

**PRIVATE EDUCATION  
AND  
PUBLIC POLICY  
IN  
LATIN AMERICA**

LAURENCE WOLFF

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# **Private Education and Public Policy in Latin America**

Edited by

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Juan Carlos Navarro  
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## ACRONYMS AND ABBREVIATIONS

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ACEM	Association of Mayan Secondary School Education Centers (Asociación de Centros Educativos Mayas del Nivel Medio de Guatemala)
AVEC	Venezuelan Association of Catholic Education (Asociación Venezolana de Educación Católica)
CIDE	Center for Education Research and Development (Centro de Investigación y Desarrollo de la Educación)
CIEN	National Economic Research Center (Centro de Investigaciones Económicas Nacionales) [Guatemala]
CINDE	Corporation for Development Research
CONALFA	National Literacy Committee (El Comité Nacional de Alfabetización) [Guatemala]
FEC	Family-School-Community project (Familia-Escuela-Comunidad) [Venezuela]
FECODE	Colombian Teachers Federation (Federación Colombiana de Educadores)
GDP	gross domestic product
ICFES	Colombian Institute for Higher Education (Instituto Colombiano para el Fomento de la Educación Superior)
IDB	Inter-American Development Bank
JEC	Extended School Day Program (Jornada Escolar Completa) [Chile]
MECD	Ministry of Education, Culture and Sports (Ministerio de Educación y Deportes) [Venezuela]
MEN	National Ministry of Education (Ministerio de Educación Nacional) [Colombia]
MINED	Ministry of Education (Ministerio de Educación) [Peru]
MINEDUC	Ministry of Education (Ministerio de Educación) [Guatemala]
NGO	nongovernmental organization

ONDEC	National Catholic Education Office (Oficina Nacional de Educación Católica) [Peru]
PACES	Expansion Plan for Secondary Education Coverage (Programa de Ampliación de Cobertura de la Educación Secundaria) [Colombia]
PEI	Institutional Educational Project (Proyecto Educativo Institucional) [Colombia]
PISA	Programme for International Student Assessment
PREAL	Partnership for Educational Revitalization in the Americas (Programa de Promoción de la Reforma Educativa en América Latina y el Caribe)
PRONADE	National Program for Educational Self-Management (Programa Nacional de Autogestión para el Desarrollo Educativo) [Guatemala]
PRONERE	National Program for School Achievement Assessment (Programa Nacional de Evaluación de Rendimiento Escolar) [Guatemala]
PTA	parent-teacher association
SIMAC	National System of Human Resource Improvement and Curricular Adaptation (Sistema Nacional de Mejoramiento de Recursos Humanos y Adecuación Curricular) [Guatemala]
SIMCE	System for Measuring the Quality of Education (Sistema de Medición de la Calidad de la Enseñanza) [Chile]
TIMSS	Trends in International Mathematics and Science Study
UCES	University of Business and Social Sciences (Universidad de Ciencias Empresariales y Sociales) [Peru]
USAC	San Carlos University (Universidad San Carlos de Guatemala)
USE	Educational Subsidy Unit (Unidad de Subvención Educativa) [Chile]

# INTRODUCTION

*Laurence Wolff and Juan Carlos Navarro*

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This book, the first systematic cross-country review of private education in Latin America, evaluates the public policies in the region that affect the performance of private schools. It describes the current set of relationships and policies between the public and private sectors in six countries—Argentina, Chile, Colombia, Guatemala, Peru, and Venezuela. It examines the “rules of the game”—public regulations, laws and oversight mechanisms, and practice—for both public and private education and shows how these rules can be arranged to achieve public policy goals of equity, access, quality, research, and customer benefit. We hope that this book will inform the ongoing debate about the role of private education in the region and lead to more effective public policies.

Officially recognized private education institutions in Latin America enroll one-quarter of all students in the region. There are also large numbers of undocumented private institutions, including unregulated training institutions, informal early childhood care programs, and “cram” courses for university entrance examinations. Contrary to common assumptions, private institutions in the region do not cater solely to the middle and upper classes, but many also serve poor or underprivileged clientele. Over the years, private education has grown in response to changing economic and social needs, a lack of public funding for expanded public education, insufficient government flexibility to respond to emerging needs, as well as—in a number of cases—specific policies that have encouraged private education. Increased access to Internet services is leading to the growth of private “virtual” higher education, often internationally based.

There are three sections in this book—an overview, a set of six case studies, and three summary discussions. The overview describes the significance of private education in the region and argues that the debate

over the “privatization” of education is an outdated concept. Rather, the distinction between private and public is less important than the perceived public good of each set of institutions, and the rules of the game to which critical actors of the system respond. With the right policy framework, high-quality public education can exist at the same time that expansion of private education is encouraged. The greatest obstacle to effective public education is the lack of incentives and the associated necessary tools and support that encourage quality and equity. The greatest obstacle to private solutions that serve the public good would be the state’s relative lack of capacity to design and implement an appropriate environment and set of incentives that facilitate and motivate the private sector to promote the public interest. Both public and private education need clear and coherent standards, the means to achieve those standards, rules and incentives that encourage the meeting of those standards, and feedback on how well the students and the schools are performing.

The second section presents case studies of private education in six countries. Each chapter examines the current situation and relationships between the public and private sectors and the extent to which government oversight, regulation, and/or subsidization supports or impedes objectives such as equity, access, quality, and responsiveness to client and labor market needs.

The case studies on Chile, Colombia, Peru, and Venezuela look at private education in terms of the principal-agent relationship. In economic terms, this relationship exemplifies the consequences of asymmetry of information on the actions of the relevant parties. More specifically, such asymmetry occurs when one party (the principal) contracts with another (the agent) to undertake certain actions, but cannot directly observe the extent to which the agent is meeting the contract’s goals; the agent may therefore maximize its own goals rather than those of the principal. The relationships between the ministry of education and individual schools or groups of schools, between school principals and teachers, and between teachers and parents, can all be described in terms of the incentive and information problems highlighted by the principal-agent model.

Beyond this principal-agent focus, the case studies summarize the state of private education and public policy across these various countries.

Private education in Argentina has increased rapidly over the past several years and today accounts for 28 percent of preschool, 20 percent

of primary, 28 percent of secondary, and 15 percent of higher education enrollments. The government subsidizes most private schools; these get 40 percent of their funding from government. The case study on Argentina points out that these subsidies are not based on a coherent strategy of encouraging equity and quality, but instead are based on outdated historical considerations and individual negotiations. In many cases, schools with children from privileged economic classes receive public subsidies.

Private education in Chile accounts for over 40 percent of enrollments at all levels of education. Publicly subsidized, but officially private, schools in Chile account for a large percentage of primary and secondary enrollment. Subsidized private schools as well as public municipal schools are financed by the state on the basis of the number of students enrolled. The case study of the subsidized private primary and secondary schools in Chile is of particular importance since the Chilean program has been under way since 1989, and there is a fair amount of research available for comparing public and private schools. While it is uncertain whether private subsidized schools do better in terms of student learning—after controlling for socioeconomic status—at a minimum, private schools provide at least equal results but at lower costs. The establishment of subsidized private schools has apparently led to increased social stratification, since middle-class students have migrated to the private schools. One problem appears to be that municipal authorities do not have the flexibility or provide adequate incentives to manage their schools efficiently, with the result that pupil-teacher ratios are much lower in municipal schools than in private schools. The case study argues that public policies need to be established to encourage municipal schools to act with the same flexibility as can private schools.

Private education in Colombia covers 41 percent of preschool enrollment, 19 percent of primary, 28 percent of secondary, and 60 percent of higher education. By law, parents, students, and the community at large participate in the administration of all private institutions. Colombia has experimented with a number of options for partial public subsidization of private education—including a voucher scheme that has since been abandoned—but continues to provide significant subsidies to the private sector. The case study focuses on the “concessionary” schools established in 2000 in the city of Bogotá. The government signs contracts with nonprofit agencies and institutions to manage schools that are constructed with pub-

lic funds. The agencies are guaranteed stability over a period of years but are required to subject themselves to outside audits of their expenditures and performance. About 51 schools enrolling over 50,000 students were in the program by the year 2003. While no evaluations are yet available, the program is a very promising public-private collaboration.

Guatemala has very high levels of illiteracy and a continued lack of access to education. The private sector accounts for 13 percent of primary, 56 percent of secondary, and 36 percent of higher education enrollments. With public subsidies, private upper secondary schools have recently grown rapidly, now offering over 150 different programs, many of them work oriented—and many reputedly of low quality. The case study points out that while the government heavily subsidizes private secondary education through per student payments or by paying a portion of teachers' salaries, there is no consistent government policy vis-à-vis private education, almost no supervision, and little information on the performance of private institutions. Government controls on private school tuition lead to many unofficial means of seeking payment from students. Guatemala also has an innovative program of rural education (PRONADE), which serves 9 percent of all primary students. PRONADE schools are publicly financed but are managed directly by communities.

In Peru, the public education system enrolls 85 percent of all primary and secondary school children. The case study examines the situation in a country where education policy has been unstable and contentious over much of the recent past, with ministers of education rotating every year—or sooner. It examines several private religiously affiliated programs, especially *Fé y Alegría*, which serve thousands of poor and underserved students and receive public financing. The private religious schools negotiate directly with the highest government authorities, which have little capacity for supervision and accountability. Peru's situation is characterized by high transaction costs and a precarious regulatory framework. Several ad hoc studies suggest that the privately run and publicly subsidized schools do better than public schools, but there are no statistically valid studies that correct for selection bias and socioeconomic status.

Private education in Venezuela accounts for 19 percent of enrollment in primary and secondary schools. The case study focuses on the agreement between the government and the Venezuelan Association of Catholic Education (AVEC). In 1998, 354,000 children—a significant portion of



the more than 1 million children enrolled in private education—received schooling under the auspices of this agreement. *Fé y Alegría* accounts for 25 percent of the students covered by the AVEC agreement. The agreement covers schools that charge no tuition or where parents are unable to cover the full costs of private education. AVEC schools, in stark contrast to public schools, are subject to constant oversight. Recent studies have shown that AVEC schools have better educational results at lower costs, but these have not controlled for selection bias.

The book's final sections present conclusions based on the case studies. Chapter 8 reviews the variation across countries in public policies on private education. Regulation sometimes includes price and salary controls as well as requirements regarding administration. Information on the performance of private schools is lacking. The chapter concludes by emphasizing the importance of information, the diversity of public-private interactions, and the continuing intense debate and high level of uncertainty about the proper role of the private sector in education.

Chapter 9 puts the case studies in the context of a principal-agent analysis. It notes the complexity and variability of institutional arrangements between the public and private sectors. It confirms the research suggesting that private institutions provide at least the same quality of learning as public institutions but at lower costs. It points out the importance of historical and institutional idiosyncrasies. Among the countries studied, Chile has designed a highly efficient but complex relationship with the private sector. In contrast, in Peru, a lack of transparency leads to high transaction and negotiation costs. Venezuela and Colombia lie somewhere in between. The chapter concludes by discussing the tradeoff between setting complex and/or practical rules to oversee private education. It demonstrates that there is a need for public policy to be flexible and to constantly revise the details of public-private relationships as the environment changes.

Chapter 10 presents recommendations for future analysis and study and strongly advocates for the establishment of more coherent public policies toward private education in the region.



## CHAPTER 1

# PUBLIC OR PRIVATE EDUCATION IN LATIN AMERICA?: ASKING THE WRONG QUESTION

*Laurence Wolff and Claudio de Moura Castro\**

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## The Role of the Private Sector in Educating Latin Americans

### Enrollments

Private education is important in Latin America. Across the region, private sector institutions account for 26 percent of preschool enrollment, 16 percent of primary enrollment, 25 percent of secondary enrollment, and 36 percent of higher education enrollment (table 1-1).

Private enrollment is relatively high at the preschool level because, in most countries, the government does not have a legal or constitutional obligation to provide universal preschool services. Most governments support early childhood programs for the poor, which, in many cases, are provided through nongovernmental organizations (NGOs). Some countries only report formal preschool programs, while others also include informal programs; the definition of the age cohort attending preschool varies from 0–5 years to 4–6 years.

The relatively low percentage of primary enrollment in private schools reflects the fact that Latin America's governments accept responsibility for public financing and provision of primary education. (Note, for example, that although Chile has a relatively high percentage of enrollment in private primary schools—47 percent—most of these schools are publicly

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TABLE 1-1

**Private school enrollment as a percentage of total, by country and educational level**

Country	Pre-primary	Primary	Secondary	Higher
Argentina	28	20	28	15
Bolivia	24	21	29	8
Brazil	29	8	16	70
Chile	47	47	45	43
Colombia	41	19	28	60
Costa Rica	15	7	12	24
Dominican Republic	38	14	23	71
Ecuador	46	27	32	23
El Salvador	21	11	21	69
Guatemala	32	13	56	36
Mexico	10	6	11	29
Nicaragua	17	16	35	34
Panama	19	10	15	8
Paraguay	29	15	27	34
Peru	16	13	16	36
Uruguay	18	13	16	11
Venezuela	18	14	26	35
Regional average	26	16	25	36

**NOTES:** Data are for 2001, except as noted below. Regional average is unweighted.

**SOURCES:** *Pre-primary and primary*—UNESCO/UIS (2004). *Secondary*—provided by UNESCO Institute for Statistics with the following exceptions: Chile, Mexico, Paraguay, Peru, and Uruguay data are from UNESCO (2000) and are for 1996; Argentina data are from Morduchowicz (2001) and are for 1998; Brazil data are from INEP and are for 1999. *Higher*—Guadilla (1997) for 1994 with the following exceptions: Chile, Mexico, Paraguay, Peru, and Uruguay data are from OECD (2001) and are for 1999; these data do not include short courses. Data for Brazil, Colombia, and Guatemala are from national reports and are for 2001, 2001, and 2000, respectively.

subsidized.) Also, since primary schools draw from the local population, their students tend to be more homogeneous. As a result, middle- and upper income parents are often able to find higher quality public schools in their own neighborhood. Furthermore, because there is a high degree

of consensus on the content and objectives of primary education (basic literacy and numeracy), parents and students are less likely to seek alternatives. Finally, parents do not view primary education as critical to entering the more selective higher education institutions.

Most governments in the region provide free and compulsory education up to grade 9, which is normally considered the last grade of lower secondary education. Government provision of upper secondary education may be inadequate, leading to greater numbers of private school enrollments. Some parents and students may be seeking higher quality education in private institutions as a means of getting into prestigious higher education institutions. Since there is less consensus on what should be taught at the upper secondary level, other parents and students may be seeking a different type of instruction through—for example—schools affiliated with religious institutions or that offer bilingual (e.g., English) education.

Latin America's level of enrollment in private institutions of higher education is high compared to most regions in the world—36 percent, unweighted. On a weighted basis, this proportion would be even larger, primarily due to high private enrollment ratios in Brazil (70 percent) and Colombia (60 percent). In many cases, increased demand for higher education has not been met with increased public support or growth of public institutions. Stagnant public support has, in turn, led to a decline in the perceived quality of public higher education—and therefore to a demand for higher quality private institutions. In Brazil, the opposite situation prevails. Public universities are very expensive and generally better than their private counterparts; but because they are so expensive, they do not have the funds to expand. Private distance education institutions, from both within and outside the region, have recently begun to show an increasing interest in establishing programs or “franchises” in various Latin American countries.

Note that the above-cited enrollment figures do not take into account the many private for-profit informal training programs in computer science, secretarial skills, or the like. Additionally, the data presented here do not include private short-term “cram” courses (called *cursinhos* in Brazil and *academias* in Peru) designed to prepare students for higher education entrance exams, which are expanding throughout the region. These items generally are not captured by official statistics.

## Expenditures

Expenditures on private education in all countries in the region were estimated at \$20.1 billion in 2000 (table 1-2), the most recent year for which complete data are available. Undoubtedly, that amount has increased significantly since that time. Note that this estimate does not include the costs of vocational training, “cram” courses, and industry training, about which there is very little information.

Most private schools are subsidized in one way or another by the state—through student loans, competitive research grants, direct subsidies, vouchers, tax exemptions for nonprofit educational institutions, and training or skills upgrading for teachers. For example, the public subsidy of the 1 million students attending *Fé y Alegría* schools in Peru is estimated at over \$250 million. In countries such as Chile, Peru, and Argentina, significant public funds are allocated for direct subsidies of private institutions at all levels of education; many countries in Latin America and elsewhere also provide subsidized loans for students to attend private higher education institutions. In contrast, Brazilian private schools get, at most, some tax reductions, depending on their legal status.

By the same token, nearly every public institution (even those that are officially and constitutionally “free”) receives some form of private funding, ranging from student fees and semi-voluntary parental contributions to service contracts with private agencies. Parents and students expend a significant amount of funds to attend public schools to cover elements such as textbooks, examination fees, uniforms, and gifts through parent-teacher associations (PTAs). For example, a World Bank study found that

**TABLE 1-2**  
**Estimated public and private expenditures on educational institutions, by level, 2000**

Level	Public		Private	
	% GDP	Amt.	% GDP	Amt.
Preprimary	0.23	4.4	0.11	2.1
Primary	1.65	31.3	0.21	4.0
Secondary	1.15	21.8	0.26	4.9
Higher	0.74	14.4	0.48	9.1
Total	3.90	73.9	1.06	20.1

**NOTES:** Amounts are in billions of US\$PPP and do not include expenditures on central administration or training.

**SOURCE:** Wolff and Gurria (2005).

parents contributed an amount equivalent to 20 percent of the public costs of primary education in Peru (World Bank 1999). Assuming \$50 per year per student for public primary and secondary schools and \$100 per student for public higher education institutions, the total private expenditure on public schools could be as much as \$5 billion annually.

Additionally, public higher education institutions increasingly provide training or consulting services to industries for which they are fully reimbursed. Indeed, some industries have provided direct support to public institutions, particularly technical schools, which serve in one way or another their own current or future workers. When bureaucratic restrictions prevent direct private financing, some public higher education institutions have created nonprofit autonomous foundations to seek private funding.

### **The Cost Effectiveness of Public versus Private Schools**

At the primary and secondary school levels, most research shows that, within countries, private school students in the Americas perform better than their public education peers on standardized tests and other measures of effectiveness such as school retention.<sup>1</sup> This is not necessarily the case in cross-national comparisons. For example, on average, students in private schools in Latin America score over 1 standard deviation lower on standardized tests than do students in Cuba's public education system (UNESCO/OREALC 2000), and they score below the mean of students in developed countries on international tests such as the Programme for International Student Assessment (PISA) and Trends in International Mathematics and Science Study (TIMSS). These within-country differences diminish significantly after controlling for the socioeconomic status of private school students. The differences are further reduced when other factors such as physical characteristics of the schools (e.g., laboratories, libraries) and more subtle measures of family background (e.g., the value given by the parents to education) are included. Finally, management

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<sup>1</sup>See McEwan (2000a) for one review of this question, as well as others in the Occasional Paper Series of the National Center for the Study of Privatization in Education. Other studies that examine this question in Latin America include UNESCO/OREALC (2000), McEwan and Carnoy (2000) (on Chile), and Mizala and Romaguera (2000) (on Chile and Bolivia).

elements, such as the school director's autonomy, vision, and leadership, appear to be both quite important determinants of learning and, to a great extent, a defining characteristic of many private schools. This correlation is not true only of private schools; examples of similar management characteristics and high-scoring students can be found in public schools as well. A study of public and private schooling in Chile and Argentina (McEwan 2000c) illustrates the complexity of the issue. According to the study, Catholic schools were generally more effective than public schools in terms of student achievement. However, private nonsecular schools in Chile had little advantage over public schools, and, in Argentina, they were only modestly more effective than public schools. This difference could perhaps be explained by the profit-maximizing mission of nonsecular schools. This study is consistent with U.S. studies showing that Catholic schools (but not other private schools) are more cost effective than public schools (McEwan 2000a).

Based on the available statistics and information, most—but not all—private institutions keep their overhead and administrative costs lower than public institutions and therefore have lower unit costs, even when student-class ratios are constant. If their outcomes are the same or better than public institutions and their costs are somewhat lower, then generally (but not always) private schools can be considered more cost effective than public institutions. But this advantage may shift when the differences in service mix and mission of public versus private schools are taken into account. For example, if private schools faced some of the mandated social missions of public schools, such as educating children with disabilities or disruptive students, then their administrative costs could increase. Furthermore, this relative advantage could be changed if public schools were freed from a variety of bureaucratic constraints.

Studies of learning at the higher education level show somewhat different results, since both public and private institutions can be found at either extreme of the quality spectrum. A standardized achievement test in Brazil (Provão) revealed wide differences among students in both public and private higher education institutions, even though more of the best institutions (those whose students scored among the highest 12 percent) were public. At the same time, private higher education institutions generally have lower overhead and administrative costs (and lower unit costs) than public institutions. In Brazil and Venezuela, the unit costs of public



institutions can be as much as five times higher than those for private institutions (Castro and Navarro 1999). To the extent that the missions of both public and private institutions are similar, it can be said that private higher education institutions are more cost effective than public. On the other hand, to the extent that some public universities are major producers of scientific research, their higher costs could well be justified.

Relatively lower cost effectiveness is not an argument for discontinuing public sector provision of education. In the first place, public institutions will continue to have missions that are more closely attuned to broad social goals and public goods—including sophisticated research—while private institutions will predominantly continue to serve private needs. Furthermore, the cost advantage of privately run institutions declines as the percentage of public financing increases, especially for institutions that are not run by charitable or secular groups (McEwan and Carnoy 2000). But public policy could encourage public institutions toward greater cost effectiveness through enhanced market responsiveness, while providing incentives for private institutions to serve the public good. These approaches are discussed in the remainder of this chapter.

## **Encouraging Market-Driven Public Schools**

### **Behavior in Public Schools**

The difference between the behavior of private and public employees is not a result of incompetence but of incentives. Unless private schools are protected by monopolies, bad habits and poor performance will lead to disaster—just as those private businesses that operate at higher costs than their competitors will eventually go bankrupt. In education, as in other private sector businesses, customers can “vote with their feet” and exercise their right to exit the market (Hirschman 1970). Bankruptcy is a real and tangible threat for private schools and a powerful factor in redressing management errors.

On the other hand, public organizations have a more difficult time in managing incentives because the threat of their “extinction” is much lower. They take longer to correct errors (if at all) and to reward excellence. They have difficulty penalizing either incompetence, lack of dedication, or even unexcused absences. For example, a number of public authorities in Latin America have sought to put in place systems to check

teacher absenteeism and penalize unexcused absences, but school directors or faculty heads often refuse to supply this information. A factory in which supervisors are not allowed to check whether the workers are at their jobs is unimaginable.

### **Building a “Quasi-Market” for Public Schools**

Hirschman identified an alternative to such a nonresponsive public sector—the “quasi-market.” In this reformulation, the public sector works partially like a market, in that positive and negative incentives are established that could eventually lead to staff demotion or firing. A quasi-market also gives those involved—students, parents, employers—a voice in decisionmaking and an opportunity to “exit,” i.e., take their business elsewhere. The quasi-market needs information to judge the quality of the educational service offered as well as of the financial and other incentives used to reward effectiveness (Hirschman 1970).<sup>2</sup>

There are several ways to create a quasi-market structure for public institutions, including the following:

- Provide information on success and failure rates to users, clients, and other stakeholders.
- Reward and/or penalize those persons responsible for the success or failure.
- Free public schools from public regulation so that they are able to act, in effect, like private schools.
- Empower the consumer—in this case, students, parents, the community, and the productive sector.
- Charge clients (at least partially) for services provided to encourage them to demand better educational services.

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<sup>2</sup>Interestingly, both negative and positive incentives can exist, often in the same educational system. For example, Brazil’s federal higher education system suffers from a wide variety of reverse incentives, yet the country’s almost 2,000 graduate programs are productive and perform well. To a great extent, the same civil servants who may be irresponsible and lack dedication to their undergraduate teaching tasks excel in doing research and preparing other researchers and scholars. The reason for this paradox lies in the fact that public agencies finance research and fellowships on the basis of competitive, open, peer-reviewed assessments of research proposals, and a consistent system evaluates the quality of graduate schools and provides additional funds to the better performing ones.

Given the unusual nature of the public education enterprise, the rules must be constantly tinkered with to achieve these goals; this fact is emphasized in the following discussion.

It must also be emphasized that building a quasi-market structure is not a panacea for the ills of public education. Clear national education objectives and standards must be agreed upon and made operational. Political and social leaders, and society as a whole, must value learning. Teachers must be adequately trained so that they know what kind of learning to deliver. Additionally, trust in civic society and cultural considerations play a significant role. Germany, France, and Japan have a long history of a high-quality, responsive civil service in which the civil servants are regularly and rigorously evaluated. Last, but not least, society or relevant groups must have the political will to change.

### **Market Information: Measuring Achievement and Describing School Characteristics**

One of the most important roles of the state (and a precondition for a healthy competitive environment) is to provide transparent, reliable, pertinent, and timely information on both public and private institutions. Information on the quality of education can be obtained through testing, which is a currently popular method. But information on other indicators is equally important. Such information includes dropout rates; placement and/or performance in the labor market (for secondary, vocational, and higher levels); finances, including per student and per graduate costs and private expenditures on public education; teacher remuneration; and staff qualifications.

For decades, there was little understanding in Latin America of what was being learned in schools. Unlike Europe, the countries of the region lacked national high-stakes exams for awarding secondary school diplomas. Moreover, teachers' unions were adamantly opposed to testing. The last 15 years have seen a vast increase in testing for student achievement in nearly every country and a greater concern with using tests as *de facto* national standards. Universal testing makes it possible to find out which schools are performing below standard and develop programs to improve them, as has been done in Chile (see chapters on Chile in Reimers 2000). Similarly, good performers—especially when defined in terms of improvement over previous scores (e.g., value-added)—can receive recognition

through financial and other rewards. Costa Rica uses exams as a partial requirement for graduation from secondary school (Wolff 1998). Even testing carried out on a sample basis can yield useful information on the performance of regions or subregions. Reflecting the increased interest in testing, Latin American countries are participating more and more in international tests such as those developed by the International Association of Educational Evaluation and the Organization for Economic Cooperation and Development. These tests show where a country stands in relation to its competitors and are useful tools for setting *de facto* standards.

Thus far, technical problems have slowed down the utilization of tests, and testing authorities have devoted inadequate time and effort to their dissemination and use; however, progress is being made in both these areas (Ravela 2001). Parents and students now have a tool to better identify the best-performing schools and can use this information to make their choices. Nonetheless, it should be recognized that parents may pay more attention to the socioeconomic status of other students in the school than to school quality as measured by testing (see Willms 1997, discussing the United States).

There is a downside to testing, particularly when it is used to reward or penalize schools. Teachers can spend all their time preparing students for the test, or they can cheat by giving children more time or prompting them for answers. In addition, schools can be penalized for poor results but denied the resources to improve performance.<sup>3</sup> In spite of these risks and potential problems, good tests can measure higher order skills, provide an important source of objective consumer information, and serve as a criterion for rewards or incentives for improved performance.

### **Evaluating Teacher and Administrator Performance**

The performance of teachers and administrators should be evaluated and, where appropriate, rewarded. Unfortunately, evaluation remains very problematic in the region because it is often opposed by many unions (it is, in fact, a controversial issue throughout the world). In principle, there are no good reasons not to conduct a proper evaluation of teachers'

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<sup>3</sup>Aware of these issues, the American Educational Research Association promulgated a series of recommendations for the appropriate use of high-stakes testing results. See AERA (2000).

performance. Also in principle, education authorities should have the right to inspect and evaluate education workers. In the private sector, it would be unthinkable for the manager not to be allowed to evaluate workers and take appropriate actions.

But quantitative performance evaluations of teachers and schools have many pitfalls. First, it is difficult to measure education's product—namely, an educated student. Second, it is difficult to compare a teacher's performance from one year to the next because the mix of students in the classroom changes every year. Ideally, teachers could be evaluated on the incremental learning that takes place during the academic year, but this is a very complex and expensive undertaking. In any event, any statistical evaluation must be combined with the personal evaluation of the school director or supervisor. Finally, it could be counterproductive to focus exclusively on individual teacher evaluations. As in the most advanced service and manufacturing organizations, the product is the result of team effort, and it is often the team that should be rewarded. Rewarding the school encourages teachers to work together for a common goal and also smooths out differences in student characteristics from year to year. Following this approach, the school director becomes the critical staff member who is evaluated, an action congruent with the research on the importance of school-based leadership. Beyond the individual school, district or regional managers must also be held responsible. This is increasingly the case in the United States, where school system superintendents establish explicit, measurable goals and are held responsible for achieving them.

The tradition of quality control from above is weak in Latin America. This type of quality control is exemplified by the French *inspecteur* who visits schools to review practices and teacher performance, arriving unannounced, sitting through classes, and taking notes. A bad report card from an inspector could be a deadly blow to one's career. That tradition never really took hold in Latin America, where the school inspector is instead mainly concerned with bureaucratic matters. The idea that a school principal would formally and objectively evaluate the school staff has also rarely taken hold. Of course, school directors often informally identify nonperforming teachers and try to get them transferred.

In 1997, the government of Bolivia announced, among other policies, that it would begin to evaluate teachers. The policy announcement precipitated a serious crisis that resulted in the establishment of martial

law for several months. Similarly, in 2000, Colombia's Ministry of Education sought to test all teachers on their content knowledge and proposed that those who did not pass would lose their jobs. Opposition was so strong that the government was never able to carry out its plan. Mexico's teacher evaluation system, which, in principle, results in salary increases if students improve their scores over time, has the support of the national teachers' union, but has not resulted in discernible learning improvements (PREAL 2000, Mizala et al. 2000).

Since 1996, Chile's National Performance Assessment System has provided additional funds to schools whose students score well on standardized tests. A complicated scoring mechanism takes into account elements such as value-added, equality of opportunities, innovation, and participation. Ten percent of the funds awarded to top-performing schools are given to superior teachers identified by the school. Although a full evaluation of the program has not yet been completed, it has been reported that school directors and teachers have become more accepting of undergoing the evaluation process (PREAL 2000, Mizala et al. 2000).

In the United States, evaluation of public school performance can verge on the threat of bankruptcy. Under a Florida program, students in public schools that receive, over a four-year period, a failing grade on standardized tests can obtain vouchers to attend the private school of their choice. Some studies report that, under the threat of losing students, failing schools have apparently achieved significant improvements in average scores (see Kupermintz 2001 for a review of the validity of this assertion). In Maryland, New Jersey, and New York, state authorities have taken over locally run schools that failed to perform adequately. In these cases, the superintendent, the school principal, and the teachers run the risk of losing their jobs.

Some progress has been made in instituting viable systems to evaluate teachers and administrators. These efforts must continue. To do so, teachers' unions must understand that a strong teacher and school evaluation system will eventually lead to greater professionalism and prestige for all those involved in the teaching profession.

### **Decentralizing School Funding and Management**

Many governments in the region are giving schools, especially school principals, more power over discretionary funds, thus handing them the

responsibility to invest in areas considered important. It is difficult to evaluate the performance of a principal if that person lacks the resources with which to make necessary improvements. With only a few exceptions (e.g., El Salvador), responsibilities do not extend to hiring and firing teachers or establishing their salaries. The combination of incentives and accountability provides schools with the opportunity to determine the most effective combination of inputs and processes to achieve established goals. Research in the Brazilian state of Minas Gerais identified some modest but statistically significant gains in learning and school retention associated with decentralization (Paes de Barros and Mendonca 1998).

Decentralization of management can go much further. In the United States, the charter schools movement frees public schools from bureaucratic rules and hands them over to nonprofit boards or institutions. The board can exercise freedom in choosing teachers, setting up contracts, and carrying out the school's overall administration. More than a thousand such schools are now in operation. There is much controversy over whether these schools are achieving superior results. In any event, transparency, agreed-upon standards, and public oversight are necessary for charter schools to be effective.

### **Providing Monetary Incentives for Achieving Mandated Goals**

Public institutions can be financed on the basis of the number of students they attract, graduate, or place in the labor market. This approach is rare at the primary and secondary education levels, but more common in vocational/technical and higher education. Chile has a program in which the state reimburses the costs of vocational training for students who can be placed in stable employment. Colombia and Brazil have competitive funding for training programs (Middleton, Ziderman, and van Adams 1993). In the Netherlands, technical schools receive a standard operating budget that they are free to allocate as they see fit; a fraction of their total funds is distributed according to the individual school's performance. Some U.S. states use labor market performance of graduates as a condition for allocating resources to vocational schools. As noted earlier, schools and teachers can receive monetary awards or salary increases when students improve their performance.

Outside Latin America, higher education is usually financed through capitation systems in which resources are distributed proportional to the

number of students. This system contrasts with many public universities in Latin America, where payments are made on the basis of the number of teachers hired, irrespective of student-teacher ratios. The Netherlands and the U.S. state of Florida have gone further by providing funding to universities on the basis of the number of graduating students, thus encouraging schools to graduate students in the shortest period of time. Expenses for a student who spends a longer time in school must be covered by the school or the student. Of course, such an approach requires other kinds of regulation and oversight; otherwise, universities might be tempted to award diplomas with minimum school attendance. In the United Kingdom, universities get a fixed budget, along with an additional amount that is proportional to their performance and to specific development projects.

Chile has developed a complex system for financing higher education. In addition to providing direct support to the top 25 universities, the government provides student loans for attendance at these institutions on the basis of students' socioeconomic status. The institutions that attract students with the highest scores on the university entrance examination receive additional funding. Finally, the government supports research on the basis of open competition. The "matching funds" approach—whereby public or private institutions that obtain funds from private sources have increased access to public funds—is widely used in the United States. Many countries in Latin America (e.g., Mexico, Brazil, Venezuela, and Colombia) use open and transparent competition and quality reviews by peers to provide research grants, scholarships, and salary supplements to teachers.

### **Enabling "Exit" and Giving Voice to the Community and Parents**

It is often difficult to opt out of a particular public school, especially if no schools are nearby or there are rules requiring students to attend schools in their local community. School choice is one way of giving parents and students such power. In most countries in Latin America, parents may enroll their children in any school that has openings. Middle-class parents know where the better schools are and often line up hours or days in advance to try to get their children into these schools. This kind of choice could be encouraged, although it does create new problems. Choice also exists at the higher education level where students are more mobile, provided they pass the entrance exams. However, lower income families do not have the



same types of choices. Many poor students living in urban slums or rural areas cannot afford the cost of a bus ride to a better school.

Parents and students can also be given some measure of power over the public education system if they are directly involved in local or school decisions. In most localities in the United States, local and/or regional school boards are elected, have the power to allocate budgetary resources, and are able to select the school superintendent. There are only a few cases in Latin America (e.g., El Salvador and Minas Gerais, Brazil, in the 1990s) of school boards that wield power at the school level. However, the fact that school board members are elected locally does not guarantee a good education. There are examples in the United States where school boards have been captured by special interests (e.g., left- or right-wing political groups, "creationists," etc.). Perhaps because central management of education in Latin America has been so poor, local control and management by parents has had encouraging results (as has been documented in the cases of El Salvador, Guatemala, and Minas Gerais).

Parent-teacher associations are another, usually benign, form of parental involvement; such associations have existed for decades in the region. Most commonly, they play a social role in terms of organizing festivities and graduations. Sometimes, they raise money for school activities or even finance renovations or purchase learning materials. At their best, PTAs can aid and support teachers and school directors—and may hold them accountable, sometimes even complaining to higher authorities or to the media when there is incompetence. The proactive role of PTAs requires a relatively sophisticated group of parents, which is often lacking in poorer neighborhoods, where parents may be semiliterate and/or have had negative school experiences in their youth. In order to make the best of existing PTAs, it is very important to make parents understand their potential influence on the educational process through these organizations.

It is indeed possible to train members of such groups. For example, a PTA tradition never existed in Minas Gerais. Yet, in the late 1990s, a strong secretary of education created parent-teacher boards with ample power to influence the management of schools, including choosing principals. The commitment to empower parents was sufficiently strong that the financial resources received by schools were to be spent under the direction of the PTA. The dynamic created by these policies, in addition to universal

school assessments, may have been correlated with the rapid increase in Minas Gerais's scores in national standardized tests.

### **Giving Voice to Business**

If businesses are the ultimate consumers of schools' products, and the products are unsatisfactory, why do they remain silent? Companies can prod the public system: they can complain; they can lobby the government—and they know how to do this. In the United States, companies such as IBM and Xerox review students' grades before hiring them. The president of IBM organized a national roundtable and has written institutional advertisements supporting school testing and assessment. Such corporate involvement is a potential incentive for students to take their academic work more seriously.

Except for selected support of private higher education institutions and vocational/technical training, businesses in Latin America have long taken a back seat in the education debate, especially with regard to primary and secondary education. At times, they have expressed regret regarding the poor quality of education, but they are often not aware that poorly educated students hurt business productivity. There has been a recent discernible shift in this attitude, and businesses are beginning to realize that the overall "teachability" of their employees is of fundamental importance. Big corporations in Latin America can play an important role in encouraging increased public investment in education by actively lobbying for improved quality, transparency, accountability, and continuity of educational policy.

In countries as varied as Colombia, Peru, Panama, the Dominican Republic, and El Salvador, associations of industrialists are now taking a stand on education and training issues. Some of these groups have made concrete proposals for reform. In some cases, these groups have helped create national commitments for reform of education financing, school completion, and/or learning. (See examples from PREAL 2005.)

### **Charging the Client: Cost Recovery with Different Names**

Even though charging the client for a service—even on a subsidized basis—results in increased client pressure for quality and cost effectiveness, there are strong arguments against attempting to achieve significant levels of cost recovery at the primary education level. This is because any

charge for primary education will discourage attendance by some of the poorer students. A system of tuition for those who can afford it and scholarships for the poor is cumbersome at this level; moreover, the same result could be obtained through a progressive tax system.

However, cost recovery can be better justified at higher levels of education. For higher education and some vocational training, the goal of education is not universal enrollment and basic learning (such as functional literacy and citizenship). In addition, the benefits of education are more immediately obvious, and they accrue directly to students in the form of higher salaries. Therefore, cost recovery can be a major tool in public higher education to improve governance and efficiency, since paying students will demand more from their schools. Students are less likely to be tolerant if the quality of teaching declines or when course offerings do not respond to market demand, resulting in saturated markets and general inefficiency. If students perceive that the value of schooling in the labor market is less than the cost of tuition and foregone income, they are likely to drop out and enter the labor market immediately. In addition, cost recovery in higher education can free up funds to invest in lower levels of education. The problem of equity can be met by charging students who are able to pay and establishing loans and scholarships for those in need. Note, however, that managing a good student loan program with adequate repayment ratios requires a strong, independent agency with well-trained and -remunerated staff.

Officially mandated cost recovery in public higher or upper secondary education is a difficult political issue in Latin America. Nevertheless, some countries—notably Chile, Argentina, Mexico (excluding the National Autonomous University of Mexico), Venezuela (in one public university), and Brazil (in several “community” universities in the south of the country)—have experimented with various types of cost recovery. Current legislation and the constitutions of many countries make official cost recovery in public education virtually impossible. At the same time, many public higher education institutions are seeking private funding for contractual training services. The success of this approach varies greatly, depending on internal incentives and market conditions.

There is far more informal cost recovery at all levels of education in Latin America than is often recognized, and, more than likely, these arrangements put some pressure on public schools to perform more effec-

tively. A study of Peru, for example, found that parents in primary and secondary schools paid a significant amount of the costs of schooling, equivalent to \$33 per year for the poorest families and \$73 for families in the highest income quintile (World Bank 1999). Budget cuts in the late 1980s and early 1990s often resulted in an increase in the share of costs paid for by students (Carnoy and Torres 1994). Some countries and regions rely on PTAs to collect funds. These contributions often pay for supplies (such as books), maintenance, equipment, and even the salaries of additional staff. However, in most cases, these contributions are insufficient to pay teacher salaries. At the higher education level, schools may charge laboratory, library, testing, and parking fees.

### **Encouraging Private Schools to Serve Public Objectives**

Private schools are, in principle, more efficient than public schools because they must balance their budgets at the end of the month and they have greater administrative flexibility. As noted earlier, the gains are often modest, but in higher education, the gains in efficiency can be significant.

The private system, again in principle, offers a variety of alternatives that could not be offered in a publicly funded institution or that might not be appropriate to offer there. Because they are self-governing, private schools better reflect the preferences of parents and students. Private schools meet social needs when they bridge gaps left by the public education system, whether by catering to special-needs populations or by providing education geared to particular preferences. The latter include, for instance, secular schools (Protestant, Jewish, Catholic), schools that emphasize values that do not reflect the national consensus (such as schools at either end of the liberal-conservative spectrum), and Steiner or Montessori schools. Because private schools vary greatly, they theoretically have more leeway to explore different paths and test new ideas.

Private institutions are not without their shortcomings. One of the most insidious of these shortcomings is that a deficient private school can inflict serious damage on its students' future prospects, and the situation is difficult either to detect or to correct. When a student performs poorly, it might not be clear whether that performance is due to poor teaching or to the student's own lack of commitment or ability. There are no clear definitions of what constitutes a "good quality" education, either in the

private or public sector—especially when one takes into account the abilities or previous learning of students and tries to measure “value-added.” Further, the consequences of a deficient education can only be felt in the long run. This situation creates a strong temptation to cut corners (or even to defraud students) by providing students “credentials” rather than real learning or competence. Without careful quality control, private institutions can easily become “diploma mills,” generating credentials rather than adequately trained and educated individuals. Also, the desire for profit may well lead to the opposite of innovation, as private schools seek the most inexpensive means of meeting credentialing requirements. Unfortunately, such schools may, in many cases, have students’ total complicity. Interested only in obtaining their credentials, some students may be only too eager to complete their studies with a minimal investment of cost and time. The schools are thus giving them what they want: little effort at low cost. The problem exists only from the vantage point of collective interest and public policy. Thus, to serve the public good, private schools must be properly regulated.

