Institutional and Fiscal Arrangements for Primary and Junior Secondary Education in China

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THE REPORT

This report is based on the original report prepared by the national team. Efforts were made to highlight the key policy findings on education sector planning and management related topics that deserve the government’s immediate attention, and the possible ensuing actions, rather than a full account of the original report. As such, the compilation of this report aims to quickly disseminate the summarized, but credible, information in a clear and easily decipherable format for informing and strengthening knowledge in the policy making. The full original report is available upon request.

INTRODUCTION

Context
China appears to have the largest educational system in the world, with 162.85 million students enrolled in regular schools (of 9-year compulsory education) in 2007. This sheer scale means that China has no choice but to decentralize the provision of basic education. Since the 1950s, the central government has entrusted compulsory education to an administrative and financing system in which local governments at county and township levels played the leading role. Nevertheless, the central government repeatedly readjusted this decentralized situation, where at one time, schools were operated and managed under a multi-level government, and at another time, county governments, with assistance from township authorities, assumed the major responsibility for compulsory education.

Although the decentralization effort contributed to the rapid expansion of educational opportunities, it had also caused the over-decentralization of financial responsibility and the inadequate finance of budget spending. The strategy exacerbated the regional disparities in educational expenses, and the parents and local community members had to bear the heavy financing burden.

To resolve these problems the government implemented the centralization reform, which has dramatically increased the public budgetary sources for compulsory education. The reform however, has not reversed the increasing disparity of financial inputs across regions and has not yet incentivized the local governments to provide the needed funds; in turn, the financial burden of families has not been alleviated. Furthermore, the centralization reform gradually affected the approaches to teacher management and to the structure of teacher incentives.

Objectives
The overall objectives of this report are to provide an understanding of the evolution of the institutional setting for primary and lower secondary levels of the education sector from 1980s to

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1 The tiered administration system is as follows: (1) province or autonomous region (municipality in urban areas), (2) the prefectural-level city, (3) the county or district (in urban areas), then finally (4) the township level. The provincial government is the first-level under the central government; the prefectural-level government administers both county (in rural areas) and district (urban areas) governments. The county level government administers the township governments as grass roots agencies, and the districts administer street level neighborhood offices in urban areas.
the present day, and to show the effects on the actual functioning of the schools in China. In particular, the following issues are considered by this research:

(i) Provide a basic overview of the decentralization reform and the institutional set up in the education sector at central and sub-national levels in the past three decades since 1980, and identify the benchmark policies or legislation guiding the reform;
(ii) Explore how the roles and functions were (are) assigned among the different levels of government and how the non-government actors were (are) involved in the decentralization reform;
(iii) Evaluate the effects of decentralization on compulsory education development, and identify the decentralization-related problems undermining the development of compulsory education;
(iv) Describe the main purposes and process of implementation of fiscal recentralization in the primary and secondary levels of education sector, as well as the issues relating to administration and management of schools in the reform since 2002;
(v) Examine the impacts of recentralization reform on school finance and education service delivery;
(vi) Propose recommendations for managing the decentralization reform of education service delivery to ensure full realization of their potential.

Methodology
The study was carried out by researchers from the China Institute for Educational Finance Research at Peking University, led by project leader and co-leader, Rong Wang and Mingxing Liu, and three research assistants. The study was commissioned under the auspices of UNESCO Bangkok’s Education Policy and Reform Unit, which provided the methodology, overall guidance, and revisions of the report. A policy advisor committee (PAC) was formed by policy makers in finance and education development, including leaders from the Ministry of Finance, the Ministry of Education, and provincial governments of Hubei, Gansu, and Jiangsu. PAC members reviewed and commented on the conduct of the research and findings and will also be the major users of the policy recommendations. With collaboration of the provincial governments, the research team conducted field work and case studies for the consultations in the counties of these provinces. The in-depth interviews were conducted with local leaders, their superiors and subordinates, as well as ordinary teachers and citizens.

