

PRIVATIZATION OF EDUCATIONAL SERVICES

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In 1981, Coleman, Hoffer, and Kilgore startled educators with the finding that private schools in the United States were more effective than public schools in helping students acquire cognitive skills. The Coleman *et.al.* report provoked intense debate. A major criticism of their finding was that they did not control for selectivity bias (i.e., factors that influence school choice result in non-random assignment of students to schools). In subsequent analyses, controlling for selectivity bias, Coleman *et.al.* continued to find a private school advantage. The arguments then shifted to whether public schools adopting a similar school package could mimic the private school advantage.

The domestic debates converged with renewed donor interest in supporting privatization initiatives in developing countries. Although education in most developing countries is publicly provided (enrolling on average 90% of primary and 70% of secondary), many developing countries also have strong private educational sectors and private school traditions. The diverse forms of privatization could potentially provide historical, policy, and implementation lessons to inform domestic debates. Along similar lines to the Coleman *et.al.* report, World Bank researchers documented private schools' greater efficiency (in terms of lower costs and greater academic performance) in four developing countries -- Colombia, Tanzania, the Philippines, and Thailand. Refining earlier quantitative techniques, the researchers used probit analysis to estimate determinants of school choice and then corrected for selectivity bias on achievement. Specifying the determinants of school choice provided some important insights on the characteristics of private school populations. The researchers also identified a few private school characteristics that could be mimicked by the public sector to improve quality and efficiency.

At a policy level, privatization reforms have been recommended as a means to decrease costs, promote competition, and increase financial resources for education. From a management perspective, privatization reforms may also be a means to decentralize administrative control, redistribute educational resources, and improve educational quality. Determining the effects of privatization reforms, however, requires understanding the factors underlying the demand and supply functions for private schooling. These factors may vary in industrialized and developing countries. In industrialized countries, privatization is primarily driven by "differentiated demand". Since most industrialized countries provide universal public education, demand for private schooling reflects religious, cultural, social class, and language preferences. In

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developing countries, privatization is usually driven by "excess demand", which reflects a limited supply of public education, particularly at secondary and tertiary levels. A related supply side factor is the level of religious entrepreneurship, which stimulates demand in many developing countries, by providing accessible and low cost schooling. In the short-run, excess demand factors often stimulate privatization, but in the long-run, a large private sector may also generate a coalition of consumers and producers that can demand greater public sector subsidization and involvement.

For purposes of analysis in the present study of developing countries, we constructed a typology of privatization initiatives. Private provision of education has two dimensions: private funding and private control. Along these two dimensions, a variety of private-public sector arrangements have been developed. Privatization initiatives may be distinguished by funding source, as follows: (1) Government-aided (public fee paying and voucher) programs, (2) Private sector (elite and proprietorship) programs, and (3) Community cooperative programs. In each type of funding arrangement, governments may be involved to varying degrees in providing inputs, setting standards, establishing fee structures, limiting supply, and determining overall growth levels. The following case examples of privatization in developing countries, by region, illustrate the diverse and creative kinds of privatization initiatives that have been implemented and provide data for policy recommendations.

AFRICA

1980? Kenya - For more than a decade, Kenya has had a de facto policy of reducing per student subsidies by allowing low-subsidy schools to satisfy an increasing proportion of excess demand for secondary schooling. In 1986, 60% of the enrollments in the secondary sector were private. Unaided Harambee schools (community cooperatives), constituted the majority (over 90%) of private secondary enrollments with the remaining provided by missionary and proprietary schools. Local communities, particularly in rural areas, contribute labor, cash, and building materials for Harambee schools. They also raise money from church groups, local businesses, labor groups, and other private donors. Typically, the community will contribute over 90% of capital development and build schools at lower cost than government contractors. Recurrent and input costs are funded from tuition fees, supplemented by private voluntary and international donor contributions. An A.I.D. project, for example, has financed inputs -- textbooks, curriculum, learning materials, etc. Harambee schools also limit costs by using volunteer teachers and less credentialed teachers than Government schools. Students buy their own uniforms and books and contribute to school maintenance.

