Policy Brief

RECOUP

number 1 | April 2007

Research Consortium on Educational Outcomes & Poverty

Public private partnerships in education: Some policy questions

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Summary

A Public Private Partnership (PPP) makes it possible to disentangle funding from operation. One form of PPP in education is private operation of publicly funded education. While evidence is thin, a prominent recent study based on cross-country data suggests that private operation of schools with public funding raises student achievement levels, leading to efficiency gains. If it is accepted that primary education should always be publicly funded, and if the superior efficiency of this type of PPP in education is accepted or presumed, then some issues for policy are: (i) whether to give public funds **directly** to schools (supply-side financing) or **as vouchers** to parents (demand-side funding); (ii) to anticipate the potential **equity effects** of different ways of giving public funds for private operation; and (iii) to consider the **feasibility** of implementing educational PPPs in developing countries. Experimentation with alternative delivery modes, accompanied by rigorous evaluation of their respective efficiency and equity impacts, is desirable before scaling up interventions.

Private schooling is growing in many developing countries, including among the poor. Part of the reason for this seems to be that public schools are performing poorly, with high teacher absence rates, lack of teaching activity and low pupil achievement levels (Chaudhury, et. al., 2006; PROBE, 1999; ASER, 2007). Yet, the spread of private schooling exacerbates social inequality since the poor are necessarily excluded when private schools are not publicly funded. If fee-charging private schools increasingly attract households, it suggests that parents perceive them to be operating with some competitive advantages relative to public schools. The nature of these advantages suggests how the private sector can be utilized to improve educational outcomes of children. The main avowed advantage of publicly funded but privately operated education is that it harnesses the expertise, energy and financial and management skills of the private sector to give better value for taxpayers' money. Proponents argue that PPPs provide a more flexible way of producing education, since they allow governments to overcome inflexible salary scales and other civil service restrictions and increase transparency of government education spending by making the cost of education services more visible (LaRocque, 2005). Decentralised decision-making at the level of the school is thought to be more responsive to parents' needs and to foster local level accountability.

In recent years there has been increased discussion of the role of PPPs in education, as focus shifts from mere inputs-based to more incentives-based educational reforms. Figure 1 shows the different combinations of private and public operation and funding of education. The shaded cells are PPPs: cell D in the bottom right corner is public operation with private funding, e.g. fee charging public schools. The EFA Global Monitoring Report (UNESCO, 2004) finds that more than 100 countries have public primary schools that charge some form of fees. Cell A in the top left corner combines public funding with private operation. Examples of type 'A' PPP are voluntary aided schools in the UK, grant-in-aid schools in India, Charter schools in the US and voucher schools in Colombia. Using PISA data from 35 countries, Woessmann (2005) studies the distribution of countries into these four quadrants and investigates the relative effectiveness of the four school-types. His statistical analysis shows that – after controlling extensively for student background factors – public funding with private operation brings large gains in terms of maths achievement of students, while private funding with public operation leads to large losses in achievement. The pure private and pure public cases do not differ much from each other, in terms of their effects on student learning. These findings are summarized in Figure 2.

Woessmann's evidence is based only on a sample of 35 countries for which data were available at the level of the school on both who operates the school and who funds the school. Clearly this analysis needs to be broadened to include a much wider range of countries in order to be confident about the generalizability of his findings. Nevertheless, the results are interesting. If Woessmann's conclusion is generalizable, i.e. if private operation with public funding (type 'A' in Figure 1) brings efficiency benefits, then at least three policy questions arise.

First, *how best to give public funds for privately produced education?* There are two major ways: (a) supply-side financing, i.e. public money given directly to private *schools*, as a block or per-student grant; and (b) demand-side financing, i.e. public money given directly to *families,* as a voucher for each child[1]. These two ways of giving public funds for private operation imply fundamentally different incentives for private schools (see Table 1). The question for policy is: which of these two ways of setting up the PPP gives the best incentives to schools and teachers. There is not much research on this issue. However, evidence for India suggests that supply-side funding has not produced good results – *block* grants to private schools with no incentives built into the grant structure led to poor student learning outcomes (Kingdon, 1996; 2007). Also, teachers of aided schools lobbied hard to be paid directly from the state government treasury (as public school teachers are paid), rather than continue to be paid locally by their private school managements, who received the government grant. Centralising education Acts in the early 1970s in response to this teacher pressure led to a massive loss of local level accountability of aided school teachers toward their private managers (Kingdon and Muzammil, 2003). Other forms of supply-side-funding of PPPs exist with arguably superior incentives for schools and teachers, for instance, Concession schools in Colombia which receive *per-student* public funding (Barrera-Orioso, 2007).