Datasets from two surveys were used in the study. The first dataset includes school-level data on the compulsory education system collected by CIEFR in 2007 and 2008. It covers three provinces at different economic and educational development levels, including Jiangsu in the coastal region, Hubei in middle region, and Gansu in the western region. Information was collected from 180 schools in 60 townships of Jiangsu and Hubei, and 150 schools in 50 townships of Gansu. The second dataset is household-level data collected by CIEFR in 2005 and 2008. The survey covers around 2000 households in 120 villages located in six provinces. The sampling strategy is as follows: first one province was randomly selected from each of China’s six large regions. Five counties in each province were identified by ranking all counties within the province according to measure of income and one county per quintile was selected. Next, two townships within each county and two villages in each township were randomly selected. In each village 16-18 rural households were selected for surveys. Detailed information was collected for 2000, 2004, and 2007.
REVIEW RESULTS

1. History of Education Decentralization Efforts
In the 1980s, the government initiated an education decentralization policy. The 1982 Constitution emphasized the importance of collective economic organizations, state institutions, and social actors to take part in various educational entities. Also, in 1985 “The Decision on Reform of the Educational System” was issued and stipulated the necessity in the mobilization of “commitment and enthusiasm” of educational institutions “to encourage collective economic organizations, individuals and other social forces to build and operate schools.”

In the meantime, the central government began in the 1980s to advocate a diversification of educational funding for public schools. In 1995 a provision was written into the education law, stating that education should be financed through “a variety of avenues” in order to increase resources so that “educational institutions have stable sources of funding.” As a result, the compulsory education was not free in China and revenues collected from students in the name of fees accounted for a large ratio of the total revenues.

In 2002, despite the successes of the decentralization efforts, the central government launched centralization reform in an attempt to remove the financial burden from community members and solve the major imbalances in education financing.

2. Legal and Policy Frameworks
The administrative structure is, more or less, as follows, central → province (or autonomous region, municipality city) → prefecture (or prefectural level city) → county (or county level city) /district → township. Under decentralization, local governments have more responsibility in education service delivery. Legislation such as the Decision on the Reform of the Education Structure, Compulsory Education Law, and the Implementation Suggestions of the State Council on the Guidelines for the Reform and Development in Education in China (1994) laid down the division of responsibility. The central government was made responsible for policy making and planning (e.g. determining curricula) but implementation was left to local governments. Provinces formulated the development plan for education and provided financial assistance to counties. Cities or counties were made responsible to implement compulsory education.

3. Roles and Functions
Accordingly, the county government raises a substantial portion of the revenue needed for salaries, construction, and implementing restructuring programs and is in charge of policy and overall planning. The County Education Bureau is responsible for the management of the sector and quality evaluation of schools. Township-school district governors are expected to follow plans devised by the bureau. The role of the township government is to repair schools and ensure the right to education is upheld. The task of routine education management is mostly undertaken by school district governors in co-ordination with village school heads.
To ensure that local governments fulfill their responsibilities, the Education Administration Evaluation has two mechanisms for monitoring. First, a system of administration inspection has been established at four different government levels. Each level inspects the level below and results can be used for appointment and promotion decisions. However, the approach has not been widely institutionalized. Second, the Local People’s Congress can carry out inquiries and inspections in the education sector but its impacts on local government are still quite limited.

To monitor education quality, county education bureaus, district governors, village school principals and teachers all sign an ‘education objective-accountability agreement assessment.’ The outcomes serve to aid decision making about bonuses, professional grading, official appointments and promotions. The objective is to enforce educational responsibilities and commitments of local education units. The measurements used are comprehensive and heterogeneous across regions. For example, quality assurance can be categorized by input-oriented measures (financing, curricula setting, pedagogical development) and output-oriented (exams and competitions).

4. Personnel Control
Personnel control varies from county to county and a variety of agencies are involved in influencing personnel deployment. Different modes exist for controlling the power of appointment of school heads and the hiring and assignment of public school teachers. Township-level school district governors are actually bureaucrats appointed by local authorities. Governors can be appointed by county government leaders, county education bureaus or township government leaders. In some counties, school heads and district governors can be elected publicly or by teachers.

The process for hiring new teachers is as follows. The county bureau of personnel decides the quota of employment with the bureau of education. The county educational office recruits recent graduates from universities and allocates them to each school. Generally, school heads and district governors do not have a say in hiring. The county government leaders have to approve all transfers as well. In general, the personnel powers are shared on the basis of political bargain by the county and township governments and education bureau. Some counties have a highly centralized form of governance, while others have more decentralized systems. In the decentralized systems the county education bureau would appoint the township district governor, hire the teachers, and empower the township education master to assign the teachers in the district and appoint the principals of the township center school and village schools.

