CIMA

Latin America and the Caribbean

IS SCHOOL FUNDING UNEQUAL IN THE REGION?

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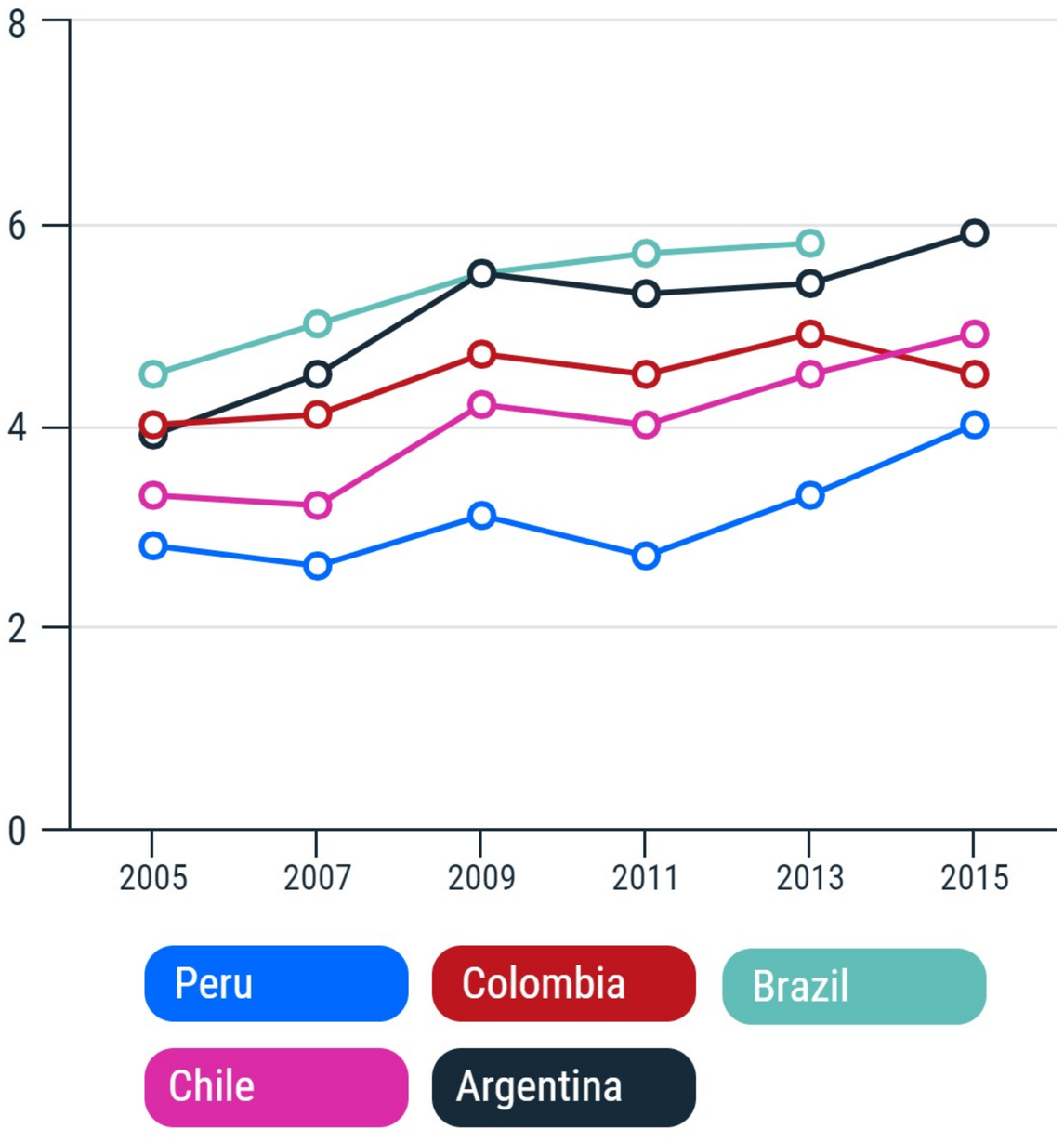
A more equitable distribution of school funding can narrow persistent socioeconomic achievement gaps among students in Latin America and the Caribbean.

