

Designing a Conducive Environment for Education Contracting

chapter 4

For public-private partnerships to live up to their potential of bringing many benefits to the education sector, they must be well designed. Poorly designed PPPs can expose governments to significant financial and policy risks, such as cost increases and unmet objectives. Governments can do several things to create an environment that is conducive to the establishment of well-designed and successful PPPs in education, and these are summarized in box 4.1 and discussed in detail in this chapter.

Common weaknesses in education policy and regulations

Positive economic outcomes depend upon the right policies and sound institutions. Well-designed policies are also vital for achieving positive outcomes in the education sector in general and in private education specifically. Box 4.2 presents key principles for effective design and implementation of public-private partnerships in education. The key to

ensuring the success of PPPs in education is to put in place an enabling policy and regulatory framework that creates the conditions under which private schools can operate effectively and efficiently. This framework should also ensure that the sector as a whole delivers high-quality education and that the wider public interest is protected.

A key weakness in many countries is government resistance to accepting the private sector as its partner in the social sectors. Thus, while these governments might allow private schools to exist, they do not fully recognize their contribution to achieving important economic, social, and education goals. In addition, many governments limit the number of private schools that can be established and discourage private investment in the education sector. There are many examples of such inappropriate regulation. The most severe are laws that ban private schools outright or fail to recognize their existence. Other weaknesses include unclear and subjective school registration

BOX 4.1 Summary of actions that governments can take to promote public-private partnerships in education

- Provide a sound basis for the establishment of the private school sector
- Allow private schools to set their own tuition and other fees
- Allow both not-for-profit and for-profit schools to operate
- Promote and facilitate foreign direct investment in education
- Establish clear, objective, and streamlined criteria and processes for establishing and registering private schools
- Provide subsidies to the private school sector
- Ensure that PPP contracts give private providers considerable flexibility
- Establish quality assurance processes and provide families with information to help them to choose schools for their children
- Use a transparent, competitive, and multi-stage process for selecting private partners in PPPs
- Separate the purchaser and provider roles within the education administrative agency
- Ensure that the PPP contracting agency has adequate capacity
- Establish appropriate performance measures and include performance incentives and sanctions for inadequate performance in PPP contracts
- Develop an effective communications strategy to inform parents about school characteristics, and the public about the benefits and objectives of PPPs
- Introduce a framework for evaluating the outcomes of contracts
- Involve international organizations in encouraging the growth of PPPs



BOX 4.2 Principles for designing and implementing public-private partnerships

Defining public-private partnerships in education

- Principle 1: The nature and extent of PPPs should be based on a government's assessment of its appropriate role in education and the relative costs and benefits of private involvement in the sector, whether this involves education delivery, financing, or regulation.
- Principle 2: The equity impact of PPPs should be a key consideration in determining the nature and extent of public and private involvement in education.

Promoting public-private partnerships in education

- Principle 3: A sound general policy and regulatory environment, including high standards of public and corporate governance, flexible labor markets, transparency, and the rule of law, including protection of property and contractual rights, are essential for attracting the participation of the private sector in all sectors of the economy, including education.
- Principle 4: Authorities can promote private involvement by putting in place an enabling regulatory environment, including recognizing the role of the private education, providing clear and streamlined registration processes, setting up effective quality assurance systems, avoiding regulation of private school fees, and providing incentives for private participation.
- Principle 5: Access to capital markets is an essential factor in increasing private participation in education. Restrictions on access to markets and obstacles to international capital movements should be phased out. International organizations can help to promote private sector involvement in education by widening access to capital markets.
- Principle 6: Public authorities can promote foreign investment in education by treating local and foreign providers equally, providing investment incentives, and ensuring a supportive and efficient environment for investors. Investment promotion agencies can support investment in education by promoting education as a priority investment sector.

Implementing public-private partnerships

- Principle 7: PPP processes should be free of corruption and subject to appropriate levels of accountability, while public authorities should take effective measures to ensure the integrity and account-

ability of all partners and should establish procedures to deter, detect, and sanction corruption.

- Principle 8: Education authorities and private organizations should agree on the output- or performance-based specifications to be included in the contract as well as sanctions for nonperformance.
- Principle 9: The process for awarding PPP contracts should be competitive and should guarantee procedural fairness, no discrimination, and transparency.
- Principle 10: Governments should ensure that the public agencies responsible for forming and overseeing PPPs have the resources, information, and skills required to design, develop, and manage the complex contracting processes. They should ensure that the purchaser and provider roles of the agency are separate; the government can assign responsibility for PPPs to specialized agencies on partnerships and contracting education services if necessary.
- Principle 11: Education authorities should have the capacity to identify fraud, track payments, and ensure that subsidies and payment claims are legitimate and accurate. They should also ensure that their private sector partners are paid in a timely fashion.
- Principle 12: Public authorities can increase the popularity of PPPs by encouraging informed debate on the role and impact of these partnerships, consulting stakeholders and the public about the use of PPPs, putting in place an effective communications and awareness strategy, and creating a rigorous evaluation program.

