

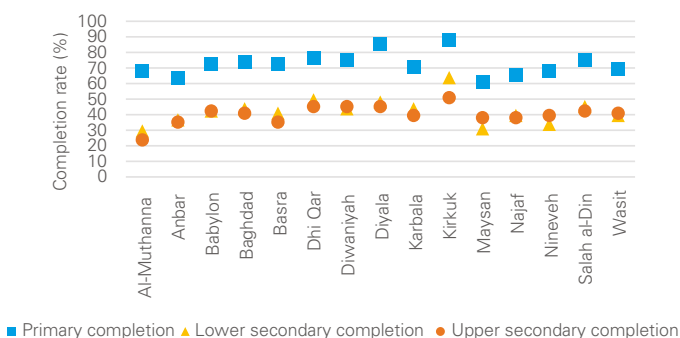
# How to improve financing of the education sector in Iraq

- **Across Iraq, children lack access to quality education. Over two million children are out of school. Less than one in ten children attend early childhood education centres, compromising their readiness for primary and secondary school. Completion rates in these levels are notably lower compared to regional and middle-income counterparts. High drop-out rates limited instructional time and poor teaching quality further constrain the learning potential of Iraqi children.**
- **The quality of education outcomes hinges on both the quantity and effective allocation of resources in education spending. A thorough analysis of the education budget and expenditure reveals significant opportunities for improvement in the distribution of public education financing across spending purpose, school levels, and geographical locations. This entails increased investment in educational infrastructure and building more schools, prioritization of maintenance of school facilities and a fairer geographic distribution of available education finance based on local needs. Such shifts have the potential to improve the performance of the education system with available resources.**

## WHAT IS THE ISSUE?

A child born in Iraq today will, on average, reach only 41 per cent of their potential productivity as an adult.<sup>1</sup> Access to education and the quality of learning represent two of the most significant obstacles to the provision of education. This difficulty has been exacerbated by the country’s fragility and ongoing conflict. It is estimated that children in Iraq can expect to complete, on average, 6.9 years of schooling, compared to 11.3 in the Middle East and North Africa (MENA) as a whole. However, when taking into account the amount of learning that actually takes place, this child will achieve only 4.0 learning-adjusted years of schooling (LAYS) by age 18, versus a MENA average of 7.6 LAYS.<sup>2</sup> This infers that almost 42 per cent of the time spent in school is wasted and does not contribute to the development of productive skills.

Figure 1: School completion rates (%) across Iraqi Governorates



The data suggests that learning gaps start early in life and escalate throughout Iraqi children’s educational trajectory. Only one out of twelve children (8 per cent) attend early childhood programmes, indicating barriers to accessing quality early childhood education<sup>3</sup>. In terms of completion rates of students from primary to upper secondary schools, there are significant geographic disparities (Figure 1). While Anbar, Najaf and Maysan governorates experience a high number of dropouts before the final grade of primary school (one in three children), Diyala and Kirkuk experience the fewest dropouts. At the secondary level, dropout rates range from one in two children in Kirkuk to as high as three in four children in Muthanna. Overall, compared to other countries in the MENA region, completion rates for primary schools in Iraq – excluding the Kurdistan Region of Iraq – are slightly better than Djibouti, Sudan and Yemen, whilst Iraq’s lower secondary (intermediate) school completion ranks the lowest. Therefore, Iraq can be considered underperforming relative to the country’s wealth.

Over two million children are out of school due to reasons such as the war with ISIL, displacement, and shortages of education resources. The education sector has been significantly affected by numerous challenges in service delivery, reduced instructional time, with many schools operating in multiple shifts. Twenty-five per cent of primary and lower secondary students reported that they could not attend class due to the absence of a teacher, or due to school closure during the past year in 2018.<sup>4</sup>

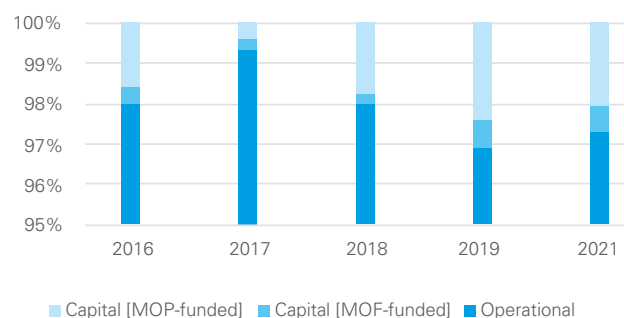
The Ministry of Education estimates a need for more than 10,000 school buildings in Iraq.<sup>5</sup> The reconstruction and restoration of learning and teaching services, especially in conflict-affected Governorates – require significant funding.<sup>6</sup>