Although the vertical line of command allows for quality assurance in the subdivision of responsibilities, the final performance of fulfillment is likely to depend on how largely the education sector can obtain its own autonomy of personnel power. The fieldwork shows, for instance, that school district governors and school heads have relatively limited incentive for promoting the education inputs and quality, if they do not have a say in personnel allocation.

5. Financing and Inter-Governmental Fiscal Transfer

The decentralization policy emphasized the necessity to raise education funds from a variety of sources. Although government appropriation is the major source of funding for compulsory
education, under decentralization reform, appropriations were commonly supplemented by education surcharges, revenues of school-run enterprises, donations and gifts from society, school fees, and other sources of funding as described as follows: (changes in financing under the centralized system are described in section 7).

- The *Urban Education Surcharge* (UES) was approved in 1986 and is levied on state, collective and private enterprises at 1-3% of their turnover tax liability. The actual amount is determined by local governments. Rural counties derive little revenue from the UES.
- The *Rural education surcharge* (RES) was levied in the 1980s. The surcharge is extra-budgetary and levied on rural residents and enterprises. The surcharge is used for primary and secondary education in rural areas. The amount is usually 1% of per capita net income. In the 1990s, the fee was extended to urban areas.
- *Enterprise-run school revenues* are set up by large enterprises for children of employees.
- *Profits of school-run enterprises, work-study programs and social services* are a supplementary source of education finance. Schools may establish enterprises to provide students with work opportunities and to generate supplementary income. Although controversial, school-run enterprises are tax-exempt and schools can rent to enterprises that are contracted to outside management.
- *School fees*: The standards for school fees are set by the prefectural government according to guidelines. In reality, the schools are empowered to set the flexible rate of school fees.

### 6. Assessment of Effects of Decentralization on Service Delivery

#### 6.1. Achievements

The decentralization reforms in the 1980s and 1990s indicated a diffusion of responsibility for providing and financing education from the state to society, and from the central government to local governments. The State enabled local governments, communities, individuals, and social actors to assume increasingly important roles in the education sector. Under this strategy, China has made great strides in expanding basic educational access, consequently enhancing educational equity under the decentralized framework.

The measures strongly helped boost compulsory education in rural areas, and enabled China to attain its two ambitious goals in 2000 of universalizing nine-year compulsory education (UCE) and eradicating illiteracy among the young and the middle-aged. By 2002, the UCE objective had been met in areas inhabited by more than 91% of the population nationwide. Gross enrollment rate at primary education level reached 107.5%, and the rate at junior middle school (JMS) level reached 90%. At the same time, the promotion rates for every education level have steadily increased.

#### 6.2. Shortfalls

**Imbalance of education finance**
Reliance on the social funding: By diversifying revenues, local governments have been pressured to pursue revenue-generating activities, which have resulted in a convergence between education finance and the market. In addition, the policy did not induce diversified ownership, and instead, public schools draw significant resources from non-government stakeholders such as citizens and students’ parents (around 30%).

Vertical imbalance of fiscal responsibilities: Disequilibrium exists between financial and administrative mandates. The upper-level government does not provide adequate financing for the policies mandated. Local governments have to fill gaps by collecting non tax revenues. Correspondingly, the insufficient clarity in the division of responsibilities between county and township governments has also resulted in over-fiscal-decentralization. During the period 1993-2000, farmers across the country paid a total of 103.011 billion yuan in education surcharges designed to make up for fund shortages for rural compulsory education.

School fee burden on families: Over the past few years, an increase of direct private educational costs to students and their families in the form of tuition and fees charged by schools has occurred. However, recurrent expenditure per student is not increasing as fast as actual costs.

Imbalance of compulsory education development

Funding inadequacy: Primary schools and middle schools have always been seriously under-financed in China. In the late 1990s, per student budgetary recurrent expenditures of rural public schools increased at the rate of 221% between 1996 and 2001, however, it is still far away from thoroughly changing the basic pattern of resource allocation in the Chinese education system.