Encouraging responsible business conduct

- Principle 13: Private partners should observe the principles and standards for responsible business conduct that have been agreed on with the government and should participate in such projects in good faith. They should not resort to bribery and other irregular practices to obtain contracts, nor should they agree to be party to such practices in the course of their infrastructure operations.
- Principle 14: Private partners should participate in the government's strategies for communicating and consulting with the public.
- Principle 15: Private providers need to be mindful of the consequences of their actions for communities and to work together with public authorities to avoid and mitigate any socially unacceptable outcomes.



criteria and standards, which result in inconsistent and nontransparent application of rules; limits on private schools' ability to set tuition and other fees, or to operate as for-profit entities; foreign investment controls; lengthy and complex school registration processes (box 4.3); limits on private schools' ability to offer alternative curricula and qualifications; enrollment restrictions on private schools; restrictive teacher registration requirements; land-use limits; and onerous requirements on private schools' registration, such as financial prerequisites and ownership of land and infrastructure.

Furthermore, governments generally favor public provision in their funding policies, and this does little to create an environment that enables growth in private education. Over the longer term, this is likely to reduce both the quality and sustainability of the private school sector in developing countries. There are hardly any quantitative measures of the extent to which appropriate regulations foster private education, but one exception is the African private schools investment index, which ranks 36 African countries by how attractive an environment they have created for private investment in education. The index shows that there is much progress to be made in developing more enabling regulatory frameworks, with index scores ranging from only 29 to 68 out of 100 (School Ventures 2008).

Regulations can be an important tool for protecting students from low-quality

providers, but they must be well designed. A policy framework that supports the private sector and assures education quality is also key to ensuring the economic and political sustainability of the private education sector in developing countries. Public perceptions of the quality of private education are crucial and can easily be influenced by any adverse publicity about low-quality private providers. This can lead governments to bow to public opinion and reverse their enabling policies, which would adversely affect all providers.

Improving education policy and regulations

There are several different aspects to a policy framework that encourages the growth of private schools in developing countries. The principle behind the framework should be the creation of conditions under which private schools can operate effectively and efficiently, while ensuring that the education that they provide is still of high quality.

Provide a sound basis for the operation of the private school sector

Governments can encourage the expansion of the private school sector by recognizing the important role that the sector plays in providing education. China, Côte d'Ivoire, the Philippines, and Senegal have done this by explicitly recognizing the private sector

BOX 4.3 *Registering a private school in Kenya*

Registering a private school in Kenya is a long and complex process. The key steps are as follows:

- The organization or individual that wishes to open a new school submits a registration application to the registrar through the district or municipal education officer along with inspection reports from the public health officer and the inspector of schools, the minutes of the district education board

meeting in which the application proposal was discussed, the certification of registration of the school's business name, the names of the school managers and their education certificates, and proof of land ownership.

- Once the registrar receives the application, he or she presents it to the Ministerial Committee on the Registration of Schools for evaluation.

- If approved, the Committee forwards the application to the Ministry of Education for authorization.
- The Minister of Education authorizes the school to operate.
- The registrar issues a certificate after a final inspection of the school has been conducted by public officials.

Source: Verspoor 2008.



in legislation (LaRocque 1999, 2002; Borja 2003). This recognition can be the foundation for building political and public support for the private sector's involvement in education and for minimizing investor uncertainty. This is particularly important given that education is often seen as a social rather than commercial endeavor.

Allow private schools to set tuition and other fees

Governments can promote private involvement in education by allowing private schools to set their own tuition and other fees. The governments of Ghana, India, the Philippines, and Vietnam limit the level of tuition and other fees charged by independent private schools (private schools that do not receive government subsidies). They also regulate the distribution of tuition and other fees among school owners or require schools to consult the government about any fee increases. While such controls are often aimed at making private education affordable for the poor or preventing price gouging, they can also have negative effects such as causing the quality of education to deteriorate and limiting the profitability of education investments. Even when tuition and other fee limits exist but are not enforced, they can reduce investments by increasing investors' uncertainty. One possible exception is when such limits are agreed as part of a contractual arrangement between the government and a private provider, for example, when the government enters into an education purchase arrangement with a private school for the delivery of education services.

Allow both not-for-profit and for-profit schools to operate

Governments can promote investment in private education by allowing for-profit schools to operate or to receive government subsidies. Several countries ban for-profit providers from the education sector or limit government funding to for-profit private schools. However, this bias against for-profit provision is not universal. Private for-profit schools come in various forms and serve the full range of communities, including elite families, middle-income

families, and poor families. Examples of for-profit school chains include the Beaconhouse Group in Pakistan, the Scholastica Group in Bangladesh, and international providers such as Global Education Management Systems and SABIS. In Pakistan, close to 10 percent of children from families in the poorest socioeconomic deciles were studying in private schools at the end of the 1990s. A recent report by the education NGO Pratham found that rural private schools in India enrolled around 20 percent of all students in India in 2007 (Andrabi, Das, and Khwaja 2006; Srivastava 2007).

Governments often regulate for-profit schools to ensure that they make quality a higher priority than profit. However, that concern should be weighed against the benefits of allowing for-profit schools to operate freely. These include increasing access to education for both poor and nonpoor families, encouraging innovation, and attracting new capital investment and new managerial, pedagogical, and technical skills. The prevalence of private for-profit education worldwide, including private for-profit education that serves the poor, suggests that in practice it has become a valuable alternative to public provision.

Promote and facilitate foreign direct investment in education

Foreign direct investment in education is limited but growing in developed countries, developing economies, and transition economies. In 2005, foreign direct investment in education was nearly \$3.5 billion, up from just \$86 million in 1990 and \$401 million in 2002, and most of it is invested in developed countries (UNCTAD). Foreign direct investment in education remains smaller than in other sectors of the economy. In 2007, it accounted for less than 0.1 percent of foreign direct investment in the service sector (UNCTAD).