The Government of Iraq (GOI) allocated 11.5 per cent of its available resources to public education spending in 2021<sup>7</sup>, falling short of the 15 to 20 per cent commitment outlined in the Incheon Declaration. Compared to other developing countries in MENA with available data, only Jordan and Lebanon allocate a smaller share to public education financing. This level of spending is not enough to achieve universal access to quality education. Using macro-fiscal projections for Iraq, it is estimated that the financing gap for providing universal access to education — i.e., the gap between (a) the Government’s current commitment to education resourcing and (b) the resourcing needed so that all Iraqi children have access to quality education — will grow from IQD 800,000 per student in 2023 to IQD 1.3 million per student in 2030. Unless the Government allocates more resources from the budget to education and improve the distribution of existing resources, a significant share of Iraq’s growing student population will lack access to quality education.

The level of commitment by the GOI to education is not the sole explanatory factor for the low performance of the education system. When compared to neighboring countries in the MENA region with similar commitments to public education financing, Iraq’s performance ranks poorly. There is significant room for improvement in the distribution and execution of available resources.

Governments worldwide grapple with the challenge of striking a balance between investments in education infrastructure and annual operational costs, including teachers’ salary. While investments in infrastructure primarily aim to extend access to previously unserved school-aged populations, allocation of resources for running costs significantly affect the quality of education provided to existing students.

**Figure 2: The share of Government expenditure on education in Iraq by operational or capital spending type (%)**



Source: GoI MOF and MoP.

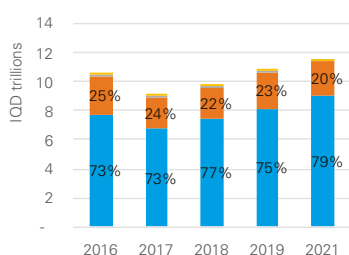
Operational expenses of schools and universities in Iraq consistently exceeds 96.9 per cent of the total Government education expenditures (Figure 2). Further data suggest these operational costs are predominantly driven by salary expenditures, consistently comprising over 90 per cent of overall education budget in each year leaving limited financial resources for vital non-salary operational expenses. Insufficient availability of classroom learning materials compromises the quality of education, and neglecting regular maintenance of essential assets poses risks such as safety concerns and expensive renovations or the need to replace critical school infrastructure. This, in turn, exacerbates the strain on already constrained capital investment resources. The question remains whether enough schools are being built, expanded and/or renovated to keep up with increasing demand for public education places due to a growing child population.

Additionally, a noticeable spending distribution becomes apparent when examining year-on-year trends. Between 2019 and 2021, despite an increase in overall Government education spending, expenditures on learning materials declined. The majority of additional resources, primarily stemming from surplus funds attributed to mid-year increases in oil revenues, were channelled into salary costs by GDOEs, exceeding the budgeted amounts by more than 10 per cent. Conversely, spending on other operational costs in 2021 fell short of the approved budget allocation.<sup>8</sup> These data may infer issues in the timely distribution of resources; sudden increases in the resource envelope mid-budget year appear to find easier application in salaries compared to functions requiring procurement. The data evince leakage, from resources earmarked for vital non-salary spending, to salary-related costs. There is a clear opportunity for improving public education financing through the implementation of transparent and consistently applied policies across each Governorate.

Moreover, periods of fiscal surplus are seen as opportunities for increased investments in educational infrastructure. In 2021, capital spending funded by the Ministry of Finance (MOF) exceeded the approved budget amount by 216 per cent; while investments funded by the Ministry of Planning (MOP) surpassed the approved budget amount by 184 per cent. The prioritization of public education expansion during periods of fiscal surplus aligns with the Government’s policy objectives. However, it is important that such spending is carefully planned and audited to avoid resource leakages or wasteful expenditure.

