

Rationalization of Government Education Subsidies: Towards a More Efficient and Inclusive Philippine Education System

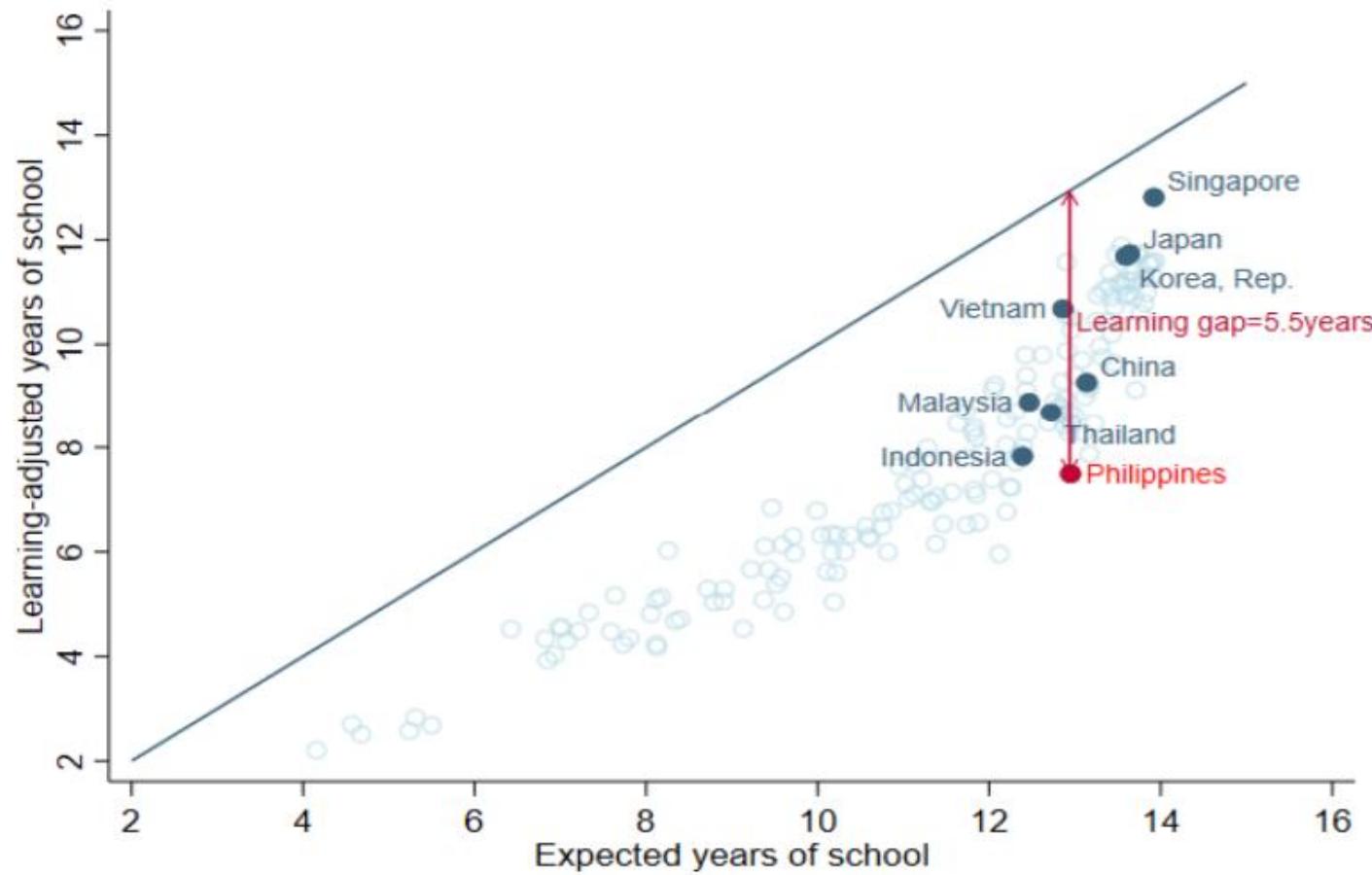
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PH Education: Achievements and Challenges (The Paradox)

- **Achievement:** Super achiever in years of schooling completed.
- **Challenges (The Persistence of Failure):**
 - Low student learning achievement with little improvement despite numerous reforms and increased education subsidy.
 - High learning poverty rate (about 90%) and education inequality among Filipino learners (WB, 2022)
- **Objective of the Presentation:** To propose a policy and strategy for rationalizing allocation of government's education subsidy for basic education to help address the above-mentioned challenges.

