations, with regional governments possessing very limited autonomy over its education system (Bjork, 2003). In 1994, in a significant change towards decentralization, its education ministry mandated that all elementary and junior high schools dedicate 20 percent of their total instructional hours to locally tailored subject content through the Local Content Curriculum (LCC) program. While control over the curriculum was decentralized to the provinces, districts, and individual schools, neither the provincial offices nor the local schools received additional funds to implement the program. Schools had to rely on their own general operating budget or raise additional funds, including from parents through fees. However, with its "big bang" decentralization in 2000, it realigned authority and control, including over fiscal resources and expenditures (Hofman & Kaiser, 2004). It granted sweeping political power as well as revenue-collecting rights to districts and municipalities, shifting the governance and management of primary and junior secondary education to district governments, the responsibility for upper secondary education to provincial governments, and the authority over tertiary education to the central government. Financing for education was meant to be a shared responsibility of the central government, district governments, and communities, but legislation sent mixed messages about how autonomous local governments would be in raising and spending funds. Laws expanded the revenue-generating ability of district governments and allowed them to determine their own financial management, accounting, and procurement systems within broad guidelines, but the reform limited local spending autonomy. A supposedly hold-harmless component assigned part of the block grant for districts to cover the salaries of existing teachers, while at least 20 percent of the national budget and a similar percentage of the regional budget (net of salaries) would be earmarked for education. Given these mandates, some regional education officials expressed frustration at not knowing the total level of resources available to them and so found it difficult to plan ahead, to develop coherent and effective educational programs, and to assess the flow of funds through the system (Bjork, 2003).

In contrast to China and Indonesia, Thailand's reform is an example of a more cautious (and perhaps reluctant) decentralization. In the late 1990s, Thailand introduced political and fiscal decentralization reforms with the establishment of a National Decentralization Committee and the formulation of a Decentralization

Master Plan under the 1999 Decentralization Plan and Procedures Act. The National Education Act of 1999 delegated administrative and managerial responsibilities over academic matters, budget, and personnel to local governments. However, Thailand has remained highly centralized, with provincial and district governments closely controlled by the Ministry of Interior (Sudhipongpracha & Wongpredee, 2017). Its approach of partial and quite restricted decentralization was apparently motivated by concerns about a weak civil society and political party influence subverting national education goals (Unger & Mahakanjana, 2016).

The history of Chile's education reforms in the 1980s showed big changes, followed by reversals, about the form and depth that decentralization would take. After decades of decentralization, the government that came to power in 2014 aimed to reverse decentralized systems. The law passed in 2017 stipulated that municipalities would no longer be responsible for public schools. Instead, schools would be gradually regrouped into 70 broader districts, each of the districts being deconcentrated units of the Ministry of Education rather than legally autonomous units (Letelier & Ormeño, 2018).

Colombia took a different path. Its decentralization reform followed an iterative design and gradual implementation approach (Elacqua et al., 2021). In 1986, citizens began to elect mayors of municipalities, a notable change from the past when mayors were appointed by the president. In 1991, citizens started to elect governors of departments (regional governments). Prior to 2001, municipalities and departments had responsibilities for hiring personnel and for investments in infrastructure and equipment in public schools. In 2002, the law transferred the management of public schools to municipalities, but selectively, based on the population size of municipalities. Where population size exceeded 100,000, public schools were transferred to the municipality; otherwise, they continued to be managed by their departments. The certified municipalities shifted from receiving a narrow share of transfers and being under departmental supervision to gaining greater managerial and financial autonomy, while non-certified municipalities lost their limited powers to their respective departments. After 2001, other certification criteria besides population size were imposed—the fiscal, technical, and administrative capacities of municipalities to manage schools. The resource transfers

for education were used to pay teaching and administrative staff of public schools and for construction and maintenance of their infrastructure. An evaluation of the decentralization reform found that student performance in the certified municipalities was significantly better than student performance in the non-certified municipalities, that is, those managed by their respective departments (Melo-Becerra et al., 2020; Elacqua et al., 2021).

Like Colombia, the Republic of Korea (South Korea) followed an iterative decentralization of its education system. The Local Education Autonomy Act of 1991 marked the start of local autonomy in education (Jeong, Lee & Cho, 2017). It ruled that superintendents would be elected by secret ballot of the members of the board of education who would be, in turn, elected by the local assemblymen elected by constituents. The first revision of the Act in 1997 improved constituent representativeness: the electorate would consist of 97 percent of voters representing the school council and 3 percent of voters recommended by teachers' associations. In the 2000 revision, all school council members were eligible to vote for superintendents, and the number of electorates was increased to further improve constituent representativeness. Finally, responding to criticism that school council members were not elected by popular vote, the 2006 revision stipulated that superintendents would be elected by popular/equal/direct secret vote by all voters in the province. Korea's decentralization journey from 1991 to 2006 illustrates that openness to change should be an element of the reform process.

Lesson 2: Balancing centralized and decentralized roles is a design challenge.

A concern regarding decentralization is that it diminishes the central government's involvement over some key functions that it may be better equipped to fulfill compared to subnational governments. A reform design challenge is to achieve an appropriate and effective balance between the roles of the central government and subnational governments. The core responsibilities of the central authority can encompass establishing national objectives and standardized service benchmarks, incentivizing innovation across the system, disseminating critical information widely and reliably, establishing and enforcing transparent regulatory frameworks, and ensuring a fairer allocation of education funds, while those of subnational

governments can be to deliver services more effectively and efficiently. This point is discussed in greater detail in Section V.

Finding the right balance between centralized and decentralized functions is not easy; central governments have found it difficult to relinquish control. The case of Thailand, discussed previously, is an example of this. The National Education Act of 1999 maintained a significant role for the central authority in setting standards and defining procedures, while supporting only a limited role for local school boards and committees (Gamage & Sooksomchitra, 2004; Sudhipongpracha & Wongpredee, 2017). Transforming the most important function of the central agency from delivery to a more strategic one, that is, to rules-setting, enforcement, and adjudication and to establishing incentives and guardrails to improve system performance and equity, requires a profound shift in understanding its critical contribution to the system.

Local leaders and managers must also be ready and able to take on additional roles. Bjork (2003), writing about Indonesia, warns that this is not often the case: “building partnerships between individuals and agencies located at different positions in an administrative hierarchy may be an unrealistic goal in settings where the center has traditionally dominated.” The experience of Uttar Pradesh in India illustrates the same point. Local stakeholders who had not been included as decision makers or participants in the past were not able, or necessarily willing, to step up their engagement without strong incentives to do so (Banerjee et al., 2010).

One lesson to take away from country experiences is the importance of making the allocation of authority and responsibility between central and local governments very clear to stakeholders. In South Korea, the election of progressive superintendents and local council members often created conflicts about the education policies adopted by the central government, such as the National Assessment of Education Achievement, Autonomous Private High School, and Teacher Appraisal for Professional Development (Cha, 2016). A similar experience was observed in Nicaragua’s school autonomy reform process (King & Ozler, 1998; Rivarola & Fuller, 1999) during which teachers and school directors had different interpretations of the reform and their roles in it. These conflicts emerged primarily because of process rather than real policy differences, that is, the reform process failed to clarify the intended allocation of authority and responsibility over educational

administration, and the methods of communication, conflict prevention, and coordination were inadequate.

Lesson 3: Vertical and horizontal fiscal imbalances imperil reform effectiveness

Vertical fiscal imbalance is present when lower tiers of government are not able to muster the resources necessary to deliver the services devolved to them, when the ability of local governments to provide the services entrusted to them is hindered by insufficient economies of scale, limited sources of fiscal revenues, inadequate transfers from the central government, and restricted fiscal autonomy (Bird & Vaillancourt, 1998; Bahl, 1999). Horizontal fiscal imbalance means that regional inequalities in revenues and expenditures have widened with decentralization. Because poorer regions within countries tend to have lower taxable capacity relative to their expenditure need, it falls to the central government to take action about equalizing such disparities.⁷ If properly designed, intergovernmental fiscal transfer mechanisms, such as revenue-sharing, general purpose or unconditional grants, and specific or conditional grants, can equalize fiscal conditions across regions in a country. Another powerful tool of fiscal decentralization is to give more autonomy to local governments over their revenues and expenditures, thus allowing them to make more efficient and timely decisions regarding both resource generation and resource use.⁸

Different paths to fiscal balance are illustrated by reforms in Latin American countries. In Argentina, a long-term federal country with a history of strong provincial governments, approximately one-half of its total public expenditures occurs at the subnational level, indicating a high degree of fiscal decentralization on the expenditure side—but the national government still collects the most important taxes.

⁷ For example, regional inequality worsened in China under one of its past fiscal decentralization regimes, as shown by the fact that in 2005 its richest province, Shanghai, had more than eight times the per-capita spending of its poorest province, Anhui (Shen, Jin & Zou, 2012). Colombia's fiscal decentralization also increased regional income disparities in the early 2000's because the decentralization policy did not include adequate incentives from the national to the subnational levels to promote efficient and equitable use (Bonet, 2006).

⁸ Borge, Brueckner and Rattsø (2014) tested a principal tenet of fiscal federalism that spending discretion, when granted to localities, allows subnational governments to adjust to suit local demands. The 1986 Norwegian reform shows that earmarking central transfers for particular uses does not allow funds to be spent according to local tastes or needs, one of the motivations for decentralization.