### **Toward Intelligent Oversight of the Private Sector**

There is no such thing as a completely free market without rules or regulations. Modern states regulate against monopolies, enact laws to ensure environmental protection, enforce sanitation and health codes, protect against false advertising, require minimal fiscal and accounting practices, define standards, etc. Education is subject to similar restrictions and oversight. However, regulations, if they are not well conceived or executed, can impede creativity, competition, and development. This section summarizes some of the options for public oversight of private education. The case studies on Argentina (chapter 2), Colombia (chapter 4), Guatemala (chapter 5), and Peru (chapter 6) suggest that much of the state’s oversight can be counterproductive, often encouraging low quality and monopolistic tendencies. The principles of oversight and incentives for private education are no different than those for public institutions, although specific applications may differ. In just about all cases, there is a need for market information, evaluation and rewards for good performance, and decision-making informed by cost considerations.

**Market Information.** The needs for consumer and market information are the same in private and public institutions. To this end, governments

must require and/or encourage private institutions to divulge standard indicators, such as scores on achievement tests, dropout and completion rates, and teacher qualifications. Dropout rates are particularly important because private schools—especially correspondence schools—have been known to advertise extensively, collect tuition payments in advance, and encourage or condone dropping out. Many private institutions consider detailed financial information to be proprietary. Nevertheless, private educational institutions should at least be required to report regularly on tuition and fees.

El Salvador began to implement a system of higher education evaluation and accreditation in 1997 (Bernasconi 2001). Several private institutions have since closed their doors, and others have sought to raise standards. Publication of school rankings appears to have increased competition and improved the quality of teaching staff, libraries, and equipment.

Another example of the impact of making information about test results publicly available is Brazil's experience with Provão, a national test given during the last semester before graduation in all higher education institutions in specific disciplines (e.g., law, education, medicine, etc.). It was reported that three-fourths of the private higher education institutions responded to the test by improving the quality of their teaching staff. This is not surprising, as the better scoring schools had 10 percent more applicants than the others, while some low-scoring schools lost up to 40 percent of their candidates.

***Evaluation, Accreditation, and Regulation.*** In the private as well as the public sector, performance evaluations are very important. For private schools, the evaluation process begins with the issuance of permits or authorization to operate a school. In a number of countries, bureaucratic constraints mean that it can often take years to obtain such authorization. These barriers to entry into the education market do not ensure quality, however, and can lead to the creation of semi-monopolies for already approved private (and public) schools. As in other industries where a few firms control the market, industry associations—in this case, private education associations—can often be the most enthusiastic proponents of strict barriers to entry since these allow them to maintain their semi-monopoly status.

A more constructive approach is a two-stage accreditation procedure. The first stage, which would be completed within a relatively short period of time, would involve minimum operating requirements—e.g., an assess-

ment of physical facilities and staff credentials. The second stage would involve a more rigorous evaluation that could be used to make institutions eligible for public subsidies such as vouchers or student loans. This more thorough evaluation would examine, for example, library and laboratory facilities and use, teaching qualifications and conditions, and school management and organization.

A particular aspect of private school regulation addresses truth in advertising. Private schools, like other advertisers, must deliver what they promise. For example, a technical school might advertise that 90 percent of its graduates are placed in information technology jobs, or a secondary school might advertise that 90 percent of its graduates are accepted into elite higher education institutions. In both cases, the schools must make the statistics available to back up their claims. Numerous private proprietary as well as nonprofit institutions in the United States have been cited for false and misleading advertising. Consumer protection in Latin America, however, has rarely focused on advertising in education.

An alternative to rigid public regulation is the creation of voluntary associations of private education institutions, a common tradition in North America. Accreditation committees composed of educators and community leaders undertake periodic evaluation visits to assess an institution's strengths and weaknesses and renew (or not) its accreditation. Although associations of this type exist in Latin America, they tend to function more as interest groups than as arbiters of institutional and educational quality.

**Price Controls: A Bad Idea.** Price controls are a private sector oversight mechanism often used in the region (see, for example, the case studies on Colombia and Guatemala in chapters 4 and 5, respectively). However, price controls are highly counterproductive since they defeat the purpose of price signals as a means of ensuring economic efficiency. When price controls are set too low, schools are forced to cut corners and are discouraged from expanding; they could even be encouraged to shift their focus or may be forced out of business. Anecdotal evidence also shows that, in some cases, institutions operating under these conditions may impose additional "black market" fees. On the other hand, when prices are set too high, private school operators increase their profits with no motivation for reinvesting these in their institutions. The rationale behind price controls is that private schools operate in a semi-monopolistic market. If this is the

case, then the best public policy would be to encourage increased entry into the market (e.g., quick accreditation) and publicize objective information on school quality.

### **Public Financing of Private Schools to Achieve Public Policy Goals**

Education is a quasi-public good because benefits accrue to society as a whole as well as to the individual student. Hence, there are good reasons to use public funding to subsidize private education, including:

- to support the expansion of education and training at a lower cost than establishing new public institutions or expanding existing ones, especially in the face of serious budgetary constraints;
- to encourage diversity and competition by increasing opportunities for choice;
- to help target poor students in basic education or ensure that worthy students are not denied access to secondary or higher education for financial reasons (in other words, for equity considerations);
- to support technical or professional training in areas where the pay is not sufficient to attract the best students (examples include certain industrial technicians, teachers, and middle-level health professionals and technicians);
- to support the production of public goods, such as basic or pre-competitive research; and
- to encourage the dissemination of new ideas, approaches, and technologies.

At the same time, public financing of private institutions can, without appropriate oversight and accountability, sometimes encourage the very elements of inefficiency often associated with public institutions and heighten inequities. The case studies of Argentina (chapter 2) and Peru (chapter 6) show that public subsidies of private schools can be based on outdated considerations and influenced by lobbies, resulting in increased inequity. Furthermore, long-standing cultural traditions in some countries regarding the separation of church and state can preclude support of secular private education.

In principle, high-quality public education and the expansion of private education are not contradictory objectives, and, within the right policy framework, they are in fact mutually reinforcing. But the region already suffers from perceived low-quality public education for the poor



and lower middle classes, and higher quality private education for the middle and upper classes. Therefore, policies for public support of private education must at a minimum not appear to be implemented at the expense of the quality of public education.

With regard to least-cost use of public funds, the case of secondary education is illustrative. One study (Wolff and Castro 2000) estimated the costs of reaching secondary education enrollment targets by the year 2010 at \$11 billion in capital costs and over \$5 billion in annual increased recurrent costs. The public sector could fully cover these costs if real per capita gross domestic product (GDP) grew at close to 4 percent per year. But encouraging the private sector to meet a significant portion of these needs will free up government funds for other basic needs and provide a margin of safety if per capita GDP growth is inadequate.

In countries beset by recent civil disturbances, such as Haiti, Guatemala, and El Salvador, the private sector expanded rapidly, even at the basic education level, in the absence of government authority and financing. As civil authority has been restored, the challenge has been to build on the existing private infrastructure rather than ignore or seek to destroy it.

The state has a variety of options at its disposal to support private education for public purposes. The following discussion outlines some of these options and how they might be used to serve public policies of lower cost expansion, diversity and choice, equity, quality, support for critical occupations, public goods such as research, and dissemination of new knowledge.

**Scholarships, Loans, and Vouchers.** Publicly provided *scholarships* can be used for equity purposes to ensure that needy but qualified youth are able to continue their schooling. Scholarships are used mainly at the undergraduate and graduate levels, but have been used in some cases for private upper secondary school and technical education as well. Scholarships can be an effective and neutral means of leveraging public funds, since they can be distributed on an individual basis with the awardee able to attend any school. Often, scholarship funding is granted to institutions of learning, which then themselves select the individual scholarship recipients. In this case, scholarship funding thus can be used as an accrediting mechanism to encourage increased quality by setting a threshold for eligibility to receive funds. Scholarships require a reasonably effective system for identifying financial need. In most countries in Latin America, the taxation reporting system is now sufficiently robust to permit this kind of identification.

Similar in function to scholarships are subsidized *student loans*. Capital markets are usually inadequate to support loans of this sort, since the only “collateral” is the individual (rather than, for example, property). Under this mechanism, students borrow to finance their education. These loans can then be used either to pay regular tuition/fees or sustain the student throughout the course of study. There are scores of student loan schemes in use throughout the world. Student loan schemes are more complicated than scholarships because of the need to manage a revolving fund, increased by amortization and depleted by new loans; there is also the difficulty of collecting debt after graduation. A wide variety of approaches have been taken throughout the world to increase repayment of student loans (box 1-1).

The concept of *vouchers*, granting students a coupon to exchange for education, is associated with Milton Friedman, the indefatigable defender of markets and private initiative. Vouchers are basically portable scholarships provided to the student or his or her parent, and are usually considered for use at the primary and secondary school levels. Through consumer choice, the voucher scheme aims to ensure that only those private institutions that provide the highest value-added to students are able to flourish. In the United States, vouchers are a topic of strong debate, since some are used for attendance at secular schools, thereby challenging the constitutionally mandated separation of church and state.

Colombia implemented a voucher program in 1992, aimed at more than 100,000 students and designed to provide additional places in private

**BOX 1-1****Learning from Best Student Loan Practices**

The Pan-American Association of Student Credit Institutions, an organization of more than 30 public and private student loan organizations in the region, has analyzed best practices in the management and provision of student loans, and has reported significant growth as well as improvement in the region over the last decade (Tellez and Orostegui 2004). The United States, with a vast system of student loans and subsidies based on student financial need, was able to lower its default rate to 5.2 percent in 2002, the lowest in the program’s history (U.S. ED 2004). The United States has established a secondary market (the Student Loan Marketing Association, or Sallie Mae) for student loans, thus spreading the risk to individual lenders.

secondary schools. A World Bank evaluation of the program (King et al. 1997) concluded that it successfully provided additional places to needy students at about 77 percent of the unit costs for public education. However, the program had a number of difficulties in timing, disbursement, and monitoring: it was not clear whether there was truly a net increase in enrollment through the program, and there were concerns about the quality of recently established private schools. In the absence of strong public support, the program ended.

Over the past 20 years, Chile has implemented a system under which parents do not actually receive a “coupon” but do have access to private schools (primary, secondary, and kindergarten) that are financed by the state based on enrollments. Chile now has three education networks: fully private, enrolling 9 percent of students; private subsidized by the state, enrolling 35 percent (including technical and vocational schools); and municipal, enrolling 56 percent. The system’s introduction resulted in a surge in highly subsidized private schools. The purely private schools are the traditional schools of the middle class and elite. The case study on Chile (chapter 3) provides greater details.

The great risk of the voucher system is what it leaves behind. Private schools financed by the voucher system attract the “cream of the crop,” including students from middle-class families who are aware of school quality and have the financial ability to move around the system—thus creating a problem for those schools, such as Chile’s public municipal schools, that lose the “good” students. Chile’s scheme has been evaluated by a number of researchers (Mizala and Romaguera 2000, McEwan and Carnoy 2000, McEwan 2000b), who have concluded that, despite some gains in efficiency, there continues to be a problem of “skimming.”

Loans, scholarships, and vouchers can be used to encourage quality improvement in private institutions by requiring that institutions meet minimum standards before they are eligible for such financing. To encourage internal efficiency, these funding mechanisms can also be terminated after the student attends an institution for a fixed number of years. Furthermore, these devices can be targeted to meet areas of greatest social need, such as teacher education or the training of public health workers.

***Direct or Contractual Public Support of Private Schools.*** The advantage of contractual arrangements is that the state can terminate support if a school fails to deliver quality education. Careful and powerful oversight

is required to ensure that institutions provide the education they promise. In Latin America, the most widespread example of contracting for services is the Fé y Alegría school system, which enrolls over 1 million students in 14 countries in the region and is an example of a private institution serving public policies aimed at equity, quality, and lower cost. As described in the case studies on Peru and Venezuela (chapters 6 and 7), Fé y Alegría schools are run by a nonprofit church-affiliated organization and are restricted to poor areas. The state pays the costs of teachers, who are public employees. Fé y Alegría schools cost less and may have better results than public schools located in similar neighborhoods (Swope and Latorre 1998, Navarro and de la Cruz 1998). The public good is served by encouraging efficiency as well as restricting such support to schools serving special or disadvantaged clientele. Based on the problems encountered with vouchers described above, the city of Bogotá, Colombia, established similar arrangements with private institutions serving slum neighborhoods (see chapter 4).

In many countries in the region (e.g., Bolivia, Ecuador, Colombia), governments contract with NGOs and community associations to provide early childhood development services to at-risk children (Myers 1996). These programs usually cost less than publicly provided preschooling which may use an excessively academic model. However, it is important to ensure that the quality of these programs—especially in terms of their trained staff—is sufficient to yield positive developmental results. Several governments have, with multilateral assistance, provided training to community and NGO staff.

Chile treats some of its best private universities as public institutions. The Catholic University of Santiago is such an example, garnering similar financing arrangements as that of the public University of Chile. Between the 1970s and 1990s, the Brazilian federal government partially supported research programs in selected private universities, and Colombia continues to subsidize a few private Catholic universities.

In much of Latin America, as in the United States, direct contracting, especially with secular institutions, is politically and historically problematic. In Brazil, for instance, long-standing clashes among the defenders of lay and religious schools make direct payments to private religious schools politically impossible.

**Competitive Funding.** Competitive funding is common in vocational/technical training and graduate education and research. Chile has a pro-

gram by which the state requests proposals and then contracts with public or private institutions for vocational training for students who could be placed in stable employment. Colombia and Brazil have experimented with competitive funding of training programs outside the classical training systems (see Middleton, Ziderman, and van Adams 1993). In graduate education and research in many countries in the region (e.g., Venezuela, Mexico, Brazil, and Chile), funds are allocated on the basis of open, peer-reviewed competition (IDB 2001). With both of these approaches, the state seeks the most efficient and highest quality provider of a service it considers important (training or research); whether that institution is public or private, it receives identical treatment. Note, however, that the ability to prepare good proposals often depends on the existence of an education and/or research infrastructure that is, in many cases, difficult to achieve without public funding.

**Access to Capital Markets.** One of the main impediments to entry into the private education market is a lack of access to capital markets for school construction and equipment. This in part reflects the overall weakness of the region's capital markets. In addition, the field of education may make traditional lenders wary given the uncertainties brought about by price controls, as well as market fluctuation and the difficulty of measuring educational outcomes/products. Yet improved access to capital may well be a very inexpensive way of encouraging private education development. Brazil's National Economic and Social Development Bank has established a special program of support for capital improvements in both public and private higher education (see BNDES n.d.).

One approach to evaluating requests for financing would be to use purely financial criteria—is there a high probability that the institution will pay back the loan? Another approach would be to use such loans to encourage increased quality by defining a minimum set of teacher, curriculum, or physical facility specifications—or even restricting lending to certain high-demand occupations. The latter approach, while preferable at face value, runs the risk of bureaucratizing the entire process. In fact, Brazil's program had difficulty moving forward because of requirements to provide detailed financial and pedagogical information to the Ministry of Education as a prerequisite for receiving funding. Similar programs of capital investment can be directed toward primary, secondary, and technical education.

**Tax Incentives.** There are a wide variety of viable tax incentives for private education. The one most commonly used in Latin America and elsewhere is nonprofit status. Most, but not all, private institutions are nonprofit and therefore do not pay taxes on profits. Instead, any excess of revenue over expenditure is put into the institution's reserves. This exemption can be abused when private institutions pay very high salaries to their administrators—as well as to relatives of administrators. In Latin America, nonprofit schools are often also exempt from value-added taxes or import duties.

The United States has developed a variety of tax incentives for individuals who pay for private education. These include a tax deduction (for up to a certain income level) to cover the partial cost of attending higher education institutions; unpenalized access to individual retirement accounts for educational expenditures; exemption from the annual \$10,000 gift tax limit for payment of educational expenses by third parties; deductions from gross income of charitable donations; and, most recently, the establishment of tax-free investment accounts to finance the costs of future private school attendance. These deductions and tax preferences can be important since the top U.S. income tax rate is over 30 percent. One advantage of these incentives is that they are “neutral,” permitting full choice of educational institutions by individuals and—in theory—encouraging diversity. The disadvantage is that they are middle-class subsidies. A number of similar incentives exist in Latin America but have a much lower impact or visibility since tax rates are lower, and fewer individuals actually pay taxes.

**Technical Assistance and Advice on Best Practices.** Throughout the region, governments have developed programs to support small and medium-sized businesses by providing them with training and up-to-date information. The assumptions underlying these initiatives are that (1) these enterprises do not have the personnel or financial means to keep up with changes in their field, and (2) there is a public interest in increasing their productivity. Surprisingly, there is no such attitude toward small and medium-sized educational enterprises, which may also find it difficult to assimilate best practices, especially at the technical and higher education levels. However, if private (or public) institutions are teaching that the earth is flat, or are unaware of the latest approaches to information technology (or, more controversially, might argue that Marxism is the driving force in economic change), then there is a public interest in supporting better knowledge and more effective teaching (see Castro and Navarro

1999). For this reason, there should be a training and extension service provided to private institutions, especially at the technical and higher education levels—and equally open to public institutions—to introduce new ideas and technologies. This service should be privately operated but jointly supported by the government and the private sector, just like those institutional arrangements that support innovation in areas as varied as agriculture, fisheries, the shoe industry, electronics, etc. This support could be of particular significance in the area of distance education.

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## CHAPTER 2

# PRIVATE EDUCATION: FUNDING AND (DE)REGULATION IN ARGENTINA

*Alejandro Morduchowicz\**

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The importance of private schools in Argentina contrasts with the scant attention they have received in education research. Surprisingly, their quantitative growth, as well as the formulation and implementation of educational policies that preceded and accompanied their expansion, has been ongoing for several decades.

On the other hand, such growth is not surprising if we consider the confusion regarding the meaning of privatization as applied to the education sector. Those actors most critical of the reforms of the last decade described changes in the education sector as “privatization.” Paradoxically, what really happened was that the government took an active role in the formulation and implementation of educational policies, establishing a strong state presence in the sector after decades of relative inactivity.

Moreover, if there has been a trend toward privatization in education in Argentina, it continues a process that began half a century ago and has very little to do with recent educational reform initiatives. Privatization cannot be framed in the ways it has been traditionally discussed: there are no demand subsidies, such as vouchers; for-profit corporations have not been hired to take on all or part of the responsibility for service supply; the institutions that are most similar to charter schools are part of such a small experiment that they cannot even be considered a pilot program; and assets have not been sold or transferred to the private sector.

Rather, the situation is closer to what can be called *spontaneous privatization* (Vedder 1996), which is applied to changes in demand prefer-

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ences. Nevertheless, as we shall see, this has not been a very clear or simple process, and it is not possible to say whether changes in preferences were induced or, at least, facilitated. Like other aspects of Argentine society and economy, the country has followed a hybrid process in privatizing education. As a result, and for want of a better name for it, this could be characterized as *quasi-spontaneous*—that is, arising from a combination of demand pressure and deregulation and financing policies favorable to private education.

The objective of this study is to summarize the key steps of this process and to review some of the most significant features of private education supply and demand. The chapter is divided in three sections. The first measures quantitative aspects of the sector and provides a brief description of some of the policies from which it has benefited over the last 50 years. The second part analyzes the two instruments that govern the relationship between the state and private schools at the local level: public funding and regulation of private establishments. Finally, the third section considers the sector from the point of view of the factors proposed by Levin (2000)—equity, efficiency, freedom of choice, and social cohesion—in order to analyze the contribution or impact of nonstate methods of supplying service and other proposals of market-based resource allocation.

## **General Features and Sector Evolution**

### **Current Situation**

One out of four students in Argentina attends a private non-university establishment. Of this proportion, close to half are enrolled in primary school, one-third in secondary school, and the remainder in preschool and postsecondary institutions. The distribution of these students among the provinces is not even: 80 percent are in the most developed provinces. The city of Buenos Aires has the highest percentage of students attending private institutions (50 percent), followed by Cordoba, the province of Buenos Aires, and Santa Fe, each with 30 percent of their students attending private institutions. Table 2-1 summarizes these and other key indicators of private education in Argentina.

Higher level, non-university institutions attract the highest proportion (39 percent) of students who are enrolled in private education. The lowest percentage of private school enrollments are at the primary school

level (21 percent). More than half (57 percent) of students attending private schools are enrolled in Catholic institutions. (No information is available about enrollments in other secular institutions.)

Private schools account for 25 percent of the almost 40,000 educational institutions in the country. Distribution by province varies greatly: 73 percent of the schools in the city of Buenos Aires are private, compared to only 10 percent of those in the province of Formosa.

Almost 27 percent of the 2,360,000 students attending private schools are enrolled in institutions that receive no state subsidy at all, about 28 percent attend schools that are partially financed by the state, and about 45 percent attend institutions that receive subsidies covering all payroll expenses. The proportion of private schools receiving subsidies declines with increasing education level. Seventy-five percent of students in private pre- and primary schools attend institutions that are partially or fully subsidized, while 70.6 percent and 64.0 percent of students in secondary and higher level schools, respectively, attend similarly subsidized institutions. Those subsidies represent approximately 13 percent of the education budget of the provinces. Of that amount, 85 percent is targeted at primary and—particularly—secondary level institutions. On average, these allocations represent 40 percent of total funding for privately man-

**TABLE 2-1**  
**Education indicators for Argentina**

Indicator	Public	Private
<b>Enrollment by level of study (1998)</b>		
Total non-university	75.3%	24.7%
Pre-primary	71.1%	28.9%
Primary	78.9%	21.1%
Secondary	72.0%	28.0%
Higher	60.8%	39.2%
<b>Average number of students/institution (1998)</b>		
Primary	221	304
Secondary	516	251
<b>Private enrollment in Catholic schools (1996)</b>		
Primary	—	62.9%
Secondary	—	55.4%
<b>Unit cost per student (1996)</b>		
Primary	\$1,112	\$1,219
Secondary	\$1,464	\$1,731

**SOURCE:** Morduchowicz et al. (1999).

aged schools; the remainder is provided through payments by student families.

Almost 60 percent of private primary and secondary education funding is allocated to salaries; another 25 percent goes for maintenance and operating expenses such as electricity, gas, repairs, supplies, equipment, etc. The remaining percentage is profit. Note that in contrast to private schools, nonsalary expenditures are quite low for public schools, except in rare cases.

Across Argentina, per student expenditures are lower for the public sector than the private sector, both at the primary and secondary levels. Privately managed primary schools expend 16 percent more resources per student, and private secondary schools expend 18 percent more, than state schools.

## **Expansion**

Public policy changes affecting the growth and consolidation of private education over the last 50 years include the approval of certificates for private teaching, modification of working conditions and the stability of the teaching staff in private schools, the validity of the certificates granted to students, supervision by state organizations created for that purpose, and consistency of subsidies. This improvement was facilitated by a set of national laws, presidential decrees, and ministerial resolutions that granted legality and legitimacy to private institutions.

The first landmark in this process was a 1947 law that systematized and institutionalized a state subsidy to private education. The law had its official origin in the need to compensate the sector for the teacher union's negotiation of a salary for public school teachers. This law remains in effect and has continued to be the basis for all national laws regulating the sector.

Until the law was passed, the state contribution to private education had been sporadic. In fact, the ability to obtain state funds depended more on negotiation skills on the part of private schools than on standardized institutional mechanisms of state cofinancing.

In the law's wake, other rights were established and conditions and requirements were set for schools to receive a state subsidy. One important right accorded was a guarantee for the staff of private educational institutions to job security and basic wages of no less than 60 percent of

the salary received by public school teachers with comparable working conditions (major field, job, and seniority).

More systematic justifications for public support of private education were advanced in the 1990s, with the implementation of federalized education at the national level. These justifications were based on the freedom to choose, teach, and learn. It is interesting to note that those arguments were used by the national government at the historic moment when it withdrew from school financing and ceded this responsibility to the states. In other words, since 1991, private schools' difficulty in paying the salaries demanded by the Teaching Statute was no longer the main justification for the state's contribution; rather, freedom of choice and freedom in teaching—as set forth in the national constitution—became the more important drivers. This was a turning point in the rationale behind subsidies to private education. In 1991, the possibility of charging for contributions to pay the expenses of the nonsubsidized structure was introduced. Until then, such a scheme had, by definition, been considered unnecessary. In 1964, a set of guidelines that defined the maximum subsidized staff was introduced as a parameter of technical efficiency for forming the teaching staff in private establishments. This put an additional limit on state cofinancing—that is, the number of teachers to be subsidized. On the other hand, this policy equalized the criteria for assigning positions in state and private establishments. The changes introduced in 1991 meant that many of the schools considered “free” would not necessarily be free (due to overestimating the amount spent on basic operating expenses or nonsubsidized structure). From another perspective, the policy decreased favoritism by granting 100 percent subsidies to schools that did not fulfill the condition of being “free” (since the fees that were charged were apportioned to the above-mentioned items).

Deregulation further helped consolidate and expand Argentina's private education sector. From the mid-1950s to 1960, three important events marked the deregulation process. The first was the elimination of the final examinations administered by an examining board for each curriculum subject taught in private high schools. The exams served to validate private high school education; their abolition was an important step in equalizing the legal status of private and public schools.

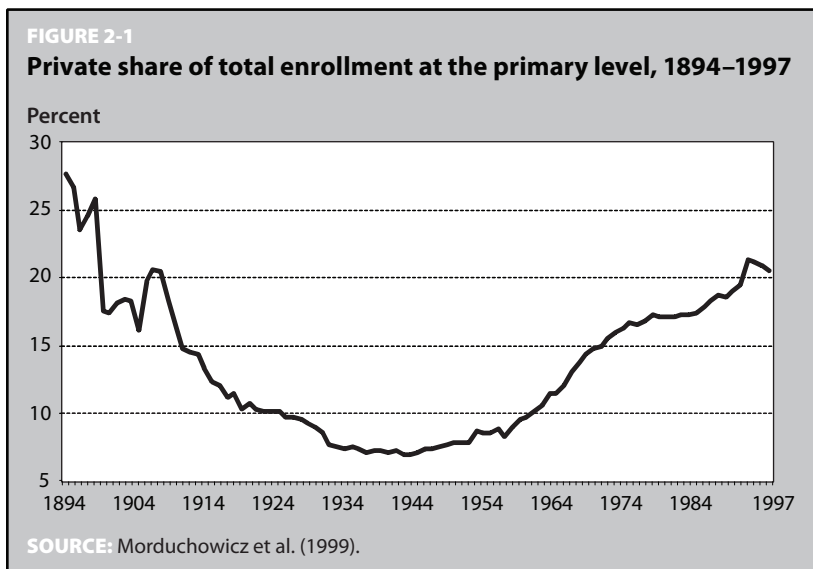
The second event was the implementation of a series of legal actions aimed at legitimizing private school autonomy. These actions resulted in

the schools' acknowledgment as public "technical-teaching administrative units," even though they were privately managed. It is important to note that this measure and the one abolishing examinations were put into practice by decree, thus contradicting the laws in force at that time.

The third milestone was the creation of the Private Teaching National Service, which established a system of supervision separate from that of state schools. The service became a parallel ministry of education within the larger national Ministry of Education. Not only did schools achieve greater functioning autonomy through this measure, they also achieved greater autonomy through the organizations in charge of their supervision.

Figure 2-1 provides a context for the effects of these actions. Private education emerged from a period of hyper-regulation following the establishment of the national state in the 1800s to being subject to direct control by state schools—with regard not only to the accreditation of secondary degrees but also financial support. The measures adopted at the end of the 1940s led to significant growth of private schools.

Private primary education declined significantly until the 1940s, when the Argentine education system began to expand. In absolute terms, in the 40 years between 1958 and 1998, private primary enrollment qua-





drupled, jumping from 289,000 to 1,123,000 students. Public enrollment also increased, but at only half that rate.

Enrollment in private secondary schools also increased, quintupling between 1950 and 1970. There was similar growth in the public sector. Excessive regulation accounts for the low levels of primary school enrollment during the first half of the 20th century. More likely, however, these relative low enrollment levels reflect the strong expansion of the public sector at that time. During that period, the number of students attending public primary schools increased at a much higher rate than did the number of students attending private establishments.

Since private sector expansion began a few years before either the systematic allocation of public subsidies to those schools or the big regulatory changes that took place in the 1950s, it could be said that there was demand pressure. As enrollment in private schools increased, there was pressure to be free from restrictions and attract more students and to guarantee the financial support of the sector.

Regardless of whether supply drove demand or if demand stimulated growth in the private sector, the regulatory and quantitative evidence reveals a high degree of synchronicity. Nonetheless, various questions arise:

- Why did the state back down with regard to private education? Since the changes began at the end of the 1940s, a possible answer might be found in the country's political history and the relationships between the government and the church at that time. Similarly, it could be asked whether the changes in private education that occurred during the second half of the 20th century were the result of a gradual recovery of rights lost during the expansion of public schools.
- Why was the change in demand for private education so sudden? Until the middle of the century, a more or less steady proportion of the student body attended private schools because of religious or cultural convictions. The leap in the growth rate would indicate a change in the composition of enrollment due to the incorporation of socioeconomic groups that had not previously considered private school an option.

There are other hypotheses to explain the facts. These range from an improvement in private school quality to the decision by the middle class

to switch from state schools to private schools due to dissatisfaction with public school quality. A theory currently being considered is the “cycles of collective behavior” suggested by Hirschman (1982), by which private interest and public action succeeded each other in a cyclical manner.

The national policies implemented on private education placed the state in a position of leadership in generating conditions for private sector growth. The state effectively subsidized and deregulated private schools so they could compete with it in the market, thereby eliminating the state monopoly on education. Clearly, the private sector has taken advantage of the potential offered.

### **The Instruments**

The movement toward the introduction of market mechanisms in the education sector prompted a series of questions and much research several years ago. Perhaps the most significant of these questions was what mechanisms affect students’ or parents’ choice of a school and how. The most commonly conducted research compared learning results across the two sectors (public and private). The research in turn raised a number of questions, the most important of which concerned the reasons for the differences between the two types of schools. Apart from the indicators chosen to compare them—the results of standardized tests or internal measures of educational efficiency (e.g., repetition rates)—one of the most frequent answers was organizational differences. For instance, private schools presumably had flexibility in forming their teaching staffs, while state schools did not. Naturally, this is not the only reason, and to consider the matter in these terms alone would be a gross oversimplification.

This leads to another question, however: Why do these organizational differences occur? A broad range of answers are possible; these can be grouped into three categories (Levin 2000):

- support services available,
- financing of private sector entities, and
- regulation of private sector entities.

Support services are practically nonexistent for both private and public schools. Levin (2000) includes school transportation and information in this category, among other items. The absence of such support in both sectors limits families’ freedom in choosing a school—at least, for those families that lack the cultural and economic resources to compensate for

this absence. This limits not only the number of students who have access to private education (and to a certain kind of state supply) but also the socioeconomic and cultural composition of demand.

### **Financing: The Allocation of Public Resources**

When education was federalized in 1994, the allocation of public resources to private education became the responsibility of the provincial governments and was therefore governed by the education laws of the provinces. If provinces have no such laws, the private schools in their jurisdiction are subject to existing national regulations.

Education's shift from national to provincial oversight made for an increase in the number of regulations and criteria affecting resource allocation. However, because there are several common elements in the provincial laws (due to the fact that they all have their origin in national law), many regulations can be analyzed together. To begin with, all provincial laws establish a set of conditions and requirements for privately managed educational institutions in order for them to be (1) acknowledged as part of the national education system and (2) entitled to receive a state subsidy to cover teaching staff salaries.

Aside from various (and varying) administrative procedures, there are two basic stages in the provinces' process of subsidy allocation. The process begins with the identification of a potential beneficiary (private school) or evaluation of a school's application for subsidies. To be eligible, the school must comply with a number of requirements. In general, provincial regulations regarding subsidy allocation take into account the economic characteristics of both the area and the school's population; the institution's socioeconomic context; its social function; the qualitative and quantitative characteristics of its demand; the kind of teaching it provides; its needs; equitable, rational, and efficient application of resources; and the institute's for- or nonprofit status; etc.

Once the beneficiary's eligibility has been determined, the next step is to determine the subsidy amount to be awarded by considering the school's teaching staff expenses. In this regard, it is particularly important to evaluate the socioeconomic characteristics of the school's population and the fees it charges to determine the percentage of the state's contribution, which will then be applied to the teaching staff salaries. Specifically, the subsidy amount is based on the application of the identified per-

centage to the cost of salaries (calculated on the basis of state teachers' salaries) for the core staff approved for that institution. This core staff is determined, as in state schools, by the number of students, sections, educational level provided, location (urban, rural, suburban, mountainous, etc.), type of education, number of shifts, working day, and each teacher's salary components (i.e., seniority, family allowances, etc.).

Two factors affect the determination of the percentage of state subsidies: the *lack of objective formulas or indicators* to set the parameters of the governing criteria (formulated in the respective laws) for subsidy allocation to privately managed public schools and the *inconsistency in the implementation* of resource allocation.

The division between the criteria directing resource allocation and the parameters for its implementation is vast. For instance, subsidies are to be allocated by taking into consideration various aspects related to equity, such as the "socioeconomic context" of the school, its "social function," the "qualitative and quantitative characteristics of its demand," etc. However, there is no law that explains what variables and parameters must be used as indicators in implementing these criteria. Thus, the interpretation and implementation of regulations depends on the good judgment of the current authority.

As far as inconsistent implementation is concerned, although the fee schools charge is used in all cases as a parameter of equity in providing subsidies (the larger the fee charged, the less the subsidy awarded), analyzing the relationship in practice between fee amounts and the corresponding percentages of subsidy shows that there is no alignment between the intended goal and the result obtained. In other words, the relationship established between the amount of the fee and the state contribution to financing of the school is not always proportional.

The regulation leaves much to the discretion of the administrator. Resource allocation, far from responding to mandated efficiency and/or equity criteria, is determined without regard to them. This observation is more or less valid across all provinces.

Three crucial points frequently distort social efficiency and equity, often violating the law or the spirit of the law:

- determination of the absolute fees to which the minimum and maximum percentages of the subsidy correspond;
- a lack of proportionality between fee ranges and the respective percentages of the subsidy; and

- with respect to the previous two points, inequity in total per student contribution—i.e., the sum of the state subsidy and the fee paid by parents for all fee ranges.

**Absolute Amounts of the Fees.** The determination of the point at which the state contribution becomes zero defines the dividing line between the private schools that provide a service similar to the ones provided by the state and those that provide a differentiated qualitative or quantitative kind of education not accessible to all the socioeconomic sectors or the for-profit private schools.

In the first case, the fee reflects the cost of a different service supply in terms of quality or quantity, whose subsidy would involve state aid to widen the social disparity, which contradicts the principles of equity of opportunity as required by law. In the second case, the payment reflects a (legitimate) profit motive, but the state's contribution would involve public financing for private benefit, which violates the distributive justice principle proclaimed by Argentine law, beginning with the national constitution.

**Proportionality.** In many cases, there are imbalances between subsidy percentages and the fees charged by schools; this has a negative effect on the equity of resource application. This can be seen in the state subsidy allocation scale by category of school in the province of Buenos Aires (table 2-2).

The difference in terms of subsidy percentage between categories A and B is 30 percent (that is, the 30 percentage points between 100 and 70). However, this 30 percent reduction allows an increase of more than 200 percent in the fee that schools can charge.

The paradox that arises by comparing the values in categories

**TABLE 2-2**  
**Subsidies received versus fees charged by institutional category, Buenos Aires Province**

Institution category	Subsidy (%)	Annual fee charged (\$)	
		Max.	Min.
A	100	152	—
B	70–80	469	291
C	50–60	601	470
D	20–40	793	602

**SOURCE:** Department of Education for the Province of Buenos Aires, Resolution 3.538/92.

B and C is more obvious. An establishment that charges an annual fee of \$469.13 would receive a subsidy equivalent to 70 percent of its core staff expenses. If the fee were increased to \$601.16—an increase of 28 percent—the institution would move from category B to C, and would receive a subsidy covering 50 percent of its teaching staff. This means that it would receive a subsidy 28 percent less than the one it received before the increase. However, if an institution charged a fee of \$291.41, the minimum established for category B, it would receive a subsidy of 80 percent. If it then decided to increase its fee to the minimum for category C, \$470.13, it would have both increased its fee by 61 percent and would now receive a 60 percent subsidy—a reduction of only 25 percent.

The lack of proportionality also continues within each category. For instance, in category B, a school that decided to increase its \$291.41 fee to \$469.13 (a 61 percent increase) would face a decrease in its state subsidy of slightly more than 12 percent. A category C institution receives 50 percent of the state contribution received by a category A entity, but the former can charge up to 400 percent of the amount of the fee charged by the latter.

Proportional variation of contribution and fee is crucial in terms of equity, since the state must finance privately managed public schools according to their capacities. It should be verified that when there is more private capacity, there should be a smaller public contribution. Thus, with a proportional increase of a school's fee, there should be a proportional decrease in the state contribution. The limit of equity is given by the proportional variations of fees and contributions, beyond which the allocation system becomes regressive—i.e., it contributes more proportionally to those who need it less and vice versa.

**Total Expense per Student.** There is another imbalance in terms of the total expense per student that the state cofinances. The provincial governments usually discriminate in this case, in violation of the laws and decrees advocating for “distributive justice,” “social justice,” and “fair application of resources.”

Table 2-3 helps illustrate the situation; it presents, as an example from the province of Buenos Aires,<sup>1</sup> the calculations that arose from the appli-

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<sup>1</sup>Morduchowicz et al. (1999) present cases from other provinces together with the inconsistencies of proposed reforms in the respective laws.

TABLE 2-3

**Private school subsidies and income for a typical class of 30 students, Buenos Aires Province**

Institution category	Annual fee	Subsidy	Annual subsidy	Annual income from fees	Total annual income	Total income per student	Subsidy per student
A	\$152	100%	\$6,500	\$4,565	\$11,065	\$369	\$217
B Min	\$291	80%	\$5,200	\$8,742	\$13,942	\$465	\$173
B Max	\$469	70%	\$4,550	\$14,074	\$18,624	\$621	\$152
C Min	\$470	60%	\$3,900	\$14,104	\$18,004	\$600	\$130
C Max	\$601	50%	\$3,250	\$18,035	\$21,285	\$710	\$108
D Min	\$602	40%	\$2,600	\$18,065	\$20,665	\$689	\$87
D Max	\$793	20%	\$1,300	\$23,787	\$25,087	\$836	\$43

**NOTES:** *Annual subsidy* =  $\$500 \times 13 \times (1 - 0.2)$ , according to category); *Annual income from fees* = annual fee  $\times$  30; *Total annual income* = annual fee + annual subsidy; *Total income per student* = total annual income/30; *Subsidy per student* = annual subsidy/30.

**SOURCE:** Morduchowicz et al. (1999).

cation of categorization of schools to a hypothetical class<sup>2</sup> and is representative of situations in most jurisdictions. The calculations were made by applying the laws to the example of a class of 30 students under one teacher with a salary of \$500.

Even without making any judgment as to how “distributive justice,” “fair application of resources,” etc., should be reflected in the allocation of subsidies, it is apparent from the table that even though the state contributes a per student subsidy that decreases as the fee increases, the relationship between two variables is random and contradictory. From category A to B minimum, there is a 92 percent increase in fee, while the per student subsidy decreases only 25 percent. A similar situation appears in the rest of the categories.

The scale thus becomes alternately regressive and progressive with oscillating magnitudes. The state cofinances a greater amount per student

<sup>2</sup>The analysis does not ignore the fact that various costs (e.g., building maintenance, teaching materials, management and auxiliary staff, etc.) are being subtracted. Their elimination simplifies the case and does not invalidate the conclusions (although their inclusion would change some amounts).

in schools with higher fees, leaving the schools in lower categories in an unfavorable budgetary position. (This applies to those schools that provide their services to the less privileged socioeconomic sectors.)

Although it could be argued that those who really make the difference are the parents of the students from the higher category establishments—since they pay a higher fee—it is also true that the state contributes to the cofinancing of this “inequality” with public funds. From the point of view of efficiency and equity, public resources invested for that purpose have a much smaller cost-benefit or cost-outcome relationship compared to providing funds to schools that provide their services to at-risk socioeconomic groups.

Budgetary restrictions make it impossible to cover all needs, but the state has the obligation to apply its limited resources to support equity and equality of opportunity as defined by society and established by law. Yet on the whole, there are no mechanisms for subsidy allocation to different establishments, either with regard to the fee paid by parents or equalization of total expense on a per student basis. By definition, this approach is regressive.

### **Private School Regulations**

In Argentina, private schools—regardless of whether they are subsidized by the state—are subject to certification and supervision by public educational authorities. In accordance with federal and provincial law, the entities that have the right to establish, organize, and support schools are the Catholic Church and other religions registered by the National Registry of Religions; associations, foundations, and other entities with legal standing; and individuals. These entities are required to comply with the regulations set by educational policy. They must offer educational or other services that satisfy the needs of the community, and provide all necessary information to facilitate the state’s pedagogical, accounting, and labor oversight. For their part, the provinces recognize the validity of the courses of studies offered and the certificates issued by the schools—even those that adopt and develop plans of their own—as long as they include the minimum contents required for state educational services.

Private schools are subject to many regulations regarding building conditions, schedules, operation, etc. However, as far as pedagogic activity is concerned, they have historically had a certain level of freedom to



design and implement their individual educational program. Further, with the federalization that moved schools from the jurisdiction of the national state to the provinces, they have been able to retain their unique institutional characteristics. The former national state schools, on the other hand, have had to adapt to the regulations of provincial educational policies.

In that sense, private schools have more freedom to design an educational program that satisfies the demand for schooling and to select teachers who will carry out the program based on the school's ideology. This ideology is stated in a set of principles that set forth the framework within which the institution will create its educational program. This program must, however, meet curriculum regulations.

The ideology identifies a private school's educational program regarding its pedagogical scope: the subjects it teaches and a specific sequence of educational content. It also identifies the specific aspects of its organization, such as the way it structures time and space and the school history or tradition. It is possible to differentiate various institutional characteristics through their ideology—such as schools that emphasize development of team spirit, or those that aim to strengthen students' expressive possibilities through a particular methodology, etc.