In Latin America, government spending on education has increased

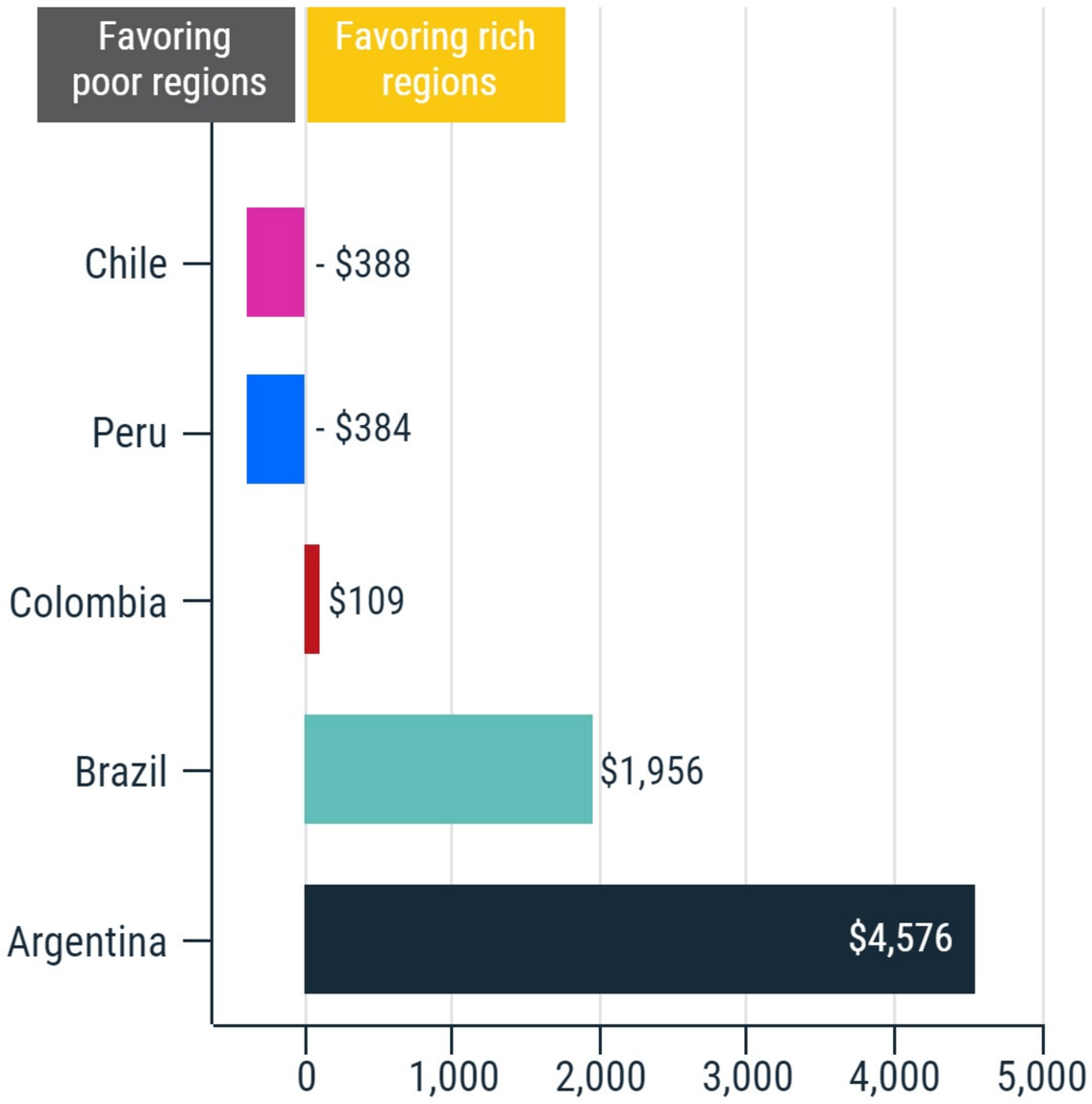
- Over the past decade, Latin American countries have experienced faster growth in government spending on education as a proportion of GDP.
- Although countries in the region have, on average, improved their performance on international tests, the socioeconomic achievement gap persists.
- In Latin America and Caribbean countries, poor students performed two and a half years of schooling (80 points) below their more advantaged peers in science, mathematics, and reading on PISA.

GOVERNMENT EXPENDITURE ON EDUCATION AS % OF GDP



Source: CIMA 2017.