Several large-scale private providers operate internationally, including the Academic Colleges Group, the Beaconhouse Group, the Delhi Public School Society, Global Education Management Systems, and SABIS. Religious orders, including the Catholic Church and the Seventh Day Adventist Church, have significant global



networks of private schools. These examples show that foreign investment does not flow only from developed to developing countries but in fact much of it is between developing countries or from developing countries to developed countries. This trend is likely to continue given the expansion of education provision in, and the increased globalization of, China and India. In recent years, the governments of both China and Vietnam have encouraged foreign investment to help to meet the growing demand for education in their countries (Borja 2003; VietNamNet Bridge 2006).

Promoting foreign direct investment in education can yield great benefits for the domestic education sector. Foreign private schools can provide families with a wider range of education options, increase competition among schools, and foster innovation. They can also bring in much needed skills, technology, capital investment, and knowledge. By increasing the stock of skilled labor resulting from well-functioning school and higher education sectors, foreign direct investment may improve the investment climate for subsequent foreign investment.

There are several steps that governments can take to promote foreign direct investment in education, including establishing an enabling policy framework within which foreigners can operate schools for both local students and expatriates and providing foreign investors with investment incentives such as tax holidays, subsidies, and land. Governments can also support potential investors by

- providing them with information on investment opportunities in education, the regulatory framework, and the broader investment environment;
- facilitating and simplifying the processing of foreign investment applications;
- setting up an agency to promote education as a target investment sector;
- attending and sponsoring education fairs, exhibitions, and conferences to promote private education investment opportunities;
- proactively seeking to form partnerships with potential investors.

The governments of developing countries can also attract foreign direct investment by providing tax incentives such as exemptions from customs duties on education inputs (books, teaching aids, and information technology equipment) to those companies that invest in the sector. However, while these tax incentives are common in developing countries, the evidence suggests that they have not been particularly successful in attracting investment. This is probably because foreign companies make their investment decisions based on a range of factors including the country's political and macroeconomic stability, the availability of human and natural resources, the state of its infrastructure, and the transparency of its regulatory framework (Tanzi and Zee 2001). Another problem with tax incentives is that they cost governments a significant amount of revenue and, if these costs exceed the benefits, then this is an expensive way to achieve public policy goals. The OECD has prepared a checklist for countries to assess their incentive policies for attracting foreign direct investment (OECD 2003).

Establish clear, objective criteria for establishing and registering private schools

Many countries limit the number of new providers who can set up in the education marketplace. The objective of many of these regulations is to protect consumers from substandard education services, and this is a laudable goal. However, ensuring the quality and safety of private schools and protecting consumers from unscrupulous operators must be balanced against the negative impact of overly restrictive entry criteria, especially in situations where demand for education exceeds what the public sector is able to supply. If the process for registering private schools is convoluted and onerous, then this often has the opposite impact of what the government intended. Rather than promoting increased access, better quality, and safer schools, overly restrictive registration criteria often deter potential providers or increase their costs so much that the newly created schools become unaffordable. Alternatively, these



restrictions may prompt some schools to operate outside the law as unregistered or clandestine providers, meaning the government has no way of protecting the affected consumers. The costs of this lack of protection invariably fall disproportionately on the poor, who have fewer education options than others.

To encourage the creation of new private schools and to promote private investment in education, registration criteria for schools should be

- realistic and achievable, so that they do not unduly restrict the establishment of new schools;
- objective and measurable, to limit the scope for corruption;
- open to all prospective private school entrants;
- output-focused, to allow schools to change how they deliver their education services;
- applied consistently across different government levels and departments.

The registration process should not be too long. To avoid unnecessarily long delays, the government could establish performance targets for the regulatory authority and impose time limits on its decision-making. For example, schools could be registered once a certain amount of time had elapsed, irrespective of whether the prospective operator had received official notification from the regulatory authority. The government could also establish one-stop shops (centralized PPP managing agencies) to coordinate the process. The government could also provide potential investors with guidance and information (both on paper and on the Internet) about how to register, including the registration criteria, a detailed description of the process, the registration timelines, and relevant forms.

The government should inform applicants of its decisions in a timely fashion and should include the grounds on which it accepted or rejected the application. There should be a provision in the regulations for provisional registration when certain applicants meet the bulk of the registration requirements. In these cases, the government should inform

the applicants of the criteria that they failed to meet and, where appropriate, give them a second opportunity to meet them within a reasonable timeframe. Regulators should not be required to provide provisional registration when the applicant fails to meet a large proportion of the criteria. Instead, these applicants could be required to submit a new, revised application. The process should include an appeal procedure that specifies clear and objective grounds on which those applicants who feel that their application has not been fairly considered may appeal.

Some governments may choose to introduce a graduated registration system for private schools, with provisional registration followed by full registration after a set period. Governments may also choose to grant private organizations, such as private school associations, the power to register private schools or at least to play a greater role in school registration. See box 4.4 for an example of this in Cameroon.

BOX 4.4 *Registering a private school in Cameroon*

Cameroon has a significant private school sector. Private schools are required to be members of whichever private school association is relevant to their school (for example, lay schools or Catholic schools). These associations have several functions, including representing the private sector in policy discussions with the government. In addition, private school associations play a key role in the private school registration process in that they

- work with the prospective private school operator to prepare the application to open a school;
- carry out initial reviews of the application to open a school (including site visits to the school) and recommend any changes needed to improve the school;
- lodge the application with the relevant provincial delegate once complete, along with the private school association's decision whether or not to support the application.