Unlike state schools, which must accept the teachers who apply for a position, private schools usually select their teachers in keeping with their institutional identity. Generally, private school administrators hire those teachers who best suit the institutional program or who are recommended by colleagues and peers.

Private schools have some flexibility in terms of setting salaries, even though base pay and raises for seniority are the same as for state teachers. For example, private schools can determine whether to deduct sick leave and can work out other methods of compensation (e.g., institutional seniority) that their state peers cannot. They can award bonuses, provided in recognition of attendance, which can be included in the salary or set as a percentage of income in accordance with school fees. Each private school is free to impose its own set of rules with regard to compensation. For instance, of two schools that give extra pay for perfect attendance, one may not deduct for excused absences because of illness, and the other may deduct on a prorated basis. In each case, the specific conditions are spelled out in the school's contract with its teachers.

In theory, the regulations governing private school teachers are similar to those covering their state peers. However, in practice, private schools only rarely grant unpaid leaves for personal reasons and paid leaves for training. The teacher's absence is perceived as detrimental to the school, from both a pedagogic and economic point of view; therefore, the general policy is to discourage absences except where unavoidable.

The system of attendance control and excused absence for teachers varies by school. In some cases, the school may request a medical certificate issued by the social services doctor who treated the patient, whether the teacher or a relative. In other cases, the teacher must explain his or her absence in a sworn statement.

When nonsubsidized teachers apply for leave, the school's legal representative is in charge of requesting the necessary certificates. As with subsidized teachers, this legal representative determines the merit of the leave's justification and files the appropriate documentation with the school.

A private school can determine admission rules for its students, which can be a responsibility of the school's legal representative (as in the province of Buenos Aires). Private schools can also choose a name for their institution, with the only restriction being that the name cannot be expressed in a foreign language, except for the names of world-renowned historical figures. In contrast, names are imposed on most state schools. The exception here is Buenos Aires, where the school community frequently participates in determining a name, with the final decision made by the General Committee of Education.

The state technical and administrative organizations in charge of supervising private schools have an internal structure that frequently resembles a sort of mini-ministry of education housed within the overall national Ministry of Education. Their regulations are different, in many cases, from the regulations for state schools. In practice, the private schools are governed by the decisions of committees and councils of private school administrators.

Regulations within the private sector are not uniform. Nonsubsidized private schools have more freedom with regard to minor educational policies. For example, they can change the timing of winter break and the end of the academic year according to their needs. They can, with the school owner's permission, use the school building on different days and sched-

ules than the regular school week. However, the establishment of these institutions must be authorized by the Ministry of Education, as is the case in Buenos Aires Province. In other cases, and regardless of whether they receive state subsidies, private schools can be authorized by lower level branch offices, such as the Office of Privately Managed Education; this office has, for example, jurisdiction over the private Catholic schools in Buenos Aires Province.

Teachers in private schools generally have the same responsibilities as those in public; they also must adjust to the same difficulties. Further, they have the same rights as those established for the staff of state schools, as long as they are compatible with the nature of the private management contract, obligations, and rights guaranteed in current labor legislation.

Job security is determined by the Teacher Statute: Teachers have the right to job security as long as their conduct does not adversely affect operations and teaching ethics, and as long as they maintain professional efficiency and have the psychological and physical ability to do their job. In case of dismissal for causes that are not covered by the statute, the laws governing private employment must be followed.

It is important to note that schools with a 100 percent state subsidy that do not charge any fee are in almost the same situation as state schools because they do not have any way to pay for the best teachers nor dismiss those who are not suitable. They do, however, have the flexibility to select and hire their staff, which does make a big difference.

A professional career in the private sector is developed on the basis of reputation. The only evaluation method in private education is the so-called "performance book." The principal records any criticism he or she may have after visiting a class, including outstanding performances of teachers and observations about their personal and professional aptitudes. Some principals have emphasized the importance of this concept in the labor market for private schools. A teacher with a good reputation can aspire to jobs in other schools; a bad reputation makes it impossible to get a position in a similar school.

Sometimes a teacher can join the administration of a school where he or she has worked for a fairly long time. Access is not impossible, but the owners and legal representatives generally select administrators in the same way that they select the rest of the staff. In practice, some principals have held the same post in several private institutions.

In general, when a private school is closed, or courses or levels are reduced, dismissals are made based on seniority, beginning with the last teacher hired. Teachers are paid the appropriate severance, and the staff is not redistributed or relocated to another shift or another similar school.

Private school teachers are not required to participate in the training courses organized by the provincial ministries of education. Even though private sector teachers do not need to accumulate scores for their professional career within the sector (as do their public school counterparts), they do frequently participate in training activities that their school selects, along with courses they take voluntarily because they consider them to be important. In many cases, this training is provided at centers, universities, or private institutes and requires a fee. The school does not always pay the fee; in many cases, the individual teachers do.

Even though private schools receive information about courses offered by the state sector, it is up to the individual teacher to decide whether to attend. Private schools define and organize their own teacher training and present seminars and courses aligned with those subjects the teachers and managers consider relevant and appropriate. This is another kind of organizational flexibility that private schools feature; they carry out these activities based on the availability of financial resources.

The freedom afforded private schools with regard to their administration and pedagogy makes for both opportunities and limitations. But it is not enough to look at the educational system from a strictly legal viewpoint. Future research should determine how regulations are applied in schools' daily routines. This is important because it is one thing to observe autonomous behaviors—that is, those not defined by a higher authority—and another to find that the state allows such behaviors or promotes them. A few decades ago, private schools that exhibited some sort of advantage over their state peers would have been eliminated. It is a sign of changing times that if some of these options—such as the freedom to mold the teaching staff—result in better quality, it is seen as good to spread these practices throughout all schools.

These considerations make it appropriate to include on the agenda an analysis of regulations' design and implementation, since they should define, or at least produce, cases in which decisions can be made by all system stakeholders, especially if it appears that they could have a positive impact on the quality of education.

## The Criteria

Interest in private education has its origin in proposals for market-based reform of school resource allocation, such as the demand subsidy (e.g., vouchers). As in many other debates, what began as a general idea was followed by a hotly debated argument in which the lack of empirical evidence was stressed. As evidence has surfaced, each side has sought to show outcomes that support completely opposite positions—sometimes even based on the same data. Curiously, the more quantitative the studies, the more ideological the argument (Morduchowicz 2000).

Levin (2000) argues that it is not possible to conclude whether a state- or market-directed system is better, since such a judgment depends “on the priorities or preferences of particular audiences for particular outcomes.” To some extent, individual values, etc., influence preferences for one system over the other. Levin suggests a scheme of analysis of the existing proposals and experiments to at least arrange and order the discussion within a framework that has some factors in common. He posits a scheme based on consideration of four factors: efficiency, equity, freedom of choice, and social cohesion.

In this scheme, no criterion is more important than any other. This immediately eliminates a source of disagreement in earlier studies, where analysts focused attention or primacy on one or more criteria without considering the concomitant effects on the rest. That approach could also explain why the same quantitative evidence could be used to support differing conclusions (Levin 2000, McEwan 2000b). Educational policies or reform proposals that favor one or more criteria over the others create similar difficulties. For instance, the conflict between efficiency and equity is typical. A policy based on the former factor can have a negative impact on the latter, and vice versa. Similarly, the expansion of freedom of choice could affect social cohesion, and vice versa (McEwan 2000b).

The only advisable course of action in attempting to compare the advantages of one system of resource allocation over another, then, is serious thought based on empirical analysis of each of these four criteria.

### Efficiency

Those who promote a market-driven system of resource allocation argue that private schools or demand subsidy systems produce, or are more

capable of producing, better results than their public peers. They hold that the competition to win students and the incentives that such competition promotes to obtain more resources (apart from the way it should or can be measured) drive schools to improve the quality of their service supply. Because this concept has been analyzed empirically over the past several years, the resulting data can provide information about differences found between private and state schools. Data exist, and are discussed here, about repetition rates and results of standardized tests. Unfortunately, there are no data available regarding cost effectiveness.

**Repetition.** In Argentina, there is a very large difference between repetition rates in state and private schools. However, interpretation and analysis of these data must be handled carefully, for two reasons:

- Private schools, which have lower repetition rates, do not encourage children to stay if they cannot meet the academic standards required for promotion. Public schools cannot do this, nor can they forbid children's enrollment.
- Parents usually transfer their children to another school when they are dissatisfied with an institution's cost effectiveness. This helps explain the association found by McEwan (2000a) between attendance at private schools and the low probability of repeating a grade or year of study.

These differences are not as marked as other indicators of educational performance, such as results on standardized tests (discussed below). Apart from policy differences that may exist across provinces (such as automatic promotion, remedial help, etc.), this shows that there is a difference between the internal evaluation criteria of schools, such as repetition, and external ones, such as the tests.

Thus, repetition rates, when viewed in isolation, give an incomplete picture of schooling efficiency—and even more so when comparing the public and private sectors. To evaluate schools on the basis of this indicator would ignore the inefficiency of the private sector that is masked by the data for the reasons mentioned above.

Nevertheless, repetition rate is an inevitable—even if unreliable—indicator, and that is why it is discussed here. At the primary school level, the percentage of repetition in private schools is just over 1 percent, compared to 6.2 percent in the public sector. The highest rate of repetition occurs in first grade and decreases at higher grades. At the secondary level, the

repetition rate in private schools is 3.6 percent; it is 10.5 percent in public schools. Again, rates are higher for the first two years in both sectors. There are very marked differences in repetition rates across provinces.

**Achievement Test Results.** The results of standardized tests at the primary level are better in private schools than in state schools in every province except Chubut; there, the results for public schools are slightly higher than for the private sector.

Similarly, at the secondary level, the percentage of correct answers in the private sector is higher than in the state sector in all provinces. In comparisons across provinces, however, the gap between more and less developed provinces is greater in private schools than in public. That is to say, private schools do much worse in the poor provinces than do state schools in the richer provinces. On the other hand, in more than half of Argentina's provinces, private school results fall below the best results of public schools in the city of Buenos Aires. In short, then, lower achievement is not intrinsic to the public sector.

McEwan (2000a) found that subsidized Catholic schools have better results than their state peers. He ascribes these results more to the characteristics of this kind of school—such as objectives based on their religious orientation—rather than to their status as private schools.

When Llach, Montoya, and Roldán (1999) compared the test results of primary school students from different socioeconomic levels, they found that the gap in achievement increases with rising socioeconomic level in both public and private schools. The same holds true for increasing levels of parental education. McEwan (2000a) confirms this situation for nonsecular subsidized schools; overall test results are better, but so too is the socioeconomic level of the students' families.

In secondary schools, the differences persist in favor of students who attend privately managed schools. However, in this case, the difference between private and public sectors is similar at all socioeconomic levels.

## Equity

The analysis of efficiency provides some information on equity: Those who can choose and finance education on their own achieve better results than those who attend free public schools, regardless of the explanations that can be given in each case. Therefore, this discussion focuses on who has access to one or another kind of education.

Slightly over half of private enrollment is from among the first three quintiles of income. However, this group spends only 15 percent of total family expenditures on education, while students in the higher quintile, who make up 26 percent of enrollment, spend 66 percent.

Thus, the largest share of enrollment in private sector education is among families with higher per capita income. Half of the students in families at this income level are enrolled in private non-university institutions, while only 8.1 percent of the lowest quintile attend these schools.

At the primary level, private enrollment increases with level of per capita household income, rising from 7.5 to 63.9 percent enrollment. For every lower income student enrolled in a private institution, there are nine students at a higher income level. In secondary schools, there is relatively less deviation between the top and bottom quintiles, with a difference of approximately 32 percent (table 2-4).

There appears to be an a priori relationship between level of education achieved by parents and expenditure on private education for their children. Thus, parents who did not finish the primary level or never attended school, on average, spend less than 1 percent of their income to educate

their children in private institutions. This share is 4.5 times less than the expenditure level of families whose parents have completed a university education.

On the other hand, Narodowski and Nores (2000) support the empirical evidence found in Morduchowicz et al. (1999) by showing that (1) private education is typically an urban phenomenon, and (2) public supply is highly related to districts with high levels of unsatisfied basic needs. At one extreme, these authors show, in districts with high buying power such as San Isidro and Vicente Lopez in the province of Buenos Aires, almost three out of four students attend private schools.

**TABLE 2-4**  
**Private school enrollment by student income quintile, 1996 (%)**

Level	Income quintile					Total
	I	II	III	IV	V	
Primary	7.5	18.8	33.6	45.1	63.9	22.2
Secondary	10.2	15.4	27.8	35.6	58.8	25.2

**SOURCE:** Prepared by authors based on data from the System of Information, Monitoring, and Evaluation for Social Programs.



This finding could explode some strongly held beliefs about education in Argentina. The first refers to the notion that, historically, private education may have sprung up in those areas (e.g., rural ones) where there was little state presence. There has been information to corroborate this for quite some time; Tedesco (1992) arrived at similar conclusions for all the countries in the Latin American region. The second belief is related to the idea that separate systems exist for the rich and poor in both public and private schools, including parochial schools.

The foregoing should raise discussions about the ability of parents who send their children to subsidized schools to pay for such schools. It should also raise the question of the equity of the current distribution of public resources among private schools—especially when taking into consideration the evidence in the formulas to determine state assistance to these schools.

### **Freedom of Choice**

The debate about educational freedom took place in Argentina more than 100 years ago, when the differences between liberals and Catholics were resolved in favor of the liberals. Later, after the regulatory changes of the 20th century, the provinces agreed to recognize the courses of study and certificates that private schools give their students, as long as the programs adopted and developed the minimum content of the state curriculum and adhered to the general outline of education policy. Thus today, any discussion of educational freedom is limited to the subject of open enrollment.

In Argentina, parents are able to choose between state or privately managed schools. If the private schools are not free, they can make their choice based on their means to pay for them. They can also choose among state schools within the geographical limits set by the educational authorities. But unrestricted free choice apart from the geographical aspect—that is to say, open enrollment—is still not possible in some provinces.

Some local education analysts often raise the issue of equity to prevent enrollment restrictions from being lifted where they are in effect, even though the real problem is poor management of vacancies. In the city of Buenos Aires, for instance, the school code states that 10 days after enrollment opens, children from other districts can be admitted, provided there are vacancies. Families living in other provinces that wish to enroll their children in Buenos Aires schools only need to have a work address

within the school district limits. Parents must provide a certificate that proves their case.

In some schools, there is still resistance to this option. It is not generally known that the constitution and national and provincial laws guarantee this right of open enrollment. However, parents' right to choose their children's school presents important contradictions vis-à-vis the country's provincial laws. First, no legal restrictions affect the enrollment of some students in private schools. Second, even though this right is established in provincial education laws, which clearly reflect national and provincial mandates, it is limited by other regulations, sometimes of a lower level.

The city of Buenos Aires is typical; here, schools are governed—at least in practice—by municipal law. Students are required to enroll in a school within a 10-block radius of their home. Each school must display a map of its district. Priority for enrollment is given to students with a registered address in the city of Buenos Aires within the school district.

In the case of the province of Buenos Aires and in the city of Buenos Aires, the vacancy distribution system is determined by the school's administration, which gives priority to a percentage of the school's district—that is, it is based on proximity to the school. At this level there is no controversy about freedom of choice because of smaller supply and a dispersion in modalities and orientation.

By law, parents must choose the state school to which they send their children according to proximity to their home, even if they do not agree with the school's educational program. In practice, there are numerous violations of this rule, because parents use various strategies to obtain access to a specific school. For example, they might change their home address to that of a relative or friend who lives closer to the desired school, rent a residence within the school district, or enroll their child in two schools at once. (Some primary schools give parents only one secondary application form to prevent students from enrolling in two schools at the same time; this is sometimes regulated by provincial codes.)

In addition, some schools ask for applicants' school reports before admitting them. This creates schools with preferential profiles, because they have the "best" students. In most cases, this strategy is implemented because it is supported by the principal, who is in charge of enrollment.

Thus, freedom of choice in state and private schools, as guaranteed in the national constitution, is only available to those with the necessary cultural and/or economic resources.

## Social Cohesion

Social cohesion is the only factor for which there is no empirical evidence supported by research. Private schools can only be recognized officially when they fulfill the basic requirements of curricula and educational policy set by the state. There is no evidence, or even perception, that private schools address issues of a democratic society: curriculum, language, and political socialization (information, attitudes, values, and participation). The debate on educational freedom at the end of the 19th century has ensured this commonality across public and private schools. Rather, the risks to social cohesion posed by private schools arise from: (1) those who have access to and receive private education in general and (2) the potential for providing an educational experience aligned to the interests and needs of the population attending private schools. In that sense, the socio-economic segregation attributed to the expansion of private schools during the last decades could have a negative impact on social cohesion in the future, increasing differences and widening gaps. This outcome is particularly likely since regulations grant the private system pedagogic options public schools are not allowed. Local education analysts have begun to warn of the dangers of such division.

Deeper probing of this issue, while essential, might wrongly focus on effect rather than cause. In a society that has for many decades been demonstrating a growing and sustained tendency toward separation, looking at cause-and-effect relationships, rather than interdependence and mutual influence, could oversimplify the problem.

In this sense, what seems to be very illustrative is the surprise that was caused by the news of the opening of 41 private establishments, in only five years, in private neighborhoods with affluent populations in some districts of Buenos Aires Province. This raised many warnings about the possible and gradual loss of the socialization role schools are supposed to provide. Not only do students attending these institutions belong to the more privileged economic sectors, but they also develop a culture limited to their own social group. With regard to the growth of private supply, the question that remains regards the role of the state; to express it frankly: Where was the state while these neighborhoods were expanding without schools? If it is agreed that diversity in schools is a positive and desirable value in a democratic society, the issue is not just about quantity, but also about the possible quality of the service to be provided to win back

those socioeconomic groups that, for decades, have been leaving the public schools.

As with most matters concerning the privatization of education, when the behavior and evolution of the private sector are studied, what is really being analyzed—and judged—is not the private schools or the people who send their children to them, but the behavior, policies, and role of the state.

## Conclusions

After little more than half a century since its institutional birth, the state subsidy system for private education seems to have proved quite effective in terms of the growing participation of those establishments. However, the subsidy system has added elements of inequity in cases where these resources are used to increase financing for privileged groups—thereby “de-financing” socioeconomically and culturally deprived groups.

The Argentine state’s subsidy to private education is fairly well established and accepted. The debate about freedom in teaching was concluded more than 100 years ago, and consistent financial assistance was institutionalized more than 50 years ago. While very few would challenge the subsidy or its continuation, the economic rationale under which it functions and the fact that its formulas obstruct the objective of equity (and sometimes of efficiency) in education deserve serious discussion, taking into consideration the results of the analysis by Morduchowicz et al. (1999). During the 1990s, the provincial governments did initiate studies aimed at correcting the mechanisms of resource allocation and establishing a strong technical basis on which to administer resources clearly and objectively. Even though these studies unmistakably identified the conditions that need to be changed, they have failed to provide new alternatives.

Far from taking advantage of local service supply, in terms of less bureaucracy and local control of resource use and allocation, federalized education has not made up for the equity and efficiency limitations that have marked the evolution of education under national control; this is true of the public, as well as the private, sector.

The growth in private sector enrollments during the last half-century could be viewed as evidence of the effectiveness of a quasi-market approach to education, as the sector has attracted a population that used to attend, or would have attended, state schools. However, market mech-

anisms have not resulted in reactions from state schools regarding the exodus of their students. As Hirschman (1970) pointed out, conventional economic theory explains the reasons why companies and other organizations deteriorate, but it cannot explain or find ways to restore them.

On the other hand, the question remains as to whether the difference between private and public schools (regardless of how this difference is measured) reflects everything the educational quasi-market of Argentina is capable of providing. It is clear that the promotion of the private education sector in Argentina, by means of deregulation and financial assistance, is not at all linked to the international debate about the contribution to educational quality through market-based resource allocation in education.

The impact of Argentina's public-private educational structure and relationships on the four criteria examined here is an issue to be debated in the future. Presently, the system does not permit equal access to these schools and provides freedom of choice only to those with access to the information and means (especially financial) to choose the school they prefer. Thus, the system could have a negative impact on social cohesion and would only be efficient (as measured by achievement tests) for those who can benefit from attending state-subsidized schools.

At this point, it can only be concluded that neither extreme public centralization nor a completely free-market approach seems to offer the answers needed to improve efficiency and quality. And, given the general dissatisfaction with the country's educational quality, it could be asked whether the current method of providing education in Argentina has resulted in a model that combines the flaws of the free-market approach and state provision of education with few of their benefits. The hyper-regulation embodied in school codes, the imbalances between the two sectors, and the ineffective control of these imbalances might be symptomatic of a deeper problem—flaws in the regulations themselves. The regulations currently contribute to this unfortunate situation; under different circumstances, however, they could promote the advantages and ease the disadvantages of both market-based and strictly public methods.

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## CHAPTER 3

# PRIVATE SCHOOLS WITH PUBLIC FINANCING IN CHILE

*Claudia Peirano and Jaime Vargas\**

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At the beginning of the 1980s, Chile began implementing structural reforms in its education system. These were designed to ensure a greater role for the private sector, to expand families' options, and to introduce competition into the system. The most significant changes were the transfer of the administration of state educational establishments to the municipalities and a shift in the way subsidies were allocated to schools. A subsidy was set for each enrolled student; this subsidy was matched for those municipal (or state, until 1980) and private schools that did not charge fees.<sup>1</sup>

These changes sought to make the system more efficient. The aims were to bring educational decisionmaking closer to the administrative-territorial level at which education was provided (municipalization) and to encourage schools to compete for students, since financing was tied to pupil recruitment. But the Ministry of Education retained control of curricular design, the criteria for assessing students and moving them to the next grade, and other aspects of teaching. Thus, the 1980 reform essentially affected the education system's financing and management mechanisms.

One of the most far-reaching outcomes of this reform was the mass transfer of students from municipal schools to subsidized private schools. In 10 years, the proportion of pupils educated by the subsidized private

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<sup>1</sup>There were subsidized private schools before 1980, but the subsidy amount averaged about 50 percent of that received by state schools and was not based on the number of pupils attending the school.

sector rose from 15 to 33 percent. This expansion of coverage by subsidized private education came at the cost of a corresponding decline in the coverage of municipal education.

The transfer of state establishments to the municipalities had substantial momentum when the reform began: 87 percent of schools were transferred between 1980 and 1981, and the remaining 23 percent were transferred between 1986 and 1989. The process was halted between 1982 and 1985 because of a decline in the real value of the subsidy as a result of the 1982 financial crisis.<sup>2</sup>

With the return to democratic government at the start of the 1990s, much of the financing system reform carried out since the late 1980s was retained, albeit with some change in emphasis and priorities. Stress was placed on recovering and increasing the resources allocated to the social sectors in general—and to the education sector in particular, which gave rise to the creation and implementation of programs to improve educational quality and equity. Additionally, the government promulgated the Teaching Statute, which set teachers' wages and contractual conditions.

This chapter describes the main features of the Chilean education system at the primary and secondary levels; analyzes the current mechanism of public-private financing; and assesses the impact of that mechanism on educational quality, equity, and efficiency. The chapter also examines relations between the source of financing (the state) and those entities that provide education (subsidized private and municipal schools). Finally, the chapter draws conclusions, makes some policy recommendations, and suggests topics for future research.

### **Key Characteristics of Chile's Education Sector**

Primary and secondary education in Chile is provided by a mixed system in which the public and private sectors participate in both service provision and financing. Primary school coverage is universal, and secondary education coverage is nearly universal.

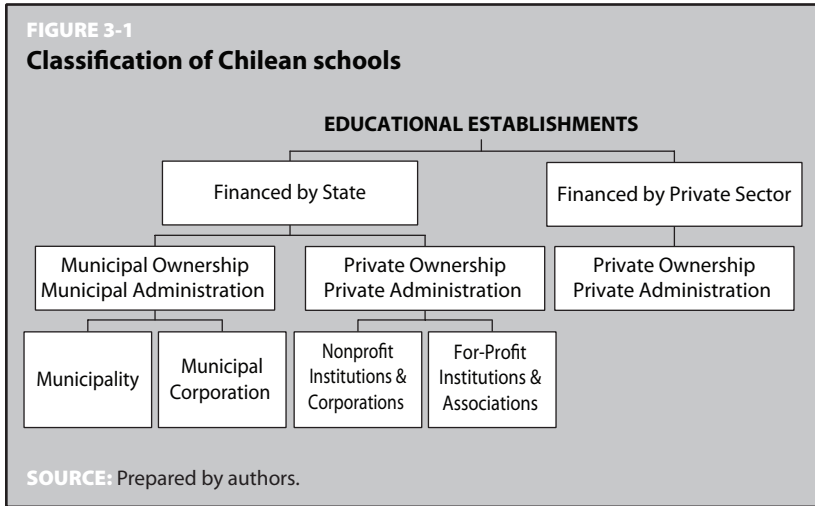
Publicly financed education is decentralized and is provided by private and municipal suppliers. There are also private suppliers that do not receive public financing; a third supplier category comprises schools that

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<sup>2</sup>The value of the subsidy did not recover until 1995.



are state run but managed by business corporations.<sup>3</sup> These last are not examined in detail here because they account for no more than 2 percent of the pupils in the system. The Ministry of Education supervises and coordinates the public and private sectors and prepares general policies on content and quality. Chilean schools can be classified by source of financing and management as shown in figure 3-1.



The country's total enrollment is distributed as follows: 55 percent in municipal schools, 34 percent in subsidized private schools, 9 percent in fee-paying private schools, and 2 percent in corporations.

Subsidized education financed with state resources accounts for about 90 percent of the country's schools and enrollment. Subsidized schools are divided into municipal institutions and those that are privately owned and run. Privately run institutions enroll 40 percent of the students attending state-financed schools, and municipal establishments serve the remaining 60 percent.

Subsidized municipal schools may be run directly by the municipality or by a municipal corporation. Their legal representatives are, respectively, the mayor and chair of the corporation. Subsidized private schools are run by institutions, corporations, or companies, which include both for-profit and nonprofit organizations.

<sup>3</sup>The corporations receive state support unrelated to the per capita education subsidy.

In Chile, legal provision has been made for state subsidies to for-profit institutions since the late 1960s. No government has proposed changing this situation, although from time to time the teachers' union questions the ethics of a situation in which private establishments profit from the public financing of educational management.

### Financing of Education

The state finances schools through a subsidy for each pupil attending classes. The mechanism is similar to a demand subsidy system, although the resources are transferred directly to the institution's administrator—that is, the funds follow demand. Subsidy payments are calculated according to average attendance during the last three months of classes.

The state subsidy per pupil is determined by level of education and is based on the Educational Subsidy Unit (USE) in accordance with estimates made by the Ministry of Education of the average cost of education. In 2000, the value of the USE was \$21. Table 3-1 presents information on subsidies by educational level for the year 2000.

Until 1992, the subsidy was the only formal source of income for state-financed schools. Legal changes were made beginning in 1993 that allowed and encouraged private resources for subsidized schools via two mechanisms: shared financing and tax benefits for business donations for educational purposes (Law 19.247 of 1993).

**TABLE 3-1**

#### **Monthly subsidy per pupil, by educational level, 2000**

Level	Regular subsidy		Extended school day subsidy	
	USE factor	\$	USE factor	\$
Preschool	1.45	30.27		
Primary (grades 1–6)	1.45	30.33	1.99	41.56
Primary (grades 7 & 8)	1.58	32.95	1.99	41.56
General secondary	1.76	36.81	2.38	49.75
Technical/vocational secondary	2.16	45.10	2.71	56.52

**NOTES:** Dollar figures are average value for June 2000. USE value = \$20.88.

**SOURCE:** Ministry of Education of Chile (2000).

Shared financing allows schools to charge parents a monthly fee for the education of their children over and above the state subsidy; this fee is determined by a standard table of fee levels. The school can keep a fixed percentage of the parents' contribution. After that point, the school's subsidy decreases in proportion with the fee charged, with a ceiling of 4 USE (\$84) on parental fees. Therefore, those schools serving the poorer sectors do not benefit, in terms of income, from parental fees (table 3-2).

TABLE 3-2

**Monthly subsidy reductions due to shared financing, 2000**

Private/pupil resources (shared financing)		Discount on state/pupil subsidy
USE	\$	%
0 – 0.5	0 – 10	0
0.5 – 1	10 – 21	10
1 – 2	21 – 42	20
2 – 4	42 – 84	35

**NOTES:** Dollar figures are average value for June 2000. USE value = \$20.88.

**SOURCE:** Ministry of Education of Chile (2000).

Privately subsidized schools can freely join the system of shared financing at all levels of education. In contrast, municipal schools cannot participate in shared financing at the preschool or primary levels, and can only do so at the secondary level if all the parents and guardians agree.

In 1998, the average monthly payment received through shared financing was about \$12. Some 72 percent of the enrollment in subsidized private establishments had joined the system at that time. In the municipal sector, just 4.6 percent of the enrollment had shared financing. The average monthly parental contribution in subsidized private schools with shared financing was equivalent to 35 percent of the subsidy for academic secondary schools. In municipal schools, on the other hand, the parental contribution averaged about 8 percent of the subsidy for secondary school education in that category in the same year.

A system of payment exemptions or scholarships was established in 1997 (under Law 19.532) to help those students unable to pay the shared financing. This system is administered through a scholarship fund in each school, financed with government contributions (by giving the supplier a share of the amount discounted from the subsidy) and contributions

from the supplier through shared financing. Parents and guardians must be informed of the maximum level of payment readjustment for a three-year period.

The law on educational donations offers tax benefits to firms that make contributions to finance projects designed to improve the quality of education in subsidized schools. The Ministry of Education has no official information on this initiative, but anecdotal information indicates that most business contributions have been to private, nonprofit, subsidized schools in urban areas. This seems to be due to the greater contact that private, nonprofit suppliers have with the firms and their greater ability to secure those resources via a somewhat complicated process.

The municipal schools receive other state resources through two main channels:

- Municipalities regularly provide additional resources to finance the operational costs of the schools under their jurisdiction. In most cases, the municipalities finance operational deficits using resources that have been otherwise allocated in the local budget. Only in the wealthier municipalities does a budget surplus allow for additional resources to be added to the state subsidy for schools. In 1998, such transfers totaled \$115 million.
- Municipal schools can access public investment monies through the National Regional Development Fund. These funds are not available to private subsidized schools. In 1998, the state provided \$26 million to municipal schools in this way.

Since 1990, the Ministry of Education has implemented several projects to improve quality and equity. These initiatives have transferred goods and services to the country's neediest schools, regardless of their administrative jurisdiction. In 1990, the government implemented Program P-900, designed to support the poorest 10 percent of Chile's schools. The World Bank-financed Program to Improve Education Quality and Equity began two years later. Finally, the Extended School Day Program (JEC) began in 1997 (box 3-1).

The majority of public spending on education (93 percent) is channeled and invested through the Ministry of Education. The rest is provided by the municipalities through voluntary contributions or funds used to cover operational deficits and investment channeled through the

**BOX 3-1****Chile's Extended School Day Program**

The JEC initiative seeks to give pupils greater exposure to schooling by extending the length of the school day in subsidized establishments. The schedule includes periods of work and rest. In 1997, Law 19.532 established a minimum 38-hour school week for third through eighth graders and a 42-hour week for secondary students (grades 9 to 12).

The system was to be introduced gradually until 2002, when 100 percent of schools were to be included. The program is a fundamental part of Chile's educational reform and represents a significant resource commitment for the country, since it involves the expansion of existing schools and the building of new establishments to eliminate the coverage gaps created by moving from a double-shift system to a full-day system. The Ministry of Education accordingly established the Supplementary Contribution for Additional Capital Cost Program in 1997, through which all schools could request resources for infrastructure financing.

Interior Ministry. The school subsidy accounts for about 81 percent of the public resources provided; another 11 percent of total public support is provided in the form of schoolbooks and through special support programs.

The subsidy payments include unrestricted resources that can be used to run the school, as well as funds allocated by law to pay the salaries of teaching and nonteaching staff. Table 3-3 shows the composition of subsidy payments in 1997.

In the case of subsidized private schools, an average of 9 percent of financing (additional resources and special subsidies) went for wage allowances in 1997.

**TABLE 3-3****Distribution of total subsidy spending, by type of school, 1997 (%)**

Allocation	Subsidized school type	
	Municipal	Private
General support	86	91
Additional resources	5	1
Special subsidies	9	8

**SOURCE:** Ministry of Education of Chile (2000).

All subsidized schools—both municipal and private—are required to pay the minimum salaries negotiated by the teachers’ union and the Ministry of Education.<sup>4</sup> Consequently, between 70 and 80 percent of each school’s subsidy income is devoted to wages. Thus, a subsidized school has a fairly narrow margin available for financing infrastructure, furnishings and equipment, and development programs. Table 3-4 summarizes the financial circumstances of Chile’s two kinds of subsidized schools.

TABLE 3-4

**Financial resources by type of school**

Resource	Subsidized school type	
	Municipal	Private
State subsidy	Subsidy per pupil by education level	Subsidy per pupil by education level
Shared financing	Only in secondary school education with the agreement of the parents/guardians	Can operate at all levels of education
Municipal contributions	To cover deficits and/or voluntary contributions	No
Regular public investment	Infrastructure investment and repair	No
Infrastructure resources (Extended School Day)	Participate in competitions for funds	Participate in competitions for funds
Targeted Ministry of Education projects	Can be in the target group	Can be in the target group
Private donations with tax benefits	All schools can receive them	Only schools run by nonprofit institutions can receive them

**SOURCE:** Prepared by authors.

### Quality, Equity, and Efficiency in Subsidized Schools

There are three key considerations in analyzing subsidized schools’ contribution to education: (1) the quality of the educational experience they

<sup>4</sup>Only the minimum wage for teachers applies for subsidized private schools; they are not required to cover the entire pay scale or special conditions embodied in the teachers’ contracts.

offer; (2) the degree to which they provide equitable access; and (3) their efficiency, as measured by educational outcomes.

### Quality

The quality of education in Chile is assessed mainly through the System for Measuring the Quality of Education (SIMCE) test, which has been conducted since 1988. The system assesses the extent to which academic targets are met in Spanish, mathematics, history, and the natural sciences. The test is given in all schools in the country to fourth and eighth graders, alternating by year (table 3-5). In 1993 and 1994, it was also given in the second year of secondary education in a sample of schools.

**TABLE 3-5**

**SIMCE assessment results, by school type, percentage of questions answered correctly**

Subject/ school type	4th grade				8th grade			
	1988	1990	1992	1994	1989	1991	1993	1995
<b>Spanish</b>								
Municipal	50.20	57.20	64.00	63.44	52.99	51.80	55.12	55.85
Subsidized private	58.00	54.40	70.70	69.93	58.85	56.99	61.11	61.11
Private	79.00	80.00	86.80	83.69	76.73	72.61	76.80	74.63
<b>Mathematics</b>								
Municipal	48.30	56.20	63.70	65.41	51.54	48.48	52.88	54.28
Subsidized private	54.70	63.20	69.60	71.39	56.19	52.47	57.63	59.94
Private	73.30	80.10	85.30	86.44	76.03	72.10	74.73	77.51

**SOURCE:** Data from Ministry of Education of Chile, 1995.

Analysis at the aggregate level shows that those private schools that receive no public financing have better results than the subsidized private and municipal schools. The subsidized private schools, in turn, perform better than the municipal schools. In view of the socioeconomic differences among pupils attending the three different kinds of schools, there has been sharp controversy over the extent to which this finding is valid; this has been the subject of several studies.

In this context, it is important to note that the performance of municipal schools has improved since 1988, especially in the fourth grade, which might point to the positive impact of some special programs implemented in recent years to enhance the quality and equity of the schools that lag farthest behind.

The Ministry of Education employs a range of indicators to measure quality, including timely progression as well as completion. *Timely completion* indicates the percentage of pupils who complete the school cycle without repeating any grades. *Total completion* indicates the percentage of pupils who finish the cycle having repeated a grade no more than three times. The statistical system also estimates the percentage of pupils in each school cycle, the average number of years that students take to finish each cycle, and the higher cost incurred by schools in educating pupils who do not advance on schedule. Table 3-6 shows that for these measures, the 1996 pupil cohorts at private schools did best because of lower repetition rates; also, their incremental costs are much lower. Subsidized private

**TABLE 3-6**  
**Efficiency indicators by school type, 1996**

School type/ level	Timely completion (%)	Total completion (%)	Repetition rate (%)	Average no. of years for completion	Increased cost for delayed graduation (%)
<b>Municipal</b>					
Primary	41.23	73.66	79.83	9.93	24.11
Secondary	35.06	57.00	63.95	5.91	47.63
<b>Subsidized private</b>					
Primary	47.96	75.80	82.15	9.59	19.86
Secondary	55.20	77.26	82.75	4.91	22.63
<b>Private</b>					
Primary	68.94	84.57	91.64	8.83	10.36
Secondary	76.57	89.22	91.72	4.37	9.37

**NOTE:** Secondary school data are for general secondary schools only.

**SOURCE:** Ministry of Education of Chile, 1996.



schools showed better relative results than municipal schools, especially when comparing the performance of secondary school pupils.

Looking at another quality indicator, pupils' average attendance records show that, in 1995, those in municipal schools were present for an average of 90.98 percent of school days, while those in subsidized private schools were present for 93.49 percent. Comparable records are not available for nonsubsidized private schools.

Overall, subsidized private schools have better quality indices than municipal schools. Their stronger results, however, could reflect the socioeconomic mix of pupils who attend subsidized private schools. According to the 1990 National Socioeconomic Characteristics Survey, 69.5 percent of pupils in municipal schools, but only 48.4 percent of those in subsidized private schools, belonged to the lowest two income quintiles. Table 3-7 shows the socioeconomic composition of school enrollment by school type.

**TABLE 3-7**  
**Enrollment by school type, level, and income quintile, 1996 (%)**

Level/school type	Income quintile					Total
	I	II	III	IV	V	
<b>Primary</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Municipal	75.3	65.7	56.7	39.4	19.5	58.3
Subsidized private	24.0	32.3	39.9	49.7	30.6	33.3
Nonsubsidized private	0.7	2.0	3.4	10.9	50.0	8.4
<b>Liberal arts</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Municipal	79.9	66.8	60.6	47.1	18.8	54.9
Subsidized private	18.9	27.8	32.4	37.2	31.8	29.9
Nonsubsidized private	1.1	5.3	7.0	15.7	49.4	15.2
<b>Vocational</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Municipal	51.0	51.3	44.3	45.1	30.4	46.9
Subsidized private	32.3	33.2	35.7	40.4	61.3	36.9
Nonsubsidized private	0.0	0.0	0.2	0.3	0.0	0.1
Corporate	16.7	15.5	19.8	14.2	8.3	16.0

**NOTE:** Quintile income data exclude domestic servants and their families.

**SOURCE:** MIDEPLAN (1997).

Two factors may account for the positive correlation between subsidized private schools and pupils from more affluent socioeconomic backgrounds: parental self-selection and selection by the schools. In a system where parents are free to choose where to send their children, the correspondence between pupils from wealthier socioeconomic backgrounds and those schools that are considered better can give rise to the self-selection of parents with the greatest interest in their children's education.<sup>5</sup> Those parents play an important role in how children develop in school. The more interested parents use all available information to identify the school they deem best for their children. This self-selection process springs directly from the structure of the subsidy system.

Once parents have chosen the school they want their children to attend, schools in their turn can, if there is excessive demand, exercise various levels of choice. Selection of the best pupils arises from an interest in recruiting the best "co-producers" in the supply of educational services (Rounds 1994). The schools that seek the best results will tend to choose the most capable pupils and those from the "best" socioeconomic backgrounds. The schools understand that pupils with greater learning difficulties, and/or those from families with scant resources, entail higher direct costs, distract teachers, and lower the learning standards of their fellow students. Schools that give priority to parents' commitment to education are motivated to choose those families that identify most closely with the values and principles the school aims to foster. Student selection is a practice formally rooted in the country's nonsubsidized private schools and seems to have spread as well to those subsidized private and municipal schools for which there is excess demand.

Several studies have shown that subsidized private schools' better performance is robust when controlled for students' socioeconomic status. Rodríguez (1988) found significant differences in the results on a 1984 assessment that corresponded to the mix of pupils. Winkler and Rounds (1993) found that subsidized private schools' results are significantly better than those of municipal establishments when controlling for parents' level of education. They also showed that the subsidized private sector is more efficient, since it incurs lower costs for the same level of results. The economic report by Aedo and Larrañaga (1994) showed similar results.

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<sup>5</sup>In Chile, as elsewhere, private schools traditionally have been considered better than public schools.

However, other research, such as that by Carnoy and McEwan (1998) and Mizala and Romaguera (1998), shows that such differences are not significant when controlling for a series of socioeconomic variables for primary school pupils. Nonetheless, they show that the subsidized private schools' qualitative superiority over municipal schools is statistically significant if pupils from rural areas are excluded from the sample. The various conclusions these studies reach are influenced by the samples used and the variables considered in the different analyses.

In addition to these academic findings, two considerations must be taken into account:

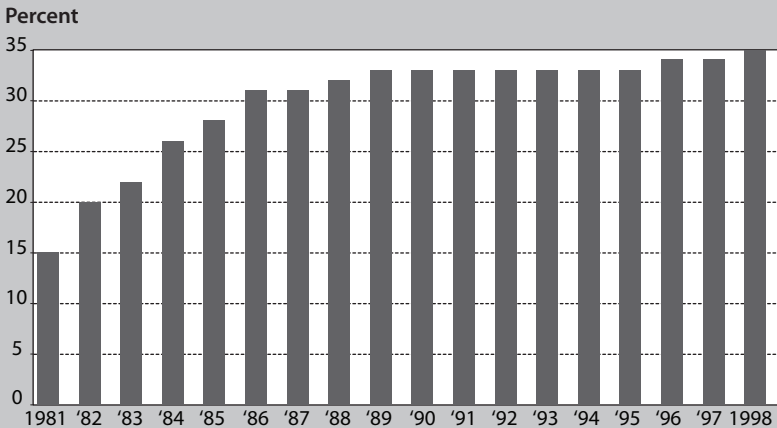
- If there are no outcome differences, private schools' management remains more efficient if it attains the same results with fewer resources expended.
- Even if the results of both kinds of schools are similar, the families' option to choose a school must be viewed in terms of its benefit to them.