GAP IN PER-PUPIL SPENDING BETWEEN RICHEST AND POOREST REGIONS (USD PPP)



Source: See "References."

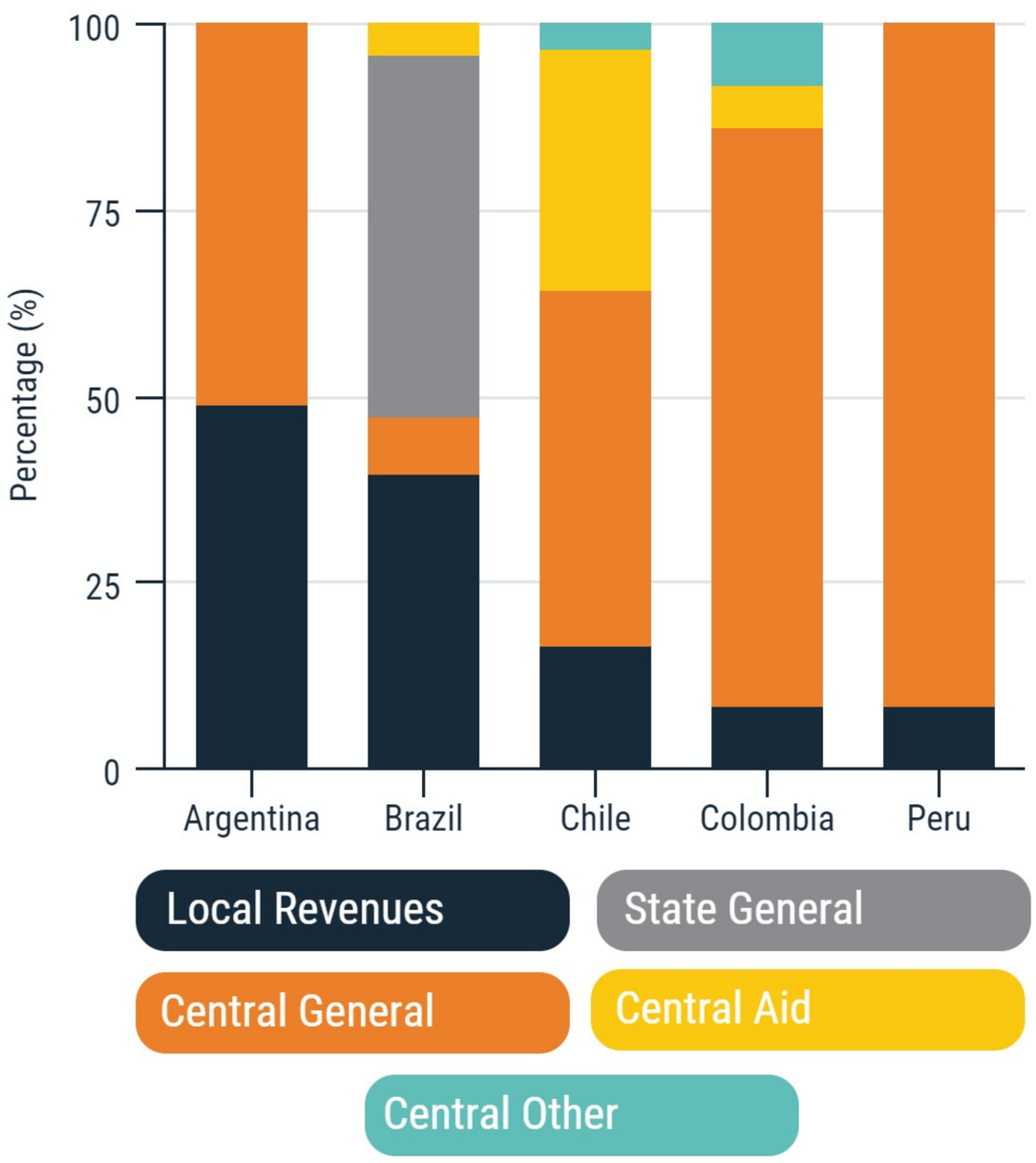
In some countries, school funding is unequal

- School funding in Brazil and Argentina is much lower in poorer regions than in wealthier regions, with gaps of $1,956 and $4,576, respectively.
- In Colombia, the school funding gap is narrow: schools in rich and poor regions receive similar amounts of funding.
- The poorest regions in Peru and Chile have slightly higher per-pupil spending than the richest regions, totaling almost $400 in each country.