Inequality under decentralization: Per student expenditures are closely correlated with fiscal per capita revenues of localities. This has negatively impacted the poor areas and the Western provinces in particular as the decentralization system was not adjusted to accommodate poor regions, resulting in serious under-provision. Additionally, the intra-provincial disparities in education spending are probably greater than inter-provincial disparities, but provincial efforts at subsidizing poor counties are weak and unsystematic.

Funding disparity is manifest in student achievement; rural areas see high dropout and low promotion rates. Recurrent spending per student in urban areas is 80% higher than that in rural areas. In addition to these spending gaps, there are differences among schools even within the same rural county jurisdiction. Those located in county towns, that belong to county governments directly, are substantially more advantaged than those rural schools serving the neediest populations. In sum, with heavy reliance on local revenues, insufficient supply of education service in poor areas, especially towards disadvantaged groups, resulted. High out-of-pocket costs are an important reason for the low enrolment and high drop-out rates of children in poor areas.

Teacher quality: The average quality of teachers is less than satisfactory, as funds are insufficient and institutional rigidity protects those already employed. Only a senior secondary school diploma, or equivalent, is required for primary teachers. An associate degree is required for junior secondary schools, and a college degree for senior secondary schools. Despite the low
standards, rural areas in the Western provinces had difficulty in reaching the goal of staffing. By 2002, only 33% of all teachers at primary schools had associate degrees and above.

Additionally there is the large number of substitute teachers (non-government teachers) and most have low academic degrees, especially in Western regions. Due to funding issues and higher turnover rates in rural communities, staffing is a major issue and substitute teachers are easier to find and do not receive benefits, therefore cost less. However, students receive lower quality education due to the lack of trained and experienced teachers.

7. CENTRALISATION REFORM OF EDUCATION FINANCE
Due to gaps in financing, the central government decided to launch the reform, called “County-centered Basic Education Financing” to grant responsibility of education finance and administration to the county government. In late 2005, the State Council issued the Circular on Reform of Rural Compulsory Education Assured Funding Mechanism, which stipulated public finance for compulsory education and that spending was shared between the central government and local authorities proportionately.

Key features of centralization reform from 2002 to 2005

Rural Taxation Reform introduced in 2002, steadily removed the agricultural tax, surcharges, and levies collected at the local level in order to alleviate burdens on rural citizens. It also removed educational revenues, rural educational surcharges and rural social donations. This meant a large portion of needed funds was removed with no replacement.

In response, the government made county governments responsible for paying teachers’ salaries, where the township governments gave the amount they were previously paying the teachers to the county government. For recurrent expenditures of rural schools, the province is responsible to formulate expenditure standards for basic education. If revenues from student fees and tuition are not sufficient for the expenditures, the county and township government must provide additional financial assistance. In 2003 the central government further required all levels of government to guarantee rural education funding, but also called for county governments to include rural compulsory education funds in their budgets. Due to these policies, the government finance in the total spending on rural compulsory education rose from 62% to 81% from 1999 to 2004.

Central Funding The two transfer payments that are received at local levels from the central government are general purpose transfer (GPT) and earmarked transfer (ET). GPT is a subsidy payment to equalize public service capabilities. There are transfer payments for ethnic regions, subsidy funds for adjusting salaries, and for rural tax reform. It is allocated based on GDP, number of civil servants, population density, and other variables related to education. GPT accounts for 35% of fiscal transfers by 2004. ET fulfills the strategic objectives of central policies and provides compensation for mandates delegated to local governments. ET accounted for over 80% of all fiscal transfers in 1994 and this share remained as high as 51% in 2004. GPT and ET are the main fiscal means by which the central government supports compulsory education. The central government directly subsidized local government expenditure in terms of the salaries of public institution personnel, including school teachers by transfer payments.
Through ET, the central government has successfully implemented a number of special programs to promote the development of universal nine-year compulsory education for poverty-stricken areas, ethnic minorities, and border regions. Funds cover improving education conditions of the school and are not used for reoccurring costs.

