Public Expenditure Tracking Survey

THE EDUCATION SECTOR IN PERU

EXECUTIVE SUMMARY

September 25, 2002

This report contains the results of the PETS study undertaken by a team of Instituto Apoyo between April 2002 and August 2002. This study was made possible with the financial support from the Inter-American Development Bank and the World Bank. Support, assistance and criticism, were generously provided by many institutions and persons during the course of this study. We would like to express gratitude to Elena Conterno who provided valuable background material and Arturo Rubio who helped in the sample design. The team also expresses particular thanks to Jose Roberto Lopez-Calix for his important technical contributions to the design, implementation and analysis as well as his constant encouragement.. We also express our appreciation for the support received from Alberto Melo (Inter-American Development Bank), Bruno Barletti (SIAF/Ministry of Economics and Finance), Nicolas Lynch (ex-minister of education), Máximo Silva (Jefe de Presupuesto/Ministerio de Educacion), Juan Figueroa (Ministry of the Presidency), and to all the personnel of the CTARs, IUs, and schools that participated in the study.

EXECUTIVE SUMMARY

In recent years, Peru has made significant efforts towards strengthening the administration of public resources. The government of Peru has committed itself to improving the efficiency of its social spending and the quality of the provision of social services at the local level. It has recognized that social spending needs to be decentralized and has realized that this implies delegating more budgetary responsibilities to Regional Units of Ministries and requires efficient transfer mechanisms to local governments.

Numerous studies have shown that the spending in the education sector is inadequate, inefficient, and subject to very cumbersome bureaucracies. There exists, however, very little information on the mechanics of resource channeling, and on the quality, efficiency, and efficacy of public expenditure at this level. In fact, outside of Lima and Callao, very little is known about how the budgets are formulated, how the resources are allocated, how these resources are utilized, and particularly how much of the resources centrally assigned to education reach their final destinations (schools).

The relative lack of knowledge regarding resource assignment and execution in the education sector motivates this study. Within this context, with the support of the Government of Peru and with the assistance of the World Bank and the Inter-American Development Bank, Public Expenditure Tracking Surveys (PETS) were adopted as the instrument of choice to aid in the detection, analysis and quantification of the weaknesses of the budget execution system in the education sector, on the effects of these weaknesses on service delivery, and to assist in the generation of policy recommendations. Specifically, the PETS were designed to track the budgetary process, the transfer of resources to IUs, and to evaluate the process by which resources ultimately are transferred to schools, both in Lima and Callao and at the regional level.

In order to achieve this, the study focuses on:

- An analysis of the different organizational models of the education sector in Peru
- Identification and analysis of the governmental procedures and mechanisms for the budgeting, allocation, assignment, and transfer of funds in the education sector
- Determination of the delays, inefficiencies, and leakages associated with these resource transfers
- Characterization of the education IUs and analysis of the mechanisms by which they channel resources to schools
- Characterization and analysis of the sources and uses of transfers at the school level (from the IUs, Ministry of Education, parents associations, municipalities and others).

The following information provided the basis for the analysis:

- Preliminary interviews with government officials from the Ministry of Economics and Finance (MEF), Ministry of the Presidency (PRES), Ministry of Education (MED), and five Presidents of the Regional Administration Councils (CTAR).
- Government reports and various studies
- SIAF statistics from the MEF

- Exploratory visits to CTARs, IUs, and schools.
- Fieldwork that included 5 CTARs, 25 IU and 100 schools in the departments of Ancash, Arequipa, Cajamarca, Cusco, Lima, Loreto, and Piura.

Based on the extensive fieldwork, the following topics were subject to statistical analysis:

- Budgetary process at the CTAR level and IU level
- Characterization of the IUs
- Allocation of resources by the IU
- Audits by the Central Government and the CTARs and supervision by the IU of the schools within their jurisdiction
- Purchase mechanisms of goods & services
- Leakages associated with the transfers to schools
- A comparison between the school personnel rosters that the IU maintains for payroll reasons and the actual number of teachers and school administrators employed at a given school
- Identification of other sources of transfers at the school level

For the purposes of estimating leakages associated with the transfers of goods and services from the IU to the school we developed a two-prong approach.