What are the main sources of school funding?

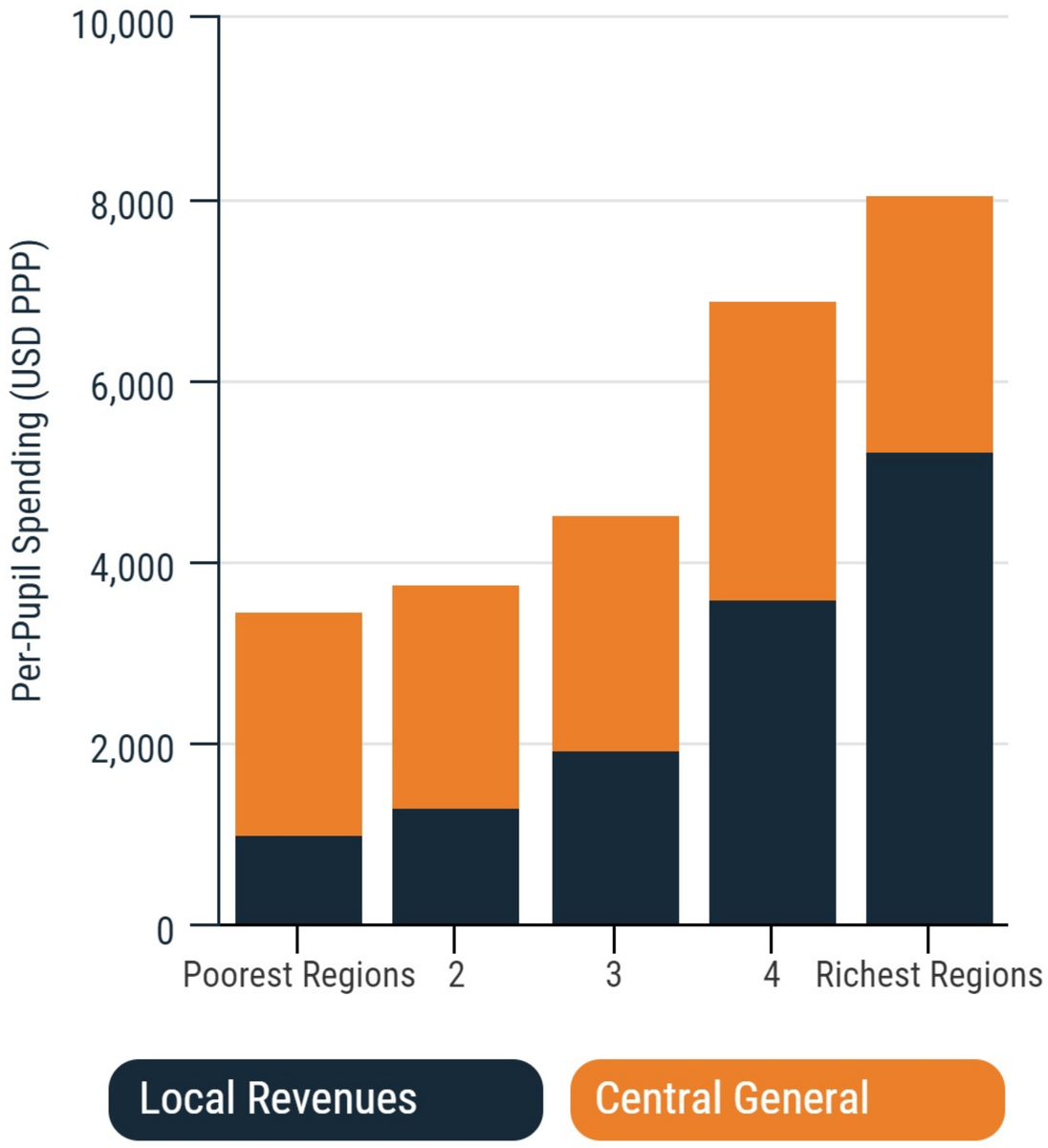
- **Local revenues** are collected at the regional or local levels and usually play an important role in the creation of resource inequalities between regions.
- Central (or state) **general funds** refer to transfers made to all regions without significant differentiation based on socioeconomic criteria.
- **Central aid** refers to transfers aimed at equalizing school funding. Examples include *compensatory grants* and *weighted funding formulas*:
  - *Compensatory grants* are transfers to disadvantaged regions or schools aimed at addressing imbalances in local revenues.
  - *School funding formulas* direct resource allocations to more socially disadvantaged regions or schools.
- In Argentina, Chile, Colombia, and Peru, central general funding makes up a larger percentage of school funding than any other single funding source. In Brazil, on the other hand, state general funding from Fundeb (49%) makes up a larger proportion of overall school funding than central general funding (8%).
- Central aid makes up the largest percentage of funding in Chile (32%), while local revenues make up the largest proportion of funding in Argentina (49%), followed by Brazil (40%), Chile (17%), Peru (9%), and Colombia (8%).

DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING



Source: See "References."

DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING, ARGENTINA, 2015



Source: See "References."

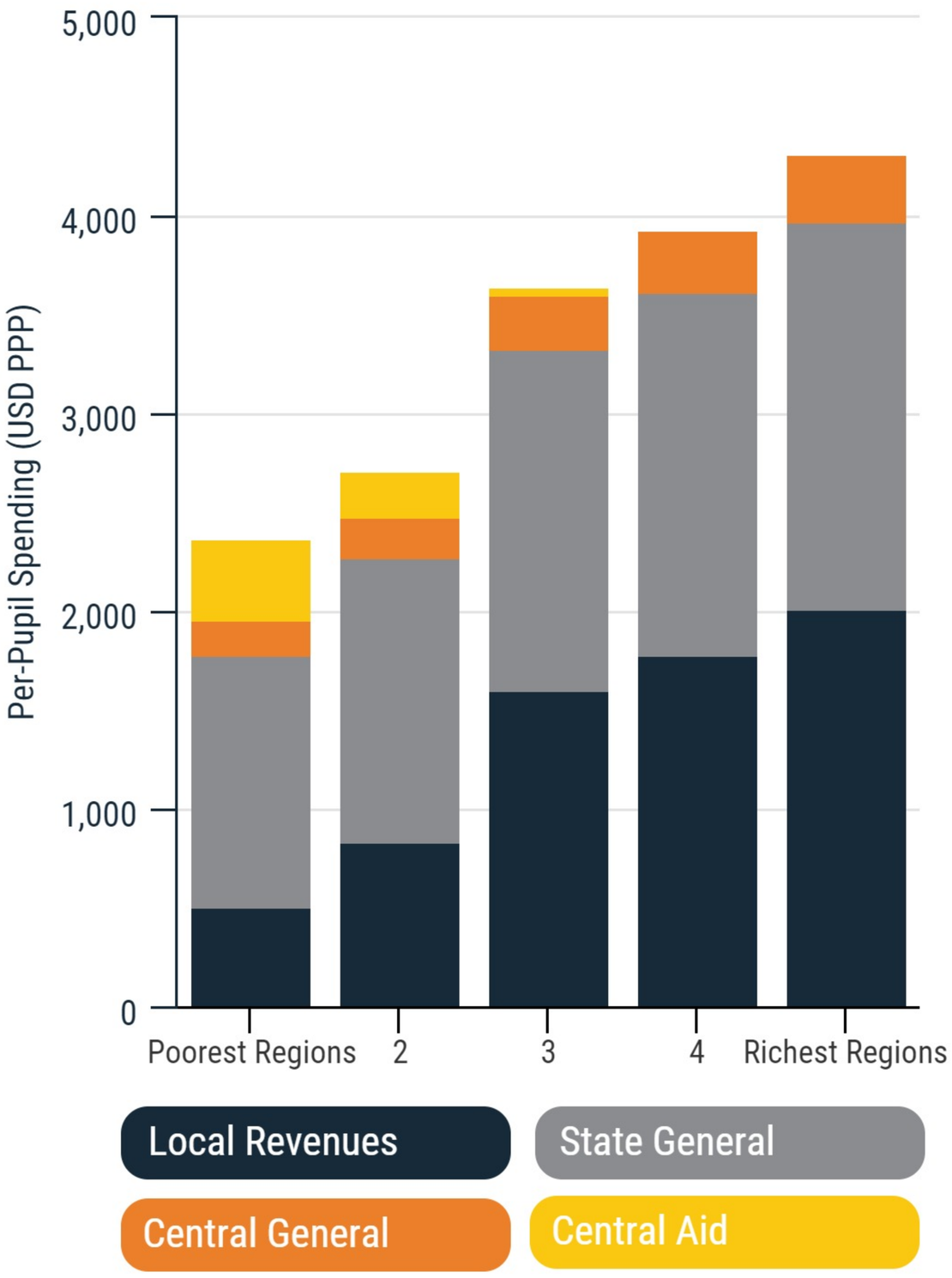
In Argentina, the richest regions receive twice as much funding as the poorest regions