Source: LaRocque and Jacobsen 2000.

Subsidize private schools to encourage investment in education

In addition to providing general investment incentives, governments can encourage private investment in education by offering monetary or in-kind subsidies to private schools. These subsidies can be given at the outset in the form of, for example, free or discounted land, establishment grants, and education infrastructure. Land can be especially important in urban areas where land is expensive. Another way in which governments can encourage private investment would be to facilitate work visas for foreign teachers, management, and technical staff.

Ongoing support can be provided through funding-based PPPs, such as contract schools and charter schools in the United States, concession schools in Colombia, and private school subsidy and voucher programs in both developed and developing countries. Governments can also offer tax credits to parents to cover private school tuition and other fees as an alternative to providing subsidies or give tax benefits to individuals and firms that donate to schools or education trust funds.

These funding-based PPP models all combine government funding with the private delivery of education services. In this respect, they differ fundamentally from both the traditional model of organizing schooling, in which the public sector both funds and delivers education services, and from other forms of PPPs such as Adopt-a-School models, in which the government and the private sector both provide funding and the public sector delivers the education service. Funding-based PPPs support the growth of private education by making it more affordable to families. They are also more effective than alternative funding and delivery models—even fully public and fully private models—in rapidly increasing access to high-quality education because they

- benefit from the much more flexible operating environment in the private sector;
- harness the full range of available public and private resources;
- provide families with the funding that they need to be able to afford private schooling;

- take advantage of the significant network of private schools in many countries to increase access;
- use funding to encourage competition among schools and promote improvements in the quality of education, especially among schools serving low-income families.

Funding-based PPPs can also be a catalyst for the expansion of the private school sector. Kim, Alderman, and Orazem (1999) found evidence that subsidies led to a significant increase in overall enrollments in private schools in poor urban areas (though not in poor rural areas). Similarly, Filer and München (2000) found that private schools tended to be established in areas where there was excess demand and where the quality of the state schools was low. In Pakistan, the Punjab Education Foundation's Foundation Assisted Schools Program has expanded rapidly from just 20,000 students in 54 schools in late 2005 to more than 500,000 students in 1,157 schools today (box 2.2 in chapter 2). Also in Pakistan, The Educators, a school franchise model operated by the Beaconhouse Group, has grown to 75,000 students in 230 schools in 130 cities across the country, and 95 low-fee private schools have been established under the World Bank's Balochistan Education Support Project in the first year following the introduction of a voucher-type program.

Funding systems for private schools need to be well designed to ensure that they operate effectively and to minimize corruption. Broadly speaking, governments' school funding systems should be neutral to provide equal treatment to public and private schools, responsive to avoid unnecessary delays in school registration and contracting processes, and targeted to underserved students. While there are many options and designs available for funding-based PPPs, there are several characteristics that they all need to have:

- Public and private schools should be funded in a similar manner, with access to funding based on the quality of the education that the school provides rather than on who owns it.



- The amount of funding provided should be based on student numbers rather than on inputs such as teachers' salaries.
- The funding should be aimed at overcoming the barriers that poor students face in accessing education (for example, funding could be targeted by a student's income or socioeconomic status).
- The funding criteria should be transparent, publicly available, and easily understood.

Governments should make their funding for private schools conditional on the school's satisfactory performance or to its registration and accreditation status to ensure that the funds are allocated to schools with a proven performance record. However, governments should not make the funding conditional on extensive regulation of the schools' inputs and operations as this would limit their ability to run the school in a flexible and responsive manner. It is also important for governments to ensure that these funding programs are well managed and monitored and that they make payments to private schools on a timely basis. This is not the case in many existing programs, for example, in the educational contracting program in the Philippines, where there are long lags between when the students enroll in the school and when the government pays the school its subsidy.

Ensure that private providers have the flexibility to deliver services effectively

For PPPs to be implemented successfully, private partners need to be given considerable flexibility in how they deliver the service for which they have been contracted. The government should spell out the desired outputs and performance standards and set penalties for failure to achieve and rewards for success, but thereafter they should leave it to the providers to decide how best to deliver the required outputs to the specified standard.

Providers must have as much management freedom as possible, especially in staffing and employment as well as in curriculum and budget allocation. To achieve this, governments should adopt operational contracts in which it is specified that the managers of the private school, rather than

the government, will select, employ, and pay school staff. Operational contracts are superior to management contracts because they give the private sector greater flexibility to reorganize work schedules, select appropriately skilled staff, pay the level of salaries required to attract good staff, and dismiss nonperforming staff. Management contracts that put government restrictions on how the contractor operates the school (beyond the minimum standards required to assure safety) can significantly hamper the contractor's ability to determine appropriate resource allocations, introduce management and pedagogical innovations, and improve the quality of education that it delivers.

In operational contracts, the government simply pays the private provider a management fee and an amount per student to operate the school and then allows the provider to make all operational decisions, including those related to staffing. The provider hires all staff, which is particularly important when private providers are expected to improve the performance of failing schools where poor teaching is often a factor. Forcing private providers to operate within the same restrictive regulatory framework that hobbles public schools would significantly restrict the gains from adopting a contracting model and limit the positive impact of competition. Indeed, one recent study found that more than two-thirds of U.S. school district superintendents surveyed believed that reducing bureaucracy and increasing flexibility were very important ways to improve public education (Belfield and Wooten 2003).