- The leakage of funds associated with the payment of *public utilities* of the schools was defined to be the fraction of schools within a given IU that report to not have their utility bills paid for by the IU whilst the IU reports to pay them.
- The leakage associated with the transfer of *consumption goods* from the IU to the school was a little more complex to estimate. In order to determine this leakage we selected the four most frequently distributed goods in each IU and compared the amounts the school director reported to have received with the amounts the IU reported to have transferred. The leakages of the four schools in each IU were averaged to yield a single leakage at the IU level.

Sample design

The sample design had the objective of selecting a group of Implementing Units (IU) of the education sector of Lima and the rest of the country that is representative of all the IUs of Peru. The universe was restricted to those IUs, which managed a budget for the Primary Education Program. This effectively restricted the universe to 81 implementing units. In addition, in order to make the sample representative of Peru with regard to geography, seven departments were chosen. The selected departments were: Ancash, Arequipa, Cajamarca, Cusco, Lima, Loreto and Piura[1]. Within these seven departments there are 39 eligible implementing units. Once the universe was defined, it was stratified according to size in three groups in order to ensure proper representation both in terms of size and geographic location. The size of the individual strata was selected to achieve the same

[1] These are the same departments selected for the first phase of the Peru PETS: "Central Government Transfers to Municipalities in Peru: A detailed look at the Vaso de Leche Program".

proportionality as the universe and thereby create a self-weighted sample. According to these parameters, 25 implementing units were selected.[2]

In addition, four schools were selected from each of the IUs jurisdiction. These four schools were selected from the latest distribution rosters of each IU visited in order to track four goods identified *in situ.* In each case our team attempted to select two rural schools and two urban schools in order to better understand and contrast geographic differences. 55 urban schools and 45 rural schools were selected.

Education Sector: Organization and budgetary considerations

The education system in Peru has been characterized by many as a problem sector. In Lima and the province of Callao, there exists both a functional and budgetary dependence on the Ministry of Education. For the schools of the rest of the country the budget submission belongs to the department Regional Administrative Councils (CTAR) by way of the Ministry of the Presidency (PRES). The organizational structure of the education sector in the 23 departments of Peru, excluding Lima and Callao, can be classified into one of seven types. The IUs of these 23 departments suffer from institutional schizophrenia as they depend functionally on the MED and depend on the CTAR by way of PRES for budget purposes. This duality has created immense problems in the effective administration of the education sector outside of Lima and Callao.

For the purposes of executing resources, the education sector of Peru is organized into Implementing Units (IU). The organizational models within which these IUs operate, however, is very variable. For the schools which belong to Lima & Callao, the budget submission belongs to the Ministry of Education (MED) and the resources are transferred to one of 18 IU – 1 Educational Directorate (ED) in Lima and one ED in Callao along with 16 Educational Services Units (USE) in Lima. .

There are differences within each one of the education management models identified, because not all the intermediate organs are IUs. For example, in Cusco and Arequipa only the Regional Directorate has IU rank and no ADE or USE has such attribute. On the other hand, the Regional Directorates and Regional Sub-Directorates of Piura and Cajamarca are IUs. In these cases, each IU coordinates all administrative aspects directly with the CTAR and independently supervises the schools within their jurisdiction. On the other hand, in departments such as Ancash both the Regional Directorate and many USEs are IUs. In this case, USEs that are IUs coordinate with their CTAR regarding budgetary aspects and with the Regional Directorate concerning educational aspects.

Additionally, there exists a severe shortage of resources given current school-age populations. Of the 2.3 million Soles allocated to the Primary and Secondary Education programs in 2001, more than 90% went towards payroll expenses, leaving less then 10% to be distributed among consumption goods, services, investment good, and other expenses.

[2] For the selection of the implementing units we used PPS (probability proportional to size) with respect to the IU's 2001 budget for the Primary Education program.