The result has been a significant degree of vertical imbalance and a complicated legal framework of intergovernmental transfers and tax-sharing regimes to address horizontal imbalances (Nicolini et al., 2002). A measure of the success of the combined policies is that the reform seems to have improved the delivery of education and health services during the period 1970-94 (Habibi et al., 2001) and has achieved higher average school achievement scores (Eskeland & Filmer, 2002). Similarly, Chile's experience during the past two decades demonstrates the importance of giving local governments adequate resources to fulfill their responsibilities. Panel data between 2005 and 2013 show that municipalities with greater autonomy performed better when administering schools, but success critically depended on the level of resources of local governments and whether they had the autonomy to decide on how to use them once all basic municipal obligations were met (Letelier & Ormeño, 2018).

Many studies have been written on what would be an optimal fiscal transfer mechanism (e.g., De Mello Jr., 2000; Bird & Smart, 2002). Formula-based allocations have the advantage of being more transparent and predictable, which are good features from the point of view of local governments. There are no guarantees, however, that the chosen formula will result in transfers that are sufficient to meet local needs. The implementation of a formula-based mechanism depends on the availability of reliable, accurate, and timely data from all local areas, and on the quality and integrity of constructing the allocation formula itself. There are other allocation mechanisms, such as a hold-harmless provision that is based on existing policies and previous allocations, but this approach does not consider significant changes in local needs and preferences over time that may be due to demographic shifts and economic growth.

Decentralizing countries have used additional approaches to address clear regional disparities, including capitation grants to rural schools and scholarships for indigenous and low-income students. In Brazil, in 1996, the *Lei de Diretrizes e Bases da Educação Nacional* launched the Fund for the Maintenance and Development of Basic Education and Teacher Appreciation to equalize financing for basic education. This fund guaranteed a minimum per pupil expenditure in primary schools throughout the country and partially equalized per pupil funding within states. In mid-

2023, the Brazilian Senate unanimously approved a constitutional amendment increasing the federal government's contribution to the fund from 10 to 23 percent, resources that will be transferred directly to the poorest municipalities instead of states, to further improve the equity of public investments in education (Loureiro et al., 2020). In the mid-90s, Colombia experimented with a pro poor voucher program aimed at decongesting the crowded public secondary schools in urban areas. The program combined resources from the central government and municipal governments, which were willing to participate to finance the attendance of students from the poorest economic strata in private schools. An evaluation of the program found that the program increased both the graduation rate and learning outcomes of program beneficiaries (Angrist et al., 2002).

Lesson 4: Unequal administrative and technical capacities across regions weaken implementation

Fiscal imbalances are not the only cause of regional disparities in education. A mismatch between decentralized functions and local technical and administrative capacity also hinders efficient and effective delivery of public services, resulting in significant inequalities. Subnational governments may lack adequate expertise to carry out their new functions in a satisfactory manner, and marginalized communities may struggle to articulate their needs and preferences about public goods. The gains from decentralization in providing public goods are imperiled by the low institutional capacity of local authorities.

Argentina's experience with devolving secondary education to provincial control and further to local schools and communities in some provinces in the early 1990s illustrates this point. The devolution enhanced average student performance, but the variation across local administrative capacities and poverty levels shows that decentralization benefited only those schools in non-poor municipalities in well governed provinces (Galiani, Gertler, & Schargrotsky, 2008). It had no discernible impact on schools in non-poor municipalities within poorly governed provinces or on schools in poor municipalities within well-governed provinces. Furthermore, test scores declined in schools transferred to poor municipalities within inadequately managed provinces. These results suggest that decentralization not only exacerbated disparities in educational outcomes but also diminished outcomes for

the most disadvantaged students—those in schools situated in impoverished areas of provinces that lack technical skills and advocacy avenues.

Building institutional capacity at lower tiers of government alongside the decentralization of responsibilities and authority is key. If political participation, socioeconomic status, and education level of the community are low, then decentralization may not reap its gains (Machado, 2013). Ceará, historically one of Brazil's poorest states, exemplifies how to strengthen local administrative and technical capacities and thus eliminate disparities across geographies effectively.

In just over a decade, Ceará emerged as one of the top-performing states in the country without sacrificing equity (Loureiro et al., 2020). By 2017, students from its lowest socioeconomic quintile achieved the highest scores compared to their peers across Brazil. This success stemmed from a strategic shift from political to technical criteria in the selection of principals and teachers. This change was part of a broader reform initiative focused on achieving literacy by the end of second grade. Key reforms included implementing effective student assessments, establishing a well-defined and focused curriculum, ensuring the presence of competent and motivated teachers, and promoting autonomous and accountable school management. Additionally, Ceará's education department developed and consolidated a comprehensive data infrastructure from student, classroom, municipality, and state levels, enabling the tracking of performance and progress and timely identification of gaps.

V. Specific design and implementation issues in education systems

This section highlights specific administrative design and implementation challenges of decentralization, which have received substantial attention in the literature. A key message from previous studies is summarized by Prud'homme (1995, p. 201) as follows:

In many cases the problem is not so much whether a certain service should be provided by a central, regional, or local government, but rather how to organize the joint production of the service by the various levels. In many-if not most-cases, such measures have an enormous potential and could, if properly designed and implemented, significantly improve the efficiency of the public sector. Decentralization measures are like some potent drugs, however: when prescribed for the relevant illness, at the

appropriate moment and in the correct dose, they can have the desired salutary effect; but in the wrong circumstances, they can harm rather than heal.

Locus of decision domains

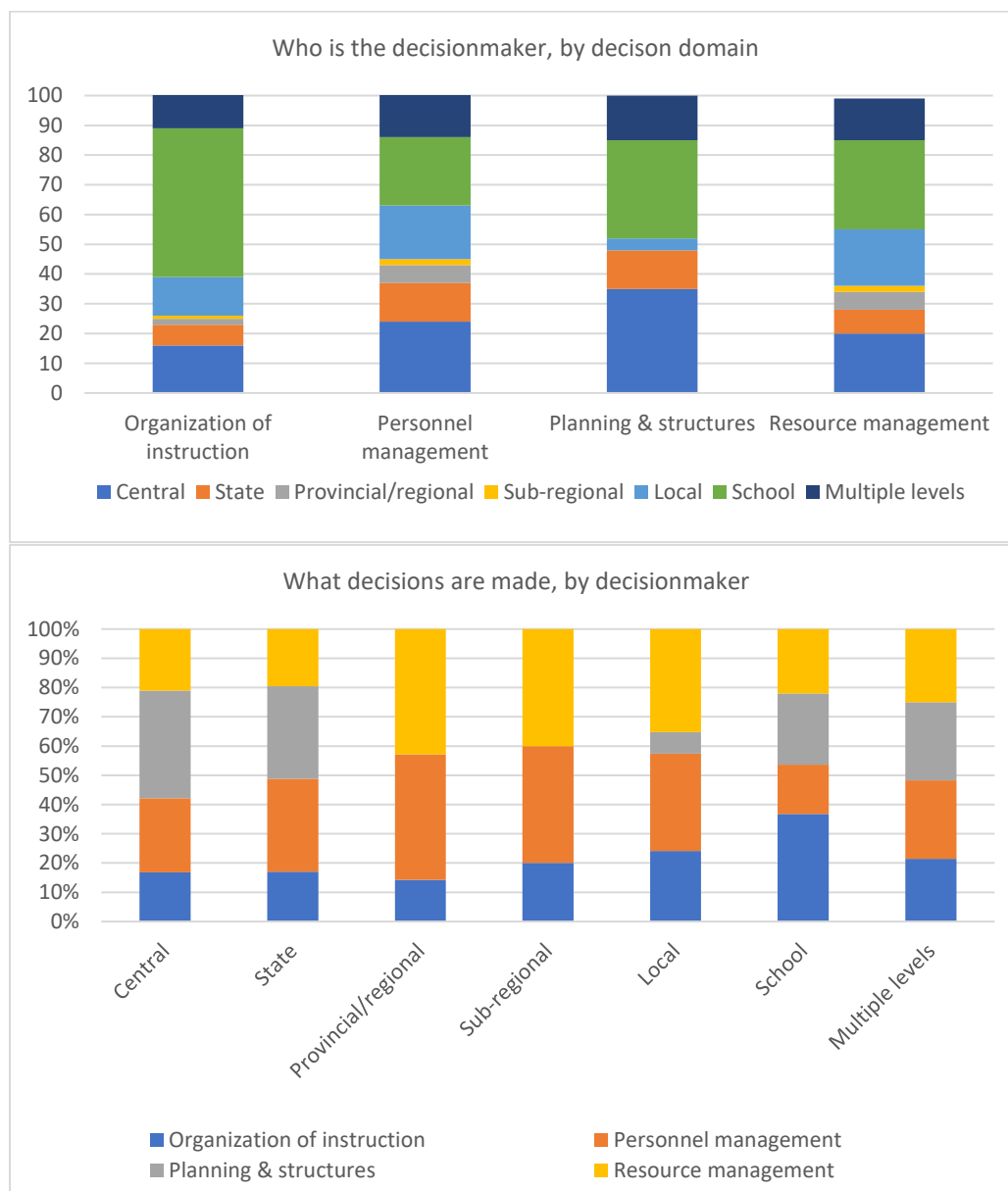
Issues of how far to devolve decision-making, which decisions to devolve, and to whom continue to be debated. The discourse implies that decentralization can be partial and selective, rather than complete and across-the-board, and that it demands harmonization and coherence in its design. There are a number of ongoing experiments worldwide about the devolution of limited functions to intermediate governments and local governments, and to community-based management and financing of schools. The decision domains involved include curriculum development, teaching methodologies, student assessment, textbook production and distribution, teacher recruitment and compensation, school infrastructure development and rehabilitation, educational funding allocation, and parent-teacher connections. And, within each of these decision domains, there are even more specific functions to consider.

