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## Decentralization of Education: Demand-Side Financing

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### Abstract

It is an important issue to observe the measures of equality and equity in the distribution of resources related to education and of efficiency and accountability in their spending. Demand-side financing approach in education includes the issues of the freedom of school choice as part of initiating inter-school competitions, giving the 'Education Cheque' or the 'Education Voucher' to student parents and their submitting this cheque or voucher to the board of the school where school stakeholders are also included and where they send their children, within the framework of a protocol, instead of spending the determined money considering the free market conditions or transferring it directly via the education center or district units to the school account for each student studying at each school level. The purpose of this study is to create awareness among education stakeholders and researchers such as decision-makers, managers and teachers regarding the education in by examining the approaches of 'Demand-Side Financing' which is based on parents/ customers' initiative in the use of financial resources allocated from the general budget for education.

**Keywords:** Demand-side financing, Education financing, Financing.

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## **Introduction**

Education economy tries to balance between educational investments and educational expenses. ‘At what rate, by whom the expenses related to education will be covered? By the public or by private individuals/circles? The answer to these questions is one of the main areas of interest of the education economy’ (Kavak and Burgaz, 1994). In addition to the ratio of resources allocated for education in a country, how these resources are used is among the questions to be answered (Summak and Roşan, 2006: 322).

Education economy is a discipline that affects all outcomes of education and is intertwined with other fields of study (Koç, 2007). The funding resources of education and the way these resources are spent vary from society to society. This change is mainly due to the current administrations’ or politicians’ perspectives on education.

The political regimes of countries as fascism, socialism, liberalism and social state directly affect their approaches to financing and planning of education (Tural, 2002). It is observed that today's contemporary societies base the planning of education on approaches such as human power needed, social demand, cost-effectiveness analysis and return rates. In the majority of countries, it is observed that educational planning is based on the approach of social demand (Türkmen and Ergün, 2003).

The belief in the importance of education on economic and social development has resulted in the education expenses being largely covered by the public budget. Countries' approaches to financing education services may vary depending on the tendency to see the education as mixed, complete or private goods and the policies they follow in this direction. That education is the common property of people has resulted in the fact that education expenses are covered by public resources in the majority of countries (Ünal, 1996).

In order to fully meet the demands for education, it is of great importance that the available financial resources are spent on the basis of effectively and accountability, as well as the ratio of the financial resources allocated for education. The failure in education is largely attributed to the lack of funding. However, this failure is largely ignored because of the poor use of existing financing, as well as the inadequacy of funding resources. While the issue of the lack of funding in education has been discussed by researchers and practitioners, it does not even come to the minds that at what level the current funding is used on the basis of effectiveness and efficiency. The claims regarding the lack of resources related to education may be taken into account after the current financial resources are spent on efficiency and accountability criteria.

The purpose of this study is to create awareness among education stakeholders and researchers such as decision-makers, managers and teachers regarding the education in by examining the approaches of ‘Demand-Side Financing’ which is based on parents/ customers' initiative in the use of financial resources allocated from the general budget for education.

### **Demand-Side Financing in Education**

The failure of central governments to respond effectively and rapidly to the changing needs of society has led to decentralization and localization (Summak and Rosan, 2006). The transfer of money allocated for education directly to the school account by the supply-side and its inefficient use has been one of the main factors that has contributed to the emerging of the financing approach by the demand-side. Demand-side financing is based on the principle of conducting the flow of educational resources on the basis of the parent/customer initiative. On the other hand, supply-side financing includes the processes of the direct use of financial resources allocated for education by the central unit or administrators or transferring them to educational institutions.

Milton Friedman (1980) argues that while people take great care about spending their own money for themselves or others, they do not show the same sensitivity at the same level when they spend others’ money for themselves. Politicians and public officials who spend the money of the state behave similarly (Aktan, 1999). In terms of education, the most beautiful example confirming these claims is the quality difference between the school principals’ offices and the classrooms, workshops, laboratories and other departments in schools.