The resources, which are managed through these programs, get complemented by direct MED assistance (teacher training and administration training) as well as by support from local governments, from NGOs, and other non-profit organizations. Parent associations (APAFAS) provide support as well and some studies indicate that the parental contributions are on the order of 50% of public spending on education. APAFAs and other parental contributions are therefore a very important source of resources for the poverty-stricken schools.

The CTARs

The allocation process at the CTAR level is dominated by an inertial component whereby, the sectorial partitions (education, health, agriculture, and transportation) receive allotments that are in large part a reflection of years past. There is an attempt to respond to specific regional needs as well as particular school needs however the scarcity of resources limits greatly the possibilities.

Moreover, the CTARs are also IUs and execute education resources as part of the overall investment strategy for the sector (capital goods and infrastructure construction and maintenance). Every year, the office of Budget and Planning of each CTAR develops an education investment plan with the aid of schools and IUs under their jurisdiction, however the procedures for the specific allocation of these resources is not clear.

IUs personnel and administrative overhead

The IUs of education vary considerably depending on which one of the different organizational models they belong to. Some models such as the one in place in the department of Ancash have numerous IUs all in charge of a small number of schools while the IUs of Arequipa and Cusco stand alone having all the schools within the respective department within their jurisdiction. Administrative overhead of the IU, as measured by the per teacher administrative budgets, varies considerably and often time exceeds the per teachers resources assigned to specific educational programs. In others words, it is often the case that more resources are channeled towards the administrative machinery than to the schools. This is particularly worrisome given the modest budget of the education sector as a whole.

On average, there are two IU employees per hundred teachers in the schools within an IU jurisdiction, but the ratios go up to 11 or 13 teachers in some IU of the departments of Ancash and Lima (departments where there are more IUs). Furthermore, although Lima has as many employees per teacher as Ancash, the administrative overhead per teacher in Ancash is almost 50% higher than in Lima. It is also interesting to note that the administrative overhead per student (per year) in our entire sample varies from S/. 7 to about S/. 125 as compared to a spending on consumption goods per student in the primary program, which ranges from S/. 0.05 to S/. 80. We also found evidence that indicated that the administrative overhead figures presented by some IUs underestimate the amount of resources destined to the IUs operation. It is often the case that expenses related to activities that are administrative in nature but can be somehow linked to an educational program are registered as educational expenses rather than administrative overhead. This mix-and-match

of budget line items and categories can be seen for example with payments for extra hours of the IU personnel or payments of the IU utilities.

IUs resource allocation process

In general, IUs declared that the amount assigned to them partly takes into consideration the number of teachers and schools in their jurisdictions but that the amounts are insufficient. This is mainly because the implicit inertia with respect to previous years that characterizes the budget allocation process and perpetuates (and sometimes augments) the substandard situation. However, it is surprising to find that a significant percent of the IUs have had resource surpluses in a given month (64%) which got lost in 59% of the cases (went back to the MEF).

Transparency of the budget disbursement process

The budget disbursement process, on the other hand, is quite transparent due to the SIAF system. Up to 96% of the IUs responded that they know the amounts and dates of the resources available to them. However, we should mention that in a few cases the IUs were not equipped with a computer terminal linked to the SIAF system and that in those cases their accounting personnel have to travel to the nearest IU to register their information.

Audits and Supervision

The SIAF system, designed to track government spending real-time, provides some degree of accountability and accounting transparency yet is not a bona fide auditing tool. The relative confusion caused by the dual structure in place in regional Peru confounded by the relative autonomy of the departments, makes centralized supervision extremely difficult. Additionally, the independence of the IUs to execute resources directly transferred to them from the MEF makes supervision by either the Regional Education Directorates or the CTAR awkward. In our fieldwork, the CTAR representatives often mentioned the relative autonomy of the IUS as far as executing resources as an obvious reason why the CTAR is not more actively involved in supervisory activities.

Approximately 3 out of every 4 IUs were audited either internally (by the IU office of internal control) or externally (mostly by the Regional Directorate and by the MED in fewer cases) in 2001. The number and frequency of audits was quite varied (ranging from 1 to 19) and in most cases only responded to a specific compliant or problem.