Contracts should also reflect the nature of the service provided, encourage private sector investment, and ensure that all risks for nonperformance are covered. Contracts should be contestable—meaning that they are awarded competitively, thus allowing public authorities to compare different offers and select the best provider. Many PPPs involve relatively long-term contracts. For example, private finance initiative contracts are generally for 25–30 years, Bogota concession school contracts are for 15 years, and charter school contracts are for three to five years. Long-term contracts are helpful for giving private partners greater certainty

about work stability and thus generate increased interest in education contracts from the private sector. This is especially important given that some governments may easily be persuaded to reverse their policies that favor PPPs given that private education remains controversial. Longer-term contracts also allow contractors more time to achieve their objectives, such as improving school performance.

Less welcome outcomes of longer-term contracts are that they limit some of the benefits of competition, such as the entry and exit of providers in response to changes in demand, and lock in any poorly designed features of contracts for long periods of time. However, these costs need to be weighed against the benefits of increased interest from the private sector and reduced uncertainty for contracted providers. Also, to offset some of these negative effects, some contracts include clauses that require ongoing performance evaluations and the reauthorization of contracts at intermediate points during the contract.

Improve information flows and establish an effective quality assurance system

An important weakness in many countries is the lack of available consumer information on the private education market despite the rapid growth of private education and the wide variations in their price and quality. Many governments collect only limited amounts of information on the fees charged by schools, the programs that they offer,

and their staff qualifications, and their regulatory authorities gather little information on the size and nature of the private school and tertiary education sectors. Some countries publish exam scores on a school by school basis (for example, the Philippines and Uganda), while others have adopted innovative ways to provide consumers with information on the performance of schools and tertiary education institutions.

Well-informed consumers and regulators are vital for the successful operation of a market in education. One way to keep consumers informed is to put more stringent requirements on education providers to disclose information about their schools. Among the various ways to make this happen are

- requiring schools to disclose information to regulators and the general public as a condition of registration;
- collecting and disseminating information by education authorities on schools according to a number of indicators, including the quality of their infrastructure, facilities, and curriculum, the qualifications that they offer, and their class sizes, fee levels, teacher qualifications, and exam scores;
- introducing independent school review systems to provide information on school performance, such as the Education Review Office in New Zealand (box 4.5) and the Office of Standards in Education in the United Kingdom;
- introducing independent accrediting agencies that focus on school performance.

BOX 4.5 *New Zealand's Education Review Office*

The Education Review Office is a New Zealand government department responsible for evaluating and reporting to the public on schools, early childhood centers, and other forms of pre-tertiary education in New Zealand.

The office disseminates useful information relevant to parents, educators, managers, and others involved in schools and early childhood education as well as to government policymakers. It reviews individual schools and groups of schools,

provides contract evaluation services, and evaluates nationwide education issues. The office publishes national reports that evaluate specific education issues using its inspection evidence.

The Education Review Office schedules reviews of schools and centers based on their prior performance, current risk appraisal, and the amount of time since their last review. Schools are usually reviewed every three to four years, but this can be more frequent if necessary. The

office's reports on individual schools and early childhood centers are freely available to the public and can be obtained from the individual school or center or from the Education Review Office itself.

The creation of the office played an important part in supporting the introduction of school choice in New Zealand by providing information on the performance of every school.

Source: New Zealand Education Review Office Web site (www.ero.govt.nz)



Governments might choose to use companies in the private sector that offer testing services as well as school evaluation and review services. For example, the CfBT Education Trust, a U.K.-based not-for-profit education company, reviews schools in Oman under contract with the government in a role similar to that played by the Education Review Office in New Zealand (see box 4.5). In the United States, Standard and Poor's provides school evaluation services to school districts, analyzing academic, financial, and demographic indicators and trends; establishing benchmarks; and presenting findings on school performance. In addition, a number of organizations, such as www.SchoolResults.org (a public-private effort), have developed tools that enable parents to compare the performance of schools or school districts.

Private sector organizations such as the Educational Testing Service, Pearson Educational, and Kaplan in the United States, and the Center for Educational Measurement in the Philippines, provide testing and assessment services that track the education performance of schools and governments. Private school associations in the Philippines operate a voluntary accreditation scheme for private schools and higher education institutions (box 4.6), and other organizations provide information and rankings to inform students' education decisions, including provincial school report cards published annually by the Fraser Institute (www.fraserinstitute.org/reportcards/schoolperformance) and the Montreal Economic Institute (www.iedm.org/main/reportcards_en.php).

While making information freely available is an important way to improve the quality of schooling, formal independent quality assurance and monitoring mechanisms that evaluate the performance of providers and their outcomes are also needed. This would ensure independent, unbiased assessments of the performance of PPPs. Well-designed quality assurance mechanisms can provide consumers, providers, and government officials with valuable information on the performance of private schools and ensure that providers are meeting quality standards. Several mechanisms have been used around the world to assure quality in both the private and public sectors:

- Private school associations in the Philippines operate a formal accreditation system for private schools and higher education institutions.
- The De La Salle Supervised Schools Program in the Philippines provides administrative, academic, and spiritual assistance to private schools that cater predominantly to students from low- and middle-income backgrounds.
- Various public and private organizations (for example, the U.K.-based Worldwide Education Service of the CfBT Education Trust; the Education Review Office in New Zealand; and the Office for Standards in Education, Children's Services, and Skills in the UK) provide school inspection and review services.
- The Sindh Education Foundation in Pakistan operates two programs that

BOX 4.6 *Private school accreditation in the Philippines*

The private sector can play significant role in regulating economic activity. In the United States, many regulations are produced and enforced by independent parties and trade associations (Yilmaz 1998). Thus, there is scope for making greater use of the private sector in regulating a number of aspects of private education. The Philippines operates a private voluntary accreditation system

for schools and higher education institutions. The accreditation scheme provides for four levels of accreditation that confer benefits on institutions in the form of increased operational freedom or eligibility for government assistance. The private accreditation scheme is managed and overseen by the Federation of Accrediting Agencies of the Philippines, which charges fees to cover the costs of provid-

ing this service. The federation comprises several private accreditation associations, each linked to private school associations and all of which are recognized by the government. In 2002–03, there were some 1,200 accredited programs in the Philippines.