To illustrate the scope of the design challenge, Figure 1 summarizes the locus of key decision domains in public lower secondary education in OECD countries,⁹ whether at the central or state level, regional or sub-regional level, local level, or multiple levels. Across 36 OECD countries and economies with available data, an average of about one-third of decision areas are made at the central or national level; one-third are taken at the school level; 13 percent are made at the local level, which is the level just above the school level; and about 5 percent are made at the regional or sub-regional levels (OECD, 2018). The state and national levels are grouped together, since in a federal country the most central level at which decisions about education are taken is typically the state level, and the most central level in a

⁹ Figure 1 is based on the Locus of Decision-making survey developed by OECD for its Education at a Glance report (e.g., OECD, 2022). The survey categorizes educational decisions into four domains (organization of instruction, personnel management, planning and structures, and resource management). In each domain, the survey seeks to determine what roles are played by actors at different levels of the system for each of about one hundred different decisions. These decisions are based on a streamlined version of earlier rounds of data collection in 2003, 2007, and 2011 on levels of decision making in education. The survey covers 29 developed and 7 developing countries. In an earlier study of five East Asian countries, using a similar grouping of decisions, King and Guerra (2005) found that curriculum content, instruction time, teachers' salaries, and allocating resources to schools remained the domain of the national or state and provincial governments, whereas the choice of teaching methods and support activities for students (such as remedial classes) was left entirely to schools.

non-federal country is the national level. Similarly, the regional and sub regional levels refer to the second-most central level in federal and non-federal countries, so these levels are together as well. In some countries, decisions are taken by a combination of government levels; in OECD countries, 14 percent of decisions are shared, on average, by multiple levels.

Figure 1. Percentage of decisions taken at each level of government, OECD countries and economies, by domain of decision-making



Source: OECD (2018)

Note: These data pertain to lower public secondary schools in 36 OECD countries and partners.

In terms of decision domains, decisions regarding the organization of instruction are taken by schools or the local level in most countries. Most decisions on personnel management and the use of resources are taken at the local or school level in around one-half of countries. Decisions on planning and structures are mostly taken at one of the more centralized tiers of government. Setting curriculum content and standards, instruction time, and teachers' salaries, and allocating resources to schools tend to fall on the national, state and provincial governments. The allocation of responsibilities is further complicated, though not shown in the figure, by the need to decide the assignment of these functions across the education system's primary, secondary, and tertiary education levels, and also preschools and adult literacy initiatives.

Many countries have been reluctant to delegate standard setting and decisions on core curricula to local governments and schools, reflecting the belief that education helps to promote a national identity as well as shared values and culture. The management and quality assurance functions of local education councils and school committees remain fairly limited, bounded by a national framework. For instance, China's central government continues to keep a close watch on curriculum, selection of textbooks, school-leaving qualifications, and teacher education and retains control over core subject areas such as moral-political education (Hawkins, 2000). A national curriculum framework—developed primarily by the central government with some consultation with local governments and adopted in 1992—specifies compulsory courses. Local autonomy in education content appears to be limited to art, music, and sports. Continuing to take control over the national core curriculum, in 1999 the central government developed new curriculum standards for 18 subject areas for the nine-year compulsory education level. These standards emphasized the need for the curriculum to respond to rapid changes in technology and China's economy (Wang, 2004). The new core curriculum allows for additions by local areas and schools, however. Similar to China, Indonesia's central government determines the curriculum framework and structure for basic and secondary education (Arze del Granado, Martinez-Vazquez, & Simatupang, 2008; Muttaqin et al., 2016). The central government established minimum service standards for education and pulled back from the earlier policy of allowing local governments to formulate part of the curriculum in basic education.

Likewise, in Thailand, the Commission of Basic Education—a pillar of the central education agency—is responsible for proposing standards and the core curricula for basic education in line with the National Scheme of Education, Religion, Art, and Culture. Countries outside East Asia show a similar reluctance to surrender control over the substance and standards of education to subnational governments and schools. In Brazil and Colombia, the central authority maintains curriculum-setting, regulatory, and quality assurance functions (Bruns, Filmer, & Patrinos, 2011; Elacqua et al., 2021).

Redundancies and overlapping and contradicting assignments of functions lead to confusion and inefficiencies. Such is the outcome when the decision-making authority on matters regarding teachers, school principals, and other school personnel resides in different tiers of government. For instance, Indonesia illustrates a mixed—and confusing—policy regarding teacher management (Bjork, 2004; Ostwald, Tajima & Samphantharak, 2016). The 2003 Education Law stipulated that the central and district governments share responsibility for teacher training and management, but many aspects of teacher management remain centralized, including approving teacher promotions, managing the personnel database, registering personnel actions, and transmitting this information to the payroll system. While districts manage personnel and payroll, the recording of such actions is still centralized, and, according to civil service law, the central government retains authority over teacher wages, allowances, family and rice allowances, and honoraria. Without authority or significant influence over teacher related matters, local governments and schools lack a critical tool to influence the quality of education. Teachers also claim that management processes are neither more transparent nor better monitored with decentralization, even if the process occurs at the district level.

In countries outside East Asia, the approach to managing teachers has also been mixed but reveals a willingness to experiment. In Chile and Mexico, control over teacher contracts is centralized, and a national salary scale standardizes teachers' pay (Umansky & Vegas, 2007; Ornelas, 2018). In Colombia, although the contracts of permanent teachers have been fully transferred to local governments, the central government, which pays their salaries through transfers, imposes restrictions on the number who can be hired and manages the contracts of temporary teachers, who

make up about one-fourth of teachers (Elacqua et al., 2021). Other countries have encouraged greater local participation in teacher management. In El Salvador, community education associations are legally responsible for hiring and firing teachers (Jimenez & Sawada, 1999). In Brazil, communities across an increasing number of municipalities rely on direct elections to select school directors (Namo de Mello, 2005).

Countries have sought to mobilize local funds for schools, but this eagerness of central governments to delegate revenue-raising powers to local governments has been tempered by concerns about the capacity of local governments to do so. Fiscal decentralization was a key feature of China's reform, with the central government reducing its subsidies to local schools and local governments intensifying their efforts to find alternative funding for basic education through taxes, community contributions, and income from enterprises (Hawkins, 2000; Shen, Jin & Zou, 2012). As the central government cut school subsidies, the share of nongovernmental sources rose from 19 percent in 1993 to 24 percent in 2000 (Hawkins, 2000). Reform documents suggested six sources of funding: urban and rural surcharges levied by local governments, contributions from industry and social organizations, donations by individuals and community organizations, tuition fees, income from school-run enterprises, and central authorities. In 1994, however, the central government reversed itself and removed certain tax authority from local governments and continued to fund teachers' salaries and certain capital expenditures, citing growing disparities across regions (Shen, Jin & Zou, 2012). The practice of charging fees is prohibited by the central government but encouraged by local governments, which use some of these additional resources to fund a compensatory mechanism. Local governments define the fee scale and collect a certain percentage from fee revenues; for example, district governments receive 25– 50 percent of fee revenues collected by schools. The revenues remitted to local governments are then used to help other schools repair their school buildings and improve their facilities (Wang, 2004).

Citizen participation and school-based management

How deep should education decentralization go? What are the benefits of involving community members in education decisions and parents in school

management? School autonomy and greater parental participation have been frequently proposed as ways to make schools better. This is the type of decentralization that seems to have garnered the most excitement and scrutiny.

But under what circumstances do citizen participation, and school autonomy produce the best education outcomes? Theory would suggest that it is schools that have the autonomy and capacity to manage that are able to improve educational outcomes. A cross-country study in Latin America confirms that schools with more experienced principals, more educated parents, and better socioeconomic standing are more likely to act autonomously, have parental participation and provide adequate school supplies, but that central mandates are not sufficient to produce these behaviors (Gunnarsson et al., 2009). There have been numerous studies of the effect of community participation and of more autonomy and authority on schools worldwide.¹⁰ We highlight just a few of their findings here.

Involving community members is expected to increase the accountability of local governments and improve public goods, but excessive and haphazard engagement may not lead to better education results. Community members can shape the direction and performance of schools by making them more responsive to local needs and accountable. Their involvement can enhance efficiency by making financial decisions more transparent, curbing corruption, and encouraging investments; they can also improve legitimacy, effectiveness, and equity. For example, in Indonesia, communities where elites and non-elites are able to participate in democratic self-governance were better able to redress elite capture when it occurred (Dasgupta & Beard, 2007). Decentralization does not appear to have favored landed households in terms of access to public goods; what seems to have mattered in Indonesia is whether local government officials are elected or appointed (Chowdhury & Yamauchi, 2010). In Bangladesh, when local community groups see themselves as the beneficiaries of a food transfer program, the benefits are better targeted to poorer households (Galasso & Ravallion, 2005). In Pakistan, community participation is not more effective if technical know-how and information are needed, but does contribute to effectiveness when nontechnical decisions are

¹⁰ See, for example, impact evaluations by Galiani, Gertler, & Schargrodsky (2008), DiGropello & Marshall (2011), Jimenez & Sawada (2014), Pradhan et al. (2014), Duflo, Dupas, & Kremer (2015), Barrera-Osorio et al. (2020), and others summarized in Table 1.

involved (Khwaja, 2004).¹¹ To be effective, community participation requires structured opportunities that support classroom teaching and school management, without getting in the way of effective learning strategies (Silberstein, 2023).