To date, families have shown a marked preference for subsidized private schools over municipal schools. In 18 years, the municipal sector's enrollment has fallen by 22 percentage points, and most of this decline has been captured by the subsidized private sector. Enrollment in subsidized private schools grew most between 1981 and 1986, at the start of the decentralization process. In the following decade, the sector's share of enrollment rose slowly.

The competitive arrangements that have given parents the power of choice have been particularly effective in urban areas, where many of the country's pupils are concentrated. In urban centers, there is a diverse supply of schools, with relatively easy and cheap transport systems. In rural areas, by contrast, municipal schools tend to have a monopoly, since the low density of pupils has deterred the establishment of subsidized private schools. Figure 3-2 shows the percentage share of subsidized private education's coverage since the start of the reform.

The preference for subsidized private schools is consistent with the results of a 1993 survey (Arancibia 1994), in which a representative sample of parents said that if there were no economic constraints on school choice, they would select a nonsubsidized private school first, a subsidized private school second, and a municipal school third. The same survey showed that parents regard subsidized private schools as better than municipal establishments in all of the measured dimensions.

FIGURE 3-2

**Subsidized enrollment as a percentage of total, 1981–98**

**NOTE:** Data do not include pupils enrolled in corporate-run schools; these schools accounted for 2 percent of students in 1998.

**SOURCE:** Ministry of Education of Chile (1998).

## Equity

Equality of opportunity can be assessed in several ways, such as in terms of student location, socioeconomic status, and ability.

**Decentralization.** It is important to estimate the extent of equity in the allocation of state support at the least centralized level—i.e., the municipal level. According to estimates by Larrañaga (1995), the contribution per student in municipal education for those municipalities with more than 10,000 inhabitants is similar for all income levels. The exceptions to this pattern are the richer municipalities of the metropolitan region, which are able to make voluntary contributions to their schools to complement the subsidy income. In Latin America, it is rare for the regional distribution of resources to be equitable. Moreover, in the cities, pupils have the opportunity to transfer to schools in municipalities with a higher income level than their home districts.

**Students' Socioeconomic Status.** The school subsidy does not vary by socioeconomic level even when the beneficiaries of state-financed education are distributed among all the quintiles of family income. In this

regard, Chile's educational system is regressive, since it does not compensate for families' purchasing power.

The shared financing system addresses part of this problem by lowering the state subsidy by a percentage in line with parents' ability to pay. However, if the state does not target the resources thus made available for the poorest students, the system becomes even more regressive. There is also a small private contribution made by the school association, consisting, among other things, of school supplies.

***Students' Ability.*** It is possible to assess system equity by looking at the distribution of resources according to pupil ability. Chile's educational financing system provides for an above-average subsidy for pupils with disabilities who take part in special programs, because of the higher costs of such education.

The wide range of learning and behavioral difficulties among the student population puts financial strains on the system, not only in terms of direct costs required for accommodation, but also in terms of effects on the rest of the student body and the need for more expensive professional attention than is required for a "normal" pupil. These costs are not taken into account in determining the subsidy. Thus, the system discriminates against less able pupils, and it is to be expected that (in fostering efficient management to minimize costs and maximize performance) children with learning and behavioral problems are not selected by those schools that are able to choose and that they are consequently relegated to poorly performing schools.

"More capable" students are those with a certain level of ability who come from homes whose socioeconomic characteristics have a positive effect on the students' educational development (e.g., parents with advanced levels of schooling or a small family size). Children entering preschool, or those in the first years of primary education, can take examinations that test their emotional and psychomotor maturity; these serve as indicators of future educational development. Such tests are commonly given to those seeking to enter private schools, but are not widely used in subsidized schools. When pupils seek admission to a new school in the final years of primary or during secondary school, their grades from previous years are a record of their performance.

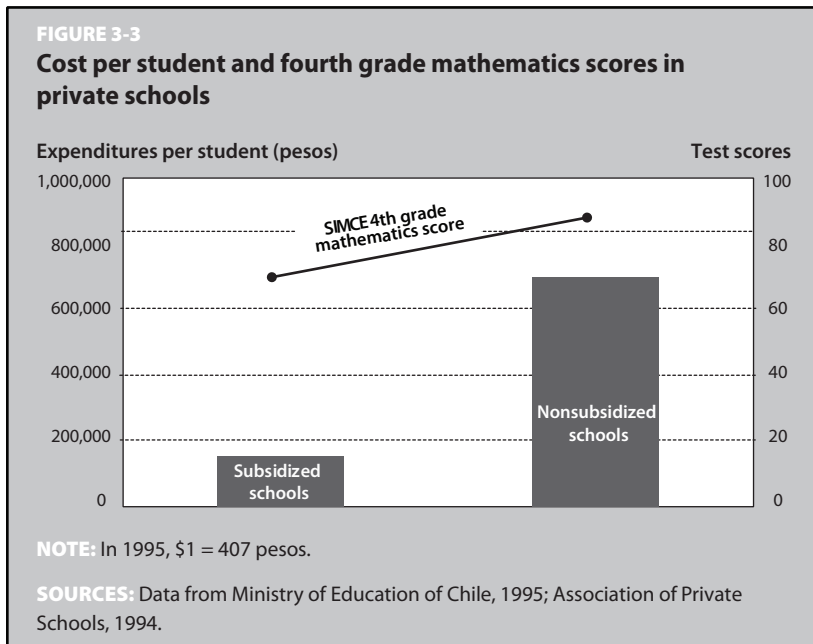
As mentioned earlier, subsidies do not distinguish between the various providers operating the schools. Over time, however, municipal

schools have received additional working capital and investment to which the subsidized private schools lack access.

The experience to date suggests that the Chilean subsidy system is equitable in territorial terms, and that, in recent years, it has tended to become more equitable with regard to municipal and subsidized private schools. Nonetheless, the system does not take into account socioeconomic differences among pupils nor differences in their learning abilities and skills.

### Efficiency

Efficiency can be assessed by examining the relationship between schools' academic results and their investment per pupil. To that end, it is useful to compare the "average" subsidized school, be it municipal or private, with the "average" nonsubsidized private school (figure 3-3). The figure shows that private schools invest four times more per pupil and secure results that are 26 percent better than their subsidized counterparts. However, this finding does not take into consideration the fact that private schools enroll students from the country's highest socioeconomic level. Thus, the investment needed to bring about a significant improvement in educa-



tional attainment rises at increasingly high rates. A comparison of the different levels of percentage achievement measured by the SIMCE test should therefore take into account the fact that each additional percentage point requires a more than proportional effort in terms of resources and/or effective school management.

Because a school's efficiency will depend on the results it attains relative to the costs it incurs to attain these results, subsidized municipal and private schools can be compared on this basis. Such a comparison shows that the subsidized private schools are more efficient than their municipal counterparts, since their results are better than, or similar to, those for the municipal schools, but they expend fewer resources to obtain these results.

### **Principal-Agent Analysis**

The private management of publicly financed schools can be analyzed in a context within which a principal (the Ministry of Education) pursues certain goals that are to be met through the actions of an agent (the subsidized schools). This relationship can be examined in terms of (1) the consistency of goals between the principal and the agent and (2) the ways the principal can monitor the alignment of goals and actions.

#### **Principal-Agent Goals**

**Goals of the Ministry of Education.** The ministry's chief objective is to improve the quality and equity of education. Additionally, it seeks to comply with the administrative and legal norms governing the subsidy system. These cover, among other things, regulations on infrastructure, minimum number of teachers, subsidy rules, and shared financing regulations. To meet its goals of quality and equity, the ministry requires that institutions follow its basic objectives and minimum contents of education and establishes updated curricular frameworks for each level of education. The ministry supports subsidized schools with specific programs, some of which are offered in all schools while others target disadvantaged ones.

**Goals of the Agents.** A stated aim of almost all subsidized private schools is to improve the quality of education. At least in theory, however, this goal might be inconsistent with the incentives schemes used by the schools. Further, there are several points of possible incongruence with ministry objectives:

- Viewing income as a given, the agent might have an incentive to reduce costs and thus provide pupils with a poorer service.
- The agent might have an incentive to select a higher proportion of good students who require less costly service to attain the same level of results.
- If the agent considers the possibility of securing additional financing from the parents, it might have an incentive to alter the composition of the student body by choosing families that are more able to pay.

### **Ensuring Alignment of Goals**

At least in theory, the current system offers a very direct solution to the problem of aligning the goals of the Ministry of Education and those of subsidized private schools. Since money follows demand, and since there is more demand for higher quality schools, all schools have a strong incentive to enhance quality to prevent the loss of pupils and income.

One way to strengthen this effect is for the regulator to provide information on school performance so parents can make informed decisions. For several years, all school results have been published in the press. This is a significant step forward, but three problems persist: (1) it is not clear that all parents receive the information, (2) the information presented does not take into account differences among pupils that are not the responsibility of the school and that plainly influence student performance, and (3) it is not clear that parents use the results to decide on the best option for their children.

Another issue is the selection and self-selection of pupils in certain schools. Those schools facing excess demand have an incentive to select the pupils who will enroll, either by choosing those who are cheapest to educate and/or those from higher income families or families that take the greatest interest in their children's education. The only measure that seems geared to counter this effect is the National Performance Assessment System, which provides a special subsidy to 25 percent of the schools with the best results as a reward for their work. These best schools are determined by assigning an additional score to those that do not discriminate and accept any kind of pupil.

As for the potential negative effect of shared financing on the system's equity, at present this can be countered to the extent that the resources saved by the state are invested in the poorest pupils and/or schools. Thus far, this has been the Ministry of Education's stated objective.



The literature proposes another way to overcome the problems of agency: reorganize the system so that the principal takes direct action, dispensing with the agent as previously defined. However, to eliminate the private supplier and return the provision of educational services to the state would reverse a decades-old decentralization process, lose the gains brought about by diversified offerings, and increase the Ministry of Education's operating costs.

Although the contract between principal and agent seems clear enough in Chile, some of the constraints discussed here suggest a need for adjustments that will ensure greater harmony between the Ministry of Education's goal of improving quality and equity, on the one hand, and the subsidized private schools' activities on the other.

Certain actions might constitute tacit threats to the contract under which the ministry and subsidized private schools currently operate. These include changing the rules that entail higher costs for the agent, lowering the subsidy contributions, and any change that alters the conditions under which the supplier enters and invests in the system. Such actions might be only remote possibilities, but some key groups see subsidized private schools as involving more costs than benefits, and question their existence.

### **The Principal-Agent Problem and Municipal Schools**

The current scheme for financing subsidized schools in Chile plainly encourages competition among schools as a way to raise educational quality. Municipal schools, however, face incentives schemes and legal frameworks that run counter to this goal.

First, the administrator (the mayor or other designated official) has no financial incentive linked to school performance. Generally speaking, municipal schools are run under a centralized administration, which alters the link between the attendance subsidy and each school's individual results. This also neutralizes the incentive for principals and teachers in the most efficient schools, because of the resource subsidy accorded to the most inefficient schools. At the same time, no individual assumes the costs of poor management.

The additional municipal contributions tend to distort the incentives for administrators and principals even further by financing operational deficits. The recurrent financing of operational losses undermines financial discipline and lessens incentives for efficient management.

Nonetheless, it should be noted that the municipal sector is subject to both the country's general labor legislation and the labor restrictions of the Teaching Statute, which is continually being modified. According to Martelli and Ruiz (cited in Larrañaga 1995), the pupil-teacher ratio in municipal schools fell from 26.2 in 1980 to 20.7 in 1993. Analysis of the teachers hired and enrollment in 1998 shows that the pupil-teacher ratio in municipal schools is significantly below that of subsidized private schools. Including data on people who work as teachers in the classroom, technical-pedagogic teachers, principals, and others, the pupil-teacher ratio in municipal schools was 23.4, compared to 36.4 in subsidized private schools.

There are also asymmetries of risk and scheduling in the operation of municipal versus subsidized private schools. Municipal administrators are appointed for a period linked to the mayor's term in office. Private administrators, on the other hand, have a planning horizon that lasts at least as long as the period during which they have to finance the school infrastructure—i.e., about 25 years or more, equivalent to the average bank mortgage.

Municipal administrators do not usually incur any personal loss for poor management; rather, the financing of municipal deficits helps lessen the effort needed for proper financial development. For administrators in subsidized private schools, by contrast, repeated poor management can bankrupt the institution, entailing the loss of a significant investment.

In the municipality of Las Condes, municipal schools were transferred on concession to the teachers, who have become the schools' administrators. The mechanism used was a contract for the administration and not the school property, which allows the municipality to retain control over local education without having to participate directly in its administration. This is a very interesting concept, but it has not been fully emulated in other municipalities; only two have tried it. In general, teachers resist the possible effects on their job security.

## **Conclusions**

### **Public Financing and Private Service Provision**

Diversified public education with public and private suppliers competing for pupils and resources is a well-entrenched policy in Chile, and there is no sign of any structural change to come. In light of the persistent questions raised about this model among some sectors, educational authorities

maintain that the issues raised are part of the normal debate on education in any society, and they stress that the model will not be changed. Nevertheless, it should be emphasized that several measures have been taken that alter some of the model's core aspects and—to some extent—erode its underlying principles. Examples of these measures include the distribution of resources to implement some programs separately from the per pupil subsidy; the government's coverage of the financial deficits that some municipalities carry in their education budgets; and the rigidities in teacher management embodied in the Teaching Statute, which also sets different conditions for municipal and subsidized private schools. Nonetheless, additional changes are needed to secure improvements in performance and in a school system's level of equity.

### **Autonomy in Resource Allocation**

The municipalities face a series of constraints to efficient school resource management. They have no clear incentive to improve school management; they are subject to restrictive legislation on resource use; and, in most cases, the schools are run along centralized lines. The good performance of many (not all) subsidized private schools stems partly from the facts that (1) they have an autonomous educational plan, and (2) their principals have greater freedom than those in municipal schools. A system based on competition should grant all participating schools a similar degree of freedom in resource use. If competition for pupils and resources is to be preserved, municipal schools must have more independence, which entails making the labor regime governing municipal teachers more flexible.

### **Rural Schools**

Given the scarcity of private schools in rural areas, it is not viable to extend a competition-based model of education provision there. Rural schools therefore require a financing system that takes such constraints into account.

### **Policies to Improve Equity**

In general, the Ministry of Education's special programs aimed at improving equity have been well designed. They are working well among the target groups, especially the Program to Improve Education Quality and

Equity and the P-900 program. Nonetheless, any policy to improve the prospects of the most impoverished students must include measures to tackle the issue of pupil selection and self-selection. One option is to offer incentives that reward diversity in the student body. Another is to provide different levels of subsidies in line with family income.

### **Information for Decisionmaking**

There are asymmetries of information in the education sector, as parents usually have less information than do those providing the service. Additionally, the costs of a poor choice based on incomplete or deficient information—which in the worst cases are irreversible—fall directly on the consumer. The literature has pointed out that asymmetry of information offers schools, especially subsidized private schools, significant opportunities to act proactively.

The framework regulating all subsidized education should take into account mechanisms to keep parents informed of their responsibility in the education of their children, and should eliminate the perception that the service is free. There has been some progress in this regard in recent years with the publication of each school's SIMCE test results. Since the 2000 tests, the Ministry of Education has made public the complete database of results. Provision of information should be improved in the future to acknowledge schools' value-added in light of students' initial human capital endowment, which originates outside the school. Subsidized schools that take into account other indicators in addition to current achievement tests should be duly accredited.

It is striking that an education system based on competition and parental choice should have taken so long to make each school's SIMCE results public. This is partially a result of personnel changes in the Ministry of Education as each successive government weighs the utility of the information for users, and partially of a state culture that tends not to disclose the data underlying the instruments used to assess policy performance, since little trust is placed in the quality of analyses by outside institutions.

### **Subsidy or School Voucher?**

Chile's per pupil subsidy scheme does not take the form of a voucher that parents can exchange for education. This keeps parents from fully real-

izing their role as resource allocators within the system. Currently, many parents still believe that the schools are government institutions and that they are free, and thus most fail to exercise their right to make demands (Arancibia 1994). Any decision to transform the current scheme (based on demand-oriented subsidies through the transfer of resources to the suppliers) into one of direct demand subsidies with vouchers should take into account the potential benefits of making parents feel like customers of the system, and weigh this against the costs of implementing and managing such a scheme.

### **The Subsidy as a Resource Allocation Mechanism**

The subsidy's role as a single resource allocator began to deteriorate during the economic crisis of 1982, when increases to the USE began to fall below the consumer price index, which was linked to the subsidy's regulation. Municipal deficits began after 1982, and these were financed directly by the state. Moreover, much of the increase in the subsidy in recent years has been geared to a specific purpose—e.g., for wage increases and for centralized support programs through the Ministry of Education. Since 1994, several laws have been enacted that limit schools' freedom to manage resources and increase centralized programs to raise teachers' salaries.

A hybrid system is thus arising: subsidies based on demand coexist with centralized resource allocation, together with additional public financing from the municipal sector. This concept risks encouraging and institutionalizing a corporatist approach dominated by each group's pressure to protect its interests because of limitations on market operations.

### **Shared Financing: New Resources for the System**

Most subsidized private schools work with some percentage of shared financing provided by parents. The shared financing system seems to be endorsed by teachers and parents in the schools that use it because it enables the schools to operate at the level of quality and investment perceived as necessary by parents.

At the same time, if the state encourages contributions from those parents who can afford to pay for their children's education, and allocates the funds saved to schools with fewer resources, the system might become more equitable and have a higher overall level of resources. This would be a way to secure greater funding per pupil than is currently the case in a

system in which the state provides all the funds for the poorest pupils and more affluent parents begin to share costs with the state by making private contributions to the system.

This financing scheme offers clear benefits that should be complemented in two ways. First, the state's savings should be allocated in a transparent way to the poorest schools. Second, schemes should be established such as scholarships and varying subsidy levels that allow poorer pupils to attend schools with shared financing.

### **The Complexities of the Model**

Chile's model of public and private demand subsidies is a reflection of the system's intrinsic complexities. Greater efficiency, higher quality, and more equity would entail the introduction of even more complexity. There is thus a link between the model's complexity and its effectiveness. The voucher system raises practical problems related to the creation of truly competitive conditions, including difficulties of information and equity that would have to be addressed. Since the implementation of such a model is geared to meeting goals in quality, efficiency, and equity, these practical considerations will have to be dealt with at a reasonable cost.

### **Future Agenda**

The debate over comparisons between subsidized private schools and municipal schools is fueled by two different sets of data: econometric studies that compare academic performance, controlling for different variables; and organizational analyses that compare differences in incentives for the two sectors. At the same time, discussion about the private sector is beset by ideological differences. In the view of private suppliers, subsidized private schools perform better than municipal schools. However, it has not been possible to confirm clearly whether this perception is consistent with the facts. A broader range of studies is needed that do more than simply compare municipal and subsidized private schools. For example, a more detailed analysis of the input-output ratio would be helpful in determining why some schools perform better than others; other variables should also be examined to provide a better explanation of performance differentials—such as the effects of school size, the presence of economies of scale, and organizational and management considerations. Another area to be explored is learning from successful experiences, espe-

cially those schools that perform well in conditions of poverty. Case studies are needed, and statistics should be compiled, in particular to establish what happens in the process between inputs and outcomes.

There is a consensus that municipal schools are much more restricted than subsidized private schools. Human, technical, and financial resources are allocated far from the municipality; the mayor does not manage the resources; and there is an obligation to take all pupils. The biggest problem for mayors is the constraints on the management of teachers. In municipal schools, it is very difficult to fire a teacher, minimum wages and allowances are guaranteed by law, and teacher performance is not evaluated.

Some subsidized private schools seem to perform better than others, even when they serve similar kinds of pupils with the same level of resources. This suggests a need for further study of the impact of institutional and management factors on student achievement.

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## CHAPTER 4

# CONCESSIONARY PUBLIC SCHOOLS IN BOGOTÁ: AN INNOVATION IN SCHOOL MANAGEMENT IN COLOMBIA

*Leonardo Villa and Jesús Duarte\**

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A number of innovative school management programs have emerged in Colombia in recent years, with the aim of extending educational coverage and improving its quality. These initiatives have four points in common:

- their goals lie outside the traditional public school system,
- their beneficiaries are children and youth from the poorest sectors of society,
- they are based on the private provision of education services, and
- most of them are sponsored by local and regional authorities.

This chapter analyzes the concession school scheme in Bogotá, one of the most interesting education policy experiments launched to date. The concession schools program is still relatively young, and it is too early to gauge its full impact. However, its core elements—especially with regard to financing and management—are geared to addressing some of the gravest problems confronting public education in Colombia. The frame of reference for this study is drawn from economic organization theory, especially the concepts of principal-agent relations.

The chapter begins with a review of the nature and shortcomings of Colombian public education, then uses the theoretical elements cited above to analyze the institutional problems of traditional public education. This is followed by a detailed examination of concession schools in

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Bogotá, the political context in which they emerged, and the nature of the new contract between local governments and concession-holders. Finally, the chapter advances some ideas on how this school management model might respond to the region's educational challenges.

## **Public Education in Colombia<sup>1</sup>**

### **Structure and Coverage**

There are four levels of formal education in Colombia: (1) pre-school for children under age seven, with a compulsory minimum of one year; (2) compulsory basic education of nine years over two cycles: five years of primary school and four years of lower secondary school; (3) two years of upper secondary school; and (4) postsecondary education.

Colombia had, as of 1997, 57,000 establishments offering primary and secondary school education, 390,000 teachers, and 8.5 million pupils. The higher education level is served by 305 institutions enrolling 700,000 students. Unlike other countries in the region, the private sector's share of education in Colombia is high: around 20 percent at the primary level, 35 percent at the secondary school level, and 65 percent in higher education.

Access indicators show a significant improvement in the past 15 years. The gross coverage of preschool education rose from 9.5 percent in 1985 to 38 percent in 1997. The net coverage of primary education rose from 61.5 percent in 1985 to 83.5 percent in 1997, while that of primary and secondary education increased from 37.7 percent to 61.1 percent. The coverage of higher education is 17 percent. Hence the illiteracy rate of the population over 15 has fallen to 8.6 percent, and average schooling is 6.2 years—7.6 years in urban areas and 3.3 in the countryside (DNP 1999). Table 4-1 presents summary data for these and other key education indicators.

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<sup>1</sup>This section describes the education system in Colombia around the year 2001. In the last five years, a number of changes have been implemented, especially a new formula for the allocation of national funds for basic and secondary education to the departments and districts which has better incentives to increase enrollments.

## Institutional Organization

The management of public education has passed through various stages. Until the 1960s, departments<sup>2</sup>—and, to a lesser extent, municipalities—were mainly responsible for financing and managing public primary and secondary schools and teachers. Central government paid for public higher education, managed and financed the teacher training colleges, and set nationwide rules and regulations.

During the 1960s and 1970s, the central government gradually took over the funding of primary and secondary education, and, with the 1978 Teaching Statute, centralized wage bargaining and unified the teacher pay and promotion system. The departments remained responsible for management of most of the teaching and administrative staff and the municipal distribution of human and financial resources. The National Ministry of Education (MEN) administered only the national schools or institutes, which accounted for less than 5 percent of total student enrollment.

**TABLE 4-1**  
**Education indicators for Colombia**

Indicator	Amount
Number of students in lower primary education	5,015,000
Number of students in upper primary and secondary school	3,485,000
Private sector share of lower primary education	19.5%
Private sector share of upper primary & secondary education	35%
Number of teachers	390,000
Net preschool coverage	38%
Net primary coverage	83.5%
Net secondary coverage	61.1%
Illiteracy rate among population over 15 years old	8.6%
Average years of schooling	6.2
Public spending on education as percentage of GDP	4.1%

**SOURCE:** DNP (1999).

<sup>2</sup>A department is the main territorial administrative unit in Colombia, equivalent to a state or province in other Latin American countries. Colombia has 32 departments, 5 districts (municipalities with the same functions as departments), and 1,050 municipalities.

Certain functions that MEN had tended to neglect were decentralized from 1986 onward. Responsibility for building and equipping schools was transferred to the municipalities, and management of national educational institutions passed to the departments, which also gradually took on teacher training, curricular experimentation, and the offices in charge of professional development that oversee the teacher promotion scale. This gave the departments full management responsibility for centrally funded teaching staff.

The decentralization process was given fresh impetus by the 1991 constitution and its implementing texts Law 60/1993 (Allocation of Funds and Powers to Territorial Governments) and Law 115/1994 (Education Act). The administrative model based on these laws assigned the following responsibilities to each layer of government:

- At the national level, MEN takes charge of development policies and objectives, sectoral planning, systemwide assessment, and inspection and oversight.
- Departments and districts (through their education secretariats) administer their own funds and those transferred by the national government, appoint and transfer teaching staff, provide training and advisory support to schools, and inspect and supervise education services in their area.
- Municipal authorities administer local education services and are responsible for providing and maintaining the physical premises and facilities of schools.<sup>3</sup>

## **Financing Education**

Public spending on education has increased steadily, rising from 2.5 percent of gross domestic product (GDP) in 1990 to 4.1 percent in 1997. Education accounts for more than 20 percent of the national budget. Private financing (equal to about 3.6 percent of GDP) supplements government funding for secondary and higher education.

About 40 percent of public education funds go to the primary cycle, 30 percent to the secondary, 16 percent to higher education, and the rest

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<sup>3</sup>Institutional channels were also provided to advise public officials, teachers, parents, and the community through the National Board of Education, the departmental or district board of education, the municipal board of education, and a school board in each establishment.

to administration. Some 90 percent of the education budget is devoted to wages, and less than 1 percent to materials.

The central government provides over 90 percent of all financing for primary and secondary education. This funding is mainly channeled through two transfer mechanisms: the *situado fiscal* and municipal transfers, supplemented by other resources.<sup>4</sup> The *situado fiscal* goes to departments and districts for staff payroll and current expenses; the municipal transfers go directly to the municipalities to fund current spending and investment. The departments, districts, and municipalities provide only a modest share of the sector's funding; less than 12 percent of their total revenues are earmarked for education. Most of this is used for teachers' salaries, the education secretariat of each administrative division, and investment in local counterparts for national cofinancing programs.

### Problems in the Sector

Colombian education still has serious shortcomings. Primary schooling is not yet universal, and coverage of secondary schooling is insufficient. Disaggregation by geographic areas, regions, or income levels shows marked differences in coverage, and children's academic achievement is unsatisfactory.<sup>5</sup> The poor quality of education translates into poor internal efficiency: Only 42 percent of children starting school complete primary education, and just 34 percent complete secondary school (Caro and Sarmiento 1997).

Several recent studies concur that the coverage, equity, and quality deficiencies of Colombian education stem much less from a shortage of funds than from constraints on effective management.<sup>6</sup> They conclude that misallocation of resources, poor management at the various admin-

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<sup>4</sup>These other national resources are MEN investment funds and Ministry of Finance loans to departments and districts under a scheme based on performance.

<sup>5</sup>The results of 1992 and 1994 assessments showed that language teaching focused on simple word recognition skills over comprehension and that, in mathematics, the use of algorithms in problem solving is poorly understood (MEN 1997). The country also scored poorly in the Trends in International Mathematics and Science Study (TIMSS), with Colombian students performing well below the international average.

<sup>6</sup>The problems of sector administration and the allocation of public education funding are covered in the following: Commission for Rationalization of Expenditures and Public Financing (1996a and 1996b), DNP/MEN (1996), Duarte (1997), Wiesner (1997), and World Bank (1995). For more on the problems of public education management in Colombia, see DNP (1997) and Duarte (1996a and 1998).

istrative levels, and the way schools are operated have created conditions that are not conducive to improving educational quality and coverage.

In other words, the institutional arrangements under which state education services operate have become an obstacle to the sector's development. The authors of the studies argue that, if nothing is done to transform education management models, the sector will require ever more funding with no significant gain in quality or coverage.

To better understand that conclusion, the next section examines the regulations and actors (formal and informal) that make up the institutional framework of public education in Colombia, using the principal-agent approach.

### **Principals and Agents in Colombian Public Education**

In Colombia, the study of factors associated with educational quality has attracted growing interest in recent years (Corpoeducación 1999; DNP 1998, 1999, and 2000; MEN-ICFES 1998; Sarmiento, Becerra, and González 2000). More research is needed to provide a comprehensive picture of how schools' institutional characteristics affect their pupils' achievement, but some studies have concluded that educational quality is determined by the way the schools are organized, managed, and governed. For instance, an empirical study by the Department of National Planning's Social Division (1997) has concluded that about 30 percent of children's educational achievement is determined by school-related factors (e.g. organization and resource management)—which means that these factors are as important as pupils' socioeconomic background.

This section examines the limitations of the traditional public education model. The analysis is more suggestive than conclusive, but can serve to pinpoint some of the institutional and structural problems that Bogotá concession schools set out to resolve. It centers on the issues of resource allocation and the interrelations of the key players in Colombia's public school system.

In its role as principal, the prime goal of the central government is to ensure a good basic education for all school-age children throughout the country. This goal is addressed by funding the service and the institutional mechanisms through which it is provided. Two levels of principal-agent relations are discernible in Colombian public education. At the first level



is the central government in its role as principal, transferring resources to departments and districts, which act as agents. At the second level, the departments and districts redistribute resources to schools by appointing school principals, administrative staff, and teachers; procuring supplies and services; and providing funds.

### **Public Education Resource Allocation System**

The Colombian system for allocating resources to public schools is geared to paying teachers' wages rather than to financing children's education.

The 1991 constitution and Law 60/1993 earmarked a minimum percentage of the national income for funding primary education and set the ground rules for distributing the sector's budget. This guarantee of secure funding was an important step toward shielding a basic social service from fluctuations in political and fiscal circumstances. Although Law 60/1993 establishes a formula for assigning resources to departments and districts—which includes a standard per student cost—in practice, the financing is not governed by this formula but by trends in teacher payroll costs.<sup>7</sup> Each year, the Ministry of Finance adds to the departmental and district budgets to cover the shortfall between the base allocation set by the formula and the real annual cost of the teacher payroll.

The coverage of deficits neutralizes the incentive value of the formula and lessens the effectiveness of the cost standard. Departmental and district governments (the agents) have no incentive to be efficient, because the central government (the principal) pays the costs of inefficiency. Thus,

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<sup>7</sup>The resource distribution system established by law is seriously flawed. First, the use of the sector's resources is decided primarily at the top management tier, with little decisionmaking power at the school level and scant community involvement. These are hardly outcomes sought by the decentralization process. Second, the *situación fiscal* and municipal transfers are allotted first territorially and then sectorally, on the basis of fixed percentages. The resulting resource allocation does not necessarily coincide with the real financing needs of the departments and municipalities. A similar situation exists regarding the formulas for municipal transfers, with 60 percent allocated on the basis of the Basic Unattended Needs Index. Consequently, per pupil payments in territorial entities do not correspond to real costs. Third, the *situación fiscal* is used to meet the teacher payroll according to a system dating from 1993, which has only perpetuated a grossly unfair baseline distribution. Teachers thus are deployed unequally among departments, and even more so at the municipal level. Finally, the variety of financing sources means that national transfers are received at different territorial levels: the *situación fiscal* is paid to departments, while transfers are paid to municipalities. This hinders efficient management of funds.

resource allocation depends on the number of teachers, the provisions of the Teaching Statute, and the collective bargaining between the teachers' union and the national government. Two conflicting systems thus emerge: one established by the formula of Law 60/1993 and the other by the provisions of the Teaching Statute. The formula seems to be less important. The resource allocation system is actually subordinate to the political dynamics of staff deployment and teachers' employment and wage regimes.

This method of assigning resources for education is putting more pressure on the public budget and will continue to do so—and the extra funds will not necessarily lead to a significant improvement in educational coverage or quality.<sup>8</sup> Departmental governments have little incentive to improve coverage or quality, because the resources they receive from the central government depend on the number of teachers, not on the number of children enrolled, and the allocation system pays no attention to pupils' academic attainment.

The sector is plowing ever more funds into operating expenses (payroll) and ever less into items related to educational quality (such as textbooks). Another outcome is that departmental governments assign teaching and administrative posts with no regard to standards, leading to an uneven distribution of the sector's human resources that discriminates against rural or marginal urban zones, small communities, and primary education.<sup>9</sup> Moreover, the Ministries of Finance and Education

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<sup>8</sup>The result of this system is that service costs rise without bringing the sector any closer to its objectives. A recent study showed that although the average time needed to complete the primary education cycle was 1.6 percent less for the cohort that started school in 1988 than it was for the cohort beginning school in 1978, the cost was 19 percent higher. See Caro and Sarmiento (1997).

<sup>9</sup>The country has tried different policy instruments to mitigate the effects of this clash of regimes and the inefficient resource allocation formula. Recent efforts include the performance agreements in education featured in the National Development Plan 1999–2002. These agreements are management contracts between the central government and some departments and districts. The former gives grants to the latter in exchange for achieving better coverage in primary education. The grant system uses a staff allocation standard that would make teaching posts the exchange unit of the education system: that is, teaching places in return for children enrolled. Using a standard form of allocation introduces transparency and equity while providing incentives to expand coverage. A performance pact stressing coverage, efficiency, and equity should generate incentives for a transparent interdepartmental allocation of resources that corrects the effects of imbalance in the sector. One of the trends it sets out to reverse is the over-concentration of teachers paid via the *situado fiscal* in departmental or district capitals.

lack effective systems to track and evaluate the use of funds transferred to departments.

The upshot is a financing system in which the agent (departments) receives funding automatically, irrespective of whether it meets the goals of the transaction. The principal (central government) has no clear vision of the quality or quantity of the product it is paying for; it lacks both instruments to verify the outcome of the contract and ways to penalize undesirable conduct.

### **Actors and Relationships in the Public School System**

**The School.** With very few exceptions, public schools have long been neglected in the Colombian education system. They have depended, in even the most trivial matters, on departmental education secretariats. The great majority lack a sense of identity or mission and take no independent initiatives, and both teachers and pupils rarely have a sense of belonging to their schools.

Recent legislation (the Education Act and Law 60/1993) gave public schools a more important role in the management of education, but failed to give them sufficient means. Schools have no control over human resources; teaching and administrative staff are assigned by the education secretariats. Schools also lack control over their funding and have no way to influence the budgetary decisions made at municipal, departmental, or national levels. The authority conferred on them by law is thus in name only. The Education Act sought to strengthen schools by means of Institutional Educational Projects (PEIs) devised by the education community and parents, but it failed to create a formal vehicle for schools to tap into municipal funds or access cofinancing for PEIs. There is no requirement that PEIs be linked to municipal education plans or have substantial weight in final funding decisions. As a result, PEIs have tended to degenerate into theoretical exercises. The law also created school boards, but these have little real authority over school principals, staff management, or school administration.

**Principals.** Principals are not appointed for their academic records nor as a result of a selection process based on merit. In most cases, they get their job through political influence or seniority. They are figureheads and lack any real means to carry out their very limited functions. Principals do not select their teaching or administrative teams, nor do they manage

any significant financial resources. Staff and supplies (when there are any) are assigned by the education secretariat. The principals are hierarchically superior to the teachers, but their disciplinary power is limited to verbal warnings. Any other type of penalty must be taken to the Salary and Promotion Board, a body the teachers' union uses to ensure its political control over promotions and disciplinary proceedings.<sup>10</sup>

Public school principals are not accountable to anyone and are almost impossible to dismiss. Hence, in the public schools there is no authority with real power, and no level of the hierarchy has the systematic capacity to activate results-oriented processes. The problems of leadership and management are related to the principals' lack of official authority and poor capacity (skills and background) to encourage identity with a common project and teacher engagement.

**Parents and the Community.** Parents and the community have had a minority representation in school management and have lacked power. In the past, their involvement was confined to membership in parents' associations, which in most cases just raised funds for minor repairs to schools. More recently, the Education Act created school boards; here too, the parents and community have a minority representation. These boards have no real power over school management, but simply advise the principal. The same is true of community participation on the municipal and department/district boards of education, to which the law assigns control and oversight functions without providing the instruments to carry these out. The education boards' lack of oversight mechanisms is a disincentive to the creation and operation of these organizations. Parents and other members of the community are not sufficiently well informed to control schools' academic progress. They receive little systematic feedback on their children's achievement, have no yardsticks to measure the performance of teachers and managers, and have no information on the allocation of resources to the school or municipality.

**Teachers.** There are set rules for selecting, appointing, or transferring teachers and administrative staff.<sup>11</sup> The rules state, for instance, that teach-

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<sup>10</sup>The teachers' union has a virtual majority on the Salary and Promotion Board, since at least three—and often four—of its seven members are teachers.

<sup>11</sup>See, among others, Decree 2277/1979 (Teaching Statute); Decree 2621/1979; Decrees 250, 297, and 897/1981; Decrees 175, 176, and 177/1982; Resolution 20974/1989; and the Education Act of 1994.

ers should be chosen and appointed on merit as a result of open, competitive examinations and that transfers should not interfere with children's studies. However, the rules are not always followed; the evidence suggests, for example, that open examinations are the exception rather than the rule. Many public school teachers are still appointed because of political recommendations. Patronage also has a role in administrative processes such as transfers, promotions, pensions, and other social benefits. The intermediaries in the management of public school teachers are regional politicians from the traditional parties and, in some cases, trade union leaders. It is almost impossible to remove teachers once they are appointed, since they are protected by job security provisions and trade union activism (Duarte 1996a).

The Education Act provides for teacher assessments every six years. A teacher who fails to "make the grade" must be reassessed the following year. In the event of renewed failure, teachers can be charged with professional inefficiency and can face penalties ranging from suspension to dismissal. The body responsible for determining the penalty is the Salary and Promotion Board, on which teachers are usually the majority. Provision is also made for the assessment of senior staff in a manner similar to teacher assessments; the penalty for failing in two consecutive years is a return to an ordinary teaching post, with commensurate wages.

Despite the consequences built into the assessment system, it is far from a perfect mechanism. For one thing, it assesses inputs rather than outputs; also, assessment is not ongoing—and, in fact, had not yet been done as of this writing, despite the fact that the six years required by the legislation had passed.<sup>12</sup> Additionally, the promotion system and pay scales are essentially automatic, based on academic degree and seniority. Neither wages nor promotions are linked to the assessments required by the law.

Teacher commitment is crucial to meeting the goals of the education system, but neither guaranteed national funding nor stable employment has prompted a firm commitment to results. Job security for teachers is certainly an improvement over the arbitrariness of the past and

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<sup>12</sup>Even if teachers were assessed, they would not necessarily be dismissed. The teachers' union's main objection to the National Development Plan 1999–2002 was its proposal that the 1.5 percent of teachers scoring lowest on the assessment should be disqualified from practice. The union has stated that a bad examination score should be addressed by training rather than by penalties.

curbs the spread of patronage. Stability, however, is related to clear rules and assessment systems, not to separating careers from results. It is one thing to safeguard teachers from arbitrariness and patronage, but quite another to free them from accountability for their own performance.

***The Teachers' Union.*** As in other countries of the region, the relationship between Colombian teachers and the state is highly politicized because of the influence and strength of the teachers' union, the Colombian Teachers Federation (FECODE). As noted, teachers in the public school system have substantial job security, and it is hard to dismiss them. This stability is the outcome of lengthy and often difficult negotiations. Although departments and districts manage the payroll, wage bargaining is centralized between MEN and FECODE, with no input from the municipal agencies responsible for providing education. The union has been successful in ensuring stability and in its wage negotiations with successive governments. FECODE leaders have thereby won the teachers' unconditional support with respect to wages and work organization. FECODE supports the traditional model of state financing and service provision, and has been relatively successful in marshaling public sentiment against reforms geared to more flexible provision of education. The union wants to retain the old system of centralized bargaining and opposes decentralization, transferring control of education to the schools, and the involvement of the community and the private sector in decisions on education.

Relations between the central government and FECODE are highly confrontational; they are also centralized and exclusive. Centralized wage bargaining, for instance, prevents the adjustment of wages to local labor market conditions and lessens the ability to manage staff in the schools, educational agencies, and local governments. A standard national salary scale discourages local initiative and instead rewards passivity and mediocrity. The central government is generally at a disadvantage in talks because it has few instruments with which to oppose a strong and disciplined trade union. The ministry's weakness is aggravated by the fact that negotiations with the union involve no other parties that might change the terms of the discussion, such as parents or representatives of business or private education.

## **Responsibility and Authority**

Another obstacle to good education management is the dispersal of authority among political and administrative levels. The legislation on decentralization may have encouraged municipalities, departments, and districts to take more interest in education and to launch some promising initiatives to tackle local problems, but it has not resolved the confusion about who is responsible for what at each level. Teacher appointments and transfers are the responsibility of the departments, but the municipalities are responsible for delivering education services. The municipalities, however, lack a guaranteed staff contingent because teachers belong to the department. Moreover, as mentioned earlier, schools supply the service but have neither a stable staff nor the autonomy to decide on the use of their own resources. There is also no incentive for each agency to perform its functions efficiently. Perhaps the worst situation is that of the departmental secretariats, which have no incentive to rationalize teaching staff because the cost of inefficiencies is borne by the central government. As a result, no single agency is taking charge of the key elements of public education management.

## **Working with the Wrong Incentives**

As shown above, the system for financing and managing public education—and the political complexities of the sector—have given rise to an incentives scheme in which the interests of principals and agents are not aligned to meet coverage and quality goals.

Departmental and district authorities, which receive funding from the national government and are in charge of coverage, service distribution, and efficient resource use, have few incentives to perform effectively, since there are no consequences for their conduct. The school, which is the crucial management unit to ensure quality, has no control over the factors that would confer consistency and unity of purpose. The institution's management has neither the power nor the motivation to guarantee results. It lacks clear authority with decisionmaking power; it receives teachers with characteristics decided upon by the agency that chooses them; teachers' wages and career paths are divorced from their performance; and there are no social processes to control and recognize quality, due to a lack of systematic results assessments.