PH Education: Achievements and Challenges (The Paradox)



Source of basic data: Human Capital Index 2020 Update, The World Bank; World Development Indicators, The World Bank

Figure 1. Learning gap in the Philippines

Understanding Education Subsidies

- **Definition:** Direct or indirect form of government support, financial aid, or economic concession.
- **Recipients:** Individuals, households, private firms/organizations, or other government units.
- **Purpose:** To alter the results created by otherwise free markets to promote some government policy objectives.
- **Key Forms (Examples):**
 - Direct cash payments (e.g., 4Ps CCT).
 - Education vouchers for students to enroll in private schools (SHSV, ESC).
 - Budgetary support for the public school system.
 - Input-based financial support (e.g., public school teacher salaries and benefits).
 - In-kind benefits (e.g., free textbooks).

The Distribution and Nature of Prevailing Subsidies (The Imbalance)

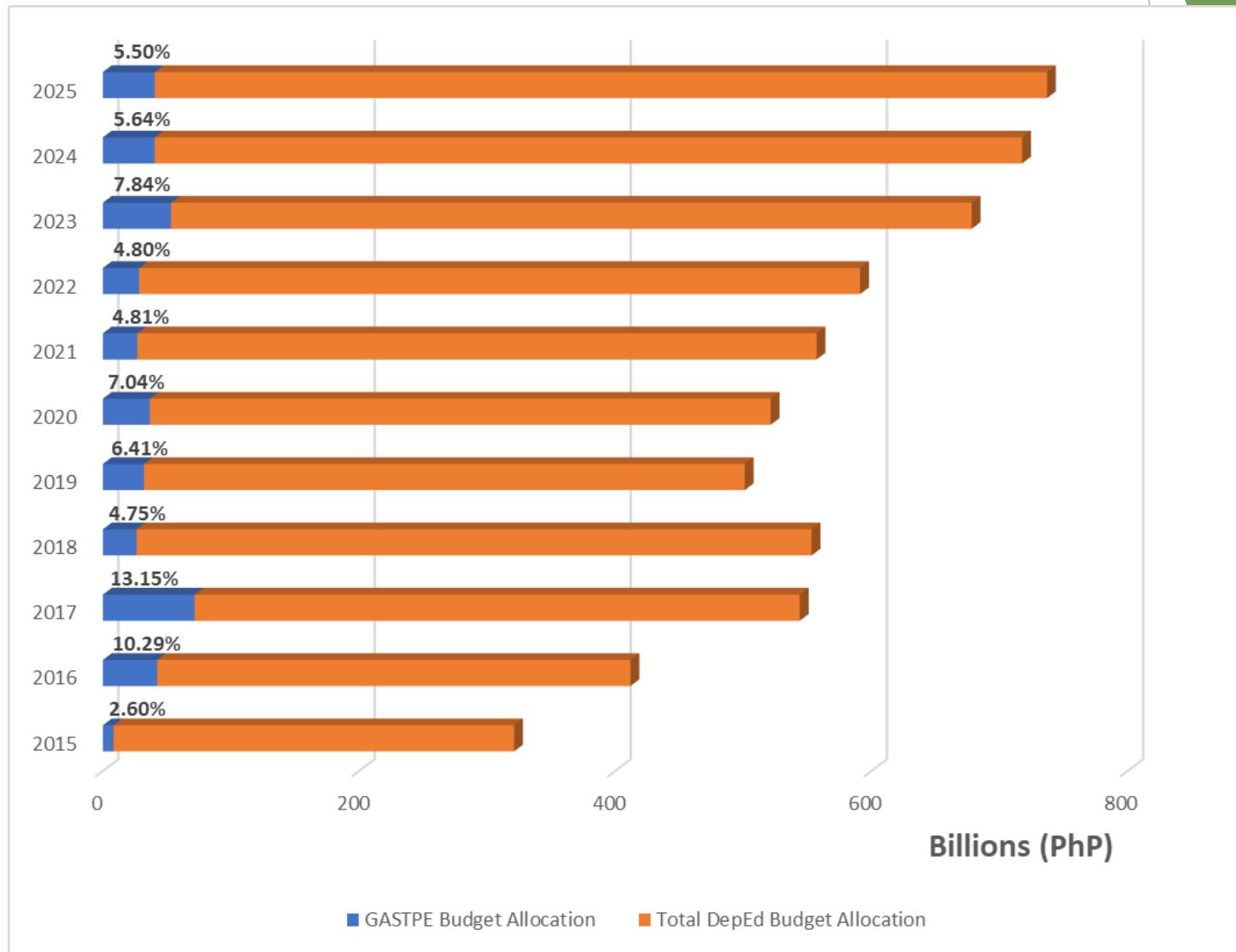
- **Total Basic Education Budget Support:** Focused overwhelmingly on financing the acquisition of education inputs.
- **Primary Uses of Government Education Funding:**
 - Expansion of tuition-free public schools.
 - Hiring/training public school teachers and raising their remunerations (unrelated to productivity).
 - Production/purchase of textbooks for public school students.