The selection requirements for Harambee schools are lower than Government schools, which have competitive entrance requirements and limited enrollments. Harambee schools have less equipment and are more likely to focus on lower cost subject areas (i.e., humanities versus the sciences) than the government schools. Holding student inputs constant, however, there is no evidence that the academic value added is less in these schools nor are they necessarily less efficient.

With increasing organization and political leverage, Harambee schools are likely to demand and obtain government subsidies. In the short-run, Harambee schools respond to the large excess demand for secondary schooling (in part, generated by universal primary schooling). They also mobilize scarce resources for education. Although the private sector in secondary education has grown over the last decade, it remains to be seen whether in the long run, this trend will continue. Once the demand is met, the private sector may be able to leverage increased Government subsidization and/or the Government may want to play a greater role in administering and regulating the Harambee schools.

Zambia - The Zambian government is encouraging private (particularly secondary) schools as a means of diversifying educational financing and containing unit costs. Parents and communities have traditionally borne most of the costs of primary school construction and maintenance. The Government is increasing cost-sharing with parents and local communities and encouraging the renewed involvement of churches and business houses.

Latin America Caribbean

Chile - The Chilean "voucher" program has become an important model for studying the impact of privatization on the educational sector. In 1981, Chile instituted major reforms to decentralize public education by transferring schools to municipalities and subsidizing the private sector to open tuition free schools. The government also permitted private sector involvement in higher and vocational education. They decentralized Chile's two public universities, increased tuition fees and student loans, and instituted a payment-per-student scheme to increase competition. These privatization initiatives were among the most comprehensive and extensive ever undertaken anywhere and provide important implementation lessons for other privatization initiatives.

Initially, the reforms had their intended effects. By the end of 1982, 81% of all public schools (enrolling 78% of the students and employing 77% of the teachers) were transferred to municipalities. From 1980-82, the number of private subsidized schools increased by 33%, although private enrollments actually declined (as more private schools became subsidized). A preliminary study at the time found that students in the private schools were outperforming those in municipal and public schools. From 1981-84, the number of enrollments in universities, professional institutes, and technical training centers more than tripled. The government also moved to dismantle its highly centralized educational bureaucracy. Teachers were "privatized" and given the option of being paid according to private or public sector pay scales. To lessen the impact and to make the reforms more politically palatable, the government offered the full amount of severance pay and allowed early retirement for those who had paid social security for at least 20 years. The Ministry of Education supervised curriculum standards and oversaw the transfer of public property to ensure that infrastructure and financial resources were appropriately utilized.

In 1982, Chile suffered a major recession and budgetary constraints led the Government to suspend transfers to municipalities. To implement decentralization, the Ministry of Education had substantially increased expenditures. Between 1980 and '81, educational expenditures rose by 20% and between 1981 and '82, when the transfers were suspended, by 2.1%. The

increases reflected, in part, the political costs of the reforms: severance pay for teachers and economic incentives (a percentage of wages and salaries) to municipalities receiving schools. For political reasons, municipalities were unable to lay off teachers when large numbers of students transferred to private schools. Even though, per student payments increased, low student teacher ratios meant that many municipalities operated at a deficit. These deficits were financed by the Ministry of Education. During the recession, it was also politically difficult to cut back on central ministry staff. Given these constraints, the Ministry of Education did not reduce its own costs, as expected.

At the tertiary level, the reforms progressed even more slowly. Although the voucher system (per student payments) worked well at the primary and secondary level, implementation was more problematic at the tertiary level. The quality of private institutions remained low, with high absenteeism and drop-out rates in training and professional institutes. University faculties protested as the administration tried to expand the best paid studies (i.e., the sciences versus the humanities). The Government was forced to equalize payments, which meant that universities again had an incentive to expand lower cost disciplines. The universities encouraged students to ask for student loans and Government subsidization increased.

In 1985, as the economy began to recover, Chile was able to reduce its central bureaucracy and reinstitute municipal transfers. By the end of 1986, 100% of the schools had been transferred. The Ministry of Education ~~also reduced its own expenditures and personnel.~~ However, attempts to reduce the university bureaucracy precipitated a general strike. The Government then took a more gradual approach and subsidized 700 chairs; thereby, using fiscal incentives to restructure the university bureaucracy.