School-based management (SBM), the transfer of more decision-making authority to schools, has been a widespread policy in many countries to improve school performance. The underlying assumption behind this type of decentralization reform is that vesting decision-making authority at the school level fosters greater accountability, efficiency, and adaptability to local circumstances (Bahl, 1999). There have been excellent reviews of past studies on school-based management (Fullan & Watson, 2000; Grauwe, 2005; Gunnarsson et al., 2009; Patrinos & Fasih, 2009; Bruns, Filmer, and Patrinos, 2011; Santibanez, Abreu Lastra, & O'Donoghue, 2014; Carr-Hill et al., 2018;¹² Cornito, 2021; and Anand et al., 2023). These studies conclude that, despite the widespread adoption of school-based management (SBM) around the world, the effectiveness of this reform in improving educational outcomes has been mixed. Some of the reasons for the mixed results are that central authorities may have severely limited the autonomy of school managers (principals and/or members of a school management committee that may include elected parents and community leaders), the roles of the stakeholders are unclear or confusing, resulting in conflictual power dynamics within the school, and schools do not have adequate financial resources or management and technical capacity.

Community councils and school committees involving local officials, civic leaders, and parents have typically been the vehicles for managing schools, but SBM has taken many different forms across countries. In Thailand, each school is supposed to have a board composed of representatives of parents, teachers, community

¹¹ According to Khwaja (2004), a 10-percent increase in community participation in making nontechnical project decisions is associated with a 3.9 percentage-point increase in maintenance; the same increase in community participation in technical decisions, however, is associated with a 2.1 percentage-point decrease in maintenance.

¹² For example, Carr-Hill et al. (2018) reviewed and synthesized evidence from 35 quantitative and qualitative studies evaluating 17 individual interventions on the effectiveness of school-based decision making on educational outcomes. The studies indicate that devolving decision-making to the level of the school has yielded robust positive effects on student test scores, especially in middle income countries, but weaker beneficial effects on dropout, repetition rates, and teacher attendance. They also indicate that school-based decision-making reforms appear to be less effective in communities with generally low levels of education, where parents have much lower status relative to school personnel and are not able to express their needs and preferences.

organizations, alumni, and students. Parents' organizations with jurisdiction over schools were to establish a quality assurance system, and communities were urged to participate in educational provision by contributing their experience, knowledge, expertise, and local wisdom for educational benefits (Patrinós, Arcia & MacDonald, 2015). But while decentralization received broad support among Thai school principals and board members, they expressed the need for more information about the reform as well as leadership and management training, especially for those concerned with reviewing school budgets, designing strategic plans, and monitoring progress (Gamage & Sooksomchitra, 2004). In China, school principals have been charged with greater responsibility than in the past and are expected to generate additional resources for the school. They can choose teachers without much intervention from the district or county, as well as determine incentives for teachers (Wang, 2004). In Indonesia, each school is supposed to have a School Committee—declared an independent body by the 2003 Education Law—to provide advice, direction, and support for managing schools (Pradhan et al., 2014). In Latin America, legal responsibility for managing schools has differed by country (Gunnarsson et al., 2009): In Argentina and Peru, the decisions on hiring, promotions, and salaries are taken at the state or provincial level, while in Bolivia and in the Dominican Republic, those decisions belong to the national government. In Brazil, Chile, Colombia, and Honduras, teachers are hired at the state, municipal, or school level, but salaries are set at the central level, and the decisions regarding school facility maintenance, textbooks, and curricula are taken at different levels across countries and even across parts of countries.

As for India, Banerjee et al. (2010) found that, in the state of Uttar Pradesh, although most villages were stipulated to have a Village Education Committee (VEC), parents were not aware of the existence of those committees, even though they were supposed to be members. Many VEC members were unaware of the extent of problems in their schools and of their primary responsibilities, which included hiring teachers, managing resources, and monitoring performance. Three interventions aimed to boost community engagement by providing information about existing institutions, training community members in child assessment tools, and organizing remedial reading camps, but none of these interventions enhanced community participation, teacher dedication, or academic outcomes, according to

randomized evaluations. The third intervention enlisted volunteers to teach children reading skills but did not increase their engagement with the school. The evaluations attributed the general lack of success to low levels of literacy of parents and concluded that more information about schools, without facilitating how to use that information, is not likely to be effective. While villagers were ready to volunteer, many were hesitant to do so without proper training and encouragement from facilitators.

What is the best model of school-based management? Table 1 summarizes the principal features of SBM models in specific countries, with a focus on rigorous evaluations of such reforms in Asia and Latin America. The summary is not a comprehensive or systematic review and does not include purely qualitative studies or reports that have not been published in academic journals. Nonetheless, this set of studies shows a wide range of possible reform designs and outcomes, implying the importance of considering local context and implementation capacities in allocating decision-making authority and of offering technical and administrative support to those schools that are not ready to manage.

Table 1. Impact of school-based management (SBM): Findings from selected impact evaluations

Authors	Country	Reform or program	Impact
Pandey, Goyal, & Sundararaman (2008); Pandey (2023)	India (3 states)	Information campaign (several public meetings) about community's role in school management and performance;	Improved student test scores in reading (14-27%), writing (15%) and math (27%); better teacher effort measured as teacher attendance and activities

Gershberg, Meade, & Andersson (2009)	Guatemala	Community established schools, and community participation in existing rural schools; schools determine expenditures; in some schools, also hiring and firing teachers	In community established schools, 30% higher teacher attendance rate than in official schools, but teacher turnover very high
DiGropello & Marshall (2011)	Honduras	Programa Hondureño de Educación Comunitaria (PRO HECO) community school program in rural areas	Improved teacher effort, increased parental involvement, raising student achievement; but lower levels of teacher experience, training, parental education, and smaller class sizes
Gertler, Patrinos & Rubio Codina (2012)	Mexico	AGEs (Apoyo a la Gestión Escolar, or School Management Support), began in 1996	Raised parent involvement and student outcomes; reduced school failure (4%) and grade repetition (4.2%) in beneficiary schools
Khatti, Ling, & Jha (2012); Yamauchi (2014)	Philippines, selected areas	Training in SBM and direct funding based on school improvement plans	Improved student performance (1.2 ppt higher in math, 1.4 ppt higher in English, 1.8 ppt in science). A later study shows even larger effects.
Pradhan et al. (2014)	Indonesia	Joint planning meetings of school committees and village councils; randomized elections of school committee members	Student test scores increased by 0.17 standard deviations for linkage, and by 0.23 SD for linkage plus elections

Jimenez & Sawada (1999, 2014)	El Salvador	Educación con Participación de la Comunidad (Education with Community Participation, or EDUCO)	Reduced absenteeism; most administrative processes did not shift to the local level; but hiring and firing decisions differ from traditional schools
Santibanez, Abreu-Lastra, & O'Donoghue (2014)	Mexico	Launched 2008–2009 in six Mexican states	Significantly improved Spanish test scores for 3rd graders, but more investments in capacity building in schools needed
Moreno, Gertler & Patrinos (2019)	Mexico	National program, <i>Programa Escuelas de Calidad</i> (2001-14), SBM plus a monetary grant	Evaluation in state of Colima: No improvement in learning outcomes in treatment schools, in general, but more intense treatment increased student test scores during the first year
Muralidharan & Singh (2020)	State of Madhya Pradesh, India	School Management Committees, and school improvement plans	No impact on learning outcomes in the short run (3- 4 months after the intervention) or over a longer horizon (15- 18 months after program rollout)
Barrera-Osorio et al. (2020)	Mexico	Two experiments: financial resources to parent associations, and information to parents about how to support their children's learning	No impact of financial grant, but information increased parental involvement, improving student behavior in school

Source: Author

One last point to make here about the effectiveness of SBM pertains to the quality of school leadership. Umansky and Vegas (2007) reviewed three of the SBM

reforms in Central America mentioned in Table 1. They conclude that SBM produces substantive changes in management and teacher characteristics and behavior, thus explaining a significant share of improvements in student learning. Bloom et al. (2015) studied a range of management practices in over 1,800 schools educating 15-year-olds in eight countries (Brazil, Canada, Germany, India, Italy, Sweden, the U.K., and the U.S.). They find that autonomous government schools, such as U.K. academies and U.S. charter schools, have significantly higher management scores than do regular government schools and private schools, that management quality depends on the leadership of the school principal and better governance, and that better school management quality improves educational outcomes. A one-standard deviation increase in the index is associated with a 0.2 to 0.4 standard deviation increase in student performance.

Harmonizing public and private roles in one system

The private sector is an increasingly important provider of education in many developing countries, even in basic education, so the role of private providers in a decentralized system is a relevant question to raise here (Bangay, 2005; Andrabi, Das & Khwaja, 2008; Sari, 2018). Should the supervision of private providers be part of the decentralization reform like public schools? Should private providers receive public subsidies like public schools? Countries in Latin America have been pioneers in the adoption of models of administrative and fiscal decentralization in education, including the role of the private sector.¹³ For example, since 1980, Chile has implemented a series of very different forms of education decentralization, which involved the private sector. During its military regime from 1973 to 1989, the central government launched a voucher system, which financed both public and private schools to allow parents to choose between two school types for their children (Schiefelbein & Schiefelbein, 2000). To promote this educational market, the requirements for private providers to open schools and receive state funding were minimized, and the national curriculum and labor laws for teachers were relaxed (Bellei & Munoz, 2023). Also, student test scores from an official national evaluation system for academic achievement (known as SIMCE since 1987) became the basis

¹³ The share, on average, of private spending in primary to post-secondary non-tertiary educational institutions is low across the OECD, but it can reach high levels in countries such as Colombia and Türkiye (20%), with comparatively low per-capita income levels (OECD 2022).

for published school rankings that could help with school choice. This reform was based on the idea that encouraging a higher level of competition between public and subsidized private schools would motivate all schools to perform better and that fully informed parents can and will “vote with their feet” in response to disparate school performance.