## **Nontraditional Experiments to Broaden the Supply of Education**

The previous section explained the limitations of the institutional model of public education in Colombia. The concession schools program was designed by the Bogotá Capital District as a way to overcome these limitations. In the recent past, however, several other programs have sought to expand educational coverage outside the framework of the traditional public system. It is worth reviewing some of these experiences before examining the Bogotá case.

Each program has its own characteristics, but there are two main types: direct subsidies to students (vouchers) and buying spaces or funding service provision in private establishments.

### **Voucher Programs**

The voucher system of direct subsidies to students was the central government's main strategy for expanding education coverage in the 1990s. Programs of this type were the Expansion Plan for Secondary Education Coverage (PACES), financed by the World Bank and implemented between 1992 and 1998;<sup>13</sup> and the Subsidy Program for Attending and Remaining in Primary Education (grades 0 to 9) developed by MEN from 1994 to 1998. These initiatives offered subsidies to lower income sectors, cofinanced by the central and local governments. At the height of their coverage, these programs had about 250,000 spaces.

### **Buying Spaces in Private Schools**

This strategy was used by regional and local governments to meet the demand for new school spaces. The most important cases were in the departments of Antioquia and Bolívar, and the cities of Medellín, Cartagena, and Manizales.

- In Antioquia, the Education Secretariat contracts for the services of private schools, especially religious schools, and pays for each child served in accordance with a "basket" of minimum resource standards to regulate the quality of participating institutions. As many as 130,000 children were educated under this program

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<sup>13</sup>Several studies have evaluated the PACES program, including King, Orazem, and Wohlgemuth (1999) and King et al. (1997).



between 1996 and 1998, although the number of beneficiaries has since dropped in the wake of departmental budget constraints.

- In Bolívar, as of 1998, the Education Secretariat outsourced the education of about 70,000 children in poor areas to nongovernmental organizations (NGOs) and to farmer and teacher associations. The secretariat paid \$240 per child per year, including money for food, textbooks, and educational materials.
- In 1996, Medellín launched a program called Expanding Coverage with Quality, which continues to date. The municipal council contracted for the services of private schools, paying for each child enrolled according to a basket of resources worth \$240 a year. Contracts set forth standards for infrastructure, equipment, and teacher qualifications, with particular regard to instruction in key curricular areas. This strategy increases coverage at a lower cost than traditional public education and, to judge by student retention rates, with better quality outcomes.
- Cartagena adopted the Antioquia approach in its program beginning in 1997. The municipal authorities contracted with private schools to increase coverage in deprived neighborhoods and struck similar deals with selected public centers through their parents' associations. Schools are paid a fee for each additional child enrolled, while principals receive a bonus. About 20,000 pupils benefit from this program.
- In 1998, the city of Manizales ceded the administration of three public schools with about 1,800 pupils to the private sector. This program was suspended in 2000 for lack of funds, but was renewed in 2001.

These programs and experiences are highly valuable as alternative ways to organize the provision of education. They allow different avenues to be explored for expanding coverage without the restrictions imposed by the traditional public system. Voucher programs are an innovation compared to traditional public schooling, because the role of principal is taken by the child's parents, who—in theory at least—can freely choose the supplier they prefer. However, assessments have found that, in Colombia, the system faces serious constraints because of the nature of the target market, especially limitations on supply and information in the poor areas where it operates.

The system of buying spaces in private schools introduced by departmental and municipal governments seeks a rapid, flexible response to social pressures for greater and better quality coverage, especially among less advantaged social sectors. Many such schemes have labored under the budgetary difficulties of their local and regional funders, a circumstance compounded by the continuing recession. A system of state-funded education provided by the Catholic Church (Grant-Aided Education) has been in operation since the late 19th century in remote areas of the country (especially the Amazon region and other jungle zones) with minimal public sector presence and church-run missions. There are also some interesting experiments in the public education system geared to optimizing resources and infrastructure and expanding school autonomy and the involvement of the community.

- The Educational Networks program, funded by the World Bank in Pasto, the capital of Nariño Department, aims to organize education providers in a single area using inter-school agreements that allow students to move freely from one school to another. Each network has a coordinator and a board, drawing its representatives from member schools. One establishment is designated the network hub. The network coordinates supply, exploits economies of scale, ensures an efficient flow of students and resources, and enjoys greater autonomy as a management unit.
- The MEN's New School System Program, with funding from the Inter-American Development Bank, supports decentralized management and autonomy within public education, and of more efficient, socially equitable allocation of resources. The program started at the end of 2000 for three-year terms in five departments and about 100 municipalities, covering 500 schools, which participate on a voluntary basis (IDB 1999).

### **The Bogotá Experiment: Public Concession Schools**

This section describes the concession schools model developed in Bogotá. This is a new model funded from the public purse, but it differs from the traditional concept of public schooling, and its design, at least, overcomes some of the limitations of traditional education and demand-side subsidies. Box 4-1 describes the political context within which this model was launched.

### **Rationale for the Concession Schools Program<sup>14</sup>**

The Development Plan for the Bogotá Capital District, drawn up during the mayoralty of Enrique Peñalosa (1998–2000), set a goal of 100,000 new school spaces to be located mainly in poor areas. The goal was to provide quality education to high-risk, low-income groups. The main question was how to deliver quality education quickly to Bogotá's most deprived sectors. For the program's designers, equity in education is about quality, not just access.

Part of the search for a solution was a study of other experiments in Colombia. The program arose from a critical analysis of both the traditional public model and alternative programs to provide coverage for low-income groups that the country had attempted in the 1990s, particularly the student voucher system and the purchase of spaces in private schools.

The program's designers identified three public and private supply constraints that would have to be addressed:

1. Although demand subsidy schemes established resource standards to control the quality of participating schools, they did not make results assessment a condition for the program's continuance. As a result, quality problems appeared; the Bogotá Capital District encountered such problems with demand subsidies.
2. Subsidy programs face problems of continuity for financial reasons or due to the natural process of changes in governors' and mayors' offices.
3. From the standpoint of the public system, expanding supply with traditional mechanisms has a number of obvious drawbacks: for instance, how can new teachers be mobilized to support program objectives with an education secretariat that lacks the institutional capacity to exercise leadership?

Analysis of these three points gave rise to the idea of concession schools, seeking a system that, while remaining in the public sphere, could exploit the administrative advantages of private schools and guarantee quality education.

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<sup>14</sup>The information used in this introduction to concession schools was generously provided by the Bogotá Education Secretariat. Special thanks go to Education Secretary Cecilia María Vélez; Planning and Finances Under-Secretary Sylvia Escovar; Planning Director Gloria Mercedes Álvarez; and Martha Franco, who played a prominent part in the program's design and implementation.

**BOX 4-1****Political Context of Program's Approval**

It is worth looking at the political background during the concession program's development because of what it reveals about the interest groups that carry out this type of innovation.

In approving the program's budget in August 1999, the Bogotá Municipal Council members expressed several concerns. The first of these was the danger of committing the sector's future budget and "mortgaging" education policy for the next 15 years. This recurring argument reflected the natural reluctance of any political entity to embark on a project that extends beyond the term of any individual government. Second, there were doubts about the reliability of agencies working in the social arena under the nonprofit label. Third, council members were worried about losing control over the new institutions in view of the autonomy granted to them and the private nature of their management. They expressed concern that schools might select pupils in a manner inconsistent with established criteria, or might introduce a fee regime like that of private schools. Last (though perhaps this was the chief concern), there was a fear of appearing to privatize education.

A minority offered stiff resistance to the project and decried it as "neo-liberal," but most council members supported it. The privatization argument was rebutted by making it clear that schooling would still be free and that schools would remain within the city's public education system. As to suspicions about the nonprofit sector, it was argued that public and private initiatives should join in tackling social problems since they are two potentially complementary forms of organization and regulation. It was noted that the strategic alliance between the public and private sectors could help overcome the lack of quality in education that is causing social inequality. Private sector involvement in public life makes sense if it is governed by rules that benefit the community.

**General Description**

The program auctions the management of new schools as concession contracts, inviting bids from private institutions that have scored high or above average on the Colombian Institute for Higher Education (ICFES) examination over the past five years.<sup>15</sup> The idea is to export the educa-

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<sup>15</sup>ICFES conducts a state-wide examination in the last grade of secondary education. Bidders must belong to the 201 institutions with the highest ICFES scores.

Objections to the employment status of teachers dissipated when it was explained that wage and other benefits would be in line with the national scale. Some council members welcomed the transfer of schools to concessionaires as a way to reduce the politicization of public education and the influence of trade unions and politicians over school administrators.

These council debates aroused little interest in the media. It was only later, when the first results were made known, that the program started to receive good press. People in the home municipalities of concession schools had varied reactions, however. In one town, the community mounted some initial opposition under the influence of armed groups, although an agreement was eventually reached to leave the school alone. In others, neighborhood action committees organized debates on the proposed concession schools; in some of these debates, teachers criticized the project on the grounds that it meant privatization of schooling. Most parents, though, were attracted by the idea of a good school with quality infrastructure and amenities, which would be free and whose teachers would not go on strike.

The council approved the program 23 to 8, and the project faced fewer political hurdles than expected. The teachers' union did not go on the offensive, primarily because the program did not involve any reduction in the official teaching or administrative workforce. There was a more severe clash, however, when the Education Secretariat decided to abolish non-statutory holidays and to take away a couple of days off.

The leadership of the education secretary and her team helped create a favorable climate for the project. They showed firmness and political skill in embarking on a program to strengthen public education. Their credibility convinced concession-holders to take part in the project, which would have been impossible otherwise.

tional management ability of schools of proven efficacy to the city's marginal or outlying zones where there is high unmet demand.

Concession contracts are entered into for 15 years to give the project stability, to ensure that children are not subjected to constant changes in school administration or teaching models, and to make the project attractive to prospective concessionaires. The latter are contractually bound to provide formal education services in the preschool, primary, and second-

ary school cycles to children from poor backgrounds, on specific premises, in return for a per capita fee. Since the goal is not simply to broaden coverage but also to ensure quality education, concessionaires must score higher than average on academic tests; under no circumstances can they have below-average results for two consecutive years. The concessionaires enjoy autonomy in school management, especially in the hiring of teachers and principals. The only condition set by the district is that all such hires must adhere to the law, with ensured payment of wages and benefits.

Schools are to be constructed with a minimum of 10,000 square meters and have space for 800 to 1,200 pupils, top-quality infrastructure, adequate layout and lighting, 24 classrooms, a recreation room, a science laboratory, two art rooms, three technology rooms, a library, and a multi-purpose playing field, all fully equipped. The total average cost per school is \$2.5 million, including the purchase of the land, construction, and school furniture and equipment. The quality of the building and its facilities should be a source of pride to the children and the community, and should raise their expectations about the learning experience. The schools should also be centers of social development for their communities.

Sixteen such schools opened in 2000 for the primary grades and started accepting secondary students in 2001. Another six schools opened in 2001; 17 more opened in 2002. When fully operational, the concession system should serve 45,000 students in 51 schools (averaging 880 pupils each) in a single-shift school day. This accounts for about 5 percent of Bogotá's public school spaces.

Concession-holders receive \$475 per child per year, which is less than the \$595 unit cost in Bogotá public schools.<sup>16</sup> Staff costs, including wages and social benefits, are calculated in the education "basket," as are educational materials, public services, security services, hygiene facilities, and a daily snack. Children must be admitted without meeting any selection criteria other than belonging to the lowest socioeconomic strata, and living near the school.

The project's total budget of \$294 million in 1999 was to be spent over 15 years. This funding represents an annual 6 percent of the Education Secretariat's regular budget and is financed from the ordinary resources of the Bogotá Capital District.

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<sup>16</sup>Note too that public schools offer only half-day schooling, while concession schools operate on a full-day schedule.

Concession schools are part of a comprehensive opportunities package involving coordination with other social development programs in the capital district. For example, the district's Department of Social Welfare builds a kindergarten on land adjacent to the school. The whole schooling cycle is thus united, from preschool to secondary school, organized around an Institutional Educational Project that guarantees continuity and consistency in learning.

Concession schools have specific features that set them apart from traditional public schools: a single-shift school day, the full educational cycle from preschool to secondary school, private management of human and financial resources, high-quality infrastructure and facilities, systematic results assessment with follow-up action, and budgetary stability through scheduled allocations.

### **Analysis of the Educational Concession Contract**

The concession schools model yields two types of advantages:

- those stemming from the contractual relationship that forms the basis of the program, with the protection that such a transaction affords; and
- those based on the concessionaire's ability to operate the service under private sector rules that facilitate management autonomy and efficiency.

The following is an analysis of the contract's main features.

**Goals and Legal Framework.** Educational concession contracts are concluded between the Bogotá Education Secretariat and a concessionaire, which must be a nonprofit organization with experience in education. The goal of the contract is the delivery of formal education at preschool, primary school, and secondary school levels in specific premises to children from low-income backgrounds in return for a per capita fee.

The aims of the contract are established with reference to Colombia's constitution, from which it cites three principles: the duty of the state and society, in support of the family, to provide public education; the right of families to choose the type of schooling they want for their children; and the right of individuals to offer education services. The constitution is cited to underscore the legal basis of the goal and its legitimacy.

**The Product and Its Assessment.** The contract specifies the conduct expected of the concession-holder, for which the goal is to use its non-profit mission of service for the benefit of Bogotá's poorest sectors by providing educational and administrative services to a set number of pupils. The contract provides for three forms of control over concession-holder undertakings:

- buildings management inventory, which is undertaken by an officer of the Education Secretariat or a contractor hired by it;
- supervision of compliance with rules on teaching by Education Secretariat staff under the legal powers of inspection and oversight applying to all education establishments; and
- assessment to measure the attainment of learning objectives, which is conducted by an independent individual or agency.

With regard to this last, the concessionaire must, according to the terms of the contract, conduct an independent assessment of compliance with common and specific objectives for each level of formal education provided in the school, and must be rated "good" or "very good" every year; test scores may not be "unsatisfactory" for two consecutive years. The contract may be terminated if the service delivered does not meet the expected standard as determined by an independent assessor. Thus the "buyer" (Bogotá's Education Secretariat) can suspend the transaction if the results are disappointing. This emphasis on the consequences of assessment is in stark contrast to the rules guiding traditional public education, where assessments have no practical effect.

The Education Secretariat finances assessments. It must announce the appointment of an assessor, and, two months after the assessment, it must make known the general guidelines to be applied in the next round. By contract, the independent assessor must be appointed for a period of not less than four years. He or she must have professional experience in managing, advising, and assessing educational establishments; be unrelated to either the Education Secretariat or the concession-holder; and have no links with any official bodies in the education field that might impair his or her independent judgment.

The idea is to ensure that independent assessors have the necessary technical ability and impartiality to make a reliable appraisal of the product's results and qualities. The assessor's characteristics and status should ensure a degree of independence that makes this a balanced transaction from the standpoint of the assessment and settlement of disputes, and



should prevent situations in which the district is both judge and interested party. The assessor is a third party issuing independent opinions and is not under obligation to other views, since this is someone with a technical rather than a corporate background, appointed for a period generally longer than that of the district administration (three years). This should limit the possibility of manipulation and support the assessor's impartiality.

In short, the desired conduct is clearly described, the result can be evaluated and measured, and its consequences are set out transparently. These consequences are also enforceable, since the law allows for both the termination of the concessionaire's contract and of its employment relations with teaching staff. The concession-holder has clear incentives to translate assessment results into concrete measures in the areas of technology, professional relations, and continuity of staff.

It is worth noting that the Education Secretariat has the power to redefine the attributes of the product while the contract is in force. The contract states that the secretariat should give the concessionaire an outline of each assessment one year before it takes place. This acknowledges the dynamic nature of education goals and the fact that the secretariat, as a government agency, has the right to demand an education product that is relevant. It is also fair to the concessionaire, which is given ample notice of the assessment criteria.

Communication between the parties is also contractually regulated. The concessionaire is entitled to view the reports of the three control bodies and to draft a response. Moreover, the independent assessor may be called on to interpret facts affecting either party's interests. Although differences might arise in the course of implementation, there is a commitment that the rights of pupils or third parties will not be harmed. The independent assessor is one of the referees in settling disputes that arise during implementation, particularly in contractual circumstances that have economic implications.

The dispute settlement mechanism is geared to direct and conciliation-based solutions, and includes an understanding by the Education Secretariat not to extend disputes or penalties to other establishments run by the same concession-holder. Disputes over the status, form, and terms of each side's obligations are placed before one or three mediators; more important issues are settled by one or three arbitrators named by the parties or by the Bogotá Chamber of Commerce.

**Use of Technology.** The concessionaire is autonomous and subject only to the restrictions imposed by law and the concession contract. The Institutional Educational Project is an integral part of the contract, and any amendments to its text become amendments thereto, after being approved by the Education Secretariat. The school established by the concession is a new one, different from any one the concessionaire had before. This is why the law provides that every PEI be submitted for approval. There are provisions for discrepancies concerning PEI approval to be resolved in court or through the dispute settlement mechanisms in the contract.

The concessionaire must finance all PEI requirements. It also must acknowledge that it has sufficient and detailed information about technology, its factors, supplies, and environment (that is, obligations, sites and assets, the general characteristics of the school population, availability of supplies and resources, and the regulations that apply). It may not cite any of these elements to allege unforeseen circumstances or alteration of the “economic equilibrium” of the contract.

There is no commitment to transfer a particular technology; in other words, there is no obligation to copy the teaching model used in the concessionaire’s original schools, but simply to contribute to the mission of service and not have “unsatisfactory” results. Thus, the concession-holder has ample leeway to adapt its technological know-how to the specific conditions of the target population. The idea is to use the concessionaire’s ability and accumulated knowledge rather than a predefined technology, leaving it free to use resources it has in other establishments or adapt them from third parties.

**Inputs.** The contract specifies the criteria to be considered by the governing board in allocating available spaces: the children of poor people living in the school district, respecting their right to equal opportunities. If there are not enough children living near the school, the secretariat may refer others from a similar background until the contract quota is filled. The concession-holder must continue to accept pupils until the specified number is reached. The population to be served by concession schools is characterized by a lack of education; serious gaps in basic knowledge; and social conditions that hinder learning, particularly violence within the family.

Although the model centers on results assessment, it also allows for the monitoring of certain supplies. This is because some supplies, such as

food and teaching materials, have a direct bearing on results. The concession-holder must provide each pupil with one daily meal of a specified amount and quality. The secretariat conducts random daily quality checks and submits a monthly report. It has the authority to carry out these checks, but the concession-holder has civil liability. It must also provide children with educational materials according to certain guidelines in the contract.

The model stresses quality, the achievement of shared and specific educational objectives, and the principle of equity. Administrative efficiency is, to some extent, implicit in and regulated by the per capita remuneration system; internal efficiency is an intermediary of quality as directly measured by performance tests; and equity should be ensured by the location of establishments and the pupil selection criteria mentioned above.

**Teachers.** The concession-holder is free to choose and hire teaching staff. Teachers must meet the legal requirements for their profession. Concession schools are autonomous centers and, as such, come under private law, especially in employment matters. Teaching contracts are governed by the Substantive Labor Code and in social security matters by Law 100/1993; there is no other legitimate labor arrangement. Coverage by the Substantive Labor Code means teachers do not benefit from the national Teaching Statute, particularly the job security it confers, but they are paid in accordance with the national pay scale for public school teachers.

Two aspects of private teachers' professional relations should be stressed in the context of concession schools. First, there is flexibility in hiring and firing, which is consistent with the contract's requirements concerning results. Flexibility in hiring allows price and quality to be attuned to the demands of the production plan, PEI, subject to given funding limits. The school can apply the same assessment criteria to teachers as the contract lays down for concession-holders. Second, the new contract not only brings teaching staff into an employment relationship in which their continued employment is linked to their performance, but also makes them members of a project with clear social aims that they share and with a motivational teaching approach. This is important because the incentives arising from the new contract are not only related to the flexibility of the employment arrangement, but also to building professional relationships

that are conducive to learning and the acquisition of knowledge—which is a key determinant of improvement in teaching quality.<sup>17</sup>

The non-economic incentives for teachers in concession schools became apparent in the program's early months. The extreme poverty and emotional deprivation of the children under their care have led them to identify strongly with the project. Indeed, this is one of the central tenets of the concessionaire philosophy.

The challenge for concession-holders is to establish an employment relationship that motivates teachers. The per capita remuneration scheme, as initially defined, makes possible a payment and service approach that rewards performance. However, it is important to foresee mid-term outcomes if this margin were to be lost and the concessionaire had to keep costs low by forgoing incentives and the prospect of guaranteeing results. Promoting teachers along the pay scale may drive up costs beyond the inflation rate. This is where the promotion system for public sector teachers amounts to a constraint, since it also applies to the private sector but the terms of employment do not. The concessionaire can exploit the flexible employment scheme to periodically adjust staff conditions for performance factors and build a model of continuity for the most committed teachers.

Designing incentives poses a challenge to the concession-holder. The need to keep real costs flat limits its ability to offer a career path to all teachers, but it also has to guarantee an education process that delivers the levels of achievement agreed to in the contract. Thus it must retain and foster a core of highly motivated and capable teachers to set academic standards for another smaller or larger group, whose members must regularly be changed to prevent staff costs from becoming too high.

***Economic Conditions.*** The value of the contract is not stated, but it can be determined because it is a unit sum multiplied by the number of students. Average annual remuneration per student came to about \$475 in 1999. The amount is reviewed in line with each year's inflation target and adjusted when the official rate is known (in December or January), so its peso value is preserved. It may also be recalculated for unforeseen

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<sup>17</sup>This is one of the conclusions of recent empirical studies on the subject. See Corpoeducación (1999); DNP (1997 and 2000); and Sarmiento, Becerra, and González (2000).

circumstances beyond the control of the concession-holder, in which case the contract will be amended to restore economic equilibrium, and attention will be paid to the views of the independent assessor. Late payment interest will be set at the highest rate.

Any surplus or loss is the responsibility of the concession-holder. The use of surplus funds is regulated by the legal requirements for nonprofit entities. If pupils drop out, the economic equilibrium can tilt in favor of the concessionaire. Should any extraordinary profits arise as a result—and subject to a favorable ruling by the independent assessor—this circumstance will trigger the relevant legal and contractual mechanisms to redress the balance in favor of the Education Secretariat. In any case, the secretariat will pay for the number of pupils specified in the contract, and must refer additional pupils to meet the quota if the concession-holder cannot find them. If one pupil leaves and another enters, there is no additional payment. Payment, ultimately, is not per student but based on the total capacity of each school as contractually defined. This is why retention rates are important. The quality of the infrastructure and staff, as well as the food provided, should encourage attendance, while mandatory supervision should minimize the risk of inappropriate selection.

Concession schools can charge academic fees to pupils in line with the framework in place for the public sector. Preschool and primary education, however, are free. Any academic fees paid (not enrollment or boarding fees) must be equal to those set for state schools. Enrollment, boarding, and academic fees can all be charged at the secondary school level, as in any state education institution. Concession-holders may keep revenues raised from these sources.

Concessionaires can use their schools' facilities, with the consent of the Education Secretariat, to provide additional services to the educational community, other schools, or community service organizations, provided contractual obligations are not affected. Such use should be the exception, and should not be geared to increasing income on a permanent basis. Any extra revenues raised should be used for students' welfare by improving assets and systems for educational use. Accounting records must specify clearly which costs and investments are devoted to such additional use. The idea is to remove any incentive to make commercial use of the resources granted and of the fees paid for formal education services.

## Concessionaires

As mentioned earlier, the selection criterion for the program was the educational quality of prospective service providers. The winners of the first procurement round to administer 16 schools were three *cajas de compensación familiar* (family benefit societies) running schools in Bogotá, along with the Don Bosco Education Foundation and the managers of the Gimnasio Moderno and Nuevo Retiro schools.

In Colombia, the *cajas* are private entities funded by 2 percent of the payroll of private companies and public institutions. Their purpose is to provide recreational, health, training, housing, and other services to affiliated workers. The three largest *cajas* are CAFAM, Comfenalco, and Colsubsidio, all of which have extensive experience in formal and nonformal education, and are responsible for excellent centers in several cities, including Bogotá.

The Don Bosco Education Foundation is a Catholic organization active in recent decades in developing educational initiatives in the poorest areas of several regions of the country. It has wide experience in teaching children and youth from the lower socioeconomic sectors. The Gimnasio Moderno Foundation manages a school of the same name, an elite Bogotá institution with a long tradition of academic excellence. The Nuevo Retiro Foundation also serves a student body drawn from high-income sectors (table 4-2).

This first group of concessionaires had an additional advantage that was not in the program: they were agents working for an objective, perhaps not identical to, but certainly in line with that of the principal. The concession brought two different “markets” on board: those of the *cajas* and of churches, both of which have appreciated the opportunity offered by the program to expand their influence in return for academic results.

A non-economic incentive, in terms of image and prestige, is important for concession-holders such as the benefit societies, which are striving to deliver the best results and to consolidate their reputation for providing a non-elitist, quality social service. To some extent, the program offers them a way to legitimize their function. There is potential for concession-holders to emulate one another; later, traditional public schools may want to do so as well.

The *cajas* consider their participation in the program to be in keeping with their goal of contributing to the social development of lower income

TABLE 4-2

**Holders of Colombia's first 16 concession schools**

<b>Concession-holder</b>	<b>District schools in concession</b>	<b>No. of schools</b>
Colsubsidio	Torquigua, Las Mercedes	2
Comfenalco	San Vicente, San Cayetano, Nueva Roma	3
CAFAM	Los Naranjos, La Esperanza, Bellavista, Santa Lucía	4
Gimnasio Moderno Foundation	Arborizadora Alta	1
Don Bosco Education Foundation	La Estrellita, Parques del Campo, La Joya, San José, Chuniza Famaco	5
Nuevo Retiro Foundation	Tintalito	1

**SOURCE:** Prepared by authors.

groups. As private entities serving affiliated workers, their involvement in concession schools is a continuation of their social endeavors, in which they can invest their accumulated experience and skills but not their financial resources. They see the experience of the concession schools as a way to expand social opportunities available to vulnerable groups, helping to create a fairer and more harmonious society, and shaping a more functional city.

Concession-holders share the Education Secretariat's belief that the program's success will broaden the education options open to citizens and revitalize public education. Plainly, this is an additional, political reason to perform well.

The concession-holders believe that working with the program's target public, drawn from the poorest sectors of the city, is both a challenge and an opportunity. The coordinator of the CAFAM concession schools program noted, "The school can bring a cultural change to families through their children, thanks to the emphasis placed on education in values, which is present in the school's daily practice and experiences. Children will experience a cultural contrast between the school and their family setting." One concession-holder, Colsubsidio, even turned its schools into centers of teaching research and innovation, in partnership with Javeriana University.

This willingness to meet the challenge of offering quality education with a contractual commitment to results reflects the institutional thinking and organizational culture of the concessionaires, traits that suggest their ability to generate learning, adaptation, and innovation—that is, to mobilize for change.

**Technological Advantages.** Concessionaires possess a pool of knowledge that is reflected in results. They start from a concept of the education process anchored in a commitment to and identity with certain goals; this provides unity and consistency to the process while reducing transaction costs. They work with a proven technology; a clearly defined concept of teaching; and projects revolving around human warmth, enjoyment, and individual initiative. These are valuable characteristics in view of the vulnerability of the program's target audience.

The concessionaires interviewed all had identifiable strengths in their selection of teachers, whose continuity is based on a performance assessment following clear-cut rules:

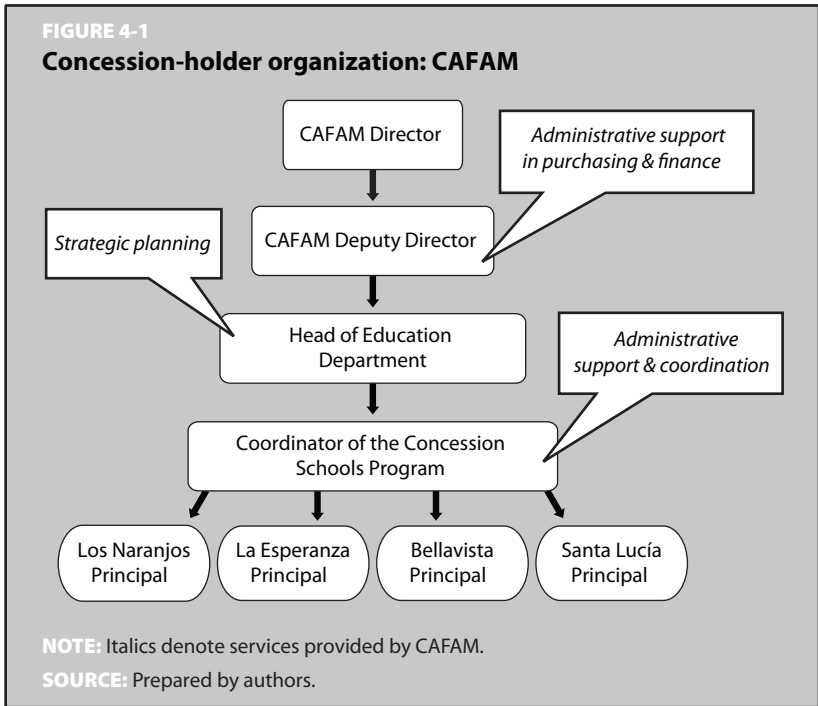
- The teacher knows the criteria on which his or her evaluation will be based.
- Self-assessment and co-assessment predominate.
- Staff members are familiar with the standards expected and can rate their own performance against them.
- Assessment is agreed upon, not imposed.

The managers interviewed agreed that the principal is the authority in matters of discipline, but disagreed about the degree of autonomy he or she should exercise (figure 4-1). For some, in line with the concept or style of their organization, principals have relative autonomy within the program, although in matters such as the termination of teacher contracts, the program reviews the principal's proposal. Others openly advocate a centralized concept of the school relative to the concession-holder, to guarantee results and put an institutional seal on the project. In any event, all agreed on the need to promote teamwork among teachers.

Figure 4-1 depicts CAFAM's organization; CAFAM operates four schools under the concession program. It is presumed that the principals' autonomy will increase as the schools develop. The concession-holder's infrastructure provides economies of scale in administrative functions.

This is only one possible way of distributing authority within a concessionaire. Each concession-holder can explore forms of organization that





best fit its institutional philosophy and the idiosyncrasies of the schools it runs. This section of the principal-agent chain (Education Secretariat → concessionaire → school) does not allow confusion about the powers of the service provider or sidetrack it from the process.

As to teacher qualifications, the concessionaires interviewed took the same approach: young staff with experience in teaching vulnerable or low-income groups, preferably involved in the past in educational innovation projects and specialists in their respective areas. Teachers must make a full-time commitment and work from 7 a.m. to 3 p.m. The principal should have at least one specialization and several years' experience.

Some of the teachers interviewed remarked that the credibility and seriousness of the concessionaire were key sources of motivation, as was the opportunity to take part in an interesting and well-defined teaching project. Teachers prized the professional environment of concession schools, despite the attractive job security of the traditional public system.

The teaching concept shared by all the concession-holders gives primacy to values and affection, and then to knowledge: "first affection, then

learning to read.” A common theme in several projects was the idea of educating for work.

**Links with the Community.** Part of the concessionaires’ purpose is to make their schools a center for the social development of the surrounding communities, attracting parents and other family members to the service opportunities the school offers. Benefit societies are especially adept at encouraging parental involvement in education, and some have formed alliances with neighborhood action committees.

The participation of parents and the community in school governance is supported by the Education Act. However, this participation may have little real influence on the institution’s management. In principle, there seems to be a potential for conflict between a governance mechanism that involves power sharing with the concession-holder and a contract that assigns economic consequences to its results.

Concession schools have wrought a change in attitudes that would take much longer to secure in the traditional public school system. Any visitor to these schools quickly appreciates the enthusiasm, affection, and cheerfulness of pupils and teachers.

### **The Outlook for Concession Schools**

The concession schools program marks a qualitative shift in approach to the provision of state-financed education. It seeks not only to overcome the constraints of the traditional public school model, but also to draw on lessons learned from programs offering direct subsidies to pupils and the purchase of spaces in private schools.

The program seems to be heading in the right direction to overcome the principal-agent problems of state education by aligning the goals of the principal (the district government) with the interests of the agent (a private supplier). This alignment is underwritten by a contractual relationship in which the product is painstakingly spelled out, results are given consequences, mechanisms are put in place to monitor agents, and incentives are introduced to motivate the agent to meet the principal’s goals.

Unlike traditional public education, or direct subsidies and vouchers, or the purchase of spaces in private schools, the concession schools program is clear in defining the attributes of the product both quantitatively (number of children) and qualitatively (learning achievement as measured by an agreed-upon benchmark). Moreover, mechanisms are set up to assess

the product and to apply penalties in the event of noncompliance with contract terms. An independent assessor acts as the arbiter of service quality. For the first time, the right conditions prevail to create a culture of monitoring educational quality with consequences for the service providers.

The program gives agents added incentives to meet the quality education goals set by the Education Secretariat. Fifteen-year contracts guarantee continuity to the suppliers and enable them to embark on long-term education projects. Since pupil financing is ensured, interested education institutions (innovative NGOs with a social agenda, religious organizations, benefit societies) have an opportunity to broaden the scope of their activities and/or to legitimize them in impoverished areas where they had little or no presence previously.

Competition among suppliers is another benefit. Not only are the best suppliers chosen competitively, but if they fail to comply with the terms of the contract, they are replaced. This is in contrast to traditional public education, where competition is nonexistent, and to initiatives such as direct subsidies or vouchers. There is no need to oblige families to switch from one supplier to another, but rather to oblige the suppliers to move around and justify their continuity with their results. In the education market serving the lowest income sectors, it is unreasonable to assume that forcing consumers to “shop around” among suppliers will cause schools to compete in terms of quality. The solution is to establish results-oriented incentives by ensuring that service providers in public establishments are replaceable. Supply moves rather than demand.<sup>18</sup>

The program is designed to tackle the most pressing management problems of traditional public schools: weak managers, the inability to choose teachers and administrative staff, the rigid employment scheme of public sector teachers, a dearth of basic supplies for schools to function, dependence on educational bureaucracies for all administrative requirements, the politicization of the sector, and the trade union’s influence over it. Since

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<sup>18</sup>One of the strategic strengths of the concession program is that it counteracts the idea implicit in direct subsidy schemes that markets emerge of their own accord and need nothing more than a number of consumers “with money in their pockets” (that is, without the concurrence of institutions that can facilitate a competitive transaction). The market needs to be created, and the concession format seems to hold out the possibility of one operating under competitive conditions. Among the most promising aspects of the Bogotá program is that it is a step toward a competitive transaction in which everyone can win, even in poor contexts with deficient social capital.

concession school infrastructure is public property, the element of choice lies precisely in the management. Concession-holders are free to hire principals, teachers, and administrative staff and to acquire the supplies they need to get results. They are experienced, successful educational administrators transferring and adapting their knowledge to a new context. They not only have the operational flexibility of private suppliers, but they largely escape the political pressures of patronage and the activism of the teachers' union.

As with direct subsidies or the purchase of private school spaces, the concession program works on the basis of a payment per enrolled pupil. The unit cost is based on a basket containing not just wages but also funds for textbooks, educational materials, and food. While traditional public education continues to finance inputs, the Bogotá program is designed to finance results, at a lower unit cost than the official sector and while providing a full day of classes (much more than the traditional public schools, which work on a split-shift basis).

Direct subsidies and the purchase of private school spaces were a fast-track method—and less expensive than the traditional public system—to expand educational coverage in various areas of the country. But they have suffered problems of quality and continuity. For example, direct subsidies and the purchase of school spaces failed to capture the interest of private actors ready to make the investments in infrastructure and equipment needed to ensure educational quality. As to continuity, most of these experiences have suffered as a result of the fiscal problems of regional and municipal governments during the recent economic crisis. The concession schools program, by contrast, has found a dual-track method to garner high-quality private suppliers: the district government provides quality infrastructure and facilities, and it offers a contractual guarantee of long-term financing.

The concession schools program is additional proof that the old dichotomy between public and private education should be overcome. By taking positive elements from both systems, this experiment has created a wholly new model with much potential. The Bogotá experience is a kind of laboratory that offers the country and the region a rare opportunity to explore the possibility of forging public-private alliances for the management of education services in marginal areas.

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## CHAPTER 5

# THE PRESENT AND FUTURE OF PRIVATE EDUCATION IN GUATEMALA

*Jorge Lavarreda, Vilma de Liú, and Manuel Menjívar\**

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In Guatemala, education is a right guaranteed by the state to all citizens; article 71 of the country's 1985 constitution mandates that the state provide education and make it available to everyone without distinction. Further, article 73 guarantees parents the freedom and right to choose the kind of education to be given to their children. In accordance with this mandate and with Executive Law Decree 114-97, the Ministry of Education (MINEDUC) must be responsible for "all matters concerning the application of the law to school and extracurricular services for the education of Guatemalans." To that end, it must "devise and administer education policy, ensuring the quality and coverage of public and private education services, as provided by law." Because private institutions are recognized providers of education services, the state must confine its participation to those functions not performed by private initiative (subsidiarity principle). This is made explicit by article 118 of the Guatemalan constitution, which reads: "When necessary, the state shall act to supplement private activity."

Guatemala has a high illiteracy rate. According to the 2002 National Population Survey conducted by the National Statistics Office, 31 percent of the population aged 15 and over was illiterate, with an 18 percent rate of illiteracy in urban areas and 44 percent in rural. The country also has problems with its educational coverage and quality, which makes it vital to study ways to move the system forward using private establishments as part of an overall response to these shortcomings.

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This chapter begins with a description of the current state of education in Guatemala. It then analyzes the private education sector<sup>1</sup> from the standpoint of the actors involved, using information gathered from surveys of private school principals and parents, interviews with MINEDUC officials, and information furnished by the ministry and individuals or agencies working in the field of education. The final sections present the conclusions drawn from the research and some recommendations for the future.

## **Profile of Education in Guatemala**

### **Population Features**

Estimates by the National Statistics Office put the country's population at 12.4 million in 2004. About 23 percent of the population lives in the department<sup>2</sup> of Guatemala, mostly in the capital. Guatemala has a youthful population, with as much as 54 percent in the 0–19 years age range. It is a multilingual, multicultural society. Although the official language is Spanish, residents also speak 21 Mayan tongues, Xinka, and Garifuna. In 2002, 52 percent of the population was living in rural areas, and 40 percent belonged to indigenous groups. Guatemala has one of the highest illiteracy rates in Latin America (31 percent in 2001) and one of the lowest gross enrollment rates in primary, secondary, and higher education combined (57 percent in 2000–01) (UNDP 2003). Data from the country's 2003 National Household Income and Employment Survey found a 24 percent illiteracy rate in the labor force. These low rates of education and literacy lead to low productivity, which in turn impairs the country's global competitiveness and limits human development.

### **The Education System's Legal Framework**

The Guatemalan constitution, written in 1985, establishes that all people have the right to education. Despite this constitutional mandate, the

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<sup>1</sup>For purposes of this chapter, *private education sector* refers to the establishments so classified by MINEDUC through its Information Technology Unit. It has become apparent, however, that this classification is unrelated to the source of financing or to the school's management model.

<sup>2</sup>A department is the main territorial administrative unit in Guatemala, equivalent to a state or province in other Latin American countries.



National Economic Research Center (CIEN) estimated that in 2003, approximately 800,000 children aged 7 to 15 were not attending school.<sup>3</sup>

The country's education system is regulated by the National Education Act (Legislative Decree 12-91), which has been in force since January 12, 1991, but for which no implementing regulation has yet been written.<sup>4</sup>

The act defines private schools as "establishments run under private initiative that offer educational services in accordance with the regulations and provisions approved by the Education Ministry..." They must operate under the terms set forth by the country's constitution (article 73) and are "subject to an authorization granted by MINEDUC when they meet the conditions laid down in the specific regulation."

Although the act states that "MINEDUC will draw up an implementing regulation to govern the operation of private schools," no regulation has yet been issued, leaving a legal vacuum that is currently filled by the requirements of the Education Act of 1977 and MINEDUC's 1988 Circular 9-88, "Documents to Be Enclosed with Applications for the Establishment and the Initial or Renewed Operation of Private Schools." Beyond these, the rules governing private education are scattered among various laws, government resolutions, ministerial resolutions, and internal MINEDUC circulars; thus, it is not easy to become familiar with and implement them correctly.

### **Structure of the Education System**

The National Education System is made up of MINEDUC, the educational community, and both public and private sector educational establishments. The system was restructured during the 1990s when the National Education Act of 1991 set it on a new course and established two subsystems: the Formal School Subsystem and the Informal School or Parallel Subsystem.