The Distribution and Nature of Prevailing Subsidies (The Imbalance)

- **GASTPE Funding:** The budget for Government Assistance for Students and Teachers in Private Education (GASTPE) is too modest.
 - It constitutes only a modest percentage of the total budget.
 - It is insufficient to prevent the crowding out effect of government education subsidy policy on private schools.

The Distribution and Nature of Prevailing Subsidies (The Imbalance)

Figure 2. Budget allocation for GASTPE (ESC, SHSV, JDVP-TVL) based on GAA from 2015 to 2025
(Source: DBM, various years)



The Policy Consequence: The Crowding Out of Private Schools

- **Observation:** Declining private education shares in total enrollment across elementary, JHS, and SHS levels, as illustrated in the next slide 9.
- **The Cause:** The education playing field is not level; it is tilted undeservedly in favor of public schools.
- **The Risks of Persistence:**
 - Marginalization of private schools, leading to virtual monopoly of education by public schools.
 - A less competitive, efficient, adaptable, and innovative PH education system due to weaker performance incentives.
 - Reduced diversity of available schools catering to individual preferences.
 - Increased risk of education system failures—akin to "putting all of one's eggs in one basket".

Declining share of private schools in total JHS enrollment

[N.B. The private school share in total elementary enrollment has been down to 10 % or less years ago]