Regarding the supervision of schools, most IUs and schools themselves mentioned some supervision of the transfers process and usage of goods (79% of the schools in the sample have been supervised by the IU). However, almost half of those schools reported supervision visits only every 6 months.

Personnel Management

As previously mentioned, the majority (over 90%) of public resources in the education sector go towards payroll obligations. However, the large amount of resources channeled

towards payroll obligations is not reflected in greater supervision. In fact, the payroll formulation process is in many cases wholly unsupervised and this gives way to considerable abuse and misuse. Among the problems cited are:

- Sham or "ghost" teachers
  Those teachers that exist only on paper

- The lack of transparency in teacher assignments
  The most common complaint is the lack of transparency in teacher assignments. Evidence suggests that the process is heavily determined by the degree of influence that a specific teacher has with representative at the IU. Teachers outside the sphere of influence have little chance of having a relocation request approved.

Regarding the drafting of new contracts, survey results indicate that 30% of IUs, at the date of the visits, (end of April) had not yet hired new personnel. Although this may be due, in some cases, to the fact that no vacancies were created to hire new personnel (like in the USE Huari), in most cases it is due to delays in the renewal of contracts by the IU.

In addition to the delays, lack of transparency is another major problem in this type of process. Unions and teachers constantly accuse the IUs of non-compliance with contracting guidelines set out by the Ministry of Education.

There are serious problems with personnel figures in the education sector. Of the 100 schools we visited only in 36% of the cases do school personnel records match the respective IU records. The IU has an inflated estimate vis-à-vis the school in 32% of the cases and has an underestimate in 32% of the cases. The overestimations (suggestive of ghost teachers) are concentrated in Lima (21 of the 30 cases) and on average are on the order of 33%.

Finally, besides the lack of supervision, these mismatches can be partially explained by the lack of oversight in the payment disbursement process. By law, teachers must sign pay slips upon receipt of payment yet 6% of the teachers do not sign anything. Additionally, of the cases where teachers did "sign" we found that in 3% of the cases it was the school principal who signs on behalf of all the teachers.

Allocation process of resources within the IUs

The IUs decide how to distribute the resources assigned to them at the generic spending level (goods and services, payroll, etc) among specific spending categories (e.g. consumptions goods, public services, capital goods, etc). These decisions are often based on the needs expressed to them by schools but also are a result of a lot of discretion at the IU. This discretion is particularly important within the generic category goods and expenses. Within this category, there are significant differences in how the IUs distribute the resources. For example, in the case of the Primary Education program, on average, 56% of the resources was used to pay public utilities, 22% to pay third party services, and 18% to purchase consumption goods. However, while Ancash, Cajamarca and Piura Cusco destined more than 40% to consumption goods, Lima and Cusco only destined 17% and 5%

respectively. In these latter departments, the bulk of resources of this generic category go towards the payment of public utilities.

Payment of public utilities

We found that while some IUs allocate most of their resources for goods and services to pay public utilities of schools, 20% of the IUs do not pay for public utilities of schools at all and 36% pay to some schools. It is also worthwhile to mention that some of the IUs that do not pay public utilities to schools at all (4 out 5) report expenses for that specific category anyway!

We also found leakages when comparing the fraction schools for which the IU claims to pay utilities with the fraction of schools (of our sample), which report to have their utilities paid by the IU. The worst offenders were found in Ancash.

Transfers of consumption goods

Spending on consumption goods was about S/. 82 per teacher (or S/.2.75 per student) on average in 2001, equivalent to roughly $0.80 per student per year. The majority of these resources go towards the purchase of educational materials (chalk, paper, pens, pencils) and cleaning materials (detergent, brooms, dustpans). The allocation of the resources amongst schools is generally in proportion to some measure of school size (number of classrooms or student populations).

Not all schools receive these goods, however. Our fieldwork suggests that in about a third of the cases, the IUs do not distribute goods to all the schools within their jurisdiction.