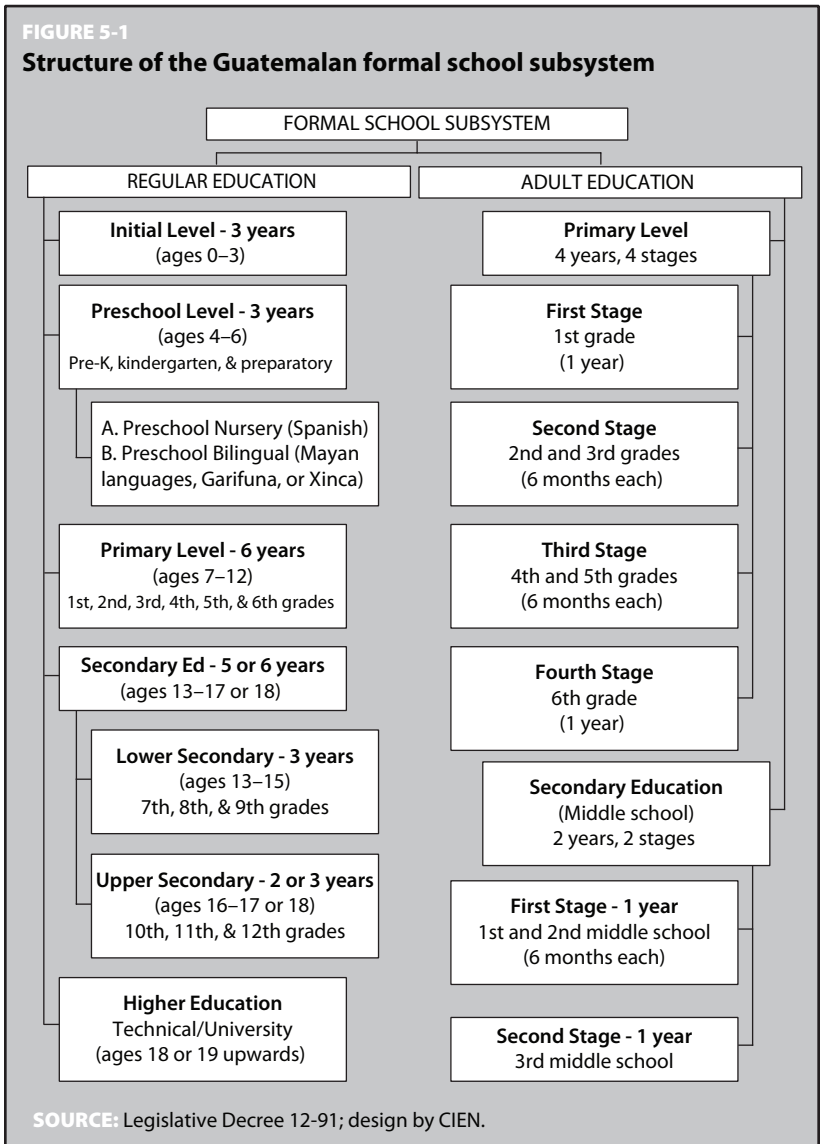
***The Formal School Subsystem.*** This framework for education delivery in schools is organized into *levels* (initial, preschool, primary, and

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<sup>3</sup>The CIEN estimate was based on student enrollment figures from MINEDUC and population projections by age group from the National Statistics Office.

<sup>4</sup>Article 105 of the act sets a limit of 60 days from its passage for the drafting and approval of implementing regulations; article 106 states that "the educational regulations in place when this law is enforced shall continue to apply unless they are contrary to its terms."

secondary), *cycles* (lower and upper at the secondary school level), *grades*, and *stages* (intensive learning for adults), with *study programs* structured around curricula devised in a flexible, gradual, and progressive manner and geared to national education goals (figure 5-1).



***The Informal School Subsystem.*** Informal education is guided by didactic-pedagogical principles, but does not follow a strict order of grades or ages or a rigid system of knowledge acquisition. Rather, the aim is to train students to develop their own social, cultural, and academic skills. Such schooling is designed for population groups that have been excluded from or lack access to formal school education.

### **The Academic Year and Daily Schedules**

The ordinary academic year in both the public and private sectors starts in January and ends in October. Some schools continue classes into November, and a very small number follow the U.S. system (September to May). MINEDUC requires a minimum 180-day academic year. As to hours, schools are divided between those offering a single shift and those offering a double shift. Single-shift schools can have morning, evening, or night hours.

The directors of each education level approve the school schedule in line with the recommendations of supervisory staff on the basis of the particular demands arising from the geographic and socioeconomic conditions of each region. Interestingly, the academic year is longer in private schools than in public. This is partly because public schools have very little supervision (especially in rural areas), so teacher absenteeism is more widespread. Conversely, the tighter control exercised over private and National Program for Educational Self-Management (PRONADE) schools means less teacher absenteeism and fewer school days lost during the academic year.<sup>5</sup>

### **Courses and Programs**

The goals of Guatemalan education, and therefore its component courses and programs, focus on the student as the center and subject of the educational process. As stated in the National Education Act, the aim is to provide “an education based on human, scientific, technical, cultural, and spiritual values that form the whole individual, prepare him to be part of the world of work and the community, and open up opportunities for social advancement.” MINEDUC, through the National System of Human

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<sup>5</sup>PRONADE schools are discussed in box 5-1.

Resource Improvement and Curricular Adaptation (SIMAC),<sup>6</sup> has been responsible for updating the curriculum for the past 15 years. Since 2001, the Education Development and Quality Directorate was created within SIMAC to reorient its original goals. Some of the plans and programs considered current, however, date back to 1969 and are known as the subject curriculum. In 1997, MINEDUC devised a better organized and more refined version of the Curricular Guides and Methodological Guides for the Primary Education Cycle (which covers the last year of the preschool level and grades 1, 2, and 3) and the Supplementary Education Cycle (which covers grades 4, 5, and 6), incorporating recommendations by specialists from teacher training colleges and the public; these were garnered through a conference on the subject organized by SIMAC in 1991. With their experimental, dynamic, and functional approach, combined with their size and substance, the guides should be viewed as primers with a training approach. The core proposal has been termed a process-centered curricular guide.

In 1998, the Commission for Educational Reform published the paper "Design of Education Reform." In 1999, the Consultative Committee for Education Reform unveiled its "Long-Term Plan for National Education, Preliminary Version." In 2002, this same committee, in conjunction with MINEDUC, organized the National Dialogue and Consensus for Educational Reform, one of whose aims was to reach an agreement on transforming the curriculum.

The private sector enjoys some degree of freedom in terms of both curricular design and supervision. This flexibility, and the nascent national learning assessment system (discussed later in this chapter), has led to a proliferation of vocational courses at the secondary school level in private schools (e.g., offering upper secondary level instruction in cosmetology and municipal administration, and specialist training in policing techniques, typing instruction, and radio and television); 162 of these courses were officially recognized by MINEDUC as of 2000. As a result, students often have a bewildering array of subjects from which to choose.

This rush to introduce new courses has done little to improve the quality of schooling. The placement and admission exams that students must take for entry to universities show a decline in academic

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<sup>6</sup>SIMAC was founded in 1989 with technical support from the Dutch government. This ministerial department is responsible for the ongoing improvement and updating of the school curriculum and for the ministry's human resources. See MINEDUC (1999).

performance over the 1996–2000 period. In 2004, only 17 percent of the high school graduates who took the test achieved a satisfactory result. Applicants' low scores have led some university rectors to suggest that the private education system (from where most university students come) is experiencing a serious crisis of quality.<sup>7</sup> Successful students mostly come from private schools rooted in some kind of tradition (religious or lay schools with a personalized and/or Americanized study system). Thus, both the private and public sectors are in need of an overhaul, not just in their study plan but across the entire curriculum.

### Education Institutions

The National Education Act groups schools into three basic categories: public, private, and cooperative. The Information Technology Unit of MINEDUC further classifies schools based on their sources of funding and form of management (table 5-1 and box 5-1).

**TABLE 5-1**

#### **Types of schools in Guatemala by funding and management**

<b>Sector</b>	<b>School</b>	<b>Funding</b>	<b>Management</b>
Public	Traditional	Total public	Public
	Municipal	Total public	Public
	Cooperative	Partial public	Public
	PRONADE	Total public	Public
Private	Private for-profit & nonprofit	Total private	Private
	Subsidized nonprofit	Partial private	Private

**SOURCE:** MINEDUC, Information Technology Unit, n.d.

<sup>7</sup>“Private schools are responsible for the failure of thousands of students who could not enroll at the San Carlos University, since they did not pass the entry exams because of their lack of knowledge,” this rector noted (*Al Día* 2000). The secretary general of Del Valle University, interviewed by CIEN, remarked that the failure of students stems from the existence of numerous courses of substandard academic quality offered in the private sector. The head of admissions in the Economics Department, the head of guidance at Francisco Marroquín University, and the director of the School's Guidance Program at Mariano Gálvez University agree that each year's entering students from both sectors perform poorly in mathematics and language (especially the latter). These impressions were recorded in interviews conducted in November and December 2000.

**BOX 5-1**

**Cases of Government-Community Partnership**

**Cooperative Schools**

*Definition:* Nonprofit establishments under departmental and municipal jurisdiction that meet educational demands at different levels within the school subsystem. In 1999, there were 130 such schools in place.

*Financing:* Provided by municipal government, parents, and MINEDUC.

*Structure:* Cooperatives are organized and run by the local council, teachers wishing to participate, and members of the parents' association.

**PRONADE Schools**

*Definition:* MINEDUC program whose mission is to improve the coverage and quality of education services and extend the reach of primary education in rural areas. PRONADE supports the organization and operation of self-managed rural schools.

*Financing:* Provided mostly by MINEDUC, but the program has also received financial support from international agencies, including loans from the World Bank and donations from the German bank KfW. Its management strategy is social decentralization with local community administration.

*Structure:* PRONADE is organized and managed by the following bodies:

- The Executive Unit in Guatemala City is in charge of program coordination.
- Education Service Institutions—private institutions, foundations, and national and international nongovernmental organizations—are entrusted by MINEDUC with identifying, organizing, and formally constituting Education Committees in each community; training committee members and the teaching staff of program schools; and monitoring and compiling information on self-managed schools and the communities they serve.
- Education Committees have general management responsibility for the education process—i.e., hiring and paying teachers, providing food, buying school materials, supervising the attendance and performance of teaching staff and pupils, working in partnership with the community, and deciding on the school calendar and daily schedule.

**SOURCES:** Legislative Decree 12-91 and MINEDUC (2000).

During the 1991–2003 period, private schools outnumbered public schools at both the lower and upper levels of secondary education (table 5-2).

### Authorization and Termination of Private Schools

Each departmental education directorate in the country is responsible for authorizing the operation of and any changes to private schools within its jurisdiction, in accordance with current legislation, and for supervising their administration and the quality of education they impart. Applications to open a private school must be approved by educational supervisors on the basis of a favorable report from the departmental directorate and from SIMAC (figure 5-2). Supervisors have no deadlines for making their visits and issuing their reports, and the authorization process can take several months. Each departmental directorate has an academic control unit, whose duties include ensuring that all requirements for opening a private center are met (box 5-2). The hardest conditions to fulfill are generally related to the quality of the teaching staff, health and safety standards, and registration with the Teacher Qualification Board to set wage levels.

The application process has no fixed deadlines either for the submission of documents or for making a decision on the application. Some changes were introduced in 2000 (at least in the Guatemala Departmental Directorate) to hasten the authorization and start-up of private schools. Although no strict deadline was set for completing the process, the rules say that decisions should be issued within 15 to 60 days.

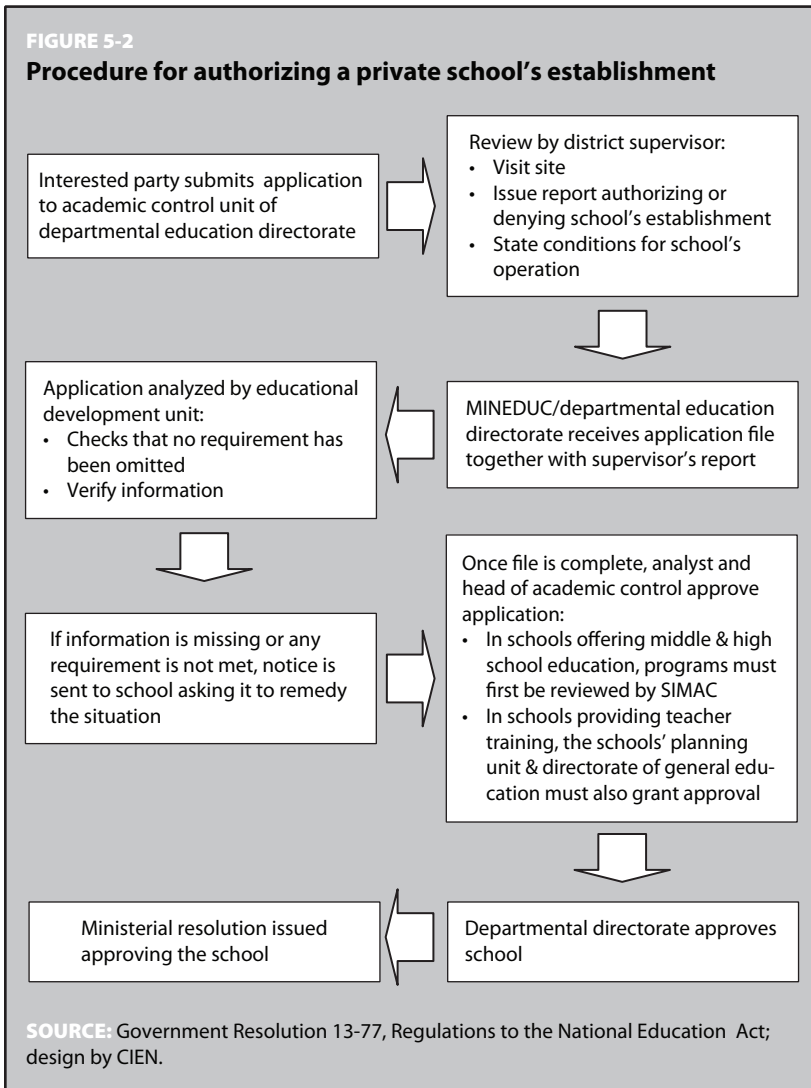
Private schools may be closed by the owners or by order of the MINEDUC authorities when some serious infraction has been committed. In the former case, the interested party must give written notice to the departmental directorate stating the reasons for the closure, and must turn

**TABLE 5-2**  
**Number of public and private schools by education level, 2003**

Level	Public	Private
Preschool	8,727	1,917
Primary	14,274	2,335
Lower secondary	1,400	2,185
Upper secondary	271	1,675

**NOTE:** Because MINEDUC records data on a by-level, rather than by-school, basis, the total numbers of public and private schools may be overestimated.

**SOURCE:** MINEDUC Yearbook 2003.



over all administrative documents as well student transcripts. This process must begin six months before the start of the new academic year. In the latter case, any anomalies detected by school supervisors are entered in a technical-administrative file set up for the purpose of evaluation. This file is examined by the departmental directorate, which may order the school's temporary or permanent closure.



**BOX 5-2****Conditions for School Authorization**

Anyone seeking authorization to operate a private school in Guatemala must present an application to MINEDUC certifying, among other conditions, the following:

- That the technical director is Guatemalan, and is either a qualified teacher or a university graduate in education who complies with the conditions of Legislative Decree 1485 Provisional Statute of Central Government Employees on the Status and Qualifications of National Teaching Professionals; and that the administrative director has education experience.
- That principals have good reputations and legal standing.
- That the buildings, facilities, materials, and furnishings meet the relevant pedagogical conditions and health standards.
- That a description is given of the education services offered, the principles and guidelines under which the center will operate, the maximum number of students per grade, and the price of educational services.
- That teachers are qualified to practice in state-run establishments. Foreign staff must also fulfill the provisions of the Employment Code.
- That the school will comply with all laws, regulations, and specific provisions of Ministry Circular 9-88 (1988).

**SOURCE:** Forms available from the Guatemala Departmental Education Directorate.

Closure of public schools is at the discretion of MINEDUC and tends to occur in response either to budgetary concerns (as with the now defunct teacher training colleges) or to a shortage of teachers (especially in rural areas).

### **School Fees**

The Education Act states that private schools may only charge the fees explicitly authorized by MINEDUC. They are also prohibited from demanding any additional contributions for education services in the form of vouchers, donations, or other fees. Schools may only apply to increase their authorized fees by up to 15 percent every three years. The setting and approval of school fees and the authorization of increases sought by private establishments depend on the economic status of the school popula-

tion and the kind of service offered. In practice, the school owners set the amounts to be paid (enrollment and monthly fees), subject to the approval of the departmental education directorate.

Because of the cap imposed on school fees, private schools must find other ways to cover their operating costs; they generally do so by charging for extras such as educational materials, textbook sales and rentals, uniforms, school buses, insurance, etc. These extra charges average from between \$20 to more than \$65 per student per year. Research has shown that although school fees have a legal limit, compliance with this limit is rarely checked unless a parent lodges a complaint. Nor are figures available for such cases, since complaints are not entered into a database.

Public establishments are prohibited from assessing extra charges, but they reportedly disregard this rule.<sup>8</sup>

### **Hiring, Paying, and Training Teachers**

Teachers in private schools are entitled to minimum wage and benefit rights, according to the constitution. Beyond that, each private school makes its own rules on staff hiring, wage levels, and the criteria that determine them. Wage levels vary depending on negotiations between employers and teachers, and each candidate's specialization and years of experience. A survey of principals and parents conducted by CIEN in October and November 2000 (discussed in the next section of this chapter) shows that private sector monthly salaries during this period ranged, in most cases, from \$129 and \$180 at the lower end to \$643 and \$771 at the high end. The higher salaries were paid to staff with a substantial level of specialization at the bachelor's or master's degree level in a given subject.

There is no standard promotion system in private education. Teachers have the right to be graded by MINEDUC's Staff Rating Board and to be assigned a level on its scale; while working in the private sector, however, they are not entitled to the economic benefits associated with their accredited level.

Teaching performance is generally not a factor in staff pay. The PRONADE experience indicates that teachers in this program perform bet-

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<sup>8</sup>There have been cases reported of public schools where parents have to pay about \$7 per child (annual fee) at the start of the year for school repairs (\$4.50), maintenance (\$1.30), and supplies (\$1.20). Despite what the law says, MINEDUC is not informed of these first two charges. The third is set by mutual agreement between the school and parents.

ter than those in traditional public schools because they come under the direct and regular supervision of the parents hiring them. However, working in traditional public schools is attractive for teachers because they cannot be removed from their posts under the terms of Decree 14-85, and are subject to much less supervision than their private sector colleagues.

In both the public and private sectors, teaching quality and pay seem to have moved apart substantially over time.<sup>9</sup> Consequently, permanent or on-the-job training and better incentives should be implemented.

### **Educational Oversight**

Article 72 of the Education Act stipulates that educational supervision is a technical-administrative process of advising, guiding, monitoring, coordinating, and evaluating the teaching-learning process in the National Education System. A diagnostic study conducted by MINEDUC in 1998 with the support of the Rafael Landívar University pinpointed the main difficulties of the supervisory system. Although the duties it should discharge were technical-pedagogical as well as administrative, in practice the latter took up all the supervisors' time. Basic technical functions such as research, planning, guidance, and assessment had almost no place in supervisors' daily work (MINEDUC 2000). The supervisory process in private education was further hampered by a lack of personnel. There were 13 supervisors in the Guatemala Departmental Directorate in 1999, with each supervisor responsible for 200 to 500 schools. MINEDUC is currently looking at ways to restructure the educational supervision system.

### **Financing**

The government launched a modernization drive in the 1990s, which gave private initiative substantial involvement in MINEDUC's plans. At the same time, more central government funds were allocated and spent under the Education, Science, and Culture budget line (table 5-3). Although the percentage of gross domestic product (GDP) earmarked for education has been rising, it is still necessary to increase support to keep pace with projected demand.

MINEDUC granted subsidies to nonprofit private institutions as a complementary strategy to extend coverage. This opened the door to alter-

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<sup>9</sup>See MINEDUC and Consultative Committee on Education Reform (2000), pp. 29–30.

TABLE 5-3

**Public education budget compared to GDP and total government expenditures, 1996–2004**

Year	Nominal GDP	Total central gov't expend.	Education, Science, and Culture expenditures			MINEDUC expenditures		
	millions of quetzals	millions of quetzals	millions of quetzals	% total	% GDP	millions of quetzals	% total	% GDP
1996	95,613.9	9,914.4	1,504.6	15.2	1.6	1,270.6	12.8	1.3
1997	107,915.5	12,618.2	1,900.0	15.1	1.8	1,282.6	10.2	1.2
1998	121,687.7	16,637.0	2,617.1	15.7	2.2	1,690.9	10.2	1.4
1999	133,577.3	19,239.2	3,285.3	17.1	2.5	2,143.6	11.1	1.6
2000	149,743.0	19,801.2	3,629.2	18.3	2.4	2,534.0	12.8	1.7
2001	164,870.1	22,182.2	4,445.3	20.0	2.7	3,062.1	13.8	1.9
2002	181,996.4	23,512.4	4,597.9	19.6	2.5	3,157.8	13.4	1.7
2003	196,396.3	27,542.1	5,172.1	18.8	2.6	3,386.7	12.3	1.7
2004	218,332.5	27,069.4	5,334.7	19.7	2.4	3,691.0	13.6	1.7

**NOTE:** The quetzal-dollar exchange rate varied from 6.4 quetzals to the dollar in 1996 to 7.9 quetzals to the dollar in 2004.

**SOURCES:** Bank of Guatemala Statistical Bulletin, n.d.; Ministry of Public Finances, National Budget Income and Expense Account, n.d.

native forms of partnership financing to ensure that people participated in the education system and encouraged innovations in education reform. Subsidies to private schools began officially in 1997, although some precedents, involving presidential resolutions, date from 1995. Obviously, real costs remained significantly higher several years later. For schools serving displaced populations, by contrast, the subsidy per pupil is equal to the average cost per pupil at traditional public schools. Other educational institutions receive a percentage of what they sought from MINEDUC, depending on the area, sector, and real needs that are identified. Subsidies are calculated on a per student basis, but are earmarked (at least on paper) for the payment of teacher salaries. The amount paid—at least in the case of Association of Mayan Secondary School Education Centers (ACEM)—covers only 13 percent of the salary of a preschool teacher, 30 percent of that of a primary school teacher, 43 percent that of a middle school teacher (for nine months only), and 36 percent that of a high school teacher. In

some cases, however, a proportion of the subsidy is used for other operating expenses or school improvements, such as administrative staff salaries, maintenance, technical expenses, and training.

As of 2001, MINEDUC launched another mechanism, *wage subsidies per teacher*, granting 90 percent of the wages budgeted for traditional public school teachers to institutions providing all services free or at a negligible rate, and engaging in innovative educational practices (for instance, Fé y Alegría).

Rather than call this financing a subsidy, the authorities at MINEDUC's Unit for National and International Cooperation prefer the term "partnership agreement." Payment is collected when schools receive notice from the departmental directorate that a check has been issued. Onsite internal (financial) audits must be conducted at least every two years in schools serving fewer than 1,000 pupils and every year for schools with more than 1,000 pupils. Agreements have a fixed duration (from three to five years) and can be renewed with MINEDUC approval.

By 1998, the subsidies program was covering nonprofit institutions at the preschool, primary, and secondary school levels in at least eight of the country's departments, providing education to children from low-income families in rural and marginal urban areas. These schools also made an important contribution to educational quality by experimenting with participatory methods and forms of teaching more attuned to a multilingual and multicultural country like Guatemala. Among the institutions that have made the greatest contribution in this respect, in addition to PRONADE and the cooperative sector, are Fé y Alegría, the Don Bosco Education Foundation, the Talita Kumi Center, and ACEM's rural area centers (47 bilingual schools in communities of returning displaced persons).

The previous administration, far from supporting schemes that improved the administrative management of education funding, opted to recentralize it and to minimize the role of private initiative. For instance, educational service institutions had their teacher training authority withdrawn in 2000; they were slated to disappear altogether, with their work transferred to departmental directorates.<sup>10</sup> The 2001 state budget, more-

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<sup>10</sup>*El Periódico* (2001) reported that PRONADE "will run a pilot scheme to evaluate options for carrying on the work of the Educational Service Institutions... The [German bank] KFW representative said that of the more than 2,500 projects they support worldwide, only eight have been accorded a perfect rating. PRONADE is one of them."

over, although it allocated more funding to education, cut funding for precisely those successful programs run in partnership with private initiatives, such as PRONADE and the National Literacy Committee (CONALFA) (table 5-4).

TABLE 5-4

**MINEDUC budget, 2000 and 2001 (millions of quetzals)**

Entity	2000		2001	
	Sought	Approved	Sought	Approved
MINEDUC total budget	2,692.3	2,692.3	3,776.0	2,795.3
PRONADE	331.0	179.0	383.0	150.0
National Literacy Movement	n/a	35.0	75.7	25.0
CONALFA	55.1	56.7	200.0	88.0
Contribution to cooperative education	n/a	n/a	34.0	25.1

n/a = not available

**SOURCES:** Congressional Decrees 47-99 and 85-2000.

The cutbacks in PRONADE's budget left thousands of teachers and pupils in rural areas unsure about their 2002 learning cycle. The actions of the MINEDUC authorities toward PRONADE suggested a move to recentralize the administration of funds.<sup>11</sup> A total of 39 institutions in the capital and the interior received financial support in 2000, and an increase of approximately 15 percent had been projected for 2001. Nonsubsidized private schools mainly financed themselves through school fees and occasional donations. Costs per pupil are almost double those in the public sector. The number of pupils per class is smaller, except in the large, traditional schools which have between 40 and 50 students per class.

<sup>11</sup>In an interview with CIEN in December 2000, the MINEDUC head of Modernization and Decentralization remarked that the ministry had centered all its attention on the "modernization process" begun during the previous administration and on the literacy movement. It is clear, however, that the modernization process, as it now stands, is geared more to a "deconcentration" in PRONADE's case than to decentralization with private enterprise involvement.

## Tax Treatment

In Guatemala, private schools are constitutionally exempt from all kinds of taxes. Higher education, both public and private, also enjoys a wide range of benefits. In theory, then, all private schools, whether for-profit or not, plus universities should be fully exempt from the following taxes: personal income tax, value-added tax, property tax, and corporate income tax. In fact, the only law that specifically grants exemption for both private non- and for-profit schools is the property tax law.<sup>12</sup> In sum, while public and private universities are not liable for any kind of tax, private for-profit schools must pay the personal income tax, value-added tax, and corporate income tax.<sup>13</sup>

## Coverage

Education in Guatemala was in the hands of the church in the 16th, 17th, 18th, and first half of the 19th centuries. It was the declaration of Central American independence in 1821 that established public instruction as compulsory, free, and secular. This declaration did not stop individuals from founding more private schools, however. The situation changed radically during the Liberal Reform (1871–98), when private education was eclipsed by public schooling. The dictatorship period that followed brought the militarization of education and a new increase in private schools. Finally, the revolutionary decade (1944–54), and the counterrevolution and civil conflict that ensued, sowed the seeds for the democratization and development of an education culture and the growth and expansion of services, both public and private. Also at this time, the legal foundations were laid for educational activity. Note that universal primary education has been sought in all periods from independence to the present day without ever being achieved. Coverage at all educational levels remains low (table 5-5).

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<sup>12</sup>Article 12 of the Property Tax Decree (Decree 15-98) states:

For the purposes of this tax, the following entities shall be exempt from any liability in respect of real property: ...4. San Carlos University and other universities legally authorized to operate in the country; 5. Duly authorized religious entities, providing the real property is used for the purposes of worship or for educational or social welfare services, and that such services are open to all and free of charge; 6. Private Education Centers devoted to teaching, which follow official programs and study plans; 7. Professional associations...

<sup>13</sup>In one of the surveys conducted for this study, some school principals reported paying personal income tax, value-added tax, and property tax.

**TABLE 5-5**  
**Net rates of schooling, 1995–2003**

Level	1995	1996	1997	1998	1999	2000	2001	2002	2003
Preschool	19.8	20.7	22.7	24.7	32.8	37.5	41.3	41.9	44.2
Primary	69.2	69.1	72.5	77.7	81.1	84.3	85.1	87.5	89.2
Lower secondary	20.3	19.9	20.4	20.3	21.4	24.0	28.4	27.5	28.9
Upper secondary	11.3	11.3	12.1	12.2	12.7	15.0	15.8	16.7	17.3

**SOURCES:** MINEDUC Yearbooks 1995–2003.

There was no significant change in educational coverage until 1997. Table 5-6 shows the marked advance that occurred from 1998 onwards, concentrated in the preschool and primary levels, which are served mainly by the public sector. These improved indices stem from MINEDUC's coverage enhancement policy, which devotes special attention to rural areas, the schooling of girls, and bilingual and intercultural education. Enrollment in the middle and high school levels of secondary education remained much the same as in previous years. The strategy to extend cov-

**TABLE 5-6**  
**Private sector share of total enrollment by level, 1995–2003**

Year	Preschool		Primary		Lower secondary		Upper secondary	
	Total enrollment	% private	Total enrollment	% private	Total enrollment	% private	Total enrollment	% private
1995	208,870	32.9	1,496,429	16.9	246,056	45.7	125,866	74.1
1996	217,748	31.7	1,535,127	16.8	246,622	45.1	128,638	73.9
1997	222,703	30.4	1,567,493	16.3	252,171	44.0	132,156	74.4
1998	245,831	27.9	1,707,425	15.9	259,580	44.5	139,507	74.7
1999	308,240	21.6	1,844,987	14.9	288,621	45.4	146,291	75.8
2000	351,825	19.6	1,936,738	12.8	343,033	47.2	160,851	75.5
2001	387,585	19.3	1,999,309	12.8	373,163	46.7	174,750	75.9
2002	393,728	19.3	2,105,613	11.9	414,324	47.2	194,096	74.7
2003	399,842	19.8	2,195,929	12.2	444,345	46.9	210,225	73.7

**SOURCES:** MINEDUC Information Technology Unit; CIEN estimates.



erage at the preschool and primary levels was spearheaded by PRONADE, which by 2003 was serving 386,544 children in rural areas (MINEDUC Yearbook 2003). PRONADE makes a sizable contribution to national education coverage. With this program in place, the gross rate of schooling at the primary level rose from 86.8 percent to 99.8 percent in 1999 alone.

The private sector has a significant share of enrollments, but the trend is downward. Specifically, in the 1995–2003 period, the private sector share of preschool and primary level schooling dropped, although its share of lower secondary school enrollment rose slightly. The private sector caters mainly to students in secondary school.

A glance at the initial enrollment for the study period (1995–2003) shows that traditional public and private schools accounted for most students—a combined 96.8 percent in 1995 (1,990,580 children). By 2003, their share was down to 84.0 percent (2,704,000 children), with PRONADE, accounting for 12.0 percent of enrollment (386,544 children). Cooperative-run schools enroll approximately 18.3 percent of the children in secondary education.

## Quality

The concept of educational quality has been expressed in different ways. For some experts, educational quality goes beyond internal efficiency indicators (repetition, completion, and dropout rates). Instead, they define a quality education as one that is useful for the people who receive it because it meets their needs, teaches them to solve problems, and thereby improves their living standards.<sup>14</sup> Thus, traditional efficiency indicators tell only part of the story about the shortcomings of the education system.

The private sector maintained a 5 to 10 percent lead in completion rates over the public sector for all educational levels or cycles in the period 1995–99. These rates, however, were extremely low in both lower and upper secondary school for both public and private institutions. The completion rates in preschool and primary levels remained substantially unchanged over the same period, while those of lower and upper secondary school moved up slightly. Dropout rates held flat in both sectors between 1995 and 1998 at the preschool and both secondary levels. They changed significantly after 1998 at the primary school level, and from

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<sup>14</sup>Authors' survey of private education, 1998.

1999 at the preschool both secondary levels. In preschool and secondary schools, the public sector exhibited a higher dropout rate until 1998, but in 1999 the position was reversed at the primary level and in the lower and upper secondary schools. These last two cycles have similar rates in both sectors up to 1998, but the situation changed in 1999 when the dropout rate for private lower secondary schools tripled over the course of a year.<sup>15</sup> Repetition rates varied little in either sector over this same period, with the number of repeaters in the public sector double that of private schools. The rates for both sectors were broadly in line in the lower and upper secondary schools. In general, repetition was more frequent in primary school than at all other levels.

MINEDUC's internal efficiency indicators by primary school cohorts (grades) were acquired for 1993 onward (table 5-7). Unfortunately, the same information was not obtained for the secondary school levels. The trends by cohort show that gross repetition rates decrease as the next higher grade is reached and that they have been declining overall since 1993. Completion rates remain higher in urban than in rural areas.

### **National Program for School Achievement Assessment— PRONERE**

Learning assessment is another way of measuring educational quality. Guatemala has made several attempts to implement a national system for evaluating school performance, but it was not until 1997 that MINEDUC began financing a plan through Del Valle University called the National Program for School Achievement Assessment (PRONERE). Basic skills tests were designed in language and mathematics and pilot tested with third and sixth grade pupils at the primary level in urban and rural areas in different regions, covering both public and private institutions. In 1998, coverage of the assessment system was expanded nationwide, with funds from the World Bank, to include the ninth grade and the third grade of four Mayan language groups. In 1999, another pilot plan extended the exam to include 11th graders. Moreover, MINEDUC requested that the

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<sup>15</sup>The reason for this difference, according to MINEDUC's Information Technology Unit, is that "not all private education centers reported their final 1998 enrollment." Moreover, it was not possible to ascertain which percentage of private schools had failed to provide this information, or how common this failure was in other years of the reference period.

**TABLE 5-7**  
**Efficiency indicators for primary education, by grade and sector**

Urban areas	1st grade		2nd grade		3rd grade		4th grade		5th grade		6th grade		
	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	
1993	CR	63.85	79.62	80.32	88.48	79.85	90.51	81.19	89.90	85.70	91.00	92.60	92.32
	GRR	26.86	11.47	14.40	6.65	13.74	6.09	10.75	5.38	6.92	4.15	2.31	2.75
	DR	9.28	8.91	5.28	4.87	6.42	3.40	8.06	4.72	7.37	4.85	5.08	4.93
1996	CR	67.18	79.02	80.38	87.30	81.33	87.02	83.39	88.62	86.75	90.64	93.28	91.92
	GRR	24.98	8.68	14.29	5.65	12.46	5.04	9.81	4.33	6.54	3.65	2.74	2.65
	DR	7.84	12.30	5.32	7.05	9.21	7.94	6.80	7.05	6.71	5.71	3.98	5.44
1999	CR	68.56	86.50	81.94	93.11	82.83	89.94	84.59	90.26	89.07	92.76	92.40	93.32
	GRR	23.58	7.16	13.75	4.85	11.16	4.49	8.20	3.41	5.99	3.27	2.49	2.88
	DR	7.86	6.34	4.31	2.04	6.01	5.56	7.22	6.33	4.94	3.97	5.10	3.81
<b>Rural areas</b>													
1993	CR	48.74	52.99	65.24	68.17	65.71	66.99	71.43	72.02	78.48	78.50	92.41	95.53
	GRR	29.75	26.34	16.92	14.72	12.92	11.10	8.60	7.35	5.10	5.11	1.47	2.66
	DR	21.51	20.67	17.84	17.11	21.37	21.91	19.97	20.63	16.42	16.39	6.12	1.81
1996	CR	52.47	50.43	67.29	63.51	68.96	66.80	73.61	76.17	80.97	80.50	93.97	93.01
	GRR	29.39	20.62	16.79	11.57	12.70	8.20	8.11	6.20	5.34	3.94	1.92	2.87
	DR	18.14	28.96	15.91	24.92	18.35	25.00	18.28	17.63	13.69	15.56	4.12	4.12
1999	CR	53.84	50.83	68.56	67.90	72.33	76.42	75.35	75.29	82.38	80.21	88.91	84.06
	GRR	27.87	23.40	15.94	12.97	11.71	9.09	7.43	7.04	5.31	3.90	2.24	2.82
	DR	18.29	25.78	15.50	19.13	15.96	14.48	17.22	17.67	12.32	15.89	8.85	13.12

**NOTES:** Data for 1999 are estimated. CR = completion rate; GRR = gross repetition rate; DR = dropout rate.

**SOURCE:** MINEDUC Information Technology Unit, 2000.

tests be held in all private schools in the capital city and municipalities of Guatemala Department. This assessment covered 20,033 students in the sixth and ninth grades (Del Valle University and MINEDUC 2000).

In presenting its results, PRONERE faced opposition from the private education sector. The Circle of Education Entrepreneurs, an association representing some 800 private schools, for example, appealed to the courts for protection against Del Valle University, alleging that the tests were discriminatory and that the results should not be made public. The upshot is that the public remains uninformed about educational quality in private schools.<sup>16</sup> PRONERE is also short of funds; the tests held in 2000 were funded by the World Bank. Few institutions are using test results to design better educational policies—although SIMAC, the Directorate General of Bilingual Education, and a few private schools are making this attempt. On the other hand, various sectors are gradually becoming aware of PRONERE's benefits. In the general 1999 assessment, private schools scored higher in reading skills than their public counterparts in primary grades 3 and 6 (table 5-8).<sup>17</sup> A study by the Center for Education Research at Del Valle University (2001) noted:

The tests applied in the PRONERE are norm-referenced (Mehrens and Ebel 1979), since no minimum standards exist in the country, nor is there one single curriculum in use. This means test results are comparable across different departments and programs, but it is difficult to judge whether a particular scheme is meeting its objectives.

The PRONERE results for 2000 continue to show urban areas outperforming rural, except in sixth grade reading. For instance, third grade rural students continue to score poorly in reading (58 percent correct answers on average) and mathematics (46 percent on average), while the equivalent scores in urban areas are 65 and 50 percent, respectively. In both cases, average scores in 2000 were higher than in the 1999 assessment. Ninth graders were not included in the 2000 tests.

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<sup>16</sup>Reports published in 1998, 1999, and 2000 give nationwide data only. Some information on the private sector was released in 1999 at the municipal level and for some areas of the capital city, but specific details on each school were considered confidential.

<sup>17</sup>Test results are not disaggregated by student socioeconomic level. Some regressions were run in the 2000 round to explore the relationships between performance and other variables measured in the course of tests, such as pupil-teacher ratio; water, light, and sewage conditions; number of hours students spent watching TV; etc.

The statistically significant differences between the average reading and mathematics scores of urban public and private students at the third grade level. Private sector pupils scored higher on average, especially in reading. In mathematics, the differences are greatest in arithmetical concepts and smallest in problem solving. Differences in average scores were also significant in the case of sixth grade students. The largest gap was in reading (private sector—53.5, public sector—45.6). In mathematics, pupils in both sectors had the same average score in the operations subarea, but the private school students did better in both arithmetical concepts (59.6 versus 56.1) and problem solving (57.8 versus 52.5).

One reason that students in rural areas have improved their scores could be the use of textbooks. Some 68 percent of teachers in urban schools and 93 percent in rural schools use the *Camino a la Excelencia* books that MINEDUC provides free to primary pupils. The private schools' share of the tested sample, however, was significantly lower than in the previous year because of the exclusion of ninth graders, where its coverage is greatest relative to the public sector. Eleventh graders, who had formed part of the pilot scheme in 1999, were also excluded. The reasons for these exclusions, according to the program authorities, were economic.<sup>18</sup>

**TABLE 5-8**  
**1999 PRONERE assessment results, by school type and grade, percentage of questions answered correctly**

Subject/ school type	3rd grade	6th grade	9th grade
<b>Reading</b>			
Private	60.07	50.98	51.95
Public	48.14	41.75	51.89
Cooperative	n/a	n/a	44.61
PRONADE	47.75	44.74	n/a
<b>Mathematics</b>			
Private	47.51	58.96	40.57
Public	42.30	56.70	37.54
Cooperative	n/a	n/a	35.04
PRONADE	42.60	56.57	n/a

n/a = not available

**SOURCE:** CIEN (1999).

<sup>18</sup>Interviews with the director of PRONERE, December 2000 and January 2001.

## University Education

**Legal Framework.** Guatemalan higher education has been provided since 2001 by one public institution and nine private universities. All are independent institutions with legal standing and the freedom to create their own faculties and schools, organize their own academic and teaching activities, and execute syllabuses and study programs for each area. In accordance with Guatemala's constitution, a Private Higher Education Board oversees the autonomy and academic standards of the nation's private universities; the board is comprised of five professionals representing San Carlos University (USAC), the private universities, and professional associations.

**Universities.** As noted, Guatemala's higher education sector has had one public institution: USAC, and nine private: Rafael Landívar University, Mariano Gálvez University, Del Valle University, Francisco Marroquín University, Rural University, Del Istmo University, Panamerican University, Mesoamerican University, and Galileo Galilei University. All offer teacher training and undergraduate and graduate degrees; some also offer technical and other types of diplomas. Two other institutions, the Women's Institute of Graduate Studies and Abierta de Loyola University, provide three-year university courses (diplomas). Some foreign universities, including Salamanca Pontifical University (Spain), Pontifical Catholic University (Chile), and Valparaiso University (Chile), offer postgraduate and diploma courses to Guatemalans.

**Costs and Financing.** The costs of higher education vary widely (table 5-9), ranging from the \$10 annual matriculation fee charged by the public university to the \$257 fee charged by Francisco Marroquín University. With its low prices, USAC is the most affordable for Guatemalan students. All universities (public and private) are tax exempt, and private universities may receive state funding if the situation warrants. USAC is entitled, under the country's constitution, to receive no less than 5 percent of the state's ordinary revenues. In 2000, it accounted for some 8 percent of spending on education, science, and culture, and 11 percent of MIN-EDUC total spending.

**Coverage.** According to Guatemala's 2002 population census, 7 percent of the urban population has received a higher education, compared to 0.4 percent in rural zones (table 5-10). This deficient coverage is matched by

**TABLE 5-9**  
**Enrollment fees and tuition for universities in Guatemala, 2000**

University	No. of students	Cost per course	Cost per month	Enrollment fee
Rafael Landívar	15,934 <sup>1</sup>	300–400	740–1,200	1,200
Mariano Gálvez	24,788	Variable	350–450	425–450
Del Valle	2,363 <sup>2</sup>	Variable	1,900	685
Francisco Marroquín <sup>3</sup>	13,274	1,500 (avg)	2,020	2,000
Rural	1194	Variable	350	350
Del Istmo	232	315	1,800	1,200
Panamerican	205	100–500	300–550	235
Mesoamerican	240 <sup>4</sup>	305–990	990	300
Galileo Galilei	200 <sup>4</sup>	Variable	1,585	1,900
San Carlos	104,141	—	—	71

**NOTE:** All costs and fees are expressed in quetzals; in 1997, \$1 = 7.73 quetzals.

<sup>1</sup>Does not include the schools located in the Department of Quetzaltenango.

<sup>2</sup>As of September 20, 2000.