- The gap in local revenues is the main source of inequality in school funding in Argentina. The wealthiest provinces collect over five times more resources for education than the poorest provinces.
- "Central general" encompasses federal coparticipation funds for education. Even though the coparticipation system aims to decrease spending inequalities between regions, there are no objective criteria to make the distribution of federal funds more equitable. Rather, coparticipation funds are currently redistributed across provinces based, more than anything, on historical criteria and negotiations between regions and the federal government.
- Coparticipation funds are not enough to compensate for regional disparities in local revenues. Federal transfers to richer regions are actually slightly larger than federal transfers to poorer regions.

In Brazil, a wide socioeconomic gap exists between regions

- The distribution of school funding in Brazil favors the rich: poor regions spend less on education than richer regions.
- The major source of school funding inequality is local revenues. Richer regions have a greater fiscal capacity to raise funds for education.
- The country's state and central general funds (Fundeb and FNDE, respectively) are redistributed to municipalities and states based primarily on the number of students, and they barely affect inequality in school funding.
- The only progressive transfer in Brazil, central aid to the Fundeb funds (*complementação*), increases per-pupil spending in poorer regions, but it is not enough to equalize education funding in the country.

DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING, BRAZIL, 2015



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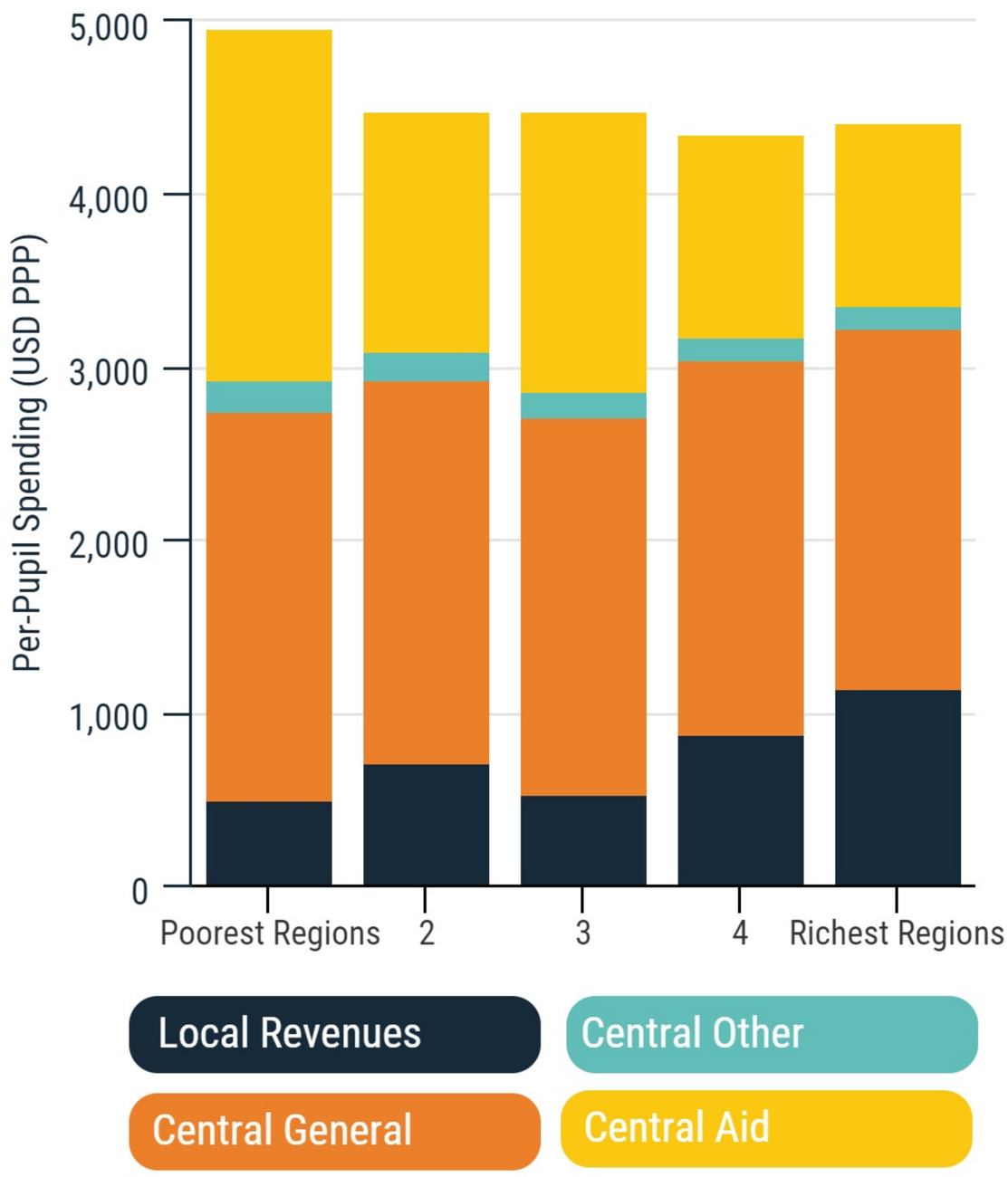
DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING, CHILE, 2015



