

Introduction

Educational expenditure indicators help to show what, how and where financial resources are directed to education. Every year, governments, private companies, students and their families make decisions about the financial resources invested in education. These investments are made with the well-established idea that expenditure on education enhances labour productivity by improving the skills of the workforce (Mallick, Das and Pradhan, 2016^[1]) which might affect economic growth and social development. Therefore, analysing various aspects of educational finance helps clarify the efforts made by countries in education as well as its possible impact on future national economic and social perspectives. In addition, the search for effective financial policies in education requires evaluating educational expenditure of a country's education system in light of other countries.

The framework for international educational finance indicators

At the national level, educational institutions are the most common defining unit of analysis for analysing expenditure on education. This approach reflects the traditional interest in knowing how much schools, colleges and universities cost, and how much of that is paid by the government or by students, for instance. However, this does not take into account that educational systems around the world might spend their resources differently. For instance, the goods and services provided by educational institutions in one country may be provided outside educational institutions in another. Another example arises when comparing the educational goods and services associated with educational institutions. There are some goods and services they provide that are not associated with education or instruction, so considering them might affect comparability across countries. Finally, educational systems are funded differently; in some countries public sources might be more relevant, in others private sources might be an important source of funding. Therefore, a framework for international educational expenditure is needed to make comparisons across countries.

The framework for international educational expenditure is built around three dimensions:

- **The location of service providers (within or outside of educational institutions).** Spending on educational institutions includes spending on teaching institutions such as schools and universities, and non-teaching institutions such as education ministries and other agencies directly involved in providing and supporting education. Spending on education outside these institutions covers expenditure on educational goods and services purchased outside institutions, such as books, computers and fees for private tutoring. It also covers student living costs and the cost of student transport not provided by educational institutions.
- **The type of goods and services provided or purchased (core or peripheral goods and services).** Educational core goods and services include all expenditure directly related to instruction and education. It covers all expenditure on teachers, maintenance of school buildings, teaching materials, books, tuition outside schools and administration of schools. However, not all expenditure on educational institutions can be classified as direct educational or instructional expenditure. Educational institutions in many OECD countries offer various ancillary services – such as meals, transport and housing – in addition to teaching services to support students and their families. At the tertiary level, spending on research and development can be significant. Additionally, not all spending on educational goods and services occurs within educational institutions. For example, families may purchase textbooks and materials themselves or seek private tutoring for their children. In this sense, "non-instruction" expenditure covers all expenditure broadly related to student living costs or services provided by institutions for the general public. Differentiating the spending devoted to educational and non-educational goods and services offered by institutions also provides for an analysis of the expenditure devoted to core educational purposes.
- **The source of funds that finance the provision or purchase of these goods and services (from public, private and international sources).** Considering the source of funds dedicated to education spending assesses who the major contributors are and the impact this may have on the access and provision of education. Public expenditure

refers to spending by public authorities (central, regional and local governments). Private expenditure refers to expenditure by households and other private entities. International funds consist of funds from public multilateral organisations for development aid to education. These sources of funds can be analysed from the perspective of either the initial or the final payer, depending on when the transaction is made. The initial source of funds is the original source of the funds before transfers have taken place, while the final source of funds is after transfers have taken place. Public transfers of funds to private entities fall into two distinct categories: public subsidies to households (e.g. scholarships and grants), and public subsidies to other private entities (e.g. subsidies to private companies for the provision of training at the workplace as part of combined school and work-based programmes, including apprenticeship programmes). Other type of transactions are the intergovernmental transfers of funds.

International classification of educational expenditure in this chapter

		Location of service providers	
		Spending on educational institutions (e.g. schools, universities, educational administration and student welfare services)	Spending on education outside educational institutions (e.g. private purchases of educational goods and services, including private tutoring)
Types of goods and services	Spending on core educational goods and services	Public and international funds <i>e.g. public spending on instructional services in educational institutions</i>	Publicly subsidised private funds <i>e.g. subsidised private spending on books, materials or fees for private tutoring</i>
		Publicly subsidised private funds <i>e.g. subsidised private spending on instructional services in educational institutions</i>	Private funds <i>e.g. private spending on books and other school materials or private tutoring</i>
		Private funds <i>e.g. private spending on tuition fees</i>	
Educational peripheral goods and services	Spending on research and development	Public and international funds <i>e.g. public spending on university research</i>	
		Private funds <i>e.g. funds from private industry for research and development in educational institutions</i>	
	Spending on educational services other than instruction	Public and international funds <i>e.g. public spending on ancillary services such as meals, transport to schools, or housing on the campus</i>	Publicly subsidised private funds <i>e.g. subsidised private spending on student living costs or reduced prices for transport</i>
		Publicly subsidised private funds <i>e.g. public subsidies for lodging, meals, health services, or other welfare services furnished to students by the educational institutions</i>	
		Private funds <i>e.g. private spending on fees for ancillary services</i>	Private funds <i>e.g. private spending on student living costs or transport</i>

Classification of educational expenditure

According to the international framework for educational expenditure presented above, educational expenditure in this chapter is also classified into three dimensions:

- The first dimension – represented by the horizontal axis in the diagram below – relates to the location where spending occurs (within or outside educational institutions).

- The second dimension – represented by the vertical axis in the diagram below – classifies the type of goods and services that are purchased (core or peripheral goods and services).
- The third dimension – represented by the colours in the diagram below – distinguishes the sources from which funding originates. These include the funds from the public sector and international agencies (indicated by light blue), and the private funds such as funds from households and other private entities (indicated by medium blue). Where private expenditure on education is subsidised by public funds, this is indicated by grey cells. The uncoloured cells indicate the parts of the framework that are excluded from the coverage of the finance indicators in Education at a Glance.

Accounting principle

In keeping with the system used by many countries to record government expenditures and revenues, educational expenditure data are compiled on a cash accounting rather than an accrual accounting basis. That is to say that expenditure (both capital and current) is recorded in the year in which the payments occurred. This means in particular that:

- Capital acquisitions are counted fully in the year in which the expenditure occurs.
- Depreciation of capital assets is not recorded as expenditure, although expenditure on repairs and maintenance is recorded in the year it occurs. This can result in sharp fluctuations in expenditure from year to year owing to the onset or completion of school building projects which, by their nature, are sporadic.
- Expenditure on student loans is recorded as the gross loan outlay in the year in which the loans are made, without subtracting repayments or interest payments from existing borrowers.

A notable exception to the cash accounting rules is the treatment of the retirement costs of educational personnel in situations where there are no (or only partial) ongoing employer contributions towards the future retirement benefits of the personnel. In these cases, countries are asked to impute these expenditures in order to arrive at a more internationally comparable cost of employing the personnel.

International educational finance indicators

This chapter provides a comprehensive and comparative analysis on education expenditure across OECD and partner countries, focusing on six aspects of educational spending:

- Financial resources invested in educational institutions, relative to the number of students (Indicator C1), and relative to national output (Indicator C2).
- The source of funds devoted to educational institutions (Indicator C3).
- Total public resources invested in education, both inside and outside educational institutions, relative to total government spending (Indicator C4).
- Students' costs and the financial support for tertiary studies (Indicator C5).
- The distribution of educational expenditure across resource categories (Indicator C6).

Reference

Mallick, L., P. Das and K. Pradhan (2016), "Impact of educational expenditure on economic growth in major Asian countries: Evidence from econometric analysis", *Theoretical and Applied Economics*, Vol. XXIII/2, pp. 173-186. [1]



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