<sup>3</sup>Includes the distance learning program FISSIC-IDEAS, in which 10,241 students from the interior of the country participate.

<sup>4</sup>Approximate value.

**SOURCE:** *Prensa Libre* (2001).

problems of efficiency. A 1996 study found that, of the 2,311 students graduating from USAC in that year, only 18 percent had done so in fewer than 7 years. A third of the students took 7 to 10 years to graduate, 20 percent took about 14 years, and 10 percent took up to 20 years. The annual average cost of subsidizing a

**TABLE 5-10**  
**Educational attainment for population age 7 and over (%)**

Level	Total	Urban	Rural
None	28.2	16.7	38.8
Preschool	1.1	1.0	1.2
Primary	50.7	48.2	53.0
Secondary	16.4	27.1	6.5
Higher	3.6	7.0	0.4
Total	100.0	100.0	100.0

**SOURCE:** National Statistics Office, 2002 Population Census.

student is around \$643, meaning that a student in the Economic Sciences School, for instance, needs about \$3,213 to finish his or her studies in five years. Since students remain in the school for more than 12 years on average, the cost climbs to more than \$7,712, the equivalent of the cost of two students at Rafael Landívar University or three at Mariano Gálvez University. According to CIEN president María del Carmen Aceña, the cost of educating one student at USAC for a year is the same as for educating five primary schoolchildren (Aceña 2001).

## Participant Perceptions

### Aims

The goal of this research was to understand the opinions of participants in the education system as a way to identify possible development paths for private education in Guatemala and the main obstacles to be overcome. To this end, the study approached a number of players:

- *Private school principals*: As the legal representatives of private schools, principals know the conditions under which they must work, the freedom of management allowed, the MINEDUC attitude, the legislation that governs their activities, the relations between private schools and parents, and the constraints on their involvement.
- *Parents*: As service users, parents can discuss the services offered, the kind of information they receive, the drawbacks they perceive in both public and private education, and the improvements they would like to see.
- *MINEDUC*: As the national regulator of private education, the ministry can report on its relations with this sector and policies toward it.
- *Universities*: Because universities accept students from secondary schools, they can evaluate their academic performance upon entry and opine on the standards of education they have received.

### Methodology

The study is descriptive, based on data acquired through two questionnaires composed by CIEN, in coordination with the Partnership for Educational Revitalization in the Americas, using both closed and open-ended questions and presented in face-to-face, personal interviews lasting



30 to 40 minutes. The first questionnaire was for private school principals in the Guatemala metropolitan area;<sup>19</sup> the second was for parents in the same area with school-age children attending private or public schools. The first sample included 102 schools and allowed results to be analyzed with a margin of error of  $\pm 9.5$  percent and a confidence level of 95 percent. Sample units were randomly selected. Guatemala City was stratified by zone, and the outlying areas by municipality. Establishments were grouped according to the highest grade or academic year taught:

- Preprimary
- Primary
  - Primary alone
  - Primary and preprimary
- Lower secondary school cycle
  - Lower secondary school cycle alone
  - Lower secondary school and primary
  - Lower secondary school, primary, and preprimary
- Upper secondary school
  - Upper secondary school alone
  - Upper and lower secondary school cycles
  - Upper secondary school, lower secondary school, and primary
  - Upper secondary school, lower secondary school, and preprimary
  - Upper secondary school, lower secondary school, primary, and preprimary

The second sample was made up of 150 parents in the metropolitan area. Half of them had children in private education, and the other half in public education. The margin of error was  $\pm 8$  percent, with a confidence level of 95 percent. Sample units were randomly selected. Study areas were established at random, and comprised a variable number of blocks, averaging around 7,000 square meters. A maximum of 10 to 15 interviews were conducted at each of the 13 sample points selected. Households were contacted at a given starting point, from which every other or every three households were contacted, depending on the district's population density. This ensured a sufficiently wide sample dispersal.

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<sup>19</sup>This area incorporates the 25 zones of Guatemala City plus the municipalities of Santa Catarina Pinula, Mixco, Chinautla, San José Pinula, Amatitlán, Villa Nueva, Villa Canales, and San Miguel Petapa.

The field work was undertaken by a team of five professional interviewers of the highest quality. The company in charge, Information Services Group, S.A., guaranteed the validation of at least 35 percent of the interviews chosen at random. Data were processed using SPSS version 8.0, to provide tabulations by the standard variables for such studies.

### **Participant Profiles**

***Private Schools.*** The sample included 73 percent secular schools and 27 percent with a religious tradition. Some 90 percent were coeducational, and only 10 percent were single-sex establishments. A number of schools traditionally teaching students of one sex have gradually changed their policies and are now admitting children of the opposite sex at starting levels. Some 76 percent of schools had students from two or more socio-economic levels. According to the survey, 40 percent served the middle socioeconomic level, 10 percent the middle to low, and 43 percent the low. The other 7 percent served the middle to high levels. The socioeconomic breakdown of private school pupils was 13 percent high, 47 percent middle, and 40 percent low.

***Private School Principals.*** Some 70 percent of the principals were women, and 67 percent were over 45 years of age. Of the total, 43 percent had a university education and another 33 percent had some university training. Only 61 percent of the principals had studied educational administration.

***Parents.*** Of the parents interviewed, 61 percent were women. Regarding the educational level of parents in the households visited, 27 percent of the mothers had gone no further than primary education, 17 percent had completed the lower secondary school cycle, 33 percent had completed upper secondary school, and 18 percent had completed higher (university) education. Of the fathers, 21 percent had finished primary school, 13 percent lower secondary school, 35 percent upper secondary school, and 25 percent university studies. Of those interviewed, 21 percent had a monthly income between \$129 and \$256, 37 percent between \$257 and \$642, and 22 percent between \$643 and \$1,285. According to the World Bank (2001), Guatemala's annual per capita income in 1999 stood at \$1,660. Families were mainly drawn from the medium or low socioeconomic level (87 percent of students).

## Findings

**Management: The State-Private Sector Relationship.** Relations between the MINEDUC authorities and private operators were considered good by 28 percent of principals and acceptable by 33 percent of ministry respondents. The legislation governing schools was viewed as not too rigid by 64 percent of the principals surveyed. Some 74 percent of private establishments said the MINEDUC authorities allowed them freedom and flexibility in their education management, although 62 percent also felt encumbered by bureaucratic requirements. Eighty percent of private operators still expected some change in the law.

**Parents-Private Operator Relationship.** Parents with children in private schools revealed the following: 51 percent of the private establishments surveyed had a parents' association. In 50 percent of private schools, parents have a voice, but only in 38 percent do parents participate in decision-making. Sixty percent of the private schools promote parent participation in school projects.

**Problems Facing Suppliers.** Of the principals surveyed, 74 percent said one of their problems was the scant demand for private education services; 57 percent said the biggest problem was the regulation of school fees (43 percent said this was not an obstacle); and 51 percent mentioned a shortage of qualified teachers.

**Quality of Private and Public Education.** The quality of private sector education was considered excellent by 15 percent of the parents interviewed, very good by 23 percent, good by 41 percent, fair by 19 percent, and poor by 1 percent. In the public sector, the ratings were 5 percent excellent, 5 percent very good, 41 percent good, 39 percent fair, and 9 percent poor. This indicates that parents prefer to entrust their children's education to the private sector, with 79 percent rating it between good and excellent. In contrast, only 51 percent of parents gave a positive rating to public institutions.

**Measurement of Educational Quality.** Ninety-seven percent of the parents surveyed saw a need to measure pupils' academic performance in both public and private schools using standardized tests in order to gauge the quality of education delivered. They also believed that the results of these tests should be made public. The idea of ranking schools by edu-

cational quality met with broad support. Although 74 percent of principals said they were in favor of testing and the publication of test results, they did not agree with the idea of ranking schools. The application of standardized tests has yet to be established on a regular, universal basis, impeding their use as an improvement tool for educational quality and parental information.

**Curricular Content.** Some 92 percent of the principals surveyed said there was flexibility in curricular content, although 88 percent complained that the curricula designed by MINEDUC were not regularly updated. Failure to review and update school curricula also affects educational quality. Curricular design was criticized by 65 percent of principals for failing to keep pace with changing expectations. The universities included in the survey declared that entering students, whether from the public or private sector, had serious academic shortcomings which hampered their progress from the outset. Such shortcomings were felt to be greater in students from the public sector.<sup>20</sup>

**Supervision.** Sixty-five percent of the private schools surveyed said they were supervised by MINEDUC. The frequency of visits was said to be quarterly by 36 percent of the respondents; 40 percent believed supervision was inadequate.

**Information Sources for Choosing a Private School.** Seventeen percent of the parents surveyed said they had no information on the quality of educational establishments. Those parents who said they did have information obtained it from the following sources: personal references (82 percent), the school itself (48 percent), and MINEDUC (10 percent). In fact, MINEDUC provides no information on the characteristics, programs, infrastructure, location, quality, price, and so on of the educational services available in the country.

**Coverage.** Seventy-five percent of principals and 73 percent of parents said they foresaw an increasing demand for private education. The main reason stated by both groups is that the private sector is reputed to offer better education.

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<sup>20</sup>The universities surveyed were San Carlos, Francisco Marroquín, Del Valle, Mariano Gálvez, Del Istmo, and Rafael Landívar.

**Improving Teaching Staff.** Private sector teachers are at a disadvantage relative to their public sector counterparts in terms of both training and pay. According to the surveys of principals and parents, teachers in private schools earn lower wages than those in public. Principals argued, however, that wages are fair. This could be interpreted as an overvaluation of public sector teachers, since 39 percent of principals believe teachers in both sectors are efficient and 37 percent that private sector teachers are better trained. The wage ranges of private school teachers by education level are basically determined by the following factors: length of service, work experience, academic qualifications, and teaching performance assessments.

**Financing.** The socioeconomic circumstances of Guatemalan families are often a barrier to their children's entering private education. Monthly expenditures on education as a proportion of household income ranges from 1 to 10 percent in the public sector, and can run to 20 percent in the private sector. The survey found that, in 2000, the average enrollment fee was \$41; added to the 10 monthly payments of \$27, this gives an annual total of \$311. According to figures provided by MINEDUC's Information Technology Unit, the annual budget per pupil in 1999 was \$116 in pre-school, \$140 in primary school, \$260 in lower secondary school, and \$352 in upper secondary school.

Although 54 percent of parents using private education and 52 percent with students enrolled in the public sector feel they are paying an acceptable amount for their children's schooling, the fees charged by private schools discourage cross-sector mobility. Eighty percent of the principals surveyed and 63 percent of the parents gave economic factors as the main obstacle to growing demand for private education. This also explains why 70 percent of the parents interviewed in both the private and public sectors were eager to participate in decisionmaking, particularly in the determination of school fees. Private education therefore remains largely dependent for its funding on school fees (high for most of the population) and donations or grants from domestic or foreign private individuals, companies, and foundations. This also means many schools must resort to extra charges to defray their operating expenses.

**The Future of Public and Private Education.** Minister of Education Mario Torres stated the administration's objective for public education in

2000: “We are making great efforts to achieve a high standard of public education so most families choose to have their children educated in public schools, which will not be a disadvantage relative to the education provided in any private school” (*Diario de Centro América* 2000). The government’s policy for the private sector was the same as for the public, as expressed in the Education Plan 2002–2004.

Privatization is one of the many measures called for by international financial organizations to relieve the state of the support and administration of services such as health, public education, culture, and recreational activities. The impact of such measures, which have been taken in several Latin American countries, is extremely harmful to the poorest sections of society. State subsidization in this area should not be seen as a handout or welfare. It is a right of the people whose skilled labor will later be needed by the economy. In Guatemala, privatization finds legal support in the decrees authorizing the creation of school boards and education committees, which permit the gradual reduction of free, democratic public education in favor of the private sector. One should bear in mind that the reduction in public education directly hits the poorest sectors of society—that is, the subsistence farmers, indigenous peoples, and children in marginal areas who cannot afford a private school (Carlos 2001).

The parents and principals interviewed said they feel the education system as it stands is not delivering what people want. They also took the view that the private education system offers better quality than the public. Despite this, both groups agreed that if the fee spiral continues and the lack of educational quality controls and standards persists, the private sector may go into decline or become affordable only for an affluent minority. Parents whose children are in the public sector cited their economic circumstances as the main reason for keeping them there. In the meantime, parents with children enrolled in the private sector said they want their children to continue for reasons including better education, security, and better teachers.

## Conclusions

- According to private sector principals and parents with children at public and private schools, demand for private education will increase in the future because of its reputation for higher quality. Even though both principals and parents noted that lack of eco-

conomic means is a serious constraint limiting demand for private education services, they predicted a net growth in demand nonetheless. Parents' involvement in decisionmaking through associations remains limited at best in both public and private schools. Surveys show that most parents have no choice but to accept the conditions schools impose.

- Encouraging private initiative in education will require a stronger legislative and institutional framework. There are still no implementing regulations in place for the authorization and operation of private schools. This legal vacuum is being filled using criteria established in the 1977 Education Act's regulations and the terms of the Ministry of Education's 1988 Circular 9-88. The rules for education to be imparted by private establishments are scattered through ordinary laws, governmental and ministerial resolutions, and the internal circulars of various MINEDUC departments, which makes it hard to understand and apply them.
- The National Education Act of 1991 is not attuned to today's needs for educational modernization. Since implementing regulations have yet to be drafted, the regulations now in force date from the 1977 Education Act. MINEDUC has made some improvements in terms of administrative requirements and procedures, but private school principals note that they still must contend with excessive red tape. The procedure for the authorization and start-up of private schools has no fixed deadlines for submission or decision. Changes in the Guatemala Department's Education Directorate have sought to speed up the process, however: Although fixed deadlines have not been set for complying with administrative requirements, decisions must be issued within 15 to 60 days.
- Poor coverage and quality are the main criticisms leveled at Guatemalan education. Both problems stem primarily from a lack of continuity in educational policies; centralized decisionmaking; the concentration of MINEDUC's physical, financial, and human resources in urban areas; red tape; the absence of defined educational benchmarks; poor supervision by MINEDUC; and the lack of an effective information system or an integrated and dynamic curriculum that is updated regularly. The public sector serves mainly the preschool and primary levels, while the private sec-

tor is more prominent at the middle and high school level. The private sector (excluding PRONADE) has a significant share (22 percent) of the nation's education system coverage. PRONADE has spearheaded a drive to expand its educational coverage at the preschool and primary levels and, in 2003, served 386,544 children in rural areas. Cooperative schools are also important suppliers of lower secondary school education. They offer education at affordable prices with an emphasis on participation by parents, who are grouped into associations authorized by MINEDUC and the municipal authorities.

- Completion rates are extremely low at both secondary school levels in both the public and private sectors. Dropout rates are historically higher in public than in private education. Although these rates rose sharply in private sector primary and secondary schools in 1999, this may be attributable to information problems. Repetition, too, is invariably higher in the public sector. MINEDUC cites a lack of cooperation on the part of private schools in furnishing 1999 data; this casts some doubt on the validity of official figures for this and other years. It also calls into question the ministry's ability to verify compliance with education legislation.
- Although MINEDUC made internal changes to its supervisory regime between 1996 and 1999, there is still no supervision manual suitable for guidance and training in public and private schools. Private sector principals continue to advocate for improvements in MINEDUC's oversight system, which currently consists only of occasional inspection visits for administrative or control purposes, usually in response to parental complaints. Supervisors of private schools in Guatemala Department interviewed for this study claimed they had a very heavy caseload of 200 to 500 schools each.
- In general, the impression of private sector principals, parents with children in both sectors, and university staff is that private schools offer better quality than their state counterparts. A comparative analysis of the mathematics test results of public sector pupils (applicants for university scholarships) and those from renowned private schools supports this view. The results of university placement and admission exams suggest a decline in overall academic



performance over recent years. This difference is much less marked in the results of national assessment tests administered at the school level. What the tests essentially show is that education is failing to deliver quality results in both the public and private sectors. However, the public has been denied any insight into the educational quality of private schools, because the Circle of Education Entrepreneurs—an association of some 800 private schools—has successfully prevented test results from being generated and published. Additionally, test results have not yet been used as a tool in designing policies aimed at improving education quality. Although PRONERE has been discontinued, new authorities are committed to continue with the assessment program and began testing students in the second semester of 2004.

- MINEDUC has no system in place to give parents a clear, reliable, and complete picture of the country's schools, detailing their infrastructure conditions, quality, educational approach, and so on. Parents thus get most of their information about schools by word of mouth and from the schools themselves. Similarly, no regular information is supplied on the quality of educational services. Parents need this kind of information in order to make informed decisions about their children's education. They also need a pricing system that gives them advance knowledge of all costs. In the absence of any reliable guide to education quality, demand converges on those schools that have developed a reputation for quality over many years of operation.<sup>21</sup> This uneven demand pattern creates a wide disparity in private school fees, which range from \$25 to \$280 per month. However, standards of educational quality can vary over time, and, without updated assessments, quality may be thought to exist where, in fact, it is lacking. New schools face particular difficulties in this regard. They must be cost-competitive with other schools offering similar services, and may need considerable time to gain a reputation for educational quality.

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<sup>21</sup>These are generally experimental and bilingual schools, and religious or secular schools working to high educational standards, though no general conclusions can be drawn about most private establishments.

- Private schools are mainly financed by fees paid by parents. A small percentage of Guatemala's private schools belong to associations which give them some economic support. The country's fee cap system means that most schools resort to other types of charges, which creates a further barrier to price transparency in the education system. The MINEDUC authorities investigate any school where parents have reported unjustified charges. Setting of the maximum (initial) fees that schools may levy and closure of private schools for serious infractions are MINEDUC prerogatives.
- PRONADE, which has been rated "successful" in technical evaluations by MINEDUC, among others, is in a precarious position, and actually began the 2000 and 2001 fiscal years without the funds needed to meet its commitments. This lack of support was compounded in 2001 by a change in educational service institution regulations that disqualified PRONADE from training teachers for the program. In a press release, MINEDUC declared that, as of 2001, PRONADE teachers would have better employment conditions and would be placed on the official promotion scale.
- MINEDUC establishes a mandatory core curriculum. Many of the principals interviewed found fault with its design. The flexibility it allows in curricular content encourages private schools to add courses and subjects. Moreover, no checks are made to determine compliance with the core curriculum. Such flexibility in curricular design and supervision, together with the new national assessment system, have resulted in a mushrooming of courses in private schools at the upper secondary school level.
- The private school principals interviewed said that teacher performance has practically no bearing on their pay. Rather, the factors mainly taken into account are length of service, work experience, and academic qualifications. Public sector teachers are generally better paid than their private sector counterparts.

### **Recommendations**

1. Review and rework the National Education Act, which is still awaiting an implementing regulation. Give private education a clear, stable regulatory framework so it is not subject to bureaucratic whims.

2. Promote private involvement in education, removing such obstacles as excessive red tape and a shifting legal and institutional framework.
3. Implement a system to give parents full, reliable, and relevant information so they know what educational choices the country offers and can make reasoned decisions. This information system should also be designed to aid MINEDUC in supervising educational quality.
4. Apply PRONERE throughout Guatemala to generate the necessary input for education policy changes geared to improving quality and facilitating decisionmaking by users. It is vital that this information be made available to interested members of the public.
5. Improve (modernize and/or restructure) the records kept on schools, such as school files and statistics on efficiency indicators (pass, repetition, dropout rates, and so on), so the information is properly organized, accurate, and relevant.
6. Update the school curriculum so that it responds comprehensively to the needs of the student population (multilingual and multicultural). Promote curricular and pedagogic autonomy through educational improvement programs.
7. Improve the supervision system to ensure that the services schools offer are up to standard and to aid and advise them in their activities.
8. Strengthen parents' associations to involve them more directly in decisionmaking. Promote educational self-management in the public sector.
9. Devise long-term national education policies to bring about a genuine reform of the system and secure the engagement of all social sectors to ensure continuation of and compliance with those policies.
10. Change MINEDUC's model of educational management to orient it toward the client (demand model) in order to address the deficiencies in quality and coverage that have hampered the system for the past several decades. It is also time to leave behind the obsolete debate about public versus private education, and concentrate instead on solving Guatemala's overall education problems and developing effective long-term policies.

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## CHAPTER 6

# PUBLICLY FINANCED, PRIVATELY RUN EDUCATION IN PERU: IT STILL WORKS

*Juan Carlos Navarro\**

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Peru's education system is predominantly public, but private organizations have a sizable presence at the primary and secondary levels. As elsewhere in the region, the state and private schools relate in different ways, using mechanisms that are not always well understood and whose consequences and implications have not been thoroughly analyzed. In Peru, public-private symbiosis in the school system has involved various types of relationships between the two sectors and also a relative disengagement among the main actors. The result has been a marked weakness in the rules and regulations needed to ensure that system resources are used to their fullest potential.

This chapter argues that the schools combining state financing with private management operate in a regulatory framework that has enabled them to survive with at least some of their defining characteristics intact, but that it has prevented them from reaching their full potential. This is detrimental to the entire education system because of wasted resources, poor ability to meet equity and quality goals, and other ill effects examined below. In short, although the relationship between private education providers and public policy brings some social benefits, it has high transaction costs in the absence of a well-designed incentives system.

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This chapter is based on interviews conducted in July 2000 with representatives of the Peruvian government and the Catholic Church, and with principals and teachers in privately run schools. It also draws on a background document prepared by Jaime Saavedra and Hugo Díaz (2000a), and on information from secondary sources on the performance of pupils and teaching staff in different kinds of schools. The chapter provides a concise description of the current status and background of public-private relations in Peruvian education at the primary and secondary levels, and analyzes the main forms these relations have taken and how they operate in practice. It then describes the special characteristics observed in the private management of schools, and compares these results to public management. It concludes with policy recommendations and suggestions for future research.

Conceptually, this analysis is based on the idea that school management (understood in the broad sense of the system of incentives and decisionmaking powers within which principals, teachers, and other actors operate) is crucial to securing good educational outcomes.

Some schools with students and socioeconomic features comparable to those of public schools use incentive systems that seem on first analysis to produce better results at similar costs. These schools provide a good perspective in determining the extent to which incentives can make a difference and how the quality, equity, and efficiency of a school system can be improved by aligning the interests of key actors in the education process with those of students and society as a whole.

## **Context for Public-Private Relations in Peruvian Education**

### **The Peruvian Education System**

In Peru, the last decade of the 20th century brought notable progress in terms of expanding opportunities for access to education, despite the country's wide ethnic diversity and the grave macroeconomic instability that marked the end of the 1980s and start of the 1990s. Between 1950 and 1997, the number of children enrolled in school increased by a factor of 6.6—more than double the overall growth rate of the population (Díaz et al. 1995). Total enrollment rose from 14 percent of the school-age population in 1950 to 36 percent in 1997. Concomitantly, the average

number of years spent in school by students over age 15 increased from 1.9 to 8.6 years,<sup>1</sup> and the illiteracy rate fell from 58 to 11 percent. By 1999, 96.9 percent of children aged 6 to 11 were attending school, as were 85.9 percent of children between 12 and 16, and 62.3 percent of those aged 3 to 5 (MINED 2001). Almost 90 percent of enrolled children attend public schools. Of the country's 27,400 public primary schools, 4,400 are in urban areas. On the other hand, only 500 of its 5,600 secondary schools serve rural areas.

Peru's enrollment rate for the 3–23-year age range compares very favorably with that of more economically developed countries. However, the country does less well in a comparison of public spending on education as a percentage of gross domestic product: about 3 percent, substantially below the average for the region (4.5 percent in 1998) and for developed countries (5.1 percent). Annual spending per student in 1998 was \$155, which was about half the amount spent per student in 1970. Families account for 40 and 45 percent of funds spent on education at the primary and secondary levels, respectively. Peru has thus been able to secure extremely high participation rates in the school system even with low public expenditure on education—a circumstance that might be related to the quality and efficiency shortcomings of the public system.

The organization and functioning of state schools in Peru is governed by regulations drawn up by the Ministry of Education (MINED). It sets the study program and assessment criteria, prescribes the degree of parental involvement, and establishes the organizational structure and staffing levels based on the number of pupils. It also regulates school opening hours, and the grades and subjects to be offered. However, there is no accreditation system in place to measure the performance of public and private schools, although such a system seems desirable in light of the wide disparity of education quality.

Independent studies point to a steady decline in the quality and efficiency of Peru's public education system, and a number of deficiencies have been identified in several areas, as follows (Pacific University 2001).

On the supply side are problems of infrastructure, classroom facilities and teaching materials, curricular design and application, and, above all, quality of teaching staff. In 1997, about 20 percent of public school

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<sup>1</sup>The average of 1.9 years of schooling is taken from the 1940 national census; the 8.6 years figure is based on the National Standards of Living Survey (INEI 1997).

teachers had never taken education courses; in rural areas, only 50 percent of schools were staffed with university-educated teachers (World Bank 1999).

On the demand side, the main problems are absenteeism, dropouts, repetition, and late advancement to the next grade. Additionally, a number of shortcomings have been identified in education system management:

- decisionmaking is overly centralized in the responsible ministries;
- management is split between MINED in Lima and the Ministry of the Presidency in the municipalities; and
- there is no effective system of accountability at either the sector, ministry, municipal, or individual school level.

The public sector provides education services to 85 percent of the country's primary and secondary students. The distribution of enrollment and schools in 1999 is shown in table 6-1. Besides the "regular" schools—that is, nonsubsidized private schools and state schools funded and managed by MINED—there are other types of public schools run by nonstate entities, usually religious orders; and publicly financed private schools that receive supplementary funding from other sources and that have a

TABLE 6-1

**Enrollment by school type and educational level, 1999**

School type	Number of students			Number of schools		
	Primary	Secondary	Total	Primary	Secondary	Total
<b>State</b>	3,572,317	1,662,890	5,235,207	26,132	5,208	31,340
MINED	3,552,782	1,644,314	5,197,096	26,081	5,167	31,248
Other public	18,168	17,674	35,842	39	34	73
Local gov't	1,367	902	2,269	12	7	19
<b>Nonstate</b>	486,899	294,183	781,082	4,586	2,172	6,758
Cooperative	2,514	2,826	5,340	13	14	27
Parochial	128,012	96,374	224,386	354	269	623
Community	5,736	3,993	9,729	136	73	209
Private	329,733	185,566	515,299	4,001	1,795	5,796
Subsidized	19,536	5,123	24,659	74	18	92
Welfare/charity	1,368	301	1,669	8	3	11
<b>Total</b>	<b>4,059,216</b>	<b>1,957,073</b>	<b>6,016,289</b>	<b>30,718</b>	<b>7,380</b>	<b>38,098</b>

**SOURCE:** School Census 1999, cited in Saavedra and Díaz (2000b).



distinct internal organizational structure. The remainder of this chapter focuses on these schools, with their various combinations of public-private operation/funding, specifically describing and analyzing:

- parochial schools or schools receiving mixed funding (these account for 600 private schools in which some teaching positions are financed by public funds);
- free schools that are privately owned and managed, but all of whose teaching staff are financed by the public sector (the 125 schools in the Fé y Alegría network); and
- state schools with private partnership arrangements (215 state schools run by Catholic orders).

### **Forms of Public-Private Cooperation in Primary and Secondary Education**

***Parochial or Mixed-Finance Schools.*** An agreement between the Peruvian government and the Holy See allows the Catholic Church to operate schools at all levels. Ministerial Resolution 3210-ED of 1977 defines parochial schools as private establishments providing preschool, primary, secondary, and non-university postsecondary education in school and nonschool settings. To be classified as parochial schools, centers must be sponsored by a Catholic institution dedicated to providing educational services free of charge to low-income families, with the services financed or subsidized by the state. These schools are run by members of religious orders with the help of lay people.

Although the term “parochial” is still used in the ministry’s official listings, it was dropped from Ministerial Resolution 483-89-ED of 1989, which regulates what it terms Catholic Church and State Joint Action Education Centers. These institutions include mixed-finance education centers—or what used to be called parochial schools—and state education centers under partnership, which are discussed below.

According to Consortium of Catholic Education Centers statistics, 600 of 780 member schools are mixed-finance or parochial schools serving 400,000 pupils in all. Figures for 1996 show that 80 percent of these schools were in Lima and other coastal departments,<sup>2</sup> 18 percent in mountain departments, and 2 percent in the jungle region.

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<sup>2</sup>A department is the main territorial administrative unit in Peru, equivalent to a state or province in other Latin American countries.

State financial support is channeled through the National Catholic Education Office (ONDEC), which must also approve any plans for the operation, enlargement, modification, or closing of a parochial school. State support subsidizes a variable percentage of teaching and administrative staff,<sup>3</sup> who are paid in line with the wage scale for public school teachers.

The costs of building, equipping, and maintaining the premises used for parochial schools are not covered by the state but are instead funded by the sponsoring institution, parental contributions, and monies raised by the schools from the sale or rental of services or donations raised by the congregation, diocese, board of trustees, or association.<sup>4</sup> These same sources also provide the funding for teaching and administrative posts not covered by the state.

Parochial schools are generally located in populous urban zones in provincial or departmental capitals. Current regulations stipulate that enrollment preference should go to students from low-income families living in the neighborhood of the school. The schools have an average of 570 students each. The average pupil-teacher ratio is 25 students per teacher; but in some schools, there can be 40 or more students per teacher.

Mixed-finance schools are not free, but the fees they charge are significantly lower than those of other private lay schools or self-supporting Catholic schools. The vast majority charge a tuition fee paid in 10 installments and a parents' association fee payable upon enrollment. State subsidies help lower parents' cost. The regulations also provide for special grants for orphans or for students from poor backgrounds who excel academically. In general, about 5 percent of students receive such support.

From a legal standpoint, parochial schools are covered under private education legislation<sup>5</sup> and are free to choose their management style, organizational structure, the detailed syllabus, the starting date for the academic year, assessment systems, and other matters. Organizational models, curricular teaching hours, and time allotted to each subject within the

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<sup>3</sup>In practice, it is rare for the state to finance administrative positions.

<sup>4</sup>The 1978 regulations forbade the use of public funds for these purposes. Although new rules passed in 1989 lifted the ban, they stipulate that the property must form part of the school's assets and not those of the sponsoring agency, usually a religious order.

<sup>5</sup>Current legal provisions on private education are contained in Law 26549 of 1995 and Legislative Decree 882 of 1997.

study program thus may vary from one school to another. Many schools, however, follow the official curriculum, with few—if any—exceptions.

***Free Private Schools in Partnership with the State: Fé y Alegría.*** Fé y Alegría, a network of Catholic schools for children from low-income families, began operating in poor areas of Lima in 1966. By the end of the 1990s, the program had 53 schools in urban areas, with a student body of approximately 65,000 and more than 2,600 teachers. In 1995, Fé y Alegría decided to extend its coverage into rural areas, where it now has 19 pre-school centers, 58 primary schools, and five secondary schools.

Fé y Alegría, whose schools are owned and initiated by the network, has negotiated its own management agreements with the state. The state meets the payroll costs for managers, teachers, and administrative and service staff, subject to budget availability. However, Fé y Alegría headquarters continually seeks donations from national and international sources to complement state funding. These contributions are used mainly to finance its central administration and coordination and, through its regional offices and service units, to organize supplementary teacher training, equip schools and provide them with materials, pay support staff for school networks in the countryside, and invest in other improvements. Fé y Alegría schools also fund part of their infrastructure maintenance and upgrades with parents' association fees, and schools rely heavily on volunteer work by pupils' families.

The network operates in low-income neighborhoods and other deprived areas where it finds community organizations eager to support the management and development of a school. In general, curricular design emphasizes “comprehensive learning,” meaning a solid grounding in reading, writing, and mathematics. The Fé y Alegría program also emphasizes vocational education—not with the aim of producing skilled workers, but rather to stimulate students' interest in vocational training and technical careers.

***State Schools under Partnership.*** State schools under partnership constitute the third kind of school operating in Peru with public and private involvement. They are run by religious orders under agreements with state authorities. As with the parochial schools described earlier, they can only operate with the authorization of MINED, ONDEC, and the respective bishop or designee.

According to Consortium of Catholic Education Centers statistics, there are 215 such schools in Peru, with a total student body of about 152,000. Some 16 percent are in Lima and Callao, 42 percent are in mountain departments, and 21 percent each are in coastal and jungle departments. The schools each serve an average of 600 pupils.

Unlike parochial schools, the only cost to parents is a parents' association fee. This fee is set at 1.5 percent of one taxation unit, and is also charged by traditional state schools (it comes to about \$12 a year). Partnership schools are governed administratively and academically by the rules applying to public schools.

The state's involvement in partnership schools is confined to paying teachers. Although in theory the education authorities should oversee their management and teaching standards, in practice this is not done systematically, as is discussed below. Despite their status as state schools fully entitled to benefit from public programs, partnership schools often fail to receive textbooks or to be invited to take part in teacher training courses sponsored by the authorities. As with parochial schools, teaching and administrative posts are allocated through ONDEC, which distributes the positions assigned to all privately run schools.<sup>6</sup>

The physical property of partnership schools is usually owned by the state, although there are cases where a school has been built by the religious order or the pupils' parents. Some schools in this system also use cross subsidies. This tends to be the case in orders that run both a fee-paying school (parochial or entirely private) and a partnership school, which perhaps even share the same premises. The financing strategy followed in such cases is to apply the resources of the partnership school to pay for the services or supplies used in both.

### **Origins of the Public-Private Collaboration Model in Peruvian Education**

These forms of educational funding and management are not the product of an ordered public policy with clear-cut objectives of quality or equity. Their characteristics can be better understood by describing the origin of each type, and the political and institutional circumstances behind it.

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<sup>6</sup>This is true in theory, at least. As discussed later, regulatory deficiencies within the Peruvian education system mean that there are numerous exceptions to this blanket statement.

Partnership schools trace their origins to the middle of the 20th century, when religious orders with an educational mission began to establish and run teacher training institutions. This led naturally to the state offering them public schools for practice teaching; this custom of handing over schools has survived long after its original rationale ended.

More recently, at the start of the 1990s, privately run schools were favored by the government, partly in the belief that public schools had been infiltrated by extremist movements that threatened political stability.

Public opinion turned aggressively against private education, however, following the resounding failure of an early 1990s reform which was seen as an attempt at the wholesale privatization of primary and secondary education. The reform stipulated that school management be transferred to private companies known as municipal education councils and led by representatives of local government and other stakeholders (including families, school principals, and the church). It further stated that each center would receive public funding according to the number of pupils enrolled. This would have made it possible for teachers' associations, religious groups, or other nongovernmental organizations to open and run schools, and to receive public funding under a system similar to a voucher program. Such a scheme would probably have laid the legal groundwork for publicly funded private education, though this was not its main intention. Rather, the primary goal was to undertake a general reform of education in the interests of quality and efficiency.

The reform was criticized as a bid to privatize state education and was met with strong opposition. Moreover, it emerged at a delicate political moment when parliament was suspended, and a campaign for the approval of a new constitution was imminent. The government consequently abandoned the initiative a little less than a year after it went into effect.<sup>7</sup>

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<sup>7</sup>For an in-depth analysis of Peru's frustrated educational reform of 1992–93, see Ortiz de Zevallos et al. (1999, pp. 21–22), who remark:

...in the case of the education reform, those who saw themselves as potential beneficiaries were a small and, above all, diverse group: some parents, teachers and mayors, who viewed the reform as an opportunity to improve their children's education, increase their wages, and gain control over public schools, respectively. None of these groups was organized. Separate mention must be made of the Catholic Church, which could have had an interest in the scheme prospering but turned its back on the reform in large part because of its confrontation with the government on matters such as birth control and sex education.

Details on the proposals, the position of the church, and the substance of the legal debate on education reform can be found in McLauchlan de Arregui (1994).

It is possible that the legacy of conflict left by this unsuccessful reform made it more difficult for the government to devise a policy to regulate the relationship between public funding and private management of schools as a consistent set of incentives, even if there had been the political will for a systematic initiative in this area. On the other hand, for most of the decade, education policy was marked by a general lack of consistency and clear-cut priorities, as exemplified by the no fewer than eight ministers of education appointed during the 10-year presidency of Alberto Fujimori. It is thus difficult to determine how far a rationalized policy on privately run schools might have progressed, even in the absence of the suspicions aroused by the early 1990s reform.

Another factor influencing public policy is the church-state relationship. Almost all of Peru's privately run schools that are wholly or partially subsidized are managed by religious orders. Thus the nature and development of that relationship sometimes affects the functioning of these schools or the institutional framework within which they operate. For instance, disputes between the Catholic Church and the government over issues such as birth control have caused tensions that might have influenced the church's support for certain education policies or the state's support for certain demands on Catholic schools. Additionally, the appearance of Protestant churches on the political and educational scene has complicated the management of a public policy that in practice had dealt only with Catholic schools. A public debate is taking shape around the fairness, legality, or discriminatory nature of giving official support to schools of one religious affiliation to the detriment of others.

The image that emerges is a series of "geological layers" of educational policy initiatives dictated by considerations which, however valid in the particular political and educational circumstances of their time, were never drawn together into an organized, comprehensive frame of reference. Hence the Peruvian education system is characterized by different types of relationships between public and private schools, and by substantial doubt among private actors as to how long the present rules will remain in force—and even about whether it is right to talk of rules or just a set of complex bilateral agreements sustained partly by tradition and partly by the players' ability to reach agreements on a case-by-case basis. While Peru can point to interesting and productive instances of cooperation between private agencies and the state in the education field, the

system as a whole is beset by high transaction costs and regulatory uncertainty. An understanding of why this is so demands a more detailed review of the different public funding mechanisms for privately run schools.

Another key aspect of the public-private relationship in education is accountability. In essence, the government must be able to get correct and timely information on whether transfers to the private sector are being properly managed, used for their original purposes, and reaching the target sectors. Peru lacks an overall and well-reasoned policy framework, and does not even have a body to monitor the effectiveness of transfers to private education. For a time, ONDEC was the nearest thing to an organized accountability mechanism, since parochial schools are required to furnish accounts of the use of public funds received through the organization, which in turn is accountable to MINED for the transfers it has received. ONDEC's weakening as a result of the proliferation of direct agreements between schools and education authorities has reduced the scope of its accountability function (box 6-1).

In terms of their operation and performance as education service providers, oversight of the three types of public-private schools falls to the University of Business and Social Sciences (UCES), which is responsible for supervising all schools. This oversight has its own shortcomings, since UCES usually lacks the resources needed for regular and systematic inspections, and supervisory visits are reportedly sporadic. Private school principals believe their schools face more stringent demands than state schools and that supervisory rules are being unfairly applied with a systematic bias against the private sector. This creates an atmosphere of distrust and suggests that the authorities assume that schools managed directly by the state require less supervision than privately run establishments. It seems clear that the other side of the public-private relationship—accountability to the government as the source of subsidies to private agencies—is far from operating as it should, mainly because of MINED's own institutional weakness and the fact that UCES has insufficient resources for the constructive and systematic monitoring and assessment of private schools.

The lack of definition in the education sector's regulatory framework is also clear in private schools' participation in MINED programs that channel goods and services to improve system quality, mainly textbooks and teacher training courses. In principle, publicly financed private schools

**BOX 6-1****The Experience of ONDEC**

Public subsidies are transferred to privately run schools as the payment of teachers' wages. Traditionally, on the bishop's authorization, ONDEC would negotiate the total number of positions with the Ministry of Education. ONDEC also had a clear influence on the decision regarding where positions should go—that is, which schools would receive more MINED resources and which less. Recently, however, the channeling of positions through ONDEC has ceased to be wholly centralized, and direct agreements between schools and the education authorities are increasingly frequent. *Fé y Alegría*, to mention only the best known case, has an independent agreement with MINED that bypasses ONDEC.

ONDEC's weakening as a centralizing—and, to some extent, rationalizing—agency for public transfers to privately run schools stems largely from the lack of a firm policy framework that sets out clear and comprehensive rules. This lack gives each actor an incentive to negotiate separately for better conditions. In contrast, chapter 7 outlines an agreement between Venezuela's Ministry of Education and the Venezuelan Association of Catholic Education which has successfully established rules—and which have been agreed to by all involved—on managing education subsidies to the private sector. Other factors have helped lessen ONDEC's influence, including the difficulties facing the Catholic Church in maintaining a united front in its dealings with the government.

The main effect of ONDEC's weakening is clear: a widespread belief within the Peruvian education sector that securing and keeping public subsidies is essentially a political process whose outcome depends mainly on the lobbying power exerted by the representatives of each school, religious order, or private network, and only marginally on a set of predictable and universal rules.

are eligible to receive these inputs; in practice, however, they rarely have a chance to participate in the training activities arranged by the public sector, and book deliveries are erratic. Private schools appear to be the last served by distribution mechanisms.

The mechanism of financing teaching positions in private institutions gives rise to a situation in which a teacher's direct employer is the state,



but the school principal or manager is a private employee. In some cases, the state pays all the school's teaching staff; in others, such as parochial schools, it meets part of the payroll cost, and the wages of the other teachers and administrative staff are borne by the sponsoring organization, usually a religious order. Thus, in a parochial school, some teachers work under the public employment regime, and others in the private sector. A fuller understanding of what this might imply calls for a more detailed examination of the management model used by privately run schools receiving public funding.

### **Model of Private Education Management**

Research on Peru's publicly subsidized private schools, and interviews with their administrators and teachers, shows certain standard management practices that are explicitly stated and upheld as essential to the running of such schools. Together, these practices amount to a management model, which, while never put into writing, is well designed and consistently applied in many schools.<sup>8</sup>

Before reviewing the nature of this management model, it should be pointed out that the rules applied in parochial schools are those of private education law, which gives such establishments broad freedom to define their management style, organizational structure, curricular adaptation, assessment system, and schedule.