Source: LaRocque 2002.



aim to improve the quality of education in low-fee private schools.

Foreign organizations can play an important role in helping developing countries to improve the quality of education, particularly those countries where corruption in the education sector is endemic (in the areas of testing, school licensing processes, and school reviews). For example, foreign organizations such as Cambridge International Exams and the International Baccalaureate provide independently administered and internationally recognized qualifications. International school chains such as SABIS and the Global Education Management System bring a world-class curriculum to the countries in which they operate. International organizations can also help to ensure that education standards in particular countries reach international benchmarks. For example, at the tertiary education level, the International Maritime Organization is critical in enforcing international standards in seafarer education. Governments can also require schools to be accredited by international organizations or affiliated with foreign schools as a condition of their registration and operation. This model is widely used at the tertiary education level, but foreign accreditation or affiliation is expensive for education institutions.

Public and private schools should ideally be subject to the same quality assurance system, but governments too often impose quality assurance requirements and systems on private schools that they do not apply to public schools. This restricts private providers' ability to compete. The purpose of quality assurance mechanisms should be to improve the quality of education delivered and to yield better education outcomes. Too often, much of what passes as school supervision involves compliance, red tape, and the enforcement of rules that add little to a student's education experience. Unnecessary rules and regulations foster an environment that is conducive to corruption. There are other ways to assure quality in private schools, including requiring private schools to display their quality ratings determined by independent or public quality assurance institutions.

Designing public-private partnerships

Good design, while important, is not sufficient to ensure the success of a PPP in education. It must also be effectively and efficiently implemented and governments can take several actions to improve the way in which PPPs are carried out. This section presents several broad principles and guidelines for implementing education PPPs.

Employ a transparent, competitive, and multi-stage process for selecting private partners in PPPs

A key element of effective contracting is a transparent and competitive bidding process. Bidding for service delivery contracts such as school management initiatives or private finance initiative contracts should be open to all private organizations, including both for-profit and not-for-profit providers. Contracts should be open to any local, national, and international organizations that may wish to bid to operate a public school, and the bidding process should be competitive whenever possible.

Schools whose management or construction will be contracted out should be identified well in advance, and the list should be made widely available, perhaps through an easily accessible public register. The bidding process should also be set out clearly and in advance. The education authority should send out a request for proposals to all potential bidders and should publicize its request widely to encourage as many bidders as possible. The result of the bidding process should be advertised to ensure that all market participants are made aware of the identity of the successful provider.

A transparent and competitive bidding process is likely to have positive effects in both the short and long term. In the short term, competitive bidding is most likely to yield bids that deliver value for money (that is, the lowest price for a given level of desired quality) and to minimize the potential for corruption in the awarding of the contracts. Over the longer term, a competitive process is likely to build market confidence in both the bidding process and the



contracting agency, thereby encouraging the growth of the market in private education services over time.

The contracting agency should use a multi-stage process to select providers of education services, and these stages should include

- clarifying requirements, including development of contract objectives and specification of desired services and expected outcomes;
- developing a procurement strategy and hiring a procurement team;
- writing the request for proposals;
- inviting expressions of interest;
- conducting contract prequalification checks in which bids are assessed against requirements and a shortlist of bidders is selected;
- interviewing the shortlist of bidders, assessing proposals in greater depth, and negotiating contractual issues with the shortlist of bidders;
- selecting the preferred bidder and awarding the contract;
- advertising the result of the selection process;
- commencing service (International Financial Services London 2001).

Savas (2000) presents a comprehensive discussion of the steps involved in contracting for the delivery of public services. Among the issues highlighted by the author are the need for a feasibility study to assess whether it is appropriate to contract out the service; the need to foster competition in the process; the mechanics and importance of a fair bidding process (the expression of interest, the bid specifications and process, and the evaluation of the bids); and the need to monitor, evaluate, and enforce the implementation of the contract.

Split the purchaser and provider roles within the education administrative agency

PPPs function best when the education department's policy and regulatory functions are kept separate and distinct from its service delivery and compliance functions. If the same government department

is responsible for both purchasing and the provision (and regulation) of education, then there is a risk that it will be biased in favor of public schools because private sector competition can threaten the viability of some struggling public schools. As Eggers (1998, 28) argues, "Splitting policy functions from service delivery creates incentives for governments to become more discriminating consumers, looking beyond government monopoly providers to a wide range of public and private providers."

In the United States, some states go further in their effort to split the purchaser and provider functions in education by allowing groups seeking to open and operate a charter school to be approved by the local school district, a university, or other body such as education contracting agencies.

Build the capacity of the contracting agency

An important factor in the successful design and implementation of PPPs is the need to ensure that the government agency responsible for these partnerships has the resources, information, and skills needed to design, develop, and manage the complex contracting processes that underlie PPP programs.