Evidence on the impact of *demand*-side funding for PPPs (i.e. for school vouchers to parents) comes mainly from Chile, Colombia, New Zealand and the US. While the evidence is somewhat mixed, the weight of this evidence suggests that voucher funding for private schooling is generally associated with improved student outcomes. The most reliable evidence, based on state-of-the-art impact evaluation methodology, comes from Colombia. The Colombian government issued school vouchers on the basis of a lottery (due to insufficient funds for a voucher to all applicants). This provided ideal conditions for impact evaluation since lottery winners and losers were from similar home backgrounds, as the voucher was allocated randomly. Angrist et. al. (2002; 2006) find that vouchers – which increased parental choice and fostered competition between schools to attract vouchers – had beneficial effects on a range of student educational outcomes both in the short term (3 years) and the longer term (7 years).

*A **second** policy question is: what are the equity effects of demand-side public funding for private education?* There is concern in the literature that vouchers may enable better off families to supplement the value of the voucher and thus send their children to the better private schools, but that poorer families may remain within public schools, some of which may be left with the poorest and least well performing students, i.e. vouchers may be detrimental to disadvantaged students (Ladd, 2002). Nechyba (2005) suggests that such equity concerns can be addressed by careful design of the voucher, e.g. by making the voucher amount inverse to family income, whereby the poorest families would receive the highest value vouchers. Even so, it remains a real possibility that private schools could practice selection on the basis of pupils' home backgrounds, in order to cream-skim the best students and maintain high quality peer-groups. Some people argue that such inequality can never be totally eliminated. In poor countries with ill-functioning public schools, better-off parents already ensure better teaching for their children anyway via private schooling or via private home tutoring i.e. it is suggested that mainly-public-school systems do not eliminate equity problems either, while at the same time often being less efficient.

*The **third** question for policy concerns the feasibility of voucher PPP schemes in low income countries.* There are concerns about implementation of school choice schemes in the developing country context, such as: (i) in rural areas of low income countries where supply of places is the major constraint, school choice schemes may be judged irrelevant since the possibility of there being a choice of schools for children to attend is remote; (ii) weak regulatory systems to ensure schools' compliance with standards; (iii) difficulty of uneducated parents being able to make informed school choice; and (iv) the scope for corruption in the presence of weak monitoring and high costs of verification. However, this discussion also draws attention to the potential for similar corruption and monitoring problems in supply-side-funded PPPs as well as public school systems, and highlights the need to strengthen administrative capacities of poor countries to introduce more efficient ways of producing publicly-funded education.

Given the lack of firm evidence, and given country specificities, the most apt policy prescription seems to be that governments considering PPPs should try out both supply-side per-student funding and demand-side voucher funding PPPs on a trial basis for a few years and rigorously evaluate the achievement and equity impacts of these before scaling-up the more effective and equitable policy interventions.

Acknowledgment: I am indebted to Christopher Colclough for excellent comments on this piece. Any errors are mine.