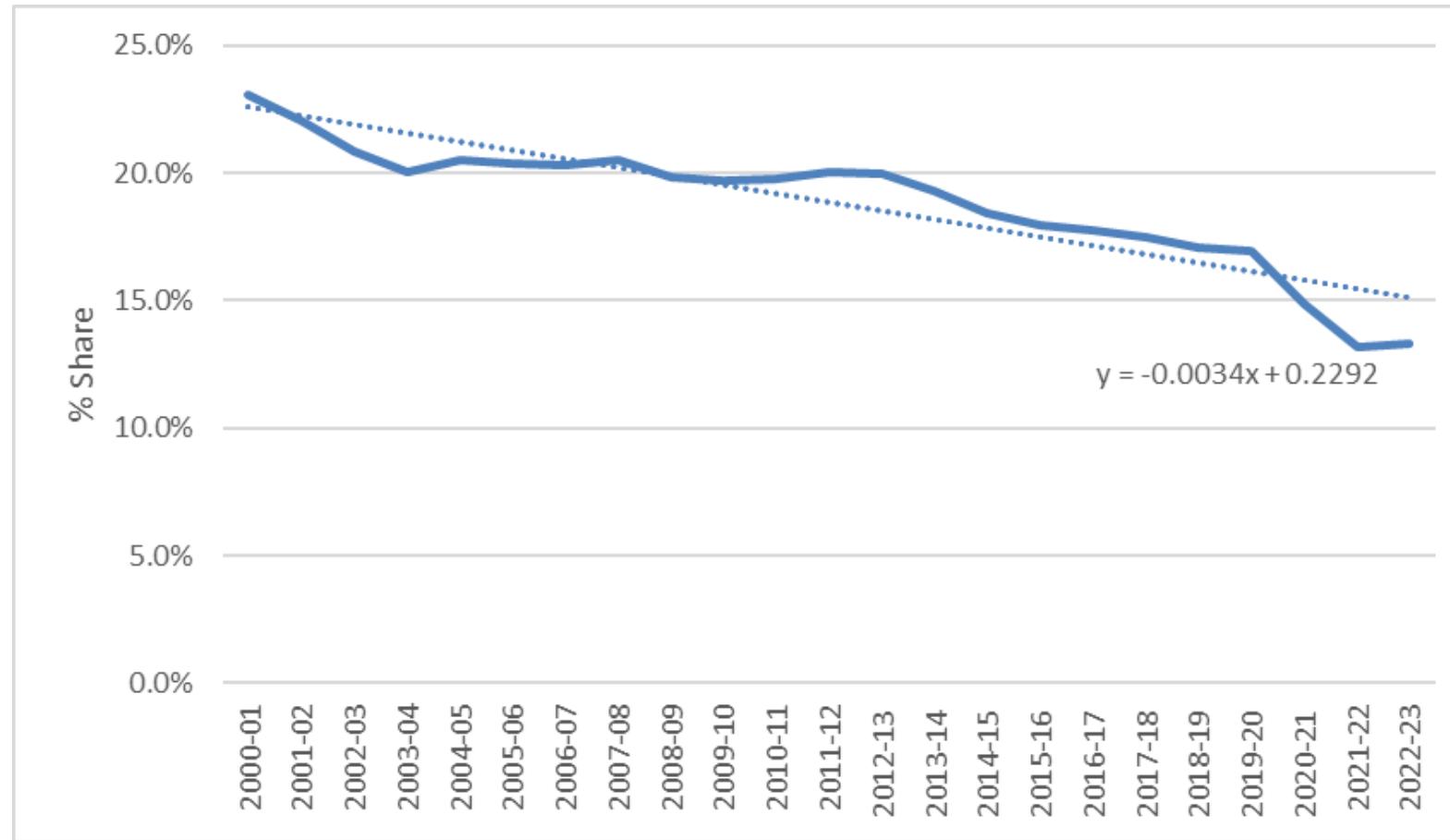


Figure 3. Share of enrollment of private school in Junior High School, SY 2000-2001 to SY 2022-2023 (Source: PSA Philippine Statistical Yearbook, various years)

The Efficiency and Outcomes of Public and Private Schooling: An Initial view

- **Private Schools:**
 - More efficient than public school counterparts.
 - Cost less than public schools to educate a child.
 - Students learn more than their public school counterparts, *ceteris paribus*.
 - More flexible, adaptable, innovative, and responsive to changes in knowledge, technology, and the market.
- **Public Schools:**
 - The claim that public money is better spent improving the public school system "rings hollow" in light of persistent reform failures.
 - Government failures can be as bad as (or worse than) market failures.

