

Introduction

Issues of resourcing schools in developing countries were widely discussed during the last several decades, and actions were taken to lessen the resource gap, nonetheless the disparities of resource allocation are hitherto evident. These issues are directly involved in equity properties as it is the fundamental principle of the resource allocation. Therefore, different resource allocation techniques (historical basis, incremental basis, zero-based, formula funding) are employed to address such issues. In the recent past, formula funding technique is one of the prominent budgetary techniques used by different countries in order to establish equity across the system. Sri Lanka is one of the developing countries that attempts to establish equity in the system of education through resource allocation via Formula Funding of Schools (FFS) as one of the innovations that leads to improve the education outcomes.

Considering the importance of this area, the research question was developed for this article as: Can “equity in education” be achieved through resource allocation via FFS?

To address the research question, this article is to review the principles of equity, drawing on international literature. It will examine how these concepts/theories are operationalised and identify the critical issues raised in the process. Accordingly, this article reviews the literature relevant to the issues, firstly, on equity and secondly on FFS. Thirdly, this article reviews impact of resource allocation mechanism in Sri Lanka as a case aligned with the principles of FFS.

Equity

Equity is an important concept in the field of education, and economists use this criterion to evaluate institutional arrangements from a welfare economics perspective. To establish equity in the education system, a well-designed FFS mechanism needs to be used for resource allocation. Education economists are also concerned with equity in the distribution of resource allocations and outcomes. The equity concept is related to notions of “fairness” and “justice” (Ladd, Chalk, & Hansen, 1999: 9; Simkins, 1995) and it is “a goal relating to the way in which resources should be distributed or shared” (Lee, 1996: 46). Although some writers have used the term “equity” with a similar meaning to “equality,” Lee (1996: 38) states that there is no consensus on whether they are similar or different. Basically, equity issues arise in relation to needs, and equity is concerned with how the outputs and the cost of producing them are distributed between individuals and groups in society. Hence, an efficient allocation of resources can be judged as inequitable, depending on one’s social preferences (value judgement). In doing so, procedural and distributional equity should be distinguished.

Procedural equity, which refers to the consistent application of agreed rules and regulations, is a dominant criterion for social decisions which is advocated by libertarian or constitutional economists who regard the market process as procedurally equitable (Levačić, 1995: 30-31). Procedural equity refers to common rules, in contrast to determination by administrative discretion. Alternatively, distributional equity refers to the distribution of those items that yield welfare to individuals. It can be treated in a number of ways, and the terminology is often confusing and inconsistent (Simkins, 1995). But some authors argue that the process of formula funding is procedurally