First, the contracting agency should have access to reliable and accurate financial and administrative information. Also, updated and accurate baseline information on price and outputs is essential for the contracting agency to be able to make an informed assessment of the bids submitted by organizations seeking to deliver education services. For example, to be able to assess whether the bidding process is generating value for money, the contracting agency has to have reliable information on the unit costs associated with existing or alternative providers in both the public and private sectors. The contracting agency must also have access to baseline information on the education outcomes yielded by the sector in general and by the schools to be contracted out in order to be able to specify appropriate performance benchmarks for the private sector contractors.

Second, it is vital that the contracting agency employ people with the skills needed to manage the complex task of contracting

with private sector partners. The skills that are needed correspond to the wide range of functions that must be undertaken by regulators, including designing, developing, and managing payment systems; accrediting and registering schools; carrying out quality assurance functions; and running private sector incentive programs. While the move toward PPPs may seem to signal the withdrawal of governments from their role in providing education, it does not. Rather, the role of government is simply changing from being the exclusive provider of a service to being the facilitator and regulator for a range of different providers. This means that the skill set required by the public sector is also changing and now encompasses skills that are very different from the skills that used to be needed.

In particular, the shift from input controls to output-based contracting means that government agencies must develop their capacity to

- assess the various services that are provided in the education sector to determine when and under what circumstances contracting, rather than direct public provision, could be used;
- design, negotiate, implement, and monitor education service contracts;
- develop legislation that sets up a competitive and transparent contracting system;
- develop appropriate quality assurance mechanisms.

The move toward PPPs in education also requires public officials to adopt a new administrative culture. As Harding (2002) noted (in relation to the health sector but it is equally applicable to education), public officials need to stop thinking of themselves as administrators and managers of public employees and other inputs, and start thinking of themselves as contract managers with the ultimate responsibility for delivering services (but not necessarily delivering those services themselves).

The contracting authority must also have the capacity to identify fraud, track payments, and ensure that claims for payment from participating schools are legitimate and accurate. It should also ensure that it

pays schools in a timely fashion. The experience with education service contracting in the Philippines is instructive in this regard, as recent audits have discovered fraud in the form of some “ghost” schools that received funding but existed in name only. In addition, payments to schools under the scheme were often delayed several months, which discouraged many potential providers from bidding for contracts to operate schools. An effective audit procedure is a vital component of any payment or fraud monitoring system, and NGOs can often be successfully employed in such roles.

Governments that need to build their capacity to implement PPPs in education can take advantage of case studies, good practice guidelines, and lessons learned disseminated by other countries with more experience with education contracting. These come in the form of manuals, checklists, toolkits, and standardized contracts. Examples include the United Kingdom’s Schools Private Finance Initiative website (www.teachernet.gov.uk), which provides guidance and standardized contracts for school infrastructure PPPs, and the National Association of Charter School Authorizers’ website (www.qualitycharters.org), which provides guidance for organizations that authorize the establishment of charter schools in the United States.

In many countries, governments have chosen to set up either a dedicated, cross-sectoral unit to oversee the implementation of PPPs or specialized PPP teams within sector ministries. Establishing these units is the best way to overcome capacity weaknesses such as a lack of knowledge about contracting, a dearth of the skills required to implement PPPs, high transaction costs, and poor procurement incentives that can lead to corruption.

In most of these countries, the units have been given responsibility only for infrastructure PPPs (including schools) rather than for the entire range of PPPs. However, in principle, governments could extend the remit of these PPP units to include policy formulation and coordination, technical assistance, quality control, the standardization and dissemination of information, and the promotion and marketing of PPP

initiatives. PPP units in the social sectors have the potential to play a key role in providing education authorities with technical assistance in designing and implementing contracts and in standardizing PPP processes in countries with decentralized education systems. They could also play an important role in promoting and marketing the concept of public-private partnerships and of specific PPP initiatives, which tend to be more controversial in education than in other sectors.

Establish appropriate performance measures, incentives, and sanctions for failing to perform in PPP contracts

Establishing appropriate performance measures is critical in the design of any contract. Performance measures are necessary for determining whether the service provider has met the agreed terms and conditions of the contract and are even more important when they are prerequisites for determining the compensation to be paid to the contractor. The selected performance measures must be appropriate and must reflect the outcomes required by the contracting authority because the contractor's behavior will be driven largely by what will be measured and rewarded under the terms of the contract. Performance indicators should be specified as much as possible in terms of measurable outcomes (for example, learning improvements as measured by test scores, reading levels, reduced dropout rates, and reduced teacher-student absenteeism) rather than inputs (for example, hiring additional staff or spending more on particular activities).

These performance measures must be selected with care because, if badly designed, they can produce perverse incentives and lead to undesirable outcomes. For example:

- A heavy emphasis on academic outcomes in contracts may cause contractors to ignore the development of “softer” skills such as teamwork.
- An overly rigid focus on measurable outcomes may lead to the contractor paying too little attention to desirable outcomes that are more difficult to measure, such as student self-esteem.

- A strong focus on international student assessments may give schools an incentive to refuse entry to any students who are unlikely to be strong performers academically.

This is not to argue that performance measures should not be set or that they should not be backed up by financial incentives. Performance measures and financial incentives can help align the interests of the school with those of students and the government. Appropriate incentives can also help to ensure that schools remain focused on students' needs and keep abreast of changing demands in the marketplace. The specification of requirements at an early phase can be crucial to the eventual success of the contract and needs to be carried out carefully by a multi-disciplinary team to ensure that all aspects that influence education quality are considered. Also, these targets and expectations should be realistic and achievable.