Student Learning Achievement Failed to Rise After EDCOM1's Trifocalization and Other Reforms: Illustrating Persistent Government Failure in Basic Education

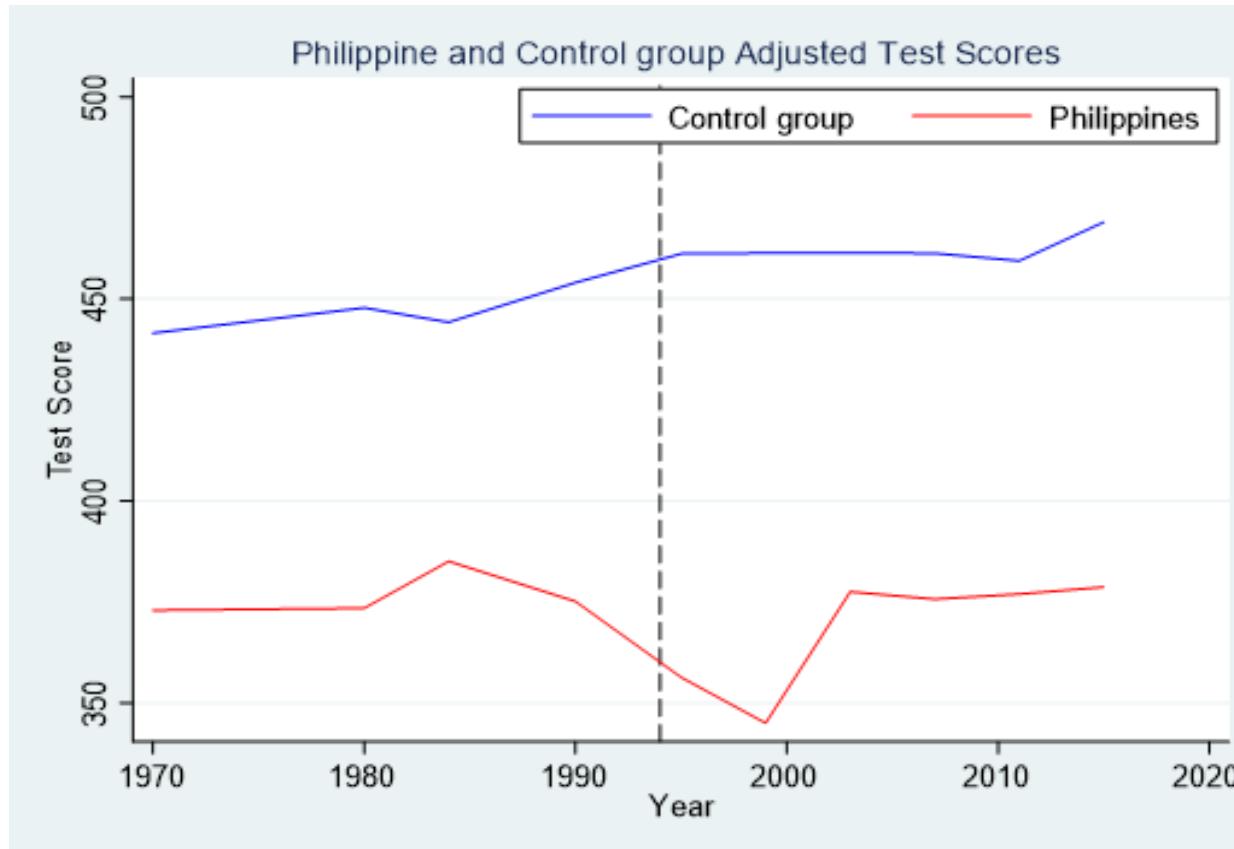


Figure 4. Historical Trend of Adjusted Test Scores for the Philippines and Control Group (1970-2015) (Source: Lee & Lee, 2024)

Further on the Relative Efficiency and Outcomes of Public and Private Schooling

- ▶ That private schools cost less per student, on average, than public schools for a given school quality has been documented by Jimenez, Lockheed, & Paqueo (1991) and Patrinos (2024)
- ▶ Paqueo et al. (2025) also finds that:
 - ▶ Public schools are, on average, 163.4% more inefficient compared to their minimum cost function
 - ▶ Private schools in contrast are, on average, only 11.2% more inefficient compared to their efficient cost function.