Demand-side financing is based on the financing of modern education. Modern education financing is concerned not only with the lack of resources, but also with the use of existing resources on the basis of equality, effectiveness and accountability, in contrast to the traditional financing system in order to achieve and sustain quality in education. Modern education financing is also interested in factors such as school structure, classroom environment, professional competence of teachers, and the quality of teaching tools that have a direct impact on the quality of school outcomes (Guthrie, 2006). Modern education funding aims to achieve optimum benefit in the use of monetary resources allocated for education. In order to ensure optimum benefit from the use of monetary resources allocated from the general budget for the provision of education services, compliance with efficiency and accountability criteria are among the main issues of modern education finance. Guthrie (2006: 7) states that the following criteria should be used in the evaluation of the monetary resources used for education.

- The relationship between school expenses and outputs,
- The relationship between income and academic achievement,
- The relationship between teacher qualification and school achievement,
- The relationship between school opportunities and teaching quality,
- The relationship between school expenses and student learning outcomes,
- The relationship between the performance level of school management and the quality of school outputs,
- The relationship between the costs for children with disabilities and the quality of their education,

Demand-side financing in education includes the issues of the freedom of school choice as part of initiating inter-school competition, giving the 'Education Cheque' or the 'Education Voucher' to the student parents and their submitting this cheque or voucher to the board of the school where school stakeholders are also included and where they send their children, within the framework of a protocol, instead of spending the determined money considering the free market conditions or transferring it directly via the education center or district units to the school account for each student studying at each school level.

Ensuring the use of resources related to education on the basis of efficiency and effectively has made demand-side financing one of the important objectives (Odden and William, 1995; Standing 2004). The transfer of funds to schools from the demand-side implies a significant change for the provision of equality between schools in the distribution of education financing (Chapman, 2006; Patrinos, 2002). In the process of budgeting and spending at school level, the initiative of school internal stakeholders is very important for the development and change of schools (Özdemir, 1997). In the transfer of financing from the demand-side, the use of monetary resources through 'School Voucher, or 'Education Cheque' at the initiative of school stakeholders can make significant contributions to the freedom of school choice and inter-school competitions.

The financing approach from the demand-side is based on equality and equity in the distribution of educational resources, and on efficiency and accountability in their spending. The transfer of monetary resources to the schools under the initiative of parents and their expenditure under the supervision of school stakeholders is important for the ownership of the problems related to student learning by the school stakeholders.

### **Countries Embracing Financing Approach from Demand-Side in Education**

The financing approach from the demand-side suggests that priority should be given to student learning (Odden et al., 1995: 10) in the use of funding allocated for education. In order to ensure effectiveness and efficiency criteria in the use of money allocated from the general budget for education, it is becoming increasingly widespread to allow the school board of directors including the administration, teacher, parents, provincial and local government representatives (sometimes students and non-governmental organizations) the authority to use education financing (Patrinos and Ariasingam, 1997; West et al., 2000).

It is seen that some countries in the world have made the distribution and spending of the financial resources allocated for education from demand-side in order to initiate the freedom of choosing schools and to develop the school in the provision of education services. The countries embracing the financing approach from the demand-side in education and their forms of implementation are given in table below.