Source: See "References."

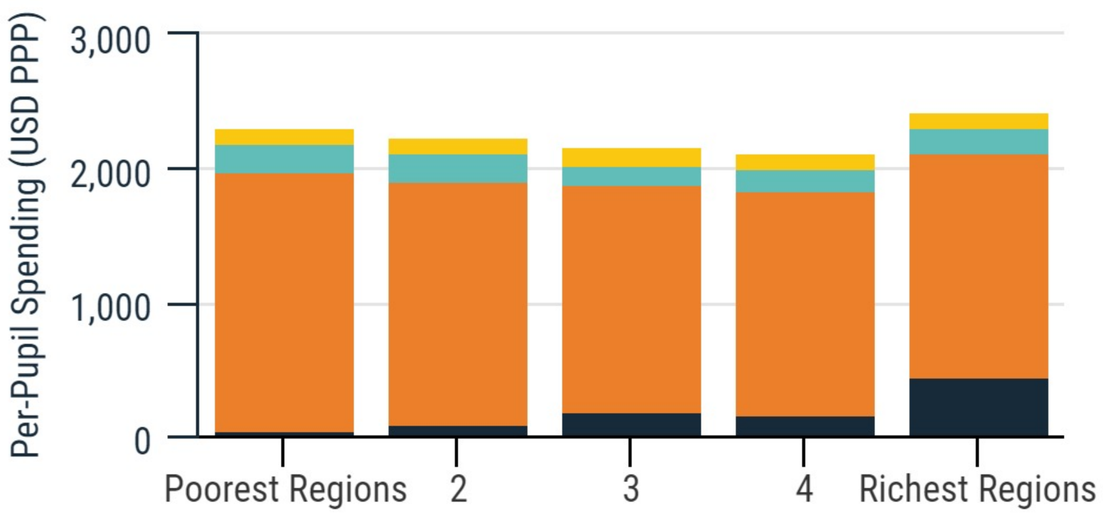
In Chile, there is a more equitable distribution of education resources between municipalities

- In Chile, per-pupil spending in the poorest municipalities is 8.5% higher than in the wealthiest municipalities.
- While the distribution of local revenues is regressive, favoring students in wealthier municipalities, **central aid funds** contribute to closing the school funding gap.
- **Central aid** encompasses transfers focused on improving school access in rural areas and compensatory funds to provide financial support to disadvantaged schools. These funds include resources from the Preferential School Subsidy Law (SEP), Chile's **weighted funding formula** that provides higher per-pupil spending (almost double) for disadvantaged students.
- **"Central general"** represents base voucher funds that are redistributed across municipalities based on the number of students and do not affect regional inequalities in per-pupil spending.
- A small share of funds (Central Other) is used for rewarding high school performance while taking into account the school's socioeconomic status. These funds are slightly larger in poorer municipalities.