Table 1. Estimated and actual per-student costs for private schools

School Category	minus log of technical efficiency (mean)	Inefficiency (%)
Public	0.793	163.4%
Private	0.105	11.2%

More findings on the relative efficiency and outcomes of public and private schooling

- ▶ **Higher student performance entails higher investments:** Higher school quality (determined by the overall NAT scores reported) appears to have a positive relationship on per-student costs, with this effect being stronger and more significant for private schools; peaking at a 0.22% increase in per-student costs for private schools falling under the NAT Q4. (Paqueo et al., 2025)

Table 2. Stochastic Cost Frontier estimation coefficients for the combined public and private cost function	Variable	Public Schools Coefficient	Private Schools Coefficient (Public Coefficient + Difference)	Difference (Std. err.)
	Wage	0.2058***	0.1841***	-0.0217
	Capital	0.3961***	0.0127***	-0.3834***
	Student Pop.	-0.5227***	0.0014	0.5241***
	School Combined Overall NAT Quartile (base=Q1)			
	Q2	0.0071	0.032***	0.0249*
	Q3	0.0348**	0.0951***	0.0603***
	Q4	0.0324*	0.2253***	0.1929***
	HUC	-0.0071	0.1328***	0.1400***
	Constant	4.6907***	7.8522***	3.1615***

Analyzing System Strengths and Weaknesses

(Public vs. Private)

	Private System (Laissez Faire) only	Public System (Gov't Dictates) only
Strengths	<p>Strong incentives to be:</p> <ul style="list-style-type: none">• Efficient (cost-effective)• Timely in responding to diverse and changing consumer demands• Opportune in adapting and adopting new knowledge/technology	<ul style="list-style-type: none">• Only govt can levy taxes to optimize the country's education investment in the present of externalities and can adequately mobilize needed funds to address inequality issue• Govt also has comparative advantage in enforcing regulations to deal with market failures arising from asymmetry of information
Weaknesses	<p>Markets</p> <ul style="list-style-type: none">• Inequity in income distribution, spillover effects (externalities), and asymmetry of information leading to missing markets	<ul style="list-style-type: none">• Persistent failure to significantly raise low student learning outcomes• Inadequate performance incentives, flexibility, and accountability to be efficient and innovative

Nota Bene: To Clarify

- The government's advantage in subsidizing education (due to spillover benefits and addressing inequities) does **not** mean that public schools are necessarily and empirically better at educating children.
- Relative to public schools, private education institutions can and often do provide more benefits to individual students/families and the public at large for the same or less investment in education.

The Case for a Well-Balanced Mixture of Public and Private Basic Education System

- Improving the level playing field between public and private schools can lead to an education system that:
 - Combines and harnesses the respective strengths of the public and private education sectors.
 - Minimizes the risk of education system failures through diversification of school providers to attenuate the impact of market and government failures on education outcomes.
 - Allocates resources in ways that support the survival and expansion of schools that provide better quality education at lower cost.
 - Adopts an algorithm for rationally allocating government budget for public and private education - one that is based performance/merit instead school ownership
 - Can be designed to be self-correcting and dynamically stable (a la homeostasis) with continuous adjustments to keep the public and private education shares in total enrollment within a tight range.
- Constitutional Consistency: The current trend of crowding out runs counter to the Constitution's view that the PH education system should harness the strengths and minimize the weaknesses of both public and private institutions.
- The next discussion sketches how a more balanced mix of public and private education can be improved, building on DepEd's experience with its voucher programs (ESC and SHSV).
- To begin with, the next slide describes and assesses these programs.

Description and Assessment of Current Voucher Programs

Key Features – ESC (Education Service Contracting) program	Key Issues
<ul style="list-style-type: none">Target Level: The program targets incoming Junior High School (JHS) students (Grade 7).Primary Beneficiaries: Intended beneficiaries are students who would-have-been public school students but instead choose to enroll in an ESC-accredited private high school.Historical Rationale: The program was initially implemented to address the limited capacity and severe overcrowding of public schools at the secondary level, offering a rapid and cost-effective alternative to public school expansion.Current Objectives: The objectives have evolved, with current DepEd orders emphasizing providing "access to quality education".Financial Limit: The amount of assistance provided per ESC grantee shall not exceed the per-student cost in public high schools.Poverty Targeting: The law sets criteria for selection, giving preference to students whose annual gross family income is within a certain limit (e.g., PhP 72,000, as later amended from PhP 36,000).Quality Assurance: The ESC program includes a dedicated quality assurance mechanism: participating private schools must undergo ESC Certification through PEAC to ensure compliance with DepEd standards.	<ul style="list-style-type: none">Declining real value of subsidyInsufficient voucher amountsHigh top-up costs for families and exclusion of incidental costsLack of strong targeting and exclusion of marginalized groupsLack of information dissemination on programFailure to target congestion effectively