The Chilean experience provides several important implementation lessons about privatization. In the short-run, decentralization and privatization reforms may initially increase costs in order to be politically and economically palatable. Larger economic considerations will also retard or hasten such reforms. In the long run, Chile's voucher program has decreased central government costs and decentralized administrative control. Improvements in quality may also be realized (particularly, in private primary and secondary schools), but may be difficult to document in the context of a radical restructuring of an education system.

Brazil - The demand for private primary schooling is increasing in response to numerous teacher strikes and poor quality in the public sector. There are 8,900 private preprimary and primary schools in the San Paulo area alone. One reason given for the increased demand is the widespread perception that private schooling is needed to pass the competitive exams for secondary school and university. Private schools, however, range widely from inexpensive, poor quality proprietary to wealthy, elite schools. To the extent that teachers' strikes keep public schools closed, the growth of privatization is responding to excess demand conditions.

Bolivia - The Bolivian Government provides funding to Fe y Alegria (Faith and Happiness), a Catholic organization, to administer primary schools in rural areas. An A.I.D. project, Radio Learning, is working with Fe y Alegria to improve the quality of instruction. The project has instituted a pilot activity to provide an interactive radio instruction in mathematics and health.

Haiti - Excess demand, inefficiency, and poor quality characterize all levels of the Haitian educational system (excepting a few private elite schools). These problems are particularly acute in rural and depressed urban areas. In Haiti, as a whole, less than 60% of school age children are enrolled in school. The private sector is growing more rapidly than the public and 69% of total enrollments are private. Private enrollments constitute 60% of the primary sector and 80% of secondary. Supply side factors also contribute to the growth of the private sector. The suppliers are numerous and extremely diverse. They include religious organizations, communities, and individual proprietors. Between 1982 and 83, of 2,241 registered private schools, 1,102 were provided by Protestant missions, 601 by individual proprietors, 312 by Catholic diocese, 119 by communities, and 107 by Catholic religious orders. In many rural areas, the private sector offers the only educational services.

An A.I.D. project, "Incentives to Improve Basic Education" (IIBE), is designed to improve the quality and administrative efficiency of private primary education and to enhance the organizational capacity of the private sector to sustain educational involvement. The project has four components: (1) support for existing primary schools through a package of pedagogical and material resources, (2) research and development of educational innovations to extend the private sector, (3) organization of the private sector, and (4) assistance to the Ministry of Education to improve its inspection and certification capabilities. Government instability has put the fourth component in abeyance.

Despite political unrest over the past two years, the IIBE project has made significant progress in strengthening and developing the institutional capacity of the private sector. To date, 190 private schools with 41,295 students are participating in the project. These schools have received instructional materials and their directors have been trained in administrative practices. 1,176 private primary teachers have received basic training and 19 primary and 11 preschool renovations have been accomplished. A Technical Services Center is undertaking research and development in 74 preprimary and 190 primary programs. Institutionalization is also underway and Protestant and Catholic Sectoral Service Center offices have been established to supervise the private school improvement effort.

IIBE successes have led to new institutional development challenges. In 1987, the World Bank and Swiss Government amended the Third Education Loan to permit the Haitian Ministry of Education to contract with IIBE institutions for nearly \$1,000,000 for school supplies and private school teacher salary supplements. A portion of the World Bank's Fifth Education Loan will be channeled through IIBE institutions to enable the project to expand coverage of private primary education. These developments have both enhanced and complicated institutional development. In response, IIBE has moved to strengthen the private sector councils with the eventual goal of creating a Haitian Private Education Foundation.

In Haiti, the private sector has played a major role in education. Supply and demand factors have contributed to this development. In absence of government stability and involvement, the private sector has played a critical role in developing and maintaining Haiti's educational system. In this context, A.I.D.'s IIBE project has made an important contribution to the quality and institutional development of the sector.

Jamaica - The Jamaica Primary Textbook Project supported a private sector initiative to provide universal text book coverage to primary school children. Beginning in 1984, A.I.D. collaborated with the Government, private sector, and other donors to provide 2.7 million free, locally produced textbooks to 350,000 children in 789 schools. The collaboration of the private sector with Government and international donor assistance resulted in decreased costs, savings in foreign exchange, and improvements in quality of Jamaica's primary schools.