In Colombia, the school funding gap is small and created by local revenues

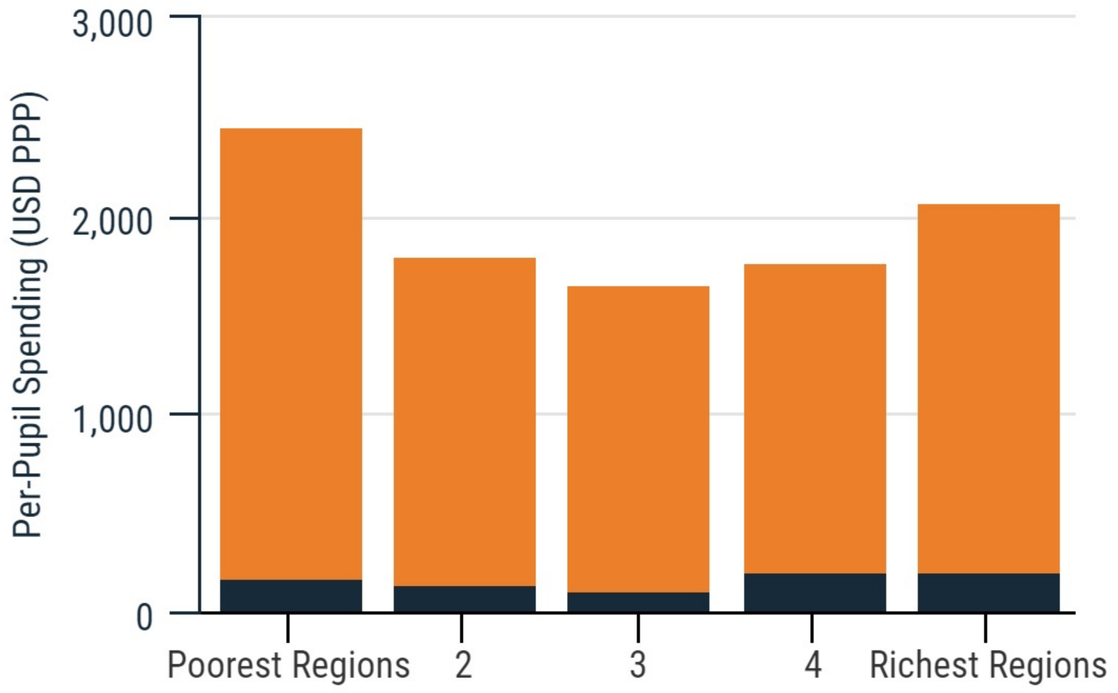
- All central transfers are progressive, with poorest regions receiving more than the richest regions. However, the local revenues collected by territorial entities increase the school funding gap, favoring the richer regions.
- **"Central general"** encompasses sources from SGP Provision. This is a formula-based transfer from the central government to entities that takes into account school location (rural or urban) and students' special needs. SGP Provision transfers are not weighted by socioeconomic criteria but they are slightly larger for the poorest regions.
- **Central aid funds** are from SGP Quality transfers, which are defined by a weighted formula that takes into account both schools' socioeconomic level and academic performance. Because poor regions tend to have lower performance, these central transfers have little impact on the overall distribution of resources. Moreover, funding from SGP Quality represents a small percentage of total spending.

DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING, COLOMBIA, 2016



Source: See "References."

DISTRIBUTION OF SPENDING AND SOURCES OF FUNDING, PERU, 2015



Source: See "References."

In Peru, per-pupil spending is higher in the poorest regions

- Per-pupil spending in the poorest regions is larger than spending in the richest regions. However, regions in the middle of the socioeconomic distribution receive less funding for education than the richest regions.
- Peru allocates more resources to the poorest rural regions because of the high costs of attracting teachers to remote areas and maintaining small schools.
- The allocation of resources in Peru is highly centralized: 86% of public spending in education comes from taxes collected at the central level (ordinary resources). The allocation of these resources across regions is discretionary and mainly follows historical and input-based criteria.
- Local revenues - which come from determined resources and directly-collected resources raised at the regional and local levels - can generate inequities across regions since they are higher in richer regions.

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