**Restructuring the assignment of policy responsibilities**
The new education finance regime allows the central government to provide a large percentage of funding for rural education while local governments cover the remainder of funds needed. For example, teachers’ salaries in rural primary and middle schools in 22 provinces, autonomous regions and municipalities were covered by central budgetary transfer payments and local governments’ general revenue budgets. The day-to-day school outlays were covered with miscellaneous school fees collected from students and local budgetary allotments. School building repairs and maintenance were covered with ET funds and with supplementary funds from local governments. The central finance arranged for rural poor students to be exempt from textbook fees and local financial authorities grant students with miscellaneous school-fee waivers, and living allowances were given to all rural boarding students. At the same time, the financial authorities of the nine provinces and municipalities in east China were solely responsible for funding compulsory education for their rural areas, with the exception of a few underdeveloped areas that were entitled to central budgetary subsidies.

**New mechanism for assured funding for compulsory education**
With the new system, some problems remained in guaranteeing funds for compulsory education. Problems include lacking budgetary funding, narrow scope of funds guarantee, disparate allocation, gaps in expenses in rural and urban regions, lack of defined division of responsibilities for all levels of governments.

In response, the State Council issued the Circular on Reform of Rural Compulsory Education Assured Funding Mechanism on December 23, 2005. It set guidelines to define responsibilities, allocate funding, increase budgetary investment, raise the guaranteeing level and carry out reform. China tried to revamp its education finance by bringing compulsory education entirely under a public financial guaranteeing framework. The framework of reform entailed four major tasks:

(i) To exempt all rural students from tuition and fees and provide under-privileged children with free textbooks, and boarding students with living allowances. The costs for tuition and miscellaneous school fee waivers were shared proportionately between central and local funding. The central finance provided for all the costs for free textbook provision to poor students in central and west China, while local governments covered living allowances.

(ii) To upgrade the guarantee level for non personnel expenditures of rural primary and middle school by providing funding to per-student outlay standards set by provincial governments (300 yuan per primary school pupil and 500 yuan per middle school student).

(iii) To establish a long-term framework for school building repairs and maintenance in rural areas. Allocation was determined based on student population, per-student floor space, the buildings’ service-life expectancy and construction cost. In the western regions, costs were shared by local and central governments, whereas in the east, local governments provided funds with incentives from the central government.
(iv) To improve the salary guarantee framework for primary and middle school teachers through continued financial support by the central government in central, western, and some eastern regions and adequate and timely transfer payments for financially weak areas by provincial governments.

The reform of Assured Funding Mechanism advanced quickly and in 2007, the central government enlarged the coverage of the reform. Miscellaneous fees were waived for both urban and rural schools of compulsory education. At the same time, the non-personnel expenditures of urban schools were also guaranteed by the fiscal appropriation.

**Evaluation of centralization reform**

The centralization reforms in past years have fundamentally changed the landscape of education finance and administration system at the local level, which have significantly contributed to insure the fiscal input for compulsory education.

*Equity of education expense:* The centralization reforms have alleviated the problems of inadequate funding for compulsory education and the vertical imbalances within the multi-level fiscal system. Budgetary appropriation has been increasing and this has enabled the local education sector to guarantee payment of rural teachers’ salaries, to rebuild or repair dilapidated school buildings, to exempt school fees, and grant textbook and boarding allowances.

Nevertheless, the regional discrepancy of education expense per student is still extremely large. For instance, the education expense per student in Shanghai is around seven times larger than Gansu for junior middle school (JMS) and primary school (PS) in 2007. While the regional disparity in per capita GDP and taxation revenue is growing, the capacity of the central government in balancing the local education funding seems to be quite limited.

*Family burden of education expenses:* Under centralization reform, the government abolished education surcharges and miscellaneous fees. Empirical data from 2000, 2004, and 2007 showed that per student fee burdens have increased in almost every region at a spatially uneven rate. The policy for fee alleviation only benefits some sample households, while the gap of fee burdens among the sample families has significantly widened since the reform.

This occurred because the taxation reform and fee exemption policy eliminated major sources of extra-budgetary revenues. JMSs suffered greater losses than PSs. Compensation policies, besides personnel payments, are standardized, therefore are insufficient for making up the increasing operation costs. Schools therefore, have to charge students to make up for lacking funds.

In addition, the top-down mandate has replaced the incentive based finance system and the motivation of the local government to provide additional appropriation has declined. Local governments have pushed the fiscal burden to parents and local communities. Using loopholes in the policy, student tuition and fees can be collected to reduce the fiscal burden of local government.