Evaluations of Chile’s reform indicate that the competitive environment it created did not necessarily lead to better education outcomes for all students (Hsieh & Urquiola, 2006; Contreras et al., 2010). Although parents could exercise their right to choose the school for their children, schools were not obligated to admit them, so subsidized private schools were able to practice “creaming,” that is, admit only preferred students with characteristics that predict good academic performance. Even some public schools engaged in this practice, leaving out students who tended to come from a disadvantaged socioeconomic background. These findings exacerbate the concern that, although private providers may be more cost-efficient, their focus on profit (or public funding) could compromise national education goals.

As mentioned above, Colombia launched a program in 1990 to allow low income students to enroll in private schools using a voucher funded by the departments (King, Orazem & Wohlgemuth, 1999). Using excess private school capacity was estimated to be less costly to local governments than expanding the capacity of public schools in the same areas. An impact evaluation found that the voucher program increased enrollment rates and completion rates, as well as student scores on standardized tests (Angrist et al., 2002). Another program, *Colegios en Concesion* (CEC) or Concession Schools in Bogota, also used the private sector to improve schooling for lower-income students. The program contracted private institutions that had managed private schools successfully using a competitive bidding process to manage subsidized public schools. The expectation was that these privately-\ managed schools would provide high-quality education to poor students because of their greater flexibility, fewer bureaucratic restrictions, and strong performance-based accountability (Gershberg, González & Meade, 2012). Compared to traditional schools, concession schools tended to have a clearer and more structured pedagogical model, higher rates of participation of teachers in professional development and more staff meetings related to instruction, more

frequent dismissal of teachers, and more autonomy in their selection of school staff. Evaluations of the program found that concession school students achieved higher average scores in math and reading tests (Barrera-Osorio, 2007; Bonilla, 2011).

Several studies on Asian countries, including the Philippines and Indonesia, also find that students in private schools tend to perform better than students in public schools (Yamauchi, 2005; Bernardo et al., 2022; Sari, 2019). One explanation for this achievement gap is that more highly motivated students with more supportive parents tend to choose more selective private schools (Yamauchi, 2005). Another explanation is that schools that rely more heavily on local funding sources, such as fees and contributions from the local school board or parent teacher associations, face stronger pressure to be more efficient and to perform better (Jimenez & Paqueo, 1996; James, King & Suryadi, 1999).

The appropriate role of the private sector in decentralized systems deserves serious consideration. The design challenges are to use the greater flexibility and autonomy provided by decentralization to attract and contract good private providers and to establish incentives, as well as guardrails, that will encourage good performance but will not allow them to discriminate against low-income students or to game the testing mechanism that measures their performance.

VI. The Philippine experience with decentralization

The Local Government Code of 1991

Decentralization is not new to the Philippines. Like many other countries around the world, the Philippines decentralized parts of government three decades ago. The Local Government Code of 1991 (LGC) devolved substantial spending, taxing, and borrowing powers to LGUs with the expectation that moving governance closer to the people will generate welfare gains and diversify revenue sources (Balisacan, Hill & Piza, 2008; Diokno, 2012; Llanto, 2012). Block grants were transferred through the Internal Revenue Allotment (IRA) to lower levels of government—provinces, cities, municipalities, and barangays. This system of automatic revenue-sharing procedures replaced the previous system of negotiated transfers to subnational governments. As a result, revenue transfers no longer depend primarily on subnational officials lobbying national politicians (Eaton, 2001). Forty percent of

tax revenues collected by the central government would instead be automatically shared with local governments based on vertical and horizontal allocation formulae, and within local governments, the grants would be split based on population, land area, and an equal-sharing provision (Manasan, 1992).¹⁴ The LGC also gave local governments greater fiscal autonomy and flexibility to determine the distribution of spending, taxes and borrowing within limits set by the national government guidelines.

Has the LGC been a successful model for decentralization? Has it achieved its purpose? Accounts of its overall implementation serve as cautionary notes for further reforms of the country's education system. Briefly, some of their findings are:

- The LGC was a historic and ambitious decentralization act, but soon thereafter, legislators attempted to claw back the authority over devolved functions, reflecting national politicians' strong resistance to transfer authority to and broaden the fiscal autonomy of local leaders (Eaton, 2001). In future efforts, assessing how ready national leaders are to devolve significant functions in the education system to local governments, communities, and schools is crucial. This experience suggests that the design of future reforms should take reform readiness into account and that the process should be phased a more selective.
- The block grants from the national government to local governments doubled to the mandated 40 percent of all internal revenues, but even these increased transfers were considered not enough to undertake the functions that had been devolved to local governments (Manasan, 2009). Selecting, deploying, promoting, and paying teachers is inarguably important to the quality and performance of the education system. Paying teachers and other school personnel is also probably the largest single expenditure of the national government. Which of the functions related to teacher management should be transferred to local governments or to schools considering local capacities?

¹⁴ The 1991 LGC has a specific vertical allocation formula which assigns 23 percent to provincial governments, 23 percent to city governments, 34 percent to municipal governments, and 20 percent to barangays. Likewise, it has a horizontal allocation formula, which distributes the allotment to individual local governments as follows: 50 percent based on population, 25 percent equal share to all, and 25 percent by land area (Manasan, 2005).

- The LGC gave municipalities limited taxing powers, in particular, restricting the maximum tax rates that they could impose. There is a need to review tax assignments so that local governments would have broader revenue-raising powers. Unfunded mandates imposed on local governments defeat the purpose of those mandates.
- There is also a need for a clearer and more accountable assignment of expenditure by eliminating particular sections of the code (Diokno, 2012; Llanto, 2012). Those sections have become a way for national government agencies to continue to control devolved activities and for national politicians to insert funding for pet projects, distorting local decision-making and preferences. The study by Diokno-Sicat and Maddawin (2018), however, shows that local policymakers exercised an average of 72 percent discretionary power over LGU expenditures from 2009 to 2016, implying that local development depends on how much of the budget is within local discretion.
- Matching grants are needed to improve equalization transfers to local governments, and performance-based grants can be used to motivate greater local revenue mobilization (Llanto, 2012). Examples of such collaboration are consolidation of local services, better coordination of local government activities, and resource pooling for local service delivery. This suggests that providing public goods that have interjurisdictional benefits makes sense to improve both efficiency and equity.

Experience with decentralizing the health sector

Several studies have evaluated the impact of decentralizing the health sector, in particular (Capuno & Solon, 1996; Schwartz et. al., 2002; Capuno et al., 2012; Kelekar, 2012; Llanto, 2012; Kelekar & Llanto, 2015; Abrigo, Tam & Ortiz, 2023). These studies are worth noting here because the structure of the health system has similarities with that of the education system. The studies do not reach a unanimous assessment about whether decentralization has improved the coverage, quality, and equity of health service provision, but they contribute useful insights into how further decentralization might proceed and how it might affect the education system.

Public health services have been devolved to different levels of government. Cities and municipalities became responsible for providing primary health care, including family planning, maternal and childcare, nutrition services, and disease control services at city or municipal health centers. Provinces were mandated to provide hospital care through provincial or district hospitals, while tertiary care services were to be delivered through regional hospitals managed by the central government (Schwartz et al., 2002; Lavado et al., 2010). The traditional referral links across health providers before devolution were functionally severed, but decentralization encouraged cooperative arrangements among local governments and with the national government. Such initiatives include the establishment of Inter Local Health Zones and Province-wide Investment Plans for Health (Capuno, 2016).

As much as 60 percent of national government health personnel have been devolved to local governments with the 1991 LGC, but only 40 percent of the central government's allotment prior to decentralization is being transferred to local governments (Manasan, 2009; Abrigo, Tam & Ortiz, 2023). This finding suggests a vertical fiscal imbalance. Nonetheless, controlling for community level characteristics, per-capita local government health expenditure has apparently increased after decentralization (Schwartz, et al., 2002) and is positively correlated with the number of devolved facilities in municipalities (Capuno & Solon, 1996). In addition to block transfers, municipalities and cities have received funds for incurring capital outlays such as construction of hospitals, and purchase of equipment. In times of emergencies, LGUs are eligible for a Calamity Fund disbursed by the President. Local governments also receive a subsidy for PhilHealth, the national social insurance system, in the form of reimbursements to public hospitals and capitation funds for health centers. Also, multilateral institutions, such as the World Bank and the Asian Development Bank (ADB), could channel financial support to the LGUs, mostly through the national government.

The composition of health expenditures changed with devolution, but not necessarily in the desired direction. The share of more public good-type health expenditures (e.g., immunization, infectious disease control, maternal and child health) decreased, while the share of more private good-type expenditures (e.g., curative hospital services) increased (Schwartz, et al., 2002; Arze del Granado,

Martinez-Vazquez, & McNab, 2018). The shift in the distribution of health expenditures may be the result of local political influence, one of the consequences of the spending authority devolved to local governments. Regardless of the spending guidelines set by the central government, governors and mayors could exercise discretion in preparing the health budget and reviewing local development plans. And one manifestation of this is local governments competing with other local governments for scarce healthcare inputs, bidding up the price of, say, physicians (Kelekar & Llanto, 2015). These observations are useful cautions for the education system.