The degree to which performance indicators can be specified will vary with the nature of the contract. It will be easier to specify these measures when the services being purchased are narrow in scope and simple to measure (for example, remedial instruction and literacy programs) than when the services being purchased are broader in scope and harder to measure (for example, whole school management).

Performance indicators can be measured both qualitatively and quantitatively and can be reported at different intervals. For example, quantitative indicators such as standardized test scores, attendance rates, and dropout rates can be supplemented by qualitative methods of assessing performance, such as surveys of parents and teachers and site visits by third parties to assess progress in areas such as leadership development, the arts, and character development. Education service contracts should also include performance incentives and should make payment conditional on the contractor achieving the performance measures. There are many examples of PPPs (including private finance initiatives such as the Bogota Concession Schools program and the Punjab Education Foundation's Foundation Assisted Schools Program)

that include performance measures in their contracts and that make the contractors' compensation (or continued participation in programs) conditional on their satisfactory performance.

Of course, these performance incentives and sanctions will be utterly ineffective if the education authority lacks the ability or capacity to monitor contractors' performance. This monitoring should aim both to prevent fraud and to ensure that the objectives and targets of the contract are met, especially in complex PPPs such as private finance initiatives and funding-based initiatives (for example, school management and school subsidy programs). A particular risk in PPPs that receive per student funding is the potential for unscrupulous contractors to inflate enrollment figures or to claim funds for schools that only exist on paper. Various PPP programs have adopted strategies to address this risk, including school accreditation schemes, requiring contractors to allow open access to school enrollment data, and third-party validation of enrollment figures.

Develop an effective communications strategy

Efforts to involve the private sector in education often face concerted opposition from rival political parties, labor unions, the media, the public at large, and specific interest groups. Therefore, a crucial component of any PPP in education is an effective strategic (as opposed to piecemeal or ad hoc) communication plan as this can substantially reduce political risk and be an effective way of promoting a PPP initiative. A strategic communication plan needs to be built on ongoing opinion research that assesses how various stakeholders are affected by the initiative. The results of this research will help the government determine what steps to take to build support for, promote participation in, and mitigate social opposition to, the private participation initiative.

The strategy may include featuring specific PPPs at the school level, stressing the desirable objectives and the solid experience of the private contractors. This can educate stakeholders about the potential advantages and disadvantages of PPPs, inform

the general public about the academic benefits that can accrue from involving private partners in education, and promote best practices in developing and applying PPPs. The World Bank's 2004 toolkit for public communications programs on privatization is a useful resource even though PPPs do not involve outright privatization.

Introduce a framework for evaluating program outcomes

Each PPP should be accompanied by a well-designed, rigorous evaluation. Although a wide range of PPPs exists around the world, there is a lack of rigorous evidence on the impact of these programs (World Bank 2006). This is especially true for PPPs operating outside the United States and for nonvoucher programs. As noted in Patrinos (2005), the best evaluations of programs involve experiments that randomly assign benefits and include a true control group. In the absence of a random design or some form of natural experiment, it is preferable to use such rigorous techniques as propensity score matching, local average treatment effects, and regression discontinuities.

Education PPPs are highly amenable to proper impact evaluations because many of the interventions are output-driven. Having more rigorous impact evaluations is important because this would increase the amount of information available to policymakers when they make decisions about program design as well as expanding the international knowledge about the circumstances under which particular types of education PPPs work best.

Involve international organizations in fostering PPPs

International organizations can play several roles in promoting PPPs. A key one is providing "early stage" equity and loan capital to promote investments in private education. Schools find it difficult to access investment capital with a sufficiently long time horizon. Private equity companies are generally not interested because they expect short-term returns on their investments. International lenders can raise the profile of private education as a legitimate sector for investment, and they can also work with

banks to mitigate some investment risks in the sector. International organizations can also build the capacity of both banks and the education sector and help countries to create enabling regulatory frameworks for private education.

The focus of most international organization projects is on improving public sector schools and tertiary education institutions. As Sosale (2000) shows, World Bank lending for education projects totaled \$4.9 billion in 1995–97, but only 11 of 70 projects (about 15 percent) included a private sector component and only about half of those were at the primary or secondary level. However, this has changed in the last decade. In 2007, 57 percent of World Bank education projects had a PPP component (Baksh, forthcoming).

In addition, the World Bank provides policy support to governments that are looking for effective ways to involve the private sector in providing education. It has also created a unit to conduct more and better quality evaluations of the impact of PPPs on education. The International Finance Corporation (IFC) also supports private education projects. It has funded operations, including one in Ghana, that

provide education entrepreneurs with access to capital and has recently launched a microcredit program in Kenya, which targets private school operators and includes a technical assistance facility (box 4.7).

BOX 4.7 *Microcredit facilities for education*

Private schools in Sub-Saharan Africa have limited access to medium- and long-term investment capital. Few local banks lend to private schools, and most loans are for very short periods. Many schools also need technical assistance to build their financial, managerial, and administrative capabilities and to operate more efficiently.

The investment component will support school loans from partner banks. These loans will be used to finance the construction of facilities, the purchase of educational materials, and other capital expenditures. To be eligible for financing, schools will need to meet the partner bank's underwriting criteria. The program will focus initially on 10 countries that have high enrollment rates in private schools.

Source: IFC 2007.