Key Features - SHS Voucher Program

- **Target Level:** The program targets students enrolling in Senior High School (SHS) (Grades 11 and 12).
- **Primary Rationale:** It was established to meet the need for additional classrooms and teachers necessary for the compulsory implementation of the K to 12 program's SHS level, as public schools initially lacked sufficient capacity.
- **Beneficiaries:** Eligible graduates of junior high (Grade 10 completers) who wish to enroll in private schools of their choice.
- **School Options:** The vouchers allow students to enroll in private SHS institutions, local universities, or state colleges that offer SHS tracks.
- **Quality Assurance Gap:** Unlike the ESC program, SHS providers are generally not subject to PEAC's mandatory quality assurance system for accreditation, although they can optionally undergo the SHS Voluntary Certification (SHS VC).
- **Contribution to Tracks:** The SHSV program helps expand student access to Technical-Vocational-Livelihood (TVL) tracks, which are often better supported in private schools

Key Issues

- Declining real value of subsidy
- Insufficient voucher amounts
- Fraud and misuse of funds (e.g., ghost beneficiaries)
- Weaker quality assurance compared to the ESC program

Both ESC and SHS

- Small scope for monitoring and spot checking
- Lack of agreed outcome performance indicators
- Teacher retention in private schools

Leveraging DepEd's Voucher Programs To Level the Playing Field and improve Public-Private School Mix of the PH Educ System

- ▶ Ensuring that key issues identified previously are adequately addressed.
- ▶ Expanding the strengthened voucher programs and extending an adapted version of them to the elementary grade level.
- ▶ Increasing the DepEd budget allocation to finance the strengthening, expansion and extension of the voucher idea.

Leveraging DepEd's Voucher Programs To Level the Playing Field and Improve Public-Private School Mix of the PH Educ System

- ▶ Establishing an algorithm for allocating the incremental government budget for basic education between the public and private education sectors in ways that would:
 - ▶ Favor the private or public education sector deemed more cost-effective in achieving government target outcomes
 - ▶ Ensure that in the long run the shares of public and private schools in total enrollment do not fall below or rise above a certain percentage.
 - ▶ Be based on reliable data and regular monitoring of outcomes and cost-effectiveness
 - ▶ Conform with DepEd Order No 006, s. 2024 (Public and Private Basic Education Complementarity Framework)
- ▶ Passing a law:
 - ▶ Adopting DepEd Order No 006 to establish a stable policy on public-private complementarity
 - ▶ Mandating government to incrementally level the playing field between public and private schools and enable more families to send their children to schools of their choice .

Takeaways and Final Tips

- The government can significantly reduce learning poverty by rationalizing education subsidies.
- Current subsidy policy primarily focuses on public inputs, leading to the crowding out of more efficient private schools.
- Private schools are critical because they offer greater efficiency, flexibility, diversity, and competition.
- A balanced system, harnessing both public and private strengths, is necessary to minimize risk of system failures.

Takeaways and Final Tips

For the proposal to work, it is critical for the government and DepEd to:

- Tie the voucher subsidy value to desired levels of school quality/student outcomes
- Better targeting of voucher subsidy to students of poor and other low income families
- Maintain a strong functional stakeholders' consultations, oversight, monitoring, evaluation and consumer information on school performance relating to education outcomes, quality, cost and effectiveness.
- Rationalize government's teacher remuneration policy to address the huge gap in the salary and benefits of public and private school teachers, which contributes to the unlevel playing field favoring public schools.

Thank you!



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