On a positive note, decentralization instigated local innovations to deliver health services (Capuno, 2011). For example, the provinces of Bukidnon and Guimaras established their own health insurance programs. The cities of Puerto Princesa and Cotabato put up satellite clinics and used barangay halls to provide curative care services in remote areas. The cities of Cebu, Muntinlupa and Naga and the province of Bulacan were the first to adopt “e-governance” using information technology to facilitate and ensure transparency in government transactions. Local fiscal capacity, poverty rates, and the mayor’s experience and term of office were the important drivers of these innovations, illustrating that local leaders respond to electoral incentives, especially if they have the skills and organizational resources to innovate.

Finally, health outcomes improved overall since 1991, but regional disparities have persisted. The NCR largely stayed consistent in achieving the lowest infant mortality and under-5 child mortality in the country, while the Autonomous Region of Muslim Mindanao (ARMM) and the Eastern Visayas Region consistently ranked among the lowest performers (Capuno, 2009).

Previous experience with decentralization in the education system

Under the LGC, a share of general block grants (IRA) goes to education. In addition, the education system benefits from a Special Education Fund (SEF) which is a one-percent tax on assessed values of real properties owned by a municipality or city. One-half of the SEF is spent at the municipality or city level and the other half is remitted to provinces for education projects. The provincial Local School Board determines the allocation of the SEF among municipalities. The LGC devolved the

construction and maintenance of elementary and secondary school buildings to municipalities and cities, but the SEF sometimes covers the costs of construction and repair, as well as equipment, educational research, books, and sports development. Many local governments have also used the SEF to establish new secondary schools and hire more teachers, or to top off the salaries of the centrally hired school teachers (Manasan, 2002).

Besides the LGC-mandated fiscal decentralization, the education system experienced an early form of administrative decentralization, but as part of a World Bank-funded project launched in the 1990s, the Third Elementary Education Project (TEEP). The project introduced SBM in selected provinces, initially in 23 provinces that were considered to be the most socially depressed areas by the Social Reform Agenda. In 2006, SBM was scaled to other non-TEEP provinces with the support of neighboring TEEP divisions. Impact evaluations that were carried out at two different phases of the project generally found positive effects. The early evaluation showed the effects of implementation delays, but nevertheless found a small positive effect on student test scores after two years of exposure to the project (Khattari et al., 2012). The later evaluation found significantly larger effects—4.2 points higher in total scores over three years (Yamauchi & Liu, 2013; Yamauchi, 2014). These are notable gains in student learning. Several other studies that examined smaller samples of schools (e.g., Verbo, Fernando & Cabrera, 2023) point to the importance of the quality of school principals in determining the success of SBM.

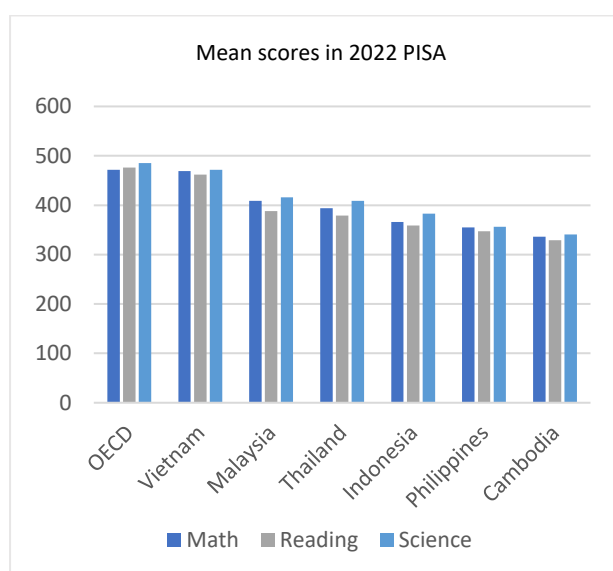
VII. Policy implications: A future agenda for decentralizing the education system

This final section consolidates the lessons from the decentralization reforms of countries in Asia and Latin America and the findings from Philippine experience for the purpose of identifying the elements of a promising reform of the country's education system. Improving the Philippine education system is an urgent call for profound change. The results from the 2022 international test of 15-year-old students is the latest evidence on how far behind Philippine students are doing relative to students in OECD and Southeast Asian countries (Figure 2).¹⁵ In a world that runs on

¹⁵ This dismal performance is not a surprise. A study by Bernardo et al. (2022) concludes that Filipino students performed poorly in the 2018 application of the Programme for International Student Assessment

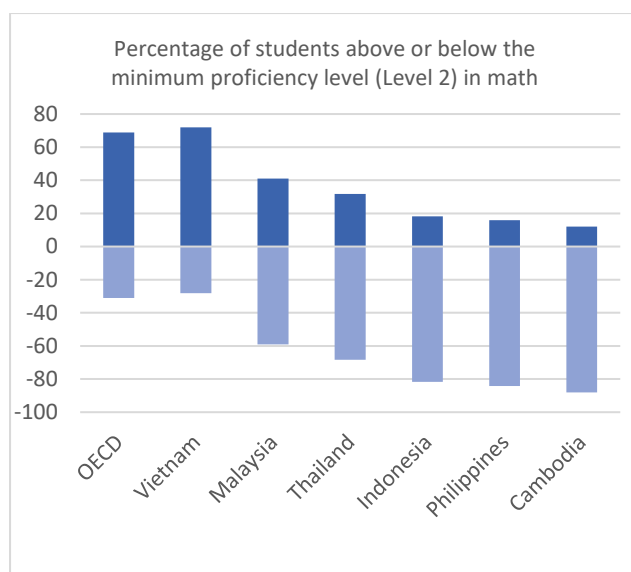
the power of knowledge and skills, disparities in student performance predict the future relative competitiveness of countries. Acknowledging the challenge, DepEd launched *Sulong EduKalidad* in December 2019, a national effort to improve the quality of basic education and to prepare students for the 21st century global economy.¹⁶ But can decentralization bring needed systemic and sustainable improvements? What reform design makes sense for the Philippines' large, far-flung education system? Can it ease the implementation blockages that have subverted past reform initiatives?

Figure 2. Cross-country comparisons of student performance in PISA 2022



(PISA) mathematics assessment, with more than half obtaining scores below the lowest proficiency level. Students from public schools performed worse than their private school counterparts. Among 79 high- and middle-income countries, the country ranked last in reading and second to last in mathematics and in science.

¹⁶ It includes four components: a review and update of the K to 12 curriculum review so that third graders become readers and secondary school graduates are employable; upgrading the learning environment; providing schools with appropriate technology for learning and administrative use; teacher upskilling and reskilling through harmonized training and development programs; and greater engagement of stakeholders for support and collaboration.



Source: Author's calculation using data from OECD (2023).

Elements of an effective decentralization reform of Philippine education

The experiences of countries throughout the world, as exemplified in Asia and Latin America, reveal lessons about how to design and execute a decentralization reform and the pitfalls to avoid. Because of its many stakeholders, the presence of competing political and fiscal interests, and ambitious education goals, reforming an education system is often a complex, difficult, and unpredictable undertaking in both developed and developing countries. This section rephrases the lessons as challenges that the reform should address. In brief, these are:

- Adopt a phased, selective, and iterative decentralization process instead of a “big bang” or wholesale reform;
- Prioritize and focus on the strategic roles of the central government;
- Assign clear functions, responsibilities and authority to lower levels of government, communities, schools, and the private sector;
- Address vertical and horizontal fiscal imbalances, aligning fiscal transfers and resource sharing with the assigned roles and responsibilities of subnational governments, and reduce regional disparities;
- Integrate a monitoring and evaluation system at the outset of the reform process and establish reporting mechanisms.

1. *Adopt a phased, selective and iterative decentralization process*

Decentralization can help to improve the overall coverage and quality of Philippine education – but to achieve this impact, careful planning of the design and implementation of the reform is necessary. The reform process requires adjusting, abolishing, or creating organizational structures and institutional arrangements to accommodate or facilitate the changes. New rules and regulations, such as those related to fiscal arrangements and personnel management, will have to be enacted. New jobs may have to be added and/or old ones replaced. Reforming the education system will involve many other parts of government that affect the operation of the education system, such as budget and finance agencies of the national government and the civil service system. These relevant structural, institutional, and personnel changes will have to be part of a comprehensive and coherent design. Often overlooked, engagement of the many stakeholders of the education system to feel ownership of the process, understand it, and know how they can participate is essential.

A phased, selective, and iterative reform means organizing the reform process into discrete, sequenced steps, with any decision being contingent on empirical evidence about what design features are working, what is not working, and where the reform is producing good outcomes. Phasing and selection can be done in several ways. One option is to stagger the implementation of the reform by education cycle, possibly starting with the secondary and tertiary levels before tackling the much larger elementary education level. A second option is to restrict the downward transfer of functions first to provinces and chartered cities before devolving functions to municipalities after a period of time. A third possibility is to phase the reform geographically, that is, to select the geographical areas to decentralize first before other areas and regions. Finally, a fourth option may be to devolve first a limited, but coherent, set of functions (such as those listed in Table 3). Under this option, devolved roles and authority must be clearly delineated among stakeholders to avoid overlapping or misaligned assignments that result in confusion, inaction, and loss of trust. For example, the central

government may officially transfer a responsibility to a lower tier of government but retain the main authority for related decisions, weakening the capacity of the lower level of government to function as the decision maker.

This recommendation is consistent with the conclusions of the careful study by Juco et al. (2023), which concludes that, despite the 2021 Executive Order No. 138 (EO 138), which laid the guidelines for the effective transition of functions and responsibilities to local governments, the wide variation in local government prioritization of devolved functions and limited capacity means that devolution is not achievable by 2024. The self-assessment of local governments identifies the importance of providing training to local governments during a transition phase and the need for a mechanism to collect accurate and comprehensive baseline data for devolved functions. The study also argues for an asymmetric decentralization strategy and for greater coordination and guidance from national agencies.