**Table 1.** The countries embracing the financing approach from the demand-side in education

COUNTRIES	FORMS OF IMPLEMENTATION
USA	Disadvantages. Transferring the money to the public and private schools through the ‘Education Voucher’ or ‘School Voucher’ to increase the schooling rate for children.
United Kingdom	Money transfer at equal level to public and private schools through ‘Education Voucher’ or ‘School Voucher’ in order to raise the schooling ratio of girls and disadvantaged families.
Australia	Funding through ‘Education Check’ or a ‘School Voucher’ based on the economic conditions of the school and the student.
Canada	Transferring the money at equal level to the public and private schools through the ‘Education Voucher’ or ‘School Voucher’
Japan	Equal money transfer to public and private schools through ‘Education Voucher’ or ‘School Voucher’.
New Zealand	Transferring of the money according to the number of students depending on the socio-economic status of the school and students.
Sweden	Equal money transfer to public and private schools depending on the number of students.
Brazil	Transferring money over the determined coefficients by taking into consideration the socio-economic conditions of the students and the environment they live.
China	Money transfer over the coefficients determined depending on the socio-economic status of schools and students.
Poland	The transfer of funds to the public and private schools on an equal basis per student.
Chile	Money transfer through ‘Education Check’ or ‘School Coupon’ for all students.
Gambia	Money transfer through ‘Education Voucher’ or ‘School Voucher’.
India	Transferring of funds on the basis of unpaid grant schemes and incentives (uniform, book, attendance to school).
Mozambique	Transferring of funds through ‘Education Voucher’ or ‘School Voucher’ to support all students, especially girls.
Tanzania	Money transfer through ‘Education Check’ or ‘School Coupon’ for all students.
Thailand	Transfer of funds through ‘Education Voucher’ or ‘School Voucher’ for all students, especially poor students living in rural areas.
Holland	Transferring the money to public and private schools by number of students.

Source: Bray 1996; Fiske1996; West 1996.

It is seen that the main purpose of the countries embracing the financing approach from demand-side is to ensure the use of financial resources allocated for education on the basis of efficiency and accountability. In the financing approach from demand-side, in particular, teachers and students’ parents who are primarily responsible for the production of educational services can take the initiative

by taking the support of other school stakeholders in the committees where decisions on spending money at the school level are taken, and they can make sure that the financial resources allocated for a qualified educational output are spent more on students.

The centralized control systems have a superficial responsibility towards the person, authority or institution that appoints them, rather than the audience they serve (students, parents, society, etc.) (Summak and Rosan, 2006: 320). Therefore, education expenses cannot create a desired value in the school outputs.

The transfer of funds to schools from the general budget at the initiative of students' parents and its use with the decisions of the school stakeholders can enable the current funding to be used for more student learning. This approach can also add added value to the national economy. Since the concept of supervision in the centralized system is largely document-based and works according to the demands of the education bureaucracy, the inadequate aspects of the functioning of schools (Summak and Roşan, 2006) cannot be fully revealed.

Instead of using the money allocated from the general budget for education by the education center or provincial units, the spending of money by the decision of school stakeholders and school boards is important for the use of resources on the basis of efficiency and accountability. In the financing approach from demand-side, it is seen that in order to observe equality and equity criteria in the distribution of resources related to education, the factors such as the number of students in the school, the status of healthy or disabled students, the location of schools- city or rural areas- are taken into consideration (Bray 1996; Standing, 2004).

Even though the quality service of education provided is insufficient, it is not possible for a school that has continuous customers to renew and improve itself. On the basis of the address-based registration system, students' parents are forced to go to public schools in their own administrative districts (Sumi and Rosh, 2006). In countries ruled by centralized administrations, the existing auditing system operates according to the expectations of the central government rather than the satisfaction of the internal and external stakeholders of the educational institutions.

### **Conclusion**

Funding from demand-side has been one of the most discussed approaches in the process of restructuring education systems. Especially in societies where demand for education is high, such as our country where resources are limited, it is not easy to meet the general education needs with the available resources. While increasing the proportion of resources related to education in order to meet the educational demand of society, it is an important issue to establish the ways in which resources are spent on contemporary foundations.

If the financing approach from the demand-side is taken as a criteria, it can be possible to achieve equality and equity in the distribution of resources related to education, and it can be possible to ensure efficiency and accountability in their spending. In this sense, in the process of transferring and using the financial resources allocated for education to educational institutions, it is meaningful that parents of students who are in the position of the customers take the initiative and that the public resources are used appropriately in accordance with their purposes.

For these reasons, it is seen that the money allocated to education from the general budget transferred to schools from the demand-side is considered important in terms of equal distribution of resources, of ensuring freedom of choice for schools and of starting competition among schools.

The financing approach from the demand-side can ensure the survival and strengthening of educational institutions and can push especially public schools into a race for producing education services that are in compatible with the expectations of the customer by keeping them away from the anxiety of finding or losing students.

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