Although amounts of resources destined to consumption goods are very small, our fieldwork makes evident that there exists some degree of misuse. To the extent possible we estimated leakages in the transfer of consumption goods for the schools in our sample. We found that overwhelmingly the goods are reaching their final destination (most schools have a 0% leakage) although there were some clear offenders. Two IUs of Ancash stand out as particularly troublesome with average leakages of 5% and 20% respectively. An IU in Lima also had a particularly high leakage (17%) while the average leakage for our sample was estimated to be about two and a half percent.

Transfers from the Ministry of Education to Schools

Directly from MED (program MECEP), schools only receive educational materials (textbooks for students and guides for teachers) and teacher training (mainly through the program PLANCAD). Confirming results from previous studies, our study found that the program PLANCAD has reached most schools (95% of schools of the sample have at least one teacher trained during 2001), although the coverage is somewhat lower in the rural areas. Almost all schools also received educational materials, although approximately in 605 of the schools the materials were only received in May (classes start in April) and a significant group of rural schools received them by June.

Other sources of school financing

Public resources are completely insufficient to cover school needs. The need gap is partially addressed by donations, and assistance (both monetary and in-kind) from local governments, NGOs, and other non-profits as well as by parental contributions (both through formal associations APAFAs and informally). The results of the survey show that these other resources are mostly used to buy consumption and capital goods, to upgrade and maintain facilities, and in some cases to pay public utilities. In a few cases, APAFA resources and schools own income are also use to pay teachers (mostly for courses like sports, arts, etc.).

School principals referred to APAFA contributions as one of the main complementary sources of school revenue. We found an APAFA in every school visited although only in 79% of the cases they reported income last year. The results also showed that the annual allocation per student was equal to S/. 12.6 (S/. 15.3 in urban schools versus S/. 8.7 in rural schools).

The second source mentioned was resources generated by the school through the lease of school spaces, fund-raising activities, etc. These resources were found equivalent to S/. 4.4 per student the last year.

The other sources were municipalities, NGOs and churches which mostly on the form goods donations and materials for the restoration of school facilities.

Policy Recommendations

- The current organization of the educational sector urgently needs major restructuring. The duality and lack of coordination among the different institutions involved needs to be addressed. For this purpose, it is first necessary to determine the future roles of the MED and of the CTARs (in the future Regional Governments) regarding both functional and budgetary responsibilities. Their new roles should follow rules in accordance to their capabilities and overall responsibilities but not based on the differentiation of budget and functional roles.

- In addition, all regions should have the same organizational model. For the purpose of selecting the new model, the experiences and results of the different organizational models – currently in existence - should be carefully analyzed. The results of our study show that Ancash, which has an organizational model characterized by numerous small IUs, is the department where most problems have been founf (leakages, among others). On the other hand, the models of Cusco and Arequipa where there is only one IU also does not seem to work well.

- IUs should be redesigned in order to eliminate administrative inefficiencies and they should be regularly supervised and audited so that leakages can be identified and penalized. The possibility of introducing mechanisms to provide incentives to promote administrative efficiency in the IUs should be studied (e.g. management contracts).

- Although it is clear that IUs need to manage the allocation of their budgets with discretion at least within generic categories, the criteria for the decisions should be transparent, should explicitly follow school requirements, and be regularly and externally supervised. The same applies to the decisions and criteria to allocate the educational budget among IUs. In this case, the allocation should explicitly be based on size indicators, such as students or teachers under the IU jurisdiction.

- The IUs and the Ministry of Education have no credible estimate of the number of teachers currently in the system. An updated teacher census with methods of verification is needed both at the central Ministry level and the sub national IU level in order to prevent "ghost" teachers and other personnel irregularities.

- The contracting and re-assignment rules should be made more transparent. Currently, most complaints from teachers center around the lack of transparency both in the relocation of personnel as well as in the contracting of new hires.

- Payroll represents upwards of 90% of the resources in the Education system thus contributing to the "inertial" quality of public spending. There should be a serious attempt at standardizing teacher/student ratios.

- APAFAS and parents contributions in general are very important. Given their important role in school financing and, in general, the importance of parents in their children education, they should also be more involved in the management of schools, particularly as supervisors (not only of the schools but also of the IU actions that directly affect their children schools).