How to phase and sequence the decentralization process should be based on a clear framework for *reform readiness*.¹⁷ To illustrate what this means, consider the third option of selecting the regions to decentralize first. The concept of reform readiness implies applying specific criteria that are based on the region's capacity to fulfill the functions and responsibilities transferred to it. Given the large variation across regions, a one-size-fits-all reform is not likely to be the wisest model to adopt. Reform readiness refers to the administrative, technical and fiscal capacities present in the region, as well as to its level of political commitment to the reform and its goals and to the presence of effective leadership. A region's previous experiences with implementing past programs (e.g., decentralized health services) could be predictive of its future performance regarding decentralized education services. The commitment to an iterative reform process means a readiness to regard the reform as an opportunity to launch promising approaches, with

¹⁷ Bahl & Martinez-Vasquez (2006b) propose a six-step sequencing of fiscal decentralization that minimizes its chances for failure: Step 1 is to launch a national debate on the issues related to decentralization policy; step 2 is to design the policy and write a policy paper on it; step 3 is to pass the decentralization law; step 4 is to develop the implementing regulations; step 5 is to implement the decentralization program; and step 6 is to monitor, evaluate, and retrofit

an openness to redesign or retrofit, as needed, on the basis of hard evidence, towards better and better solutions.¹⁸

Once the political decision to decentralize has been taken, a preparation phase to develop coherent and realistic design and implementation plans is the first step. Uncoupling reform design from an implementation plan spells trouble. A preparation phase of analysis, consultation and communication, and training activities is essential and should involve key stakeholders.

Table 2 proposes a list of the objectives and specific actions for such a preparation or transition phase.

Table 2. Preparation phase for the reform: Major activities, objectives and specific actions

Major activity	Objectives	Specific actions	Actor(s)
Analysis, design & planning	To prepare a comprehensive & coherent decentralization design and implementation plan	Develop framework for a <i>reform readiness index</i> and assign the preparation and update of such an index Use the readiness index as the basis for designing a phased and selective reform	Central agencies (education agencies, NEDA, DoF, DBM, DILG, NSA) Technical experts in design Province, LGU leaders
Consultation & communication	To obtain and reflect the views and concerns of stakeholders in the design & plan of the reform To garner and sustain the engagement &	Schedule consultation & information events for major stakeholders to inform them of decision to decentralize Inform all stakeholders of the assignment of roles,	Central agencies (education agencies, NEDA, DoF, DBM, DILG, NSA) Province, LGU leaders

¹⁸ The analysis of efficiency of education provision in Colombia by Melo-Becerra et al. (2020) suggests an approach to defining reform readiness and perhaps to identifying which local municipalities are most likely to perform well under a decentralized context. The causes of regional disparities may be based on institutional, historical, political, and even geographical differences, so these are factors to consider in the development of a readiness index. The analysis by Ivanyina & Shah (2014), which measures government decision-making at the local level and the government's closeness to the people, also offers additional considerations for such an index.

	participation of major stakeholders in the reform	responsibilities and authority Sustain information sharing through events & media use Obtain feedback about the reform from stakeholders	
Training	To enable major stakeholders to fulfill their roles & responsibilities effectively and efficiently	Provide training programs for stakeholders (from planners to administrators and to service providers) to fill gaps in administrative & technical capacities at all levels	Central agencies Technical experts Province, LGU leaders Community & school leaders

Note: The key central education agencies are DepEd, CHED and TESDA. Other key government agencies are the Department of Finance, the Department of Budget and Management, the Department of the Interior and Local Government, the National Economic Development Authority, and the National Statistical Authority

Source: Author

2. *Prioritize and focus on strategic roles for the central government*

The discourse about decentralization is often focused on which functions and responsibilities to transfer to lower tiers of government and communities. More attention, however, is needed to identify and strengthen the roles and responsibilities of the national agencies. Healey and Crouch (2012) name four basic principles to guide the choice of which functions to devolve and which ones more appropriately belong to central agencies. They are the presence of economies of scale in subnational areas;¹⁹ the pursuit of national goals; the importance of having national standards because of the presence of national markets; and jurisdictional spillovers. A fifth principle to add to this list is achieving greater equity across regions. The Philippines already implements a revenue-equalizing formula for central government transfers to cities and

¹⁹ This principle refers to an extremely important design decision in decentralization – on what basis to define agglomerated or decentralized areas. For example, as mentioned earlier, Colombia initially defined eligibility for decentralization only on the basis of population size. On one hand, the decision can result in fragmenting subnational areas such that each local government is unable to benefit from the economies of scale of delivering public goods; on the other hand, decentralization can help ensure that local populations are able to meet their needs for public services (Capuno, 2012; Canare, 2021).

municipalities that distinguishes among geographical areas by “class” (Manasan, 2009), but the experiences of other countries and of the Philippines indicate that more pro-poor programs are needed.

Governments have two powerful tools in their toolbox to fulfill these functions. Broadly labeled, they are *incentives* and *guardrails*. Incentives may include the allocation of taxing and fundraising authorities, distribution of fiscal revenues, and performance-based devolution of administrative autonomy. Guardrails pertain to imposing legislative and fiscal constraints to keep subnational governments on the right track and using sanctions or judicial power to enforce boundaries. Guardrails are important because, as mentioned earlier, the benefits from decentralization can be eroded by local corruption and rent-seeking associated with the fact that local governments may be more vulnerable to capture by local elites (Bardhan and Mookherjee, 2006; Albornoz and Cabrales, 2013). For example, the central government can use a national assessment system as a quality assurance tool. It can set and enforce clear and precise rules to ensure that teachers are hired and promoted on the basis of their work and performance, not their political or business connections. To be effective, guardrails require systematic supervision and effective enforcement. Ultimately, reform success depends on how effectively these tools are used and on the quality of leadership at multiple levels of government.

3. *Assign clear functions, responsibilities, and authority to lower levels of government, communities, schools, and the private sector*

Clear delineation and consistency in the assignment of functions and responsibilities among subnational governments help to avoid confusion, duplication, inaction, and inefficiencies due to overlapping or redundant functions. A lower tier of government that may have responsibility for a specific decision may not be able to fulfill it if the authority for related functions remains at higher levels or if there is a lack of determination at higher levels. Within each of the broad decision domains shown in Figure 1 are specific decisions that also have to be assigned. The country cases discussed in sections III and IV show that there are different ways of delegating these

functions. For example, the design of a basic curriculum might continue to rest with the central government, while provincial and municipal governments may be given the authority to add programs of study to the basic curriculum (as in China and Indonesia). Teachers and principals might determine the student assessments in their school, but the central government may require schools to apply also a national student assessment for the purpose of monitoring the overall quality (and equity) of the country's education system or for regulating the transition of students from one school cycle to another. Table 3 includes a long, though not comprehensive, list of decision domains and their constituent functions.

Table 3. Constituent functions under each major decision domain in education systems

Organization of instruction	Personnel management	Planning and structures	Resources and finances
Instruction time (required days in school year, number of hours) Design of programs of study & course content Textbooks (development & selection) Teaching methods (development & use) Mode of grouping students in classrooms Support activities for students Creation/closure of schools Creation/abolition of grades Setting qualifying exams Setting credentials Student assessments	Recruiting and selecting teachers, principals and nonteaching staff Firing teachers, principals and non-teaching staff Teacher deployment Assignment of principals to schools Setting salaries and non-salary compensation of teachers, principals and non-teaching staff In-service training for teaching and non-teaching	Establishing or closing a school Relocating a school Expanding school infrastructure (e.g., adding a school building, classroom, or gym) Improving school infrastructure (maintenance, repairs)	Preparing annual school budgets Allocation for pay of teaching staff Allocation for non-salary current expenditures Allocation for capital expenditures School use for capital expenditure Special funds for minority or disadvantaged students

(design & application) Education technology (selection & use)	staff Career development of teachers, principals and nonteaching staff		
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Source: Author, based on OECD (2022); King & Guerra (2005)

The assignment of these functions and subfunctions must also meet key principles:

- Alignment between responsibility and authority. As with China and Thailand, discussed earlier, the central government may fear losing too much control to lower tiers of government and may need to reassert the importance of its authority for political reasons (Ngok, 2007; Sudhipongpracha & Wongpredee, 2017). The result may be a more restrictive, partial decentralization than what was originally intended.
- Alignment between responsibility and fiscal resources to carry out the entrusted functions. This principle is discussed further in the next subsection.
- Alignment between responsibility and administrative, technical, and political capacities; in addition to clarity of function assignment, it is important to determine whether those who have been designated to carry out specific functions are capable and prepared to do so, and that they know what is expected of them and know that they have the authority to make that happen. In cases where local capacities are not adequate, the possibility that training programs can fill in critical gaps should be considered. Further, giving more autonomy and authority to local governments can unleash unexpected capacities through local innovations. As discussed earlier, there are examples of local innovations in the Philippine health system after decentralization (Capuno, 2011).
- Coordination among the local stakeholders. The division of function and authority may be clear in law but not in fact. In Nicaragua, for example, school principals and teachers held quite different interpretations and views of how much authority they had to improve the school during the country's school autonomy reform in the 1990s (King & Ozler, 1998;

Rivarola & Fuller, 1999). In three states of India, local communities were not aware or were reluctant to exercise their assigned roles in local schools (Pandey, 2023). A clear, consistent, and widespread information program should accompany the decentralization so that those who are affected by the transfer of authority and responsibilities are fully aware of their roles and what is expected of them (Fung, 2015).