Given the pivotal role of capital spending in expanding access to public education services, the allocation of such investments categorized by education level,<sup>9</sup> specifically, the distinction between K-12 investments managed by the MOE and university investments overseen by the MOHESR, reveals the Government’s educational priorities. The prioritization of university education is disproportionately substantial when compared to the respective student populations at each education level. In both the 2019 and 2021 budgets, the MOHESR accounted for a larger share of investment in education infrastructure than the MOE. However, data from 2021 concerning actual expenditures reveal that the projects of the MOE accounted for more than two-thirds of total investments. This suggests that the expansion of K-12 provision was prioritized with surplus funds in 2021. A functional system of public financial management (PFM) should ideally reflect education policymaking and strategic planning during the budget formulation process. The National Education Strategy for Iraq for the period 2022-2031 estimates the cost of meeting its targets. These targets encompass increasing investments in kindergarten by 408 per cent, 62 per cent in lower secondary (intermediate) schools, with a relatively smaller increase in higher education by 29 per cent. For the GOI to effectively implement this strategy, there must be a further increase in emphasis on K-12 investments relative to university investments, a shift that should be reflected in annual budget formulation.

**Figure 3: Operational expenditures on education by school level (IQD trillions)**



Legend: ■ Technical Education ■ Scientific Research ■ University ■ Kindergarten, Primary and Secondary

Source: MOF database.

The distribution of operational costs across different education levels represents the Government’s respective prioritization of the enrolled student populations at K-12 and university education. Figure 3 data shows a growing prioritization of K-12, accounting for 73 per cent of operational costs in 2016, which increased to 79 per cent in 2021. Concurrently, operational costs for public universities experienced both absolute and percentage declines. The growing prioritization of children’s education is indeed commendable, given the far larger student populations at these levels.

Nonetheless, in 2021 the annual per-student expenditure for K-12 education in Iraq amounted to IQD 1 million, compared to IQD 3 million allocated for university-level education. This three-fold discrepancy in per student spending warrants a thorough review. Further, within the K-12, the Government estimates that per-student expenditures are IQD 1.1 million at the preparatory (upper secondary) level, IQD 0.8 million at intermediate (lower secondary) level, and IQD 0.66 million at both primary and kindergarten levels.<sup>10</sup> These figures reveal a pattern of increasing investment per student as they progress through the public education system.

However, this trend contradicts the growing evidence that the most significant returns on investment are achieved through investments at the early phases of a child’s education. Investments made during the earlier years of a child’s education achieve significantly higher cognitive, health, economic, and social outcomes for individuals and society at large compared to investments that take place at later stages.<sup>11</sup> It is essential to provide high-quality education in the early phases to equip children with the necessary skills to complete their education successfully.<sup>12</sup> It is particularly critical, given the low secondary school completion rates across Iraq (Figure 1). These low completion rates can largely be attributed to a lack of school readiness stemming from inadequate provision, in terms of both access and quality, during the early phases of child development.

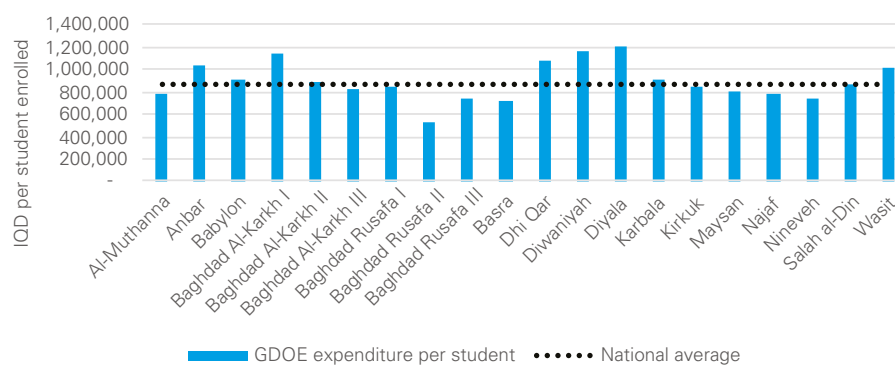
By directing a larger share of operational costs to enhancing the quality of K-12 education, specifically at kindergarten and primary levels, a broader segment of the student population will be better equipped to complete their education and accumulate the human capital necessary to contribute to productive economic activities.