The Gleaner Company, publisher of two daily newspapers, volunteered to produce and distribute primary texts in Language Arts, reading, and mathematics to all public primary students. The Government had previously purchased books from international publishers and provided them free of charge. Increasing financial difficulties in the 1970's, however, curtailed Government purchases and left many students without books. Supported by the local private sector, the Government, and several international donors, the Gleaner Company was able to print, bind, and deliver texts to schools throughout the island for an average of \$.27, 1/7 the cost of commercially-sold copies. In the first year of the project, the Government saved \$.7 million in foreign exchange. The Government, with donations from A.I.D., CIDA, UNDP/UNESCO/AGFUND, and 34 private sector Jamaican donors, paid for factor inputs (i.e., paper, ink) and textbook distribution.

Hailed as the "Jamaica Textbook Miracle", the project has been well-institutionalized and has expanded the range and volume of textbooks provided. The project demonstrates that private sector involvement in providing educational services can help contain costs, increase resources, and enhance the quality of a primary educational system.

ASIA NEAR EAST

Nepal - In its Seventh Plan (1985-90), Nepal established a goal of attaining universal primary education of five years' duration by the year 2000. For the Plan period, the Government established interim objectives of enrolling 87% of primary school-age children, opening 1,000 more schools, and adding 12,838 more teachers. One of its strategies to meet these objectives was through privatization. In 1981, the Government had relaxed its policies to recognize schools that were managed using only local resources. These included completely private schools and Government supported schools that operated additional grades privately.

Since 1981, the number of private schools has dramatically increased. Between 1984 and 1985, private schools increased by 64%. In 1985, there were a total of 927 private schools, serving 118,792 students and employing 3,469 teachers. This included 439 private primary schools, 210 lower secondary, and 278 upper secondary. In 1986, 8.7% of grades six and

seven, and 27% of grades eight - ten enrollments were completely privately supported. Privately run primary grades were less common and comprised 2.6% of all primary grades. Although student enrollment in private schools has grown, private enrollments still comprise less than 4% of total enrollments. Since private schools do not necessarily complete government data collection forms, however, these figures may be underestimated.

The private schools are primarily meeting the demand of the urban elite. The availability of private education has reduced the outflow of children of affluent families to India. Most private schools are located in urban areas. A part of their popularity is due to their offering of English language instruction beginning in primary school. Although the low level of private enrollments suggests that private schools are principally for the elite, the private sector could expand to meet excess demand for primary and secondary schooling. Private grades are already developing in response to excess demand for secondary education. By continuing to encourage private and local initiative at the primary level, the Government will have more resources to meet its goal of universal schooling by the year 2000.

Thailand - A World Bank study finds that, on average, Thai private schools are more effective and less costly than public schools in improving student performance in mathematics. Holding background constant, a Thai eighth grade student would more than double his/her score on a mathematics test if the student attended a private school instead of a public one. The study examined the differences in private education to determine why there was a private school advantage. Private schools were found to be half the size of public schools and located in regions with per capita incomes 30% higher than those in public schools. Fewer private school teachers were certified to teach math than public school teachers (10 versus 60%). Private school teachers, however, were older, more experienced, more likely to be female, and had more inservice training. Teachers in private schools spent more time in maintaining order in the classroom, giving tests and quizzes, and used slightly more commercially produced materials than their public school counterparts. A greater proportion of private school students were in enriched math classes, but private school math classes were larger. Even when differences in teaching practices and school characteristics were held constant, the private school advantage (particularly for female single-sex schools) remained. This finding suggests that private schools may inherently have more incentives to be efficient.

Thai private schools largely serve the elite, ethnic Chinese minority, and children of government workers who receive tuition benefits. Private school students come from a slightly more elevated social status than public school students. At the secondary level, many parents sacrifice to send their children to private schools that enable their children to pass the competitive entrance exams for the best public universities. Since public schooling is widely available at the primary level, the private sector is driven, in part, by differentiated demand. From a policy perspective, the Thai experience suggests that an unrestricted private sector can provide important and locally-specific improvements in educational quality.