4. *Address vertical and horizontal fiscal imbalances*

Vertical fiscal imbalances should be avoided if the decentralization reform is to succeed. The central government should not transfer responsibilities for service delivery to local governments and communities without providing fiscal support commensurate to the devolved functions, adequate support to poorer areas, or authority for revenue generation, as needed (Vaillancourt & Bird, 2005). In the early 2000, central government transfers represented an average of 60 percent of the total revenue of local governments in developing countries and 33 percent in OECD countries (Shah, 2004). Previous studies point to basic principles for fiscal decentralization that can help achieve better education outcomes and other intended goals (Bird & Vaillancourt, 1998; Bahl, 1999; Bird & Slack, 2014):

- Local governments must have significant taxing powers to fulfill their new responsibilities. This reliance on transfers and the lack of discretion it entails is often a result of the lack of tax capacity at the subnational level. Limitations on the capacity of local governments to raise revenue mean continued reliance on the central government that may constrain their ability to deliver public services effectively. For example, China has allowed local governments to choose whether or not to levy certain taxes or charges, but limits the rates and bases of nearly all taxes and does not allow local governments to borrow directly (Bahl & Martinez-Vasquez, 2006a). In Indonesia, the big-bang decentralization gave little autonomy to local governments on the revenue side, maintaining all major tax sources for the central authorities, including property taxes (Arze del Granado, Martinez-

Vazquez & Simatupang, 2008). How much fiscal autonomy and tax administration authority to give to local governments is a critical question for designing the reform in the Philippines. Addressing the need for vertical fiscal balance, in 2019 the Mandanas-Garcia Supreme Court (“Mandanas”) ruling increased the tax base for intergovernmental fiscal transfers in support of local governments’ autonomy and revenue-raising capacity (Juco et al., 2023). This is a good start.

- Local governments also need sufficient control over their expenditures to meet the preferences and demands of their electorates. They and their constituents benefit from having greater discretion in choosing the local public-good mix. Unfortunately, the more they rely on transfers from the central government to fund the provision of public goods, the more likely it is that the central government will determine not only the size of the local budget but also how it is spent. There are several examples of central mandates that limit local autonomy. For instance, in Colombia, local governments are required to spend at least 60 percent of national revenue transfers on pre-school, primary, and secondary education, 20 percent on health, and the remaining 20 percent on either sector (Bird & Fiszbein, 1998). Many central governments also implement targeted programs (such as capitation grants to rural schools and scholarships for indigenous and low-income students) to promote equity across regions, often requiring local governments to cross subsidize such programs. How much autonomy over expenditures to cede to local governments is another key design challenge.
- One of the expected benefits of devolution is that local governments, being closer to their population, presumably know the needs of their population better and spend accordingly – and face greater pressure to do so. However, this benefit comes with the risk of local capture by elites whose preferences may differ from those of the general population. Local political interests can undermine the accountability of local governments and lead to a weak budget constraint (Albornoz &

Cabrales, 2013; Brosio, 2014). In the Philippines, it appears that incumbent governors improve their re-election chances by spending more on economic development services, other things being equal (Solon, Fabella & Capuno, 2009). Thus, elections seem to be an effective disciplining device, especially when rivalry is intense among political clans. The findings of Diokno-Sicat & Maddawin (2018) indicate that even today local policymakers are able to exercise considerable discretion over their spending, so local development depends on the size of their resources.

5. *Integrate monitoring and evaluation mechanisms at the outset of the reform process.*

More than ever, a consolidated monitoring, tracking, and evaluation system is critically important when implementing a reform as complex as decentralization. When the reform process is designed to proceed in phases and to be open to midcourse tweaks and reversals, a periodic assessment of the process and its immediate and short-term impacts is critical. A monitoring and evaluation approach established at the outset should be the basis for learning about implementation and the outcomes and impacts of the decentralization reform. The evidence produced can argue for required resources and strengthen political support and community engagement. The impact of the reform will take time to emerge because transforming a vast education system is not simple or easy. In addition, political interests may drive local politicians, education leaders, and other actors to support or oppose monitoring and evaluation efforts in contexts where decentralization reform is underway (Bartsch, 2023). Evidence from these efforts could be useful for informing and supporting social accountability mechanisms and civic participation that can help secure a successful reform. For these reasons, the evaluation approach should be based on a solid theory of change, developed with a clear understanding of the pathways of the reform towards the intended educational outcomes.

Studies of decentralizing the Philippine health system have focused on fiscal issues but not on its process, operational issues, or impact on health

outcomes due to a lack of systematic, real-time, and disaggregated data about the implementation of the reform (Llanto, 2012; Diokno-Sicat & Maddawin, 2018; Abrigo, Tam & Ortiz, 2023). Decentralization of the education system should do better. The Philippines, like many other countries, have had an education management and information system (EMIS) for decades. That EMIS can be adapted to be a critical policy tool of the reform. One potential use of EMIS data is to produce and distribute regular school report cards with aggregate and comparative information on school and student performance. Andrabi, Das & Khwaja (2017) analyzed the impact of school report cards in Pakistan and found that they significantly improved student test scores and increased primary enrollment.

In sum, a monitoring and evaluation approach for a phased, selective, and iterative education reform should be:

- Relevant and coherent. The starting point for designing the monitoring and evaluation approach should be the theory of change that underlies the decentralization reform. The key features and components of the transformation process – and the principal questions about the reform – should inform the decisions about indicators, data collection instruments, sampling design, and analytical methods. The reform will have many aspects to monitor and evaluate, stretching over the life of the reform, but those various inquiries should lead to a coherent assessment of the reform and should anticipate the important policy questions about the education system.
- Independent and impartial. The monitoring and evaluation component of the reform should produce evidence that will be trusted by reformers and stakeholders. To achieve this, the effort must be led, designed, and undertaken by respected, third-party evaluation experts who are independent of the reform planners and implementers, but advised by a panel of representatives of multiple stakeholders. In addition, the evaluation design itself should be peer-reviewed by third-party experts.

- **Credible and reliable.** The evaluation should involve experts on a number of critical aspects of the reform, including education specialists, political scientists, public finance experts, evaluation experts, and statisticians. They should understand well the complexities and trajectory of the reform process, as well as the evaluation methods and evidence that are appropriate to study the reform. The credibility of the evaluation will be further assured by a review of the evaluation's design by evaluation experts.
- **Timely and consistent.** Because the reform will be phased and multiyear, baseline data should be established, as well as when follow-up assessments should be undertaken. The timing of an impact evaluation is particularly important for social programs that require shifts in the behaviors of many stakeholders. If one evaluates too early, there is a risk of finding only partial or no impact; too late, and there is a risk that the reform will have lost critical political and public support or that corrective changes to the reform are taken too late (King & Behrman, 2009). Consistency derives from having a comparable set of specific, measurable, and achievable indicators of inputs, outcomes, and impact to apply throughout the reform process.
- **Transparent and collaborative.** Political and public support will be crucial for reform success. Reliable and timely information through a systematic reporting mechanism is the fuel for that support. The large number of stakeholders who will be contributing to the reform process are also potential collaborators in the monitoring and evaluation efforts. Given the ubiquitous instruments for speedy information and communication even in rural areas of the country, such a mechanism should be possible to develop quickly.
- **Cost-effective and cost-efficient.** Several data collection initiatives provide information on educational progress in the Philippines. Annual data on schools and students are available from DepEd's Education Monitoring and Information System (EMIS), municipal-level administrative data from the National Statistical Authority, and individual-level and household-level

data from periodic household surveys such as the Annual Poverty Indicator Surveys, the national census, the National Labor Survey, and the Philippine Demographic and Health Surveys. The Philippines has participated (though not regularly) in the OECD's Program for International Student Assessment (PISA), which takes place every four years, and in the Trends in International Mathematics and Science Study (TIMSS). Finding ways to link and use these various databases for the purpose of monitoring and evaluation is analytically challenging because they do not share a sampling design or harmonized survey instrument. Nevertheless, they are important resources for understanding various aspects of the education system. New digital technologies will further reduce the costs associated with future data collection, management, analysis, storage, and dissemination.

Bionote

Elizabeth M. King is a nonresident senior fellow of the Brookings Institution, managing editor of the *Journal of Development Effectiveness*, and adjunct professor of Georgetown University's Walsh School of Foreign Service and the University of the Philippines School of Economics. She is also on the boards of the International Initiative for Impact Evaluation (3ie), Room to Read, and Education Commission Asia; technical adviser to Echidna Giving, UNICEF Innocenti Center, and the Office of Population Studies (Philippines); and juror for the Yidan Prize. She was the World Bank's senior spokesperson, professional head for global policy and strategic issues related to education, and acting vice president for the human development sectors. She has published journal articles, book chapters, and books on topics related to human capital (with a focus on education), labor supply, the care economy, and gender issues in development. She engaged in operations and advisory work on economic and education issues in several developing countries. She received her Ph.D. in Economics from Yale University.

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About EDCOM 2

The Second Congressional Commission on Education (EDCOM II) is a national Commission established through Republic Act No. 11899, tasked to undertake a comprehensive national assessment and evaluation of the performance of the Philippine education sector, and to propose transformative solutions, from 2023 to 2025. It is composed of lawmakers from both the Senate and the House of Representatives, and is guided by an Advisory Council, and assisted by the Technical Secretariat.



EDCOM2

The Second Congressional
Commission on Education

 5th Floor, Senate of the Philippines,
GSIS Building, Pasay City, Philippines

 www.edcom2.gov.ph

 secretariat@edcom2.gov.ph

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