**Education Finance and Autonomy**
A link exists between funding responsibility and power allocation for education governance. Personnel bargaining power is probably determined by the assignment of the funding responsibilities for education to the different bodies. Using data from the Gansu survey of school districts, we examine which body appoints the school district governor, village school principals and which body approves the transfer of teachers within a district. The results show that after implementation of fiscal reform, township governments are less likely to appoint the school district governors as the power shifted to county-level institutions. The number of districts in which the governor was appointed by the county government leaders increased from 8% in 2000 to 30% in 2007. The proportion of districts in which governors were appointed by county education bureaus remained relatively constant at just over half.

The proportion of districts in which the township governments controlled school head appointment fell from 98 per cent to 26 per cent, and the proportion of districts in which the township government approved teacher transfers fell from 98 to 38 per cent. This decrease in the power of the township government was accompanied by an increase in the influence of county education bureaus.

The number of districts in which the county bureau of education appointed the village school principals increased from 2% in 2000 to 32% in 2007, while the number of districts in which the county education bureau controlled the transfer of teachers increased from 2% to 26%. In some districts, the authority to transfer teachers and make school head appointments involved less clear designations of authority.

According to field studies, educational performance may be best in districts with moderate autonomy, but are free from overly centralized control and interference from political interest groups. However, centralized finance means that personnel power would also be centralized. Autonomy could be weakened by this process, which could mean that the county government might not be able to sufficiently provide the financial input for the education sector as required by the central government, and then the sharing of administration power has to be politically bargained among the authorities. This could result in unclear delegation of responsibilities. As the power bargain becomes more unstable, the implementation of quality evaluation scheme will deteriorate unavoidably.

Incentive structures are coherently linked with the financing mechanism for the education sector. Decentralization installed incentives for schools to pursue better performance, as defined by exams and competitions. If schools charge students fees to finance the incentive scheme, then it will increase the cost burden born by parents and lead to more dropouts. This creates the dilemma for the ongoing reform on compulsory education. Without price regulation, schooling will become too expensive for poor families. However, price control has not been accompanied with quality control, which reduces the education return and financial cost for families at the same time.

CONCLUSIONS

Summary of Findings
China’s framework for allotting and sharing the compulsory education funding and administration has been restructured repeatedly in the last few decades. From 1980s to 1990s, the strategy of decentralization had often been used for promoting education service delivery. Due to the effort, the financial input has dramatically increased through diversified channels and contributed to the rapid expansion of educational opportunities in China. However, there are existing problems rooted in the decentralized system.

- The first and most important is inadequate resources, even though the central government has created earmarked grants to assist in the process, the amount of funding is too small, and the program requires too much contribution from poor regions and is beyond their financing capacity.
- The second is over-decentralization. Pushing the responsibility for provision of basic education to the level of townships, which imposes too high a financial burden on that level of government.
- Thirdly, the public education is seriously under-financed by the public budgetary source. As a result, the financing burden is pushed to parents and local communities.
- Fourthly, the strategy exacerbates the horizontal disparities in expenses, which leads to a decrease in the average quality of teachers in poor regions that induces an adverse effect on service outcomes.

The central government has worked to solve the problems under the decentralized framework by introducing a new policy, whereby funding of compulsory education became the responsibility of central and provincial governments, with county governments as the main body for administering the local education sector. This new strategy has dramatically improved the budgetary input for compulsory education, but some new problems have also been created.

The fiscal subsidy by central and provincial governments is still not sufficient for making up the financial shortages or reversing the increasing disparity of financial input. Moreover, the reform has not impelled the incentive of local government to provide enough shares of the needed funds, while the financial burden of families has not been fundamentally alleviated. To some extent, the centralization strategy distorts the incentive mechanism of local revenue mobilization;

The centralization reform has involved gradual changes in the relationship between the schools and the local government, and the distribution of personnel powers. In some regions, this reform has created the negative effects of poor administrative co-ordination and incessant vertical/horizontal level power struggles among different administration actors, which inevitably affected the approaches to teacher management and to the structuring of teachers’ incentives.

**Recommendations: Areas for Change and Reform**

We appeal for the further policy innovation to rebalance the decentralization/centralization approaches for compulsory education development. The future reform strategy not only needs to strengthen the assured funding system by fiscal effort, but also search for more fundamental institutional reforms to stimulate the enthusiasm of local governments to assume their designated responsibility and endow the autonomy of education units.