Philippines - The Philippines has one of the highest rates of private school enrollment in the world. In 1983, of 5,190 secondary schools, 62% were public and 38% private. Historically, the Catholic Church has played a major role in education and the supply of private schooling by the Church and other missionary groups has stimulated the growth of this sector. There are also nonsectarian private schools: private elite, military, and ethnic Chinese schools. Private secondary schools in the Philippines are primarily academic and prepare students for colleges and universities.

A recent World Bank study of secondary schools found that, on average, public schools in the Philippines spent twice as much as private schools. Selective national schools were three times more expensive, but the unit costs of local public schools were slightly lower than private schools. Private school students came from more advantaged backgrounds with income and assets twice that of public school households. Controlling for selectivity bias, academic performance in English, math, and Filipino was better in private schools. The average grade equivalency of private school students was 34% higher overall than public school students. The report concluded that the private schools' more decentralized management and greater accountability were key factors in their internal efficiency.

At the tertiary level, the Philippines has several private universities and numerous private technical and vocational training colleges. The private institutions are of varying quality. The most selective university (the University of the Philippines) is public, but several private universities are quite selective and of high quality. The large number of secondary school leavers and Filipino cultural traditions that place a high value on education and advanced degrees have created excess demand for higher education, which accounts for the continued development of the private sector.

In the Filipino context, privatization provides some important historical evidence of the durability of these institutions over time. Private schools are well-institutionalized throughout the Philippines and at all educational levels. An available supply of private schools has both stimulated demand and the growth of cultural traditions which place a high value on education. Both excess and differentiated demand drive privatization initiatives at the secondary and tertiary levels. Research on private schooling in the Philippines has shown that secondary school quality and efficiency can be high in situations of decentralized management and control. These results have important implications for improving the quality and efficiency of schools, in general.

Conclusions

Privatization of education in developing countries varies widely from Government-aided schools in Chile, Kenya, and Zambia to elite and proprietary schools in Nepal, the Philippines, Brazil, Thailand, and Haiti to community cooperative schools in Zambia, Haiti, Kenya, and Chile. Within countries, there is often a range of privatization activities. As these case examples have shown, privatization initiatives often address excess demand, particularly at the secondary and tertiary levels. At the same time, the suppliers of educational services -- sectarian and nonsectarian -- have historically stimulated demand for more formal

schooling. In times of political or social unrest, as in Haiti and Brazil, the maintenance of a formal educational system may even be largely dependent on private sector initiatives.

Many developing countries have made universal access an important goal in their educational planning, but lack the economic resources and/or political wherewithal to meet this goal in the near future. In several cases, privatization initiatives have been a means of expanding the share of resources for education. In Zambia and Kenya, for example, local community initiatives expanded schooling opportunities at the secondary level. Private sector initiatives have also decreased unit costs by decreasing costs of inputs (Jamaican textbooks or Harambee teachers) and by promoting greater community and student involvement. Elite private schools, like those in industrialized countries, respond primarily to differentiated demand, but potentially free up resources for the public sector. Where the supply of public schooling is limited, the public schools may even become the elite schools, while privatization initiatives increase access.

The private school advantage documented in many countries provides important country-specific lessons in improving school quality and efficiency in the public sector. Although it may not be entirely possible to mimic the private school advantage, replicating private school input mixes in terms of teacher characteristics, classroom management, and instructional practices may improve quality and efficiency. The private school advantage also suggests that consumers are making informed decisions about the allocation of educational resources. Involving local communities and parents more in the decision-making process may, in fact, be a large part of the private school advantage.

In sum, private initiatives in education can improve access, efficiency, and quality in the education sector. In the developing country context, the private school often represents the willingness of parents to sacrifice other necessities to provide for the education of their children.

Recommendations:

There is a role for education in the Agency's overall privatization initiative. You might want to consider proposals that:

- 1) improve our knowledge of the underlying reasons for the private school advantage in country-specific contexts,
- 2) help promote policy reforms to permit privatization initiatives when conditions are appropriate; and
- 3) encourage initiatives to decentralize administrative control and management of schools.

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