Analysing the distribution of education financing by location, provides insights into the Government's approach to geographic resource allocation. Data in Figure 4 show the per-student expenditure on operational costs for K-12 education by the GDOE of each location, displaying wide variation from the national average. For instance, the GDOE's per-student spending in Baghdad Rusafa II was 38 per cent below the national average, while the GDOE in Diyala Governorate spent 38 per cent more than the national average. When comparing per-student spending to data on completion rates (Figure 1, many of the GDOE locations with lower per-student expenditures also

report lower completion rates, such as Al-Muthanna, Basra, Maysan, Najaf, and Nineveh. Students in these Governorates are facing greater difficulties in completing their education and, thus require greater support through enhanced quality of education.

In many instances, improvements in quality will require additional funding such as recruiting more qualified teachers or acquiring additional learning supplies. Moreover, directing additional investments to areas with lower education access will increase the resources needed to support out-of-school children in returning to the school system.

Figure 4: Operational expenditures on education by school level (IQD trillions)



Source: MOF database and CSO data on student enrollment.

## WHAT SHOULD POLICYMAKERS DO?

- **Allocate a greater share of the public budget to education services.** At the current rate of investment and projected population growth, too many Iraqi children will continue to lack access to quality education, which has profound negative socio-economic consequences.
- **Improve the balance of public education expenditure.** In general, there should be a shift towards increased capital investment in educational infrastructure and reduced spending on operational costs. Within operational costs, a reallocation is recommended, with a decreased emphasis on salaries and a greater focus on other operational costs such as learning supplies and regular asset maintenance.
- **Review the existing allocation mechanism that determines the distribution of available education funds across different regions in Iraq.** Resources can be better distributed across and within General Directorates of Education, with a particular emphasis on prioritizing the disadvantaged areas and age groups with limited access to education.
- **Assess the balance between expanding access to education and enhancing quality in existing schools in each location in Iraq.** Broadly, there is a need to target new resources mostly to build infrastructure for children who do not have access to education given low rates of school attendance.
- **For both capital investments aimed at expanding access to schools and operational expenditures intended to improve the quality of education,** a greater share of resources should be directed to early education given the high return rate on investment for both individual children and society as a whole. Capital investments should increase the number of kindergartens and reduce the number of primary schools operating in double shifts. A corresponding increase in operational costs at kindergarten and primary levels in order to operate newly constructed facilities and improve the quality of education in existing schools. This approach will contribute to higher secondary school completion rates and university enrolment.
- **Review the existing process for allocating surplus funds** to ensure that all education spending is carefully planned, aligned with Government policy, and audited to avoid leakages or wasted spending.

## FURTHER READING

 Sector financing review - WASH sector in Iraq. UNICEF 2023.

## Endnotes

- 1 As measured by the World Bank's Human Capital Index (HCI). The HCI measures the amount of human capital that a child born today can expect to attain by age 18, conveying the productivity of the next generation of workers compared to a benchmark of complete education and full health.
- 2 World Bank Group, Human Capital Project Country Brief and Data Sheet for Iraq (2020). <<https://www.worldbank.org/en/publication/humancapital>>.
- 3 UNICEF (2018 ), Multiple Indicator Cluster Surveys (MICS)
- 4 ibid
- 5 ibid
- 6 World Bank (2018), Damage and Needs Assessment of Seven Directly Affected Governorates. (January 17, 2018).
- 7 Ministry of Finance (MOF) database.
- 8 According to MOF data, in 2021 the execution of the education budget was 89 per cent for commodity supplies, 80 per cent for asset maintenance and just 53 per cent for service supplies.
- 9 According to data collated by the MOE/MOHESR and published by the MOP's Central Statistical Organization for the school year 2019-2020: an estimated 9.3 million students are in public K-12 institutions, compared to 750,000 in public universities.
- 10 Iraq's National Education Strategy for Iraq for 2022-2031
- 11 Heckman, J. (2008) 'The case for investing in disadvantaged young children', Ifo Institut für Wirtschaftsforschung an der Universität München, München, 06(2), pp. 3–8.; Heckman, J. (2017) 4 Big Benefits of Investing in Early Childhood Development-The Heckman Equation, Heckmanequation
- 12 Gertler P., Heckman J., Pinto R., Zanolini A, Vermeersch C., Walker S., Chang S. M. and Grantham-McGregor S. (2014). 'Labour Market Returns to an Early Stimulation Intervention in Jamaica', Science, 344:6187, p. 998-1001.