

Reforming Education Financing in Brazil

Summary

The current model of public education financing in Brazil generates inefficiency and inequality in student spending. FUNDEB has contributed to improving regional equity, but a transfer mechanism focused on municipalities rather than states can significantly increase investment per student in the poorest municipalities but avoiding distortions like transferring funds for rich municipalities in poor states. The education spending earmark in the constitution (25% rule) generates inefficiency and spur regional inequality.

It is possible to end revenue earmarks (*vinculações*) for education and still increase investment per student in the poorest municipalities. Replacing the revenue earmark by a minimum spending per student sufficiently high will improve regional equity and remove a key factor for inefficiency in education spending in Brazil. Even if there is no increase in the “Complementação da União” (which is currently 10% of the sum of the 27 state funds), spending per student can substantially increase for approximately ¼ of Brazilian students (12 million) in a way that is budget neutral for the federal government.

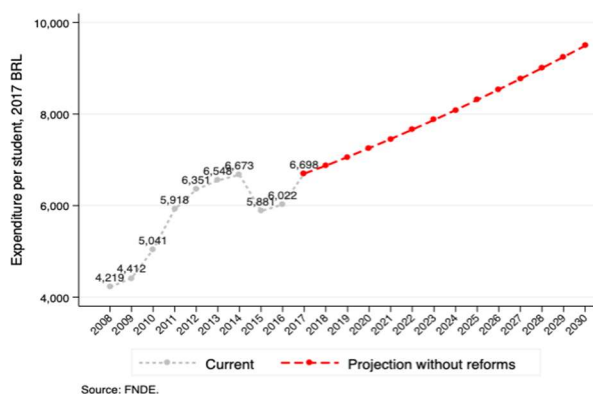
Efficiency and equity of investment in education can also be enhanced with the establishment of a national results-based incentive mechanism. Adopting a results-based approach to intergovernmental transfers for education, integrated with technical assistance, can foster further efficiency gains and more regional equity, as observed in Ceará, a poor Brazilian state, where education outcomes have improved consistently to become the best primary and lower secondary education system in the country.

Key Challenges and Case for Reform

Despite a significant increase in education investments, Brazil is facing a learning crisis and is receiving little value for its expenditures. Spending per student in Brazil is three times higher than it was 15 years ago in real terms, but international assessment results are showing little improvement in student learning, with most comparable countries having higher outcomes at a lower cost. (World Bank’s 2018 World Development Report). The drastic increase in per-student spending results from both the increase in overall spending and the fast drop in the number of students in public schools due to the fast demographic transition in the country.

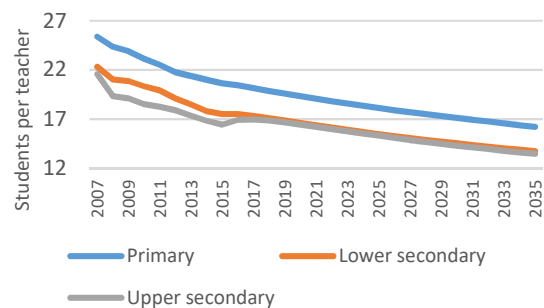
Brazil’s constitutional earmarking of 25 percent of state and municipal tax revenues for education is associated with an increase in total and per student expenditure. The rule generates inefficiency by creating incentives to increase spending without any planning or focus on results when there are unexpected higher revenues in any given year. During the commodity boom of the mid 2000s and 2010s, spending in education increased significantly, going from 4.5 percent to 6.6 percent of gross domestic product. The steadily increasing public spending, combined with falling public enrollment, resulted in a fast increase of annual average spending per student (figure 1) and fastly decreasing pupil-teacher ratios (figure 2).

Figure 1: Actual and Estimated Average Expenditure Per student in Basic Education (Real terms, 2008-2030)



Source: World Bank, with FNDE and INEP data

Figure 2: Student per teacher ratio in primary public schools and secondary public schools (actuals until 2015 and forecast), 2007-2035



Source: World Bank, with INEP/MEC data

As a result, education spending in Brazil is highly inefficient. The 2017 World Bank Expenditure Review estimates that education outcomes in Brazil could be 40% higher for the current level of spending.

Brazil has reduced regional inequalities in pre-university education, but the current system of inter-governmental transfers, including the support of FUNDEB, does not yet fulfill its purpose of closing equity gaps. Wealthier municipalities and states spend considerably more, but are more inefficient than poorer areas. Although the Education National Fund—FUNDEB (see Box) has contributed to closing the gap among rich and poor states in spending per capita, there are still situations where rich municipalities in poor states receive federal support while poor municipalities in wealthier states do not.

The Education National Fund (Fundo Nacional para Educação Básica, FUNDEB) is the main funding source for public pre-university education in Brazil. The law that establishes FUNDEB (law 11,494; 2007) details the temporary act in the Brazilian constitution of a national education fund (that expires in December, 2020) that requires state and municipal governments to pool 20 percent of a subset of their revenues (own taxes and constitutional federal transfers) on the states' fund, for financing pre-university education. FUNDEB monies are therefore a collection of 27 state funds plus federal support to the poorest states. The redistribution of resources within each state is based on enrollment from the previous year.

Government Reform Status and World Bank Engagement

The World Bank is closely engaged with the Brazilian Federal Government to implement a reform of the education financing framework. The law that establishes FUNDEB expires in December 2020, requiring the approval of a new law for the fund in the Brazilian Congress, providing an opportunity to overhaul the education financing framework. To that extent, the World Bank

has been closely engaged with the Brazilian Federal Government to implement a reform of the education financing framework. This has included extensive analytical work and technical meetings with the Brazilian Ministry of Economy and the Ministry of Education teams to discuss initial findings and recommendations for reform. The World Bank team has also participated in a working group that includes the main Brazilian education think-tanks and other relevant institutions. Initial reform proposals under discussion include:

- (a) **Reforming FUNDEB and replacing the minimum spending thresholds in education based on revenue by a per student measure.** An initial proposal is under discussion to achieve higher regional equity across the country and increase efficiency in education spending. It includes: (i) Establishment of a national minimum spending threshold per student (with specific values for each level of education, the cost of living, and the complexity of networks defined by a complementary law); (ii) Removal of spending rules based on tax revenue and of any earmarking of teacher salaries; (iii) Establishment of a cascaded framework of responsibility, with state governments supporting their poorer municipalities to attain a minimum spending threshold per student before any federal support can be accessed; and (iv) Introduction of a results-based incentive mechanism to spur education quality and efficiency (beyond the minimum spending per student—see below). Simulations show that substantial equity gains can be realized, even for levels of minimum spending per student that would be budget neutral for the federal government.
- (b) **Establishing a complementary results-based fund transfer scheme to increase quality and reduce inequalities among and within public education systems in Brazil.** Adopting a results-based approach to intergovernmental transfers for education, integrated with technical assistance, can foster further efficiency gains and more regional equity, as observed in Ceará, a poor Brazilian state, where education outcomes have improved consistently to become the best primary and lower secondary education system in the country. Simulations show that the mechanism contributes to learning outcomes improvements and pupil-flow rates, spurring subnational governments to improve education performance and leading to a reduction of inequality in education outcomes for a given level of spending. Fundamental aspects of the scheme include: (i) a focus on low-performing schools and students; (ii) an emphasis on rewarding improvements, rather than levels; (iii) freedom to use these rewards in any sector beyond education; and (iv) technical assistance to raise the perceived probability of achieving better results.