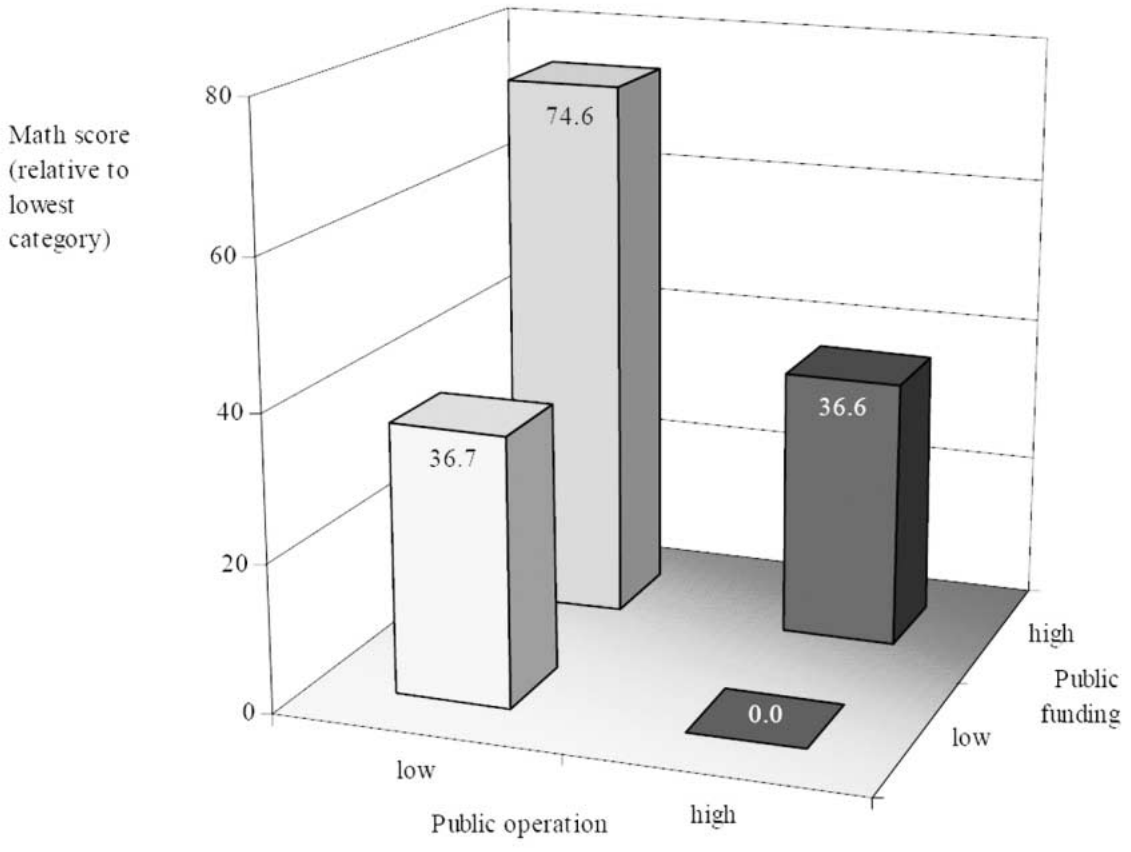
[1] Another form of demand-side financing is cash subsidies to parents conditional on school attendance of their children. These are often given to help poor parents to overcome non-fee costs of schooling, and are sometimes targeted at girls' enrolment. In principle, the effects can be similar to those of vouchers. Examples of conditional cash transfers are PROGRESA in Mexico and the Bolsa Escola in Brazil. While these schemes are intended to address demand deficiency, they could in principle impact school quality via inducing competition between schools in the same way as vouchers.

Figure 1 **Typology of school types**

		Operation	
		Private	Public
Funding	Public	Voucher/aided schools **(A)**	Pure public **(B)**
	Private	Pure private **(C)**	Govt. schools with fees **(D)**

Note: Grey shaded cells are Public Private Partnerships (PPPs). Cell 'A' divides into two types, depending on the way in which public funds are given for private operation of schools. Private schools receiving block or per-student public aid (variously known as Aided/Charter/Concession schools) are an example of 'supply side funding', while private schools funded by school vouchers given to families are an example of 'demand side funding'.

Figure 2 **Student achievement in the four quadrants of public-private involvement**



Source: Woessmann (2005)

Table 1 **Two ways of giving public funds for private operation**

	Supply side financing	Demand side financing
Examples	Aided schools, India Concession schools, Colombia Charter Schools, US Voluntary Aided schools, UK	Voucher schools, Colombia Voucher schools, USA Voucher schools, Chile Voucher schools, New Zealand
Funding of school	By public sector	By public sector
Operation	By private sector	By private sector
Who receives the resource	The schools directly	Families, as a voucher
Is funding provided on a per pupil basis?	Not necessarily: Block grants in India Per student grant in UK, USA	Necessarily per student
Competition	Yes, if grant is per student Yes, if students have a choice of schools	Yes, since students/families have complete school choice

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