In contrast, partnership schools, as state schools managed by a religious order, are subject to the same regulations as public schools. However, their administrators have modified their management and organizational characteristics to the maximum extent allowable by law—and, in many cases, they operate according to different procedural norms altogether. Thus, for example, their academic year begins two or three weeks earlier than public schools', students have more class hours, infrastructure

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<sup>8</sup>Since all the schools covered by this analysis are Catholic, it is legitimate to ask whether the model described stems from private management and the greater freedom it confers vis-à-vis the rules and management norms applied to the schools controlled by MINED or UCES, or whether the distinctive features identified derive from their Catholicism per se. Such an analysis is beyond the scope of this chapter. However, Saavedra and Díaz (2000b) identify similar autonomy and educational effectiveness in a small group of non-Catholic schools that receive public funding but do not report to the education authorities. Among these are schools attached to other public institutions or to private business consortia, both of which entities allow them considerable autonomy.

management is highly efficient, and there are many and varied extracurricular activities provided.

### **Autonomy**

The first characteristic of this management model is the autonomy of the administration and principal to select and manage teaching staff. The principals of privately run schools take great pains in interviewing candidates and checking the qualifications of all teachers hired to give classes in their schools. They say that they are not necessarily looking for teachers with many qualifications and/or a great deal of experience. Almost always, they prefer candidates who are young; have had good initial training; and—above all—are willing to learn, eager to be trained, and likely to identify with the educational endeavor of which they will be a part. This distinctive trait of private school management is discernible even in those establishments where almost all teacher wages are provided by public funds, as in the partnership schools and, to a large extent, the *Fé y Alegría* network. A 1999 survey of principals and teachers at Peruvian state and private schools corroborates the interview results. In state schools, less than 25 percent of teachers believe the principal should decide on promotions, compared to 59 percent in private schools (Saavedra and Díaz 2000a).

This basic trait of the private management model can be a potential source of conflict in a system of public subsidies based on teaching positions. In fact, in the second half of the 1990s, this was a source of growing friction: the state's power to choose the teaching staff in private schools and the willingness of principals to abdicate their right to do so. At times, the local education authorities—in UCES—try to dictate to whom a position should be assigned. The senior staff of private schools are wholly unwilling to accept this, on the grounds that personnel selection is vital to the effectiveness and performance of the schools under their management. In practice, however, the authorities' position is that as long as these teachers are paid by the government, staff selection should be guided by the results of state-sponsored competitive examinations, and the schools should accept the state's assignment of teachers to specific establishments. No formal policy has been detected at the national level geared to limiting their autonomy. On the other hand, some within MINED have urged that the subsidy-by-position system be replaced with a payment-per-pupil system, which in practice would give schools greater management freedom.

## Professionalism

The management model, however, goes far beyond staff selection. As a rule, privately run schools keep close track of teachers' professional progress and devote significant resources to supervision, teaching support, assessment, and training. There is a real interest in assisting teachers in their development and maintaining close, personal contact between them and management staff. Private schools thus map out a career path for their teachers—which the teachers seem to appreciate, even though it is more demanding in terms of time and effort, and they receive little material compensation in return.<sup>9</sup> There is clear evidence that private schools strive to promote a culture of assessment. Principals spend much time observing teachers at work and giving them support and feedback. The teachers, in turn, are used to receiving suggestions from their superiors and colleagues, and respond constructively, exhibiting continual improvement in their teaching practices. Private schools, even partnership schools, also have staff incentives that state schools lack. In some cases, these are wage supplements; in others, commendations of their work and an opportunity to advance in their profession through proven effort and skills.

Teacher dismissals in private schools are rare. The prevailing view among the principals interviewed is that if a teaching team has been carefully selected, the vast majority of its members will be capable of working to the school's standards if given proper support. Very few fail, or reject the educational endeavor in which they are involved, and the vast majority of the exceptions leave the school voluntarily. Private school principals admit that, if they had to dismiss a teacher, the regulatory procedures involved are extremely cumbersome. At the same time, they take pride in their ability to apply the rules; they contrast this favorably with the state sector, which has identical rules regarding leave, absence, expected conduct, and general duties, but whose rules are seldom enforced with the same rigor.<sup>10</sup>

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<sup>9</sup>Teachers in state-funded positions receive the same wages as their public school counterparts. This parity posed a problem at one time for parochial schools that were hard pressed to pay non-state-funded teachers a similar wage. Since the end of the 1990s, however, the opposite has been the case, and a high percentage of private schools now pay more than the public sector. These private schools make supplementary payments to teachers in state-funded positions.

<sup>10</sup>Recent research corroborates this view. Saavedra and Díaz (2000a) found a highly significant difference between public and private establishments concerning principals' perception of their effectiveness in managing school affairs and teachers' views of the importance and power of the principal.

## **Teacher Support**

Another feature of the private management model, linked to the foregoing, is that there are units or authorities within the school responsible for providing teaching support to the staff. The state system has its MINED supervisors, but it has not implemented teaching support mechanisms in every establishment as part of the school's organization. There is reason to believe that this distinctive trait, revealed in studies of private school organization (Navarro and de la Cruz 1998), makes a substantial difference in classroom practice by providing a permanent mechanism for assessment, feedback, and teaching support within the school, rather than depending on the sporadic visits typical of traditional inspectors and supervisors throughout Latin America, including Peru.

Private schools also tend to have proactive principals who establish a sense of authority and responsibility within the school and who try to be approachable and open to each staff member. The management style of principals observed as part of the present research focused on finding effective solutions to the challenges of scarce resources, the need to make the best use of available space, the characteristics and needs of teachers, and maintenance of good relations with parents and guardians. They also had a strong sense of duty and responsibility toward students, parents, and their own superiors (usually the management board of the religious order or, in the *Fé y Alegría* schools, the network's head office in Peru).

## **Relationship with Parents**

The last facet of this management model is the relationship with parents. Privately managed schools tends to make different demands on parents in terms of participation and contributions. Parochial schools charge parents a modest enrollment fee, which is not the case with either partnership or *Fé y Alegría* schools. But private schools assume that parental involvement will go beyond monetary contributions. Schools expect the communities they work with to donate their time and energy to the project. The funds thereby raised buy teaching equipment and materials or are spent on cleaning and maintaining the schools. Because of their effectiveness in involving pupils' families, privately run schools usually have funds available for educational supplies other than salaries, and as a result they have a more efficient mix of supplies (Navarro and de la Cruz 1998). This is only

an indirect indicator that privately run schools might stimulate learning more effectively than public,<sup>11</sup> but the question deserves closer attention.

### **The Performance of Private Schools**

In privately run schools, a more balanced mix of inputs is accompanied by another indirect indicator of educational efficiency: excess demand for places. Private schools of the type studied here usually report that the demand for spaces for young and older children is consistently higher than capacity. A sufficiently large number of families repeatedly favor this option, even when a state school is available, thus creating excess demand for private school services.

So high is demand that privately run schools have had to develop pupil selection systems. Interviews with school principals and private management networks show that there is no single selection criterion or process. Indeed, procedures vary widely among different types of schools and the religious orders running them. Some conduct lotteries, others practice some kind of positive discrimination, and so on. These methods of selection do have some general features in common:

- *They do not discriminate by the purchasing power of families or their willingness to pay:* This is true of partnership schools, which are public and free; and Fé y Alegría schools, which are private but wholly subsidized, except for voluntary parental contributions for school cleaning or equipment. The enrollment charges of parochial schools are normally quite modest, thanks to state financing of some teaching positions and the (usually fairly limited) availability of grants for needy families. It is clear, however, that there is some self-selection by income level.
- *They give preference to local students:* Geographic proximity is used as a selection criterion in almost every case.

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<sup>11</sup>Insights gained over two decades of study clearly indicate that a certain balance of inputs is needed to provide quality education (Hanushek 1987). It can be argued that teachers are the most important input in the provision of education, but it is no less clear that they are not the only one. Numerous studies have demonstrated, for example, the importance of textbooks as a vehicle for improving education standards in developing countries. In educational systems where wages consume over 95 percent of expenditures, thought should be given to reallocating a proportion—however modest—to other inputs such as teaching materials, textbooks, and learning technology.

- *They consider the willingness of the student's family to engage with the school, its educational endeavor, its activities, and its needs, often without reference to religious affiliation:* For example, despite their being run by religious orders, neither Fé y Alegría nor partnership schools discriminate by religion. Indeed, in one Fé y Alegría school, almost half the pupils are from Evangelical families. In parochial schools, it is hard to find signs of religious discrimination, and the little evidence available does not allow general conclusions to be drawn.

Admittedly, excess demand is a fairly weak indicator of educational effectiveness, since it is widely acknowledged that families have little reliable information on which to judge the quality of teaching in a given school. In a market with imperfect information, decisions cannot easily lead to efficient outcomes. In the absence of direct measurements of student achievement or the opportunity to observe what goes on in class, families' decisions might be influenced by their impression of a school's external features, such as an atmosphere of discipline, the cleanliness and style of the uniform, or the respect inspired by the principal. It could also be argued that observable characteristics, or a school's particular moral climate, are qualities that parents regard as part of a good education for their children, although such traits might not necessarily translate into higher marks on a standardized test. From a public education policy standpoint, what is significant is that when low-income families can choose their children's schools, a large number opt for privately run schools.

The discussion about whether private schools are more effective than their public counterparts is far from settled, because there is little available information on relative student performance by type of school. The fact that private schools score higher across a wide range of educational indicators is amply documented. A 1997 study, for instance, found that the repetition rate in state schools was five times that of the private school average, and the dropout rate was 25 percent higher (Saavedra and Felices 1997). Unfortunately, these figures do not distinguish between private schools in general (including those attended by children from the country's highest socioeconomic stratum) and those that are the focus of this study.

It is worth reviewing the little indirect evidence available, which is confined to the effectiveness of private schools receiving public funding.

The main sources of this information are studies of the educational results of Fé y Alegría schools. The Center for Education Research and Development produced a report comparing the results of Fé y Alegría schools with comparable public schools (CIDE 1998). The findings are shown in table 6-2.

The data show the consistent superiority of Fé y Alegría schools over those deemed comparable in terms of proximity, socioeconomic level of the students, number of grades taught, and other relevant contextual variables.

This conclusion is corroborated by a case that amounts to something like a natural experiment. Several very run-down rural schools were once in state hands but were later brought into the Fé y Alegría network. For these schools too, the dropout and repetition rates revealed a noticeable and consistent improvement after the schools changed management. Moreover, after Fé y Alegría took control of several rural schools, their indicators began to improve as highlighted below and shown in table 6-3.

**TABLE 6-2**  
**Comparison of Fé y Alegría and state schools, primary level, 1998 (%)**

Indicator (rate)	Fé y Alegría	State
Dropout	6.0	14.0
Repetition	26.5	33.6
Timely completion	64.7	41.7

**NOTE:** "Timely completion" refers to completion without repetition.

**SOURCE:** CIDE (1998).

**TABLE 6-3**  
**Changes in retention of girls and proportion of over-age students in state schools taken over by Fé y Alegría (%)**

Grade	Retention of girls		Proportion of over-age students	
	1996	1999	1996	1999
1	52	51	44	43
2	52	49	72	63
3	44	49	83	79
4	36	44	89	77
5	23	40	93	84
6	16	33	100	82

**SOURCE:** Saavedra and Díaz (2000a).

- Between 1996 and 1999, the proportion of girls enrolled in the fourth grade rose by 8 percent; it rose by 17 percent each for girls in the fifth and sixth grades.
- The numbers of over-age students fell 4 percent in the third grade, 9 percent in the second and fifth grades, 12 percent in the fourth, and 18 percent in the sixth.
- When the school was still under public management, not a single sixth grade student was of the recommended standard age.

Another indicator of the program's impact is the percentage of sixth grade pupils relative to those in the first grade; this proportion increased from 15.2 percent in 1993, to 33 percent in 1997, and to 51 percent in 1999. These results indicate the improvements that can be achieved with an organizational model such as *Fé y Alegría's*—even when the pupils are of the same background, the human resources involved are similar (especially the teaching staff), and schools face the same constraints as when they are under state management.

This evidence about *Fé y Alegría* management complements the main conclusion of a recent research project on the impact of institutional environment and contractual incentives on teacher conduct and performance. A key finding was that teachers in private schools behaved in a significantly different way from teachers at state-run schools, and that the difference in conduct is linked to teaching practices that are generally regarded as conducive to better student learning and performance (Saavedra and Díaz 2000a).<sup>12</sup>

In sum, although most of the evidence is indirect, there are signs that privately managed schools in Peru compare favorably with their state-run counterparts. Their management model seems to give schools more than just an external impression of effectiveness; it also makes a real difference in educational outcomes. However, this conclusion should be accepted with caution until corroborated by more ambitious studies.

The question of costs also remains to be addressed. Comparative data on this aspect of the private and public systems is scarcer in Peru than

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<sup>12</sup>These results were obtained after controlling for all such characteristics as teachers' years of education, student socioeconomic profile, length of service, etc. The factor that could not be controlled for was possible subject self-selection—that is, the fact that private schools might attract a different kind of pupil. This is more than just a hypothetical concern, because excess demand obliges private schools to establish and use selection criteria.



those on educational results, and the little data that are available cover only the *Fé y Alegría* network. The studies that have analyzed per pupil costs in these schools in Peru and other countries in the region concur that they do not differ significantly from those of public schools (CIDE 1988, Navarro and de la Cruz 1998, Navarro and González 1994). It might be that in other schools, especially mixed-finance or parochial schools, parental contributions make a significant difference in unit costs, but no firm conclusions can be drawn in the absence of systematic information.

## Conclusions

Public policy on privately run education in Peru is characterized by disconnection, unfinished tasks, and underutilized potential. The disconnection exists because neither the main ingredients of the policy nor the channels through which it is implemented consistently reflect any apparent regulatory logic or well-defined public policy goals.<sup>13</sup>

Disconnection is expensive. The system's high transaction costs can only lead to inefficiency, which prevents it from realizing the full potential of the public finance-private management mix. Transaction costs may not be readily apparent, but they can be seen, for example, in opaque and unpredictable rules and in the weakening of formal financing channels in favor of ad hoc contracts subject to continuous renegotiation among many actors.

These costs are higher still in view of the evidence presented in this chapter that privately run schools generally perform well, and that they are relatively better than public schools. Doubtless the supply of private

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<sup>13</sup>The fact that the *Fé y Alegría* partnership program and the funding of teaching positions in parochial schools are expressly designed to favor the poorest sectors demonstrates that the subsidizing of private schools aims to support disadvantaged social groups. However, the question remains (in Peru and in the other 13 countries of the region in which *Fé y Alegría* schools operate) as to whether the decision to channel education spending through private suppliers is based on an acknowledgement of their advantages in terms of cost effectiveness or their superior ability to run successful education projects in deprived social settings. Greater clarity is needed regarding the criteria used to guide and rationalize the distribution of teaching positions, why funding takes the form of payment for teaching positions, and what checks are used to determine whether subsidies are achieving their intended goals. None of these questions can be answered conclusively in the current context of Peru's public policy framework for private schools; the framework has not sufficiently developed its discussion of the matter and is not equipped with suitable management and assessment instruments.

schools would not be universal even under a wholly favorable regulatory framework, but better rules would increase the number of schools using a cost-effective management model that seems beyond the reach of most public schools.<sup>14</sup>

Probably the single most important characteristic of public-private partnerships in Peruvian education is the emergence of a simple management model adopted, with minor variants, by all the country's private schools. This model is essentially a blend of common sense and a responsible and consistent approach to administrative and educational management. Traits such as autonomy in teacher selection and care paid to their supervision, training, and professional development; an effort to build and maintain good relations with parents and guardians; and implementation of an assessment culture exemplify a pragmatic and conscientious approach. The fact that this approach is successful even when applied at the most disadvantaged social sectors with children from the lowest income families means that a closer examination of the characteristics of this management model is in order, as these are traits found less often and less strongly in public schools.

In practice, this management model entails an incentives structure affecting administrators, other members of the teaching staff, and parents that differs markedly from that used in public schools. From the principal-agent perspective, the "principals" in public schools are MINED and UCES, which are fairly remote institutions with little supervisory capacity. In contrast, the teachers working within the private management model deal with administrators in the school who are ready to enforce compliance and to support their professional development. In turn, the administrators' "principal" is the community and their superiors within the religious order. These provide an ethos for action through their representatives in the school and oversee the progress of schools under their charge. They do so without undermining the autonomy and authority of the school principal—and in fact, strengthen the person in that position. There is a good reason that private schools uphold their right to choose their own teachers; this is in sharp contrast to the apparently diminished authority of the principal in a typical public school.

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<sup>14</sup>In Chile, the expansion and consolidation of private school subsidization led to a rapid increase in supply.

The first step in improving the Peruvian education system is to bring dynamism and reasoned goals into the current stagnated policy on support for private education. MINED's lack of initiative in this regard stems from the public's sensitivity to any government attempt to give nonstate agencies the ability to run effective schools at a lower cost, from the complexity of church-state relations—and probably from uncertainty about the main effects of such a drastic policy change.

A review of the mechanisms for allocating resources to privately run schools suggests the need to increase (not further erode) school autonomy, and probably to move toward a per pupil cash payment rather than subsidization based on teacher positions; this latter approach causes rigidity and could hinder the operation of the private management model.

This greater autonomy should be complemented by regulating the current rules into an overall agreement (as in Venezuela; see chapter 7) or the establishment of general rules on support for private education (as in Chile; see chapter 3) that offer predictability and lower the transaction and lobbying costs of the present system. Enhanced autonomy will also require better control and support mechanisms from the state to ensure accountability and maximize collaboration and mutual assistance between private and public agents. Ideally, the redesigned mechanism governing the public-private partnership should be informed by good data on student quality, performance, and socioeconomic status, and on how best to target the public funds transferred to private education.

Finally, a decision must be made on the advisability of expanding the publicly financed, privately run education sector to exploit the quality, equity, and efficiency advantages of its management model. (This assumes for the moment that such advantages are proven, something that is suggested here but that cannot yet be asserted with complete certainty.) Political and social considerations that go beyond the educational issues addressed in this chapter obviously enter into the matter. The crucial questions are how to improve education in Peru and whether the broader application of a management model in which agent and principal interests are more closely aligned than in public schools should be an important part of improvement efforts. Analysis of the factors and preliminary evidence outlined in this chapter suggests an affirmative response to that latter question. In other words, improving Peruvian education requires better school management, understood as the incentives structure within

which principals and teachers work. Management is not the only factor, of course, but it is a crucial component of various kinds of educational reform and investment efforts. Achieving these ends can include at least two initiatives: expanding the private management of public schools, and giving state-run schools the autonomy and accountability that are rarely found in the public system but that are more widely—if not universally—present in private schools.

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## CHAPTER 7

# SUBSIDIZED CATHOLIC SCHOOLS IN VENEZUELA

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This chapter deals with a group of private schools belonging to the Venezuelan Association of Catholic Education (AVEC), which receives a government subsidy managed by the Ministry of Education, Culture, and Sports (MECD).<sup>1</sup> To understand this experience, two points must be made clear. First, not all the private schools associated with AVEC receive the benefits of the MECD-AVEC agreement, since many are totally financed by fees (especially those serving the middle and upper socioeconomic levels). Thus, the AVEC schools covered by the agreement serve pupils from families with meager resources. Second, the MECD-AVEC agreement covers schools belonging to different religious groups and organizations, including Fé y Alegría. Fé y Alegría is the institution with the most influence in the agreement (accounting for about 30 percent of enrollment) and is one of the best known by the public; it is not, however, the only beneficiary.

### **The Venezuelan Education System and the Traditional Public School Model**

Venezuela's education system is based on substantial state intervention in educational development. The sector's administration has been centralized.

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<sup>1</sup>Founded in 1945, AVEC defines itself as a nonprofit, politically unaffiliated civic association, open to dialogue and at the service of the national community and the church. It is part of the Inter-American Confederation of Catholic Education and the International Office of Catholic Education. In 1999, AVEC had 705 member schools, of which 556 (78.9 percent) were covered by the MECD-AVEC agreement.

It has been dominated by a single educational concept and is subject to controls established by the Ministry of Education (now the Ministry of Education, Culture, and Sports) which affect every aspect of its operation. The ministry is not, and has never been, the only agency directly responsible for school management. State schools are operated by state governments; municipal schools are run by the municipalities. Autonomous schools, which are established by state companies and institutions to provide worker benefits, are run by various other agencies of the national state. Venezuela also has private schools operated by private suppliers. Table 7-1 shows the distribution of schools, enrollment, and teachers by type of school in 1997–98.

**TABLE 7-1**

**Distribution of schools, enrollment, and teachers by type of school, academic year 1997–98**

Type of school	Schools		Enrollment		Teachers	
	No.	%	No.	%	No.	%
Public	17,458	82.9	4,462,985	80.9	252,908	76.1
National	8,370	39.8	2,958,476	53.6	172,835	52.0
State	8,115	38.6	1,328,164	24.1	69,116	20.8
Municipal	478	2.2	58,517	1.1	2,847	0.9
Autonomous	495	2.3	117,828	2.1	8,110	2.4
Private	3,588	17.1	1,053,200	19.1	79,284	23.9
Total	21,046	100.0	5,516,185	100.0	332,192	100.0

**NOTE:** Data are for preschools, primary and secondary schools, and professional education institutes.

**SOURCE:** Data from MECD, 1999.

### Centralization and Decentralization

The three levels of government (municipal, state, and national) manage their respective schools under the curricular, organizational, and financial guidelines of the national government as promulgated by MECD. The central government's strong control of policymaking and management has unified public school administration, and the only area with a different educational administration is, to a large extent, the private sector (Navarro and de la Cruz 1998).



Recognizing that the vast size of the national education system makes its efficient and effective centralized management impossible, MECD has tried to decentralize itself by creating ministry offices in several parts of the country to bring certain functions closer to users. In 1969, there were eight regional education offices; the Organic Education Law of 1987 created similar offices in the 23 federal entities. However, these offices are relatively weak because they have never been given substantive functions. The regional offices cannot make education policy or draw up their own budgets; they do not have the flexibility to reallocate resources because they lack clear information on how much is allocated to each school; they do not manage resources to maintain and equip school buildings;<sup>2</sup> and they do not administer teachers' salaries, acting solely as intermediaries for the distribution of payments from MECD headquarters in Caracas to each school. The regional education offices therefore have had virtually no effect in reducing the centralized nature of Venezuela's education system.

The decentralization that began with the election of governors and mayors in 1989 has brought about changes in the centralized public education sector. State officials have had more discretion in decisionmaking, especially concerning the provision of social services in the areas of health and, to a lesser degree, education. And the programs of some of the new regional and local leaders have included projects to transform the education system in their jurisdictions and improve the quality of the education provided in the schools for which they are responsible. During the 1990s, regional education projects emerged that have become significant reference points for the progress made in changing the system—in spite of strong recentralization policies in recent years.

In 1996, the government devised the Project to Restructure and Decentralize the Education System, an effort to implement a new way of organizing and administering education in the nation. The project sought to make MECD the governing institution, while transferring to the state governments the schools; the teachers' payroll; and the authority to manage the budget, goods, and personnel. It also provided for the transfer of some functions directly to the schools. Thus far, however, the project has

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<sup>2</sup>Responsibility for building, expanding, maintaining, and financing schools falls to a national agency associated with MECD: the Foundation for Education Grants and Support.

made little progress because of a lack of political will at the national level. Changes that had been achieved include agreements on the transfer of services in just three states (Aragua, Lara, and Nueva Esparta) and some restructuring of the regional education offices and the state governments' education secretariats, with a view to unifying these two entities in preparation for a possible future transfer of authority.

With the advent of the Chávez administration in 1999, decentralization was suspended, and there is little sign of its short- or medium-term renewal.

### **General System Organization**

The organization of Venezuela's public education system can be characterized as follows (Bruni Celli, Ramos, and González 1999):

- The system's general policies are established by the national executive branch. Other administrative institutions (states and municipalities) devise and implement their own policies and projects.
- A common regulatory framework governs the structure and administration of the education system and determines some of the features of the employment contracts in all the public schools (at the national, state, and municipal levels).
- The teachers in the various public schools negotiate collective contracts independently with their respective administrative institution (MECD, state government, or municipality). In most state and municipal systems, the reference point in the negotiations is the collective contract of teachers employed by national schools.
- According to the legislation in force, there is a single system of supervision. This National Supervision System is responsible for monitoring education in all public and private institutions, as well as for ensuring compliance with study plans and programs defined by the national government. Nevertheless, states and municipalities also have their own parallel supervision systems.
- The hiring, classification, and promotion of teachers is governed by the Regulation on the Teaching Profession in the three levels of the public school system, but the organization and control of those processes differ. The national government, through MECD and the National Qualifications Board, remains the highest authority for all public school systems.

- Public schools are financed by their own administrative authorities, although inter-system subsidies are frequent. The teaching staff of a national school, for example, might include teachers associated with the states or municipalities and vice versa. Public schools can receive donations in cash or in kind, usually channeled through civic associations of parents or teachers. Recent years have seen the emergence of several mechanisms by which public schools receive contributions, mainly from the national government (sometimes with loans from multilateral institutions) for specific projects.
- In none of the national schools do the leaders and members of the educational communities have the authority to influence the hiring and promotion of teachers or discipline personnel. The school principal is only authorized to act in the event of minor infractions that merit verbal or written sanctions and to oversee the disciplinary proceedings, especially in the early stages.
- The leaders and members of the educational communities in national schools may not decide on how school funds are allocated. The allocation of spending is the exclusive responsibility of MECD; the school has the discretion only to manage resources from donations in cash and in kind channeled through civic associations of parents and teachers.

### **Subsidized Catholic Schools**

Venezuela's private schools consist of (1) those that receive all their financing through user contributions (nonsubsidized schools) and (2) those whose operating costs are partially or wholly subsidized by the state. Most of the latter are Catholic schools belonging to the Venezuelan Association of Catholic Education, which receive an overall amount from MECD to finance the operational deficits of those schools covered by the MECD-AVEC agreement. Many Catholic schools also receive subsidies in kind—that is, teachers who are registered at the national or state level.

In 2000, MECD planned to offer a little more than 96.5 billion bolíva-res, equivalent to \$142 million, in subsidies to private schools. Some 80.9 billion (approximately \$120 million) of this amount was earmarked for the MECD-AVEC agreement. Subsidies to Catholic schools associated with AVEC and covered by the agreement thus account for 83.8 percent of MECD resources for private education.

## The MECD-AVEC Agreement

The legal basis of the MECD-AVEC agreement is Decree 722 of 1990, which approved the Regulations on Granting Subsidies to Private Schools Registered with MECD. These regulations include rules governing the national government's contribution to private education through subsidies to nonprofit legal entities to promote education and the education system (box 7-1). The agreement is overseen by the Office for the Coordination and Control of the Agreement. In general, the MECD-AVEC schools do not charge tuition, except in certain cases where schools can request a "voluntary contribution" of up to 15 percent of costs. The agreement may cover some specialized training programs in technical and agricultural education. Other affiliated institutions and initiatives include:

- *Fé y Alegría and Teachers Support Center*: These entities organize and guide programs supporting teacher training.
- *Adult education project*: This initiative is implemented through the Fé y Alegría Radio Institute.
- *Attention to the Community Project*: This project is aimed at youths between 15 and 24 years old who have dropped out of formal education and who are unemployed and have no work-related training. The project operates through labor-related education workshops in various areas; training is also offered in reading and writing, arithmetic, self-esteem, and other subjects.

The Venezuelan government's financial support to private education—especially Catholic education—began long before the promulgation of Decree 722. Previously, however, organizations interested in receiving state subsidies each had to negotiate the terms of the support individually, with no guarantee that such support would be forthcoming and no certainty about the amount. After 1990, the relationship between MECD and the private schools receiving government subsidies—including the schools associated with AVEC—was institutionalized.

Table 7-2 shows the distribution of enrollment in AVEC-affiliated schools. Enrollment in schools that participate in the MECD-AVEC agreement is separated from those in other, nonsubsidized affiliated schools.

The table shows that schools participating in the MECD-AVEC agreement account for almost 80 percent of all affiliated schools. To benefit from the agreement, the schools must be registered with MECD and express their wish to participate in the agreement. There is no formal con-

**BOX 7-1****Key Components of the MECD-AVEC Agreement**

The subsidies cannot be used to pay for services whose costs are higher than those in the public schools.

- *Permanent* subsidies are given only to schools offering free education, those of special public interest (e.g., schools that offer technical, vocational, and agricultural training), and those with insufficient fee income.
- *Occasional* subsidies seek to help improve teaching quality and facilitate research or extension programs of interest to the state in the areas of science, technology, or culture.
- MECD must conclude written agreements with the school that set out its specific obligations.
- Application for a subsidy must be accompanied by a budget report, a balance sheet with income and expenditures duly specified, and a certificate from the Venezuelan Institute of Social Security and Income Tax.
- Subsidized schools are subject to any inspection of their administration and teaching supervision the ministry deems appropriate.
- The private school subsidy may be channeled through civic associations and other nonprofit legal entities, including private establishments registered with MECD and entities that can, in line with their charters and bylaws, represent the schools.
- Civic associations and other nonprofit legal entities shall present to MECD the entire subsidy application for affiliated schools that wish to participate in the agreement.
- The civic association or nonprofit legal entity shall guarantee that the subsidy will be used to cover the costs needed for proper functioning of the affiliated schools that participate in the agreement. The association shall control and oversee the use that the affiliated schools make of the contributions.
- Initially, the agreements reached with civic associations and other nonprofit entities will be on a trial basis that will not exceed a year, during which time the ministry will assess the results of the accords' implementation and decide whether to extend them.
- The civic associations and other legal entities shall send MECD an annual account of the public and private contributions received and how they are used.

**TABLE 7-2**  
**Enrollment in AVEC-affiliated schools, academic year 1998–99**

<b>Educational level</b>	<b>Schools covered by MECD-AVEC agreement</b>	<b>Schools not covered by MECD-AVEC agreement</b>	<b>Total</b>
Preschool	32,731	10,636	43,367
Primary & lower secondary	285,074	65,949	351,023
Upper secondary	30,249	11,897	42,146
Vocational/technical	2,133	181	2,314
Other	3,592	6,822	10,414
All levels	353,779	95,485	449,264
Percentage	79%	21%	100%

**SOURCE:** AVEC (1999b).

tract between AVEC and the participants. The latter, however, must comply with legal, administrative, and teaching procedures set forth by AVEC, as well as with its supervisory requirements.

Table 7-3 shows that AVEC's relative share of Venezuela's education system accounts for less than 10 percent of the public system, a little more than 40 percent of the private system, and about 8 percent of the system as a whole.

**TABLE 7-3**  
**Enrollment by school type and level, and AVEC share of enrollment, academic year 1997–98**

<b>Level</b>	<b>Enrollment</b>				<b>AVEC share as % of enrollment</b>	
	<b>All schools</b>	<b>Public</b>	<b>Private</b>	<b>AVEC</b>	<b>All schools</b>	<b>Private</b>
Preschool	759,372	613,765	145,607	42,309	5.6	29.1
Primary and lower secondary	4,367,857	3,597,282	770,575	344,506	7.9	44.7
Upper secondary	388,956	251,938	137,018	44,158	11.4	32.2
Total	5,516,185	4,462,985	1,053,200	430,973	7.8	40.9

**SOURCE:** AVEC (1999a).

Since 1990, AVEC has concluded annual agreements with MECD to cover the operational deficits of those affiliated schools that have expressed their willingness to be included in the agreement and that meet the necessary conditions.

Table 7-4 shows the financing structure of the AVEC schools that participate in the agreement. The table separates state contributions, those from parents and guardians, and those from the school and their affiliated institutions.

It is clear that from 1999 onward there was a decline in the relative share of state contributions to the financing of AVEC schools; this drop was significantly sharper in 2000.

**TABLE 7-4**  
**Financing structure of schools covered by the MECD-AVEC agreement, 1995–2000**

Year	State contribution		Own income				Total
			Schools and parents		Affiliated institutions		
	Amount	%	Amount	%	Amount	%	
1995	15,742	92.4	1,224	7.2	71	0.4	17,037
1996	23,262	92.2	1,877	7.5	84	0.3	25,223
1997	55,950	93.9	3,529	5.9	122	0.2	59,601
1998	76,946	94.2	4,658	5.7	120	0.1	81,724
1999	76,472	91.4	7,154	8.5	73	0.1	83,699
2000	80,912	84.1	15,175	15.8	89	0.1	96,176

**NOTE:** All amounts are millions of current bolívares. In 2005, \$1 = 2,147 bolívares.

**SOURCE:** AVEC (2000).

### The Fé y Alegría School Network

Prominent among the schools and educational institutions affiliated with AVEC is the school network of Fé y Alegría, a Jesuit organization chiefly focused on providing education to low-income groups. Its motto reflects its philosophy: “Faith and joy begin where the asphalt ends.” It was established in Venezuela in 1955 at the initiative of the Jesuit priest José María Vélaz, as one of the social action programs he conducted with a group of

students at the Andrés Bello Catholic University. It has since extended its activities to several countries in Latin America and has become a significant presence throughout the region.

Fé y Alegría concentrates on public primary education, but it has managed to make its schools true community centers of social service, which sets them apart in the areas in which they operate. Fé y Alegría provides education to 25 percent of the children enrolled in AVEC-affiliated schools (table 7-5).

**TABLE 7-5**

**Enrollment in schools affiliated with AVEC and Fé y Alegría, by level, academic year 1998–99**

School affiliation	Pre-school	Primary & lower secondary school	Upper secondary school	Other	Total	
					Number	%
Covered by MECD-AVEC agreement	32,731	285,074	30,249	5,725	353,779	79
Fé y Alegría	8,897	71,935	3,719	29,860	114,411	25
Not covered by MECD-AVEC agreement	10,636	65,949	11,897	7,003	95,485	21
Total	43,367	351,023	42,146	12,728	449,264	100

**SOURCE:** AVEC (1999b).

Fé y Alegría is financed by contributions from the state and civil society, but it is not easy to quantify this support in monetary terms. Much of the organization's work is undertaken on a volunteer basis by pupils, parents and guardians, and communities; the value of these contributions has not been determined. Similarly, there is no reliable estimate of the value of the schools' physical infrastructure and equipment, which come from private sources. Table 7-6 presents Fé y Alegría's financing structure for 1999.

The most prominent features of the Fé y Alegría model are described below (Swope and Latorre 1998; Navarro and González 1994).



TABLE 7-6

**Fé y Alegría financing structure, 1999**

Source	Amount (millions of bolívars)	%
State contribution	21,297	92.2
Community contribution	1,795	7.8
Total	23,092	100.0

**NOTE:** In 1999, \$1 = 417 bolívars.

**SOURCE:** Fé y Alegría (1999).

**Decentralized Organization.** The Fé y Alegría structure consists of three levels:

- *General management:* This level is responsible for strategic matters such as planning, financing, assessment, and supervision of the network's activities.
- *Local area management:* This level interprets and transmits to the schools the plans and targets to be met within a given period. It advises the schools on the formulation of educational initiatives and on planning strategies to secure the necessary financial and human resources; it also oversees the schools' performance.
- *Educational establishments (schools):* These are the system's operational units. They have the autonomy to interpret policy guidelines issued at higher levels and to tailor them to their own educational projects. They manage staff and take part in decisions on the allocation of financial resources.

This structure, which is unique to the Venezuelan education sector, makes a healthy balance between centralization and decentralization possible. Although every level works relatively autonomously, the higher levels are always careful that certain common guidelines are respected and carried out.

**School Autonomy.** In Fé y Alegría schools, the management team can:

- Hire teachers and recommend their dismissal. Teachers are hired by direct recruiting or through a job center operated by Fé y Alegría's local managers.

- Assess teachers and propose professional recognition or disciplinary measures.
- Take part in decisionmaking on the allocation of financial resources and conduct fundraising activities. The schools can retain 50 percent of the earnings of Fé y Alegría's annual raffle to finance special infrastructure and equipment projects. They can also seek financing for their own projects from potential sponsors.

The Fé y Alegría school managers thus have substantial autonomy. Of equal importance, however, is the availability of the organization's general management for ongoing oversight and advice. No other private schools covered by the MECD-AVEC agreement have this feature.

**Clarity of Goals.** Each school has a "project," which is a common goal that motivates all those involved. Moreover, the project is not selected unilaterally by the leaders, but is the product of a shared group vision.

**Management Training and Teacher Professionalism.** Fé y Alegría works continually to train its managers, to ensure that they have:

- a solid sense of identification with the institution,
- organizational and leadership ability,
- close relationship with the rest of the staff,
- a good understanding of teaching, and
- good administrative skills.

Training includes managers' participation in courses and programs, as well as on-the-job-training.

Relatedly, Fé y Alegría promotes continued professional development for teachers. The organization internalized this function with the establishment in 1991 of the Father Joaquín Training Center. Through an agreement with the Simón Rodríguez University, the center offers a bachelor's degree program designed to meet Fé y Alegría's training needs.

**Close Ties between Communities and Schools.** From the outset, one of Fé y Alegría's explicit goals has been to move beyond formal education and make the schools community centers for social service. Social activities are channeled through the Family-School-Community project (FEC), which includes programs covering health (clinics), nutrition (school breakfasts and lunches), cooperatives (school cooperatives, consumer cooperatives, people's bakeries), development (microenterprises, legal clinics, and training in various areas), and retreats. The FEC project works

to create a development team in each school, with at least one member of the administration, one teacher, and one or more representatives of the community. A clear advantage of such programs is that the communities take good care of these schools, which—unlike others in the country—are seldom vandalized or looted, no matter what happens in the area around them.

**Replicability.** One of the most attractive aspects of the Fé y Alegría model is that it can be easily replicated as a means of delivering education to poor social groups. Fé y Alegría has established networks similar to (although smaller than) the one it operates in Venezuela in 12 other Latin American countries.

### The Principal-Agent Relationship

In assessing education from an principal-agent perspective, one approach is to consider the link between the state, which acts as the principal, and the schools or the education system, which acts as the agent. Another way is to consider the link between the school acting as the principal and the teachers as the agent. The following discusses the basic elements of these two approaches to the principal-agent relationship in Venezuela.

#### The Principal-Agent Relationship of the State and the Schools

Some basic differences emerge from a comparative analysis of this relationship as it operates in schools run centrally by MECD and schools run privately with public financing.

**Contracts.** The contract between the state and the national public schools can be termed *unconditional*. Financing for the schools is guaranteed as long as MECD has the necessary budget resources. The funds are transferred by “budget line”—that is, by the different categories for each type of spending (staff, materials, services, and so on) in line with a national list of budget items. There is no attempt to calculate the sum of the amounts transferred to each school under each budget category; MECD thus does not know what it costs to finance its schools.

The contract between the state and the subsidized private schools, on the other hand, is *conditional*. The private schools must account for their use of the funds they receive, and AVEC must present an annual report on its management of the resources. If these conditions are not met, MECD

can suspend the subsidy or choose not to renew it the following year. The MECD-AVEC contract, however, does not specify what result the subsidized schools have to attain: funding is granted on the basis of the cost of the inputs used to provide the service. This not only fails to offer incentives for greater efficiency, but probably reflects MECD's limited ability to monitor the more substantive aspects of school management.

In sum, the financing of national public schools is a kind of "acquired right," while private schools must constantly prove that they deserve the public subsidy. In neither case do the contracts between the principal and the agent provide incentives for greater efficiency in service provision, nor do they take into account user preferences, as a voucher system would do. Because there is a limited supply of subsidized private schools, users do not have a free choice.

**Monitoring and Supervision.** Fundamental differences between public and subsidized private schools are evident in this area as well. In the national schools, supervision is the responsibility of the regional education offices, which have a team of supervisors who visit the schools and offer technical-pedagogic support to the teachers in the classroom. In practice, such visits are not as regular as they should be—because, for instance, the supervisors do not receive travel per diem and do not have access to vehicles. Another reason the supervisors do not regularly visit the schools is that the workload is unequally distributed among them. The supervisors thus restrict their activities to occasional visits to public schools (or to telephone conversations with school principals) and to requesting and compiling statistics and other documents (Navarro and de la Cruz 1998).

In contrast, the subsidized private schools are subject to constant supervision. The AVEC supervisor visits each school twice a year to assess academic matters (e.g., plans, timetables, staffing, teacher qualifications and classifications) and administrative issues (use of resources, supporting documentation on spending, employer social security contributions, reserves for the payment of social security benefits). The supervisors keep a file on each school, and AVEC compiles the information for analysis and comparison. Technical teaching assistance is also provided through the AVEC Training School.

Fé y Alegría's headquarters similarly provides supervision and assistance. Through a decentralized system of local area management, each regional jurisdiction interprets and transmits to the schools the plans and

targets proposed for a given period, and advises and supervises schools in formulating and implementing their educational initiatives, and planning activities and strategies.

### **The Principal-Agent Relationship between the School and the Teachers**

This principal-agent relationship is primarily based on an incentives structure for teachers, which was the focus of a study by Bruni Celli, Ramos, and González in 1999.

***Labor Discipline in the School.*** This is the chief factor that can affect teachers' behavior. An index was drawn up based on a survey of teachers. This index ranges from 0 (little discipline) to 4 (a great deal of discipline). The nonsubsidized private schools showed the highest level of discipline (1.66), and the national schools showed the least (1.18). Discipline in the subsidized private schools falls between these two (1.43).

***Working Environment.*** An index assessing teachers' perception of their working environment was also developed from the survey mentioned above (table 7-7). It is noteworthy that although the teachers in the subsidized private schools receive the lowest salaries in Venezuela's education system, they have a better impression of their working environment than do teachers in national schools.

***Employment Contract.*** In nonsubsidized private schools, there is a competitive employment system (i.e., assessment based on merit) which is linked to rules on promotion and pay scale, together with a system of disciplinary measures. In the public schools, the system is based on wages, benefits, and pension rights accorded through a regulated process of promotion. The subsidized private schools use an intermediate system.

***Identity of the "Principal."*** In this context, the "principal" can be viewed as the authority to whom teachers appeal to solve problems at work (table 7-8). Teachers in private schools normally turn to internal actors: the principal, deputy principal, or subject area coordinator. Public school teachers look to both internal actors and external authorities such as the managers within the regional education office, the sector supervisor, or the union representative. This difference reflects the school administrator's lack of power and the diffuse nature of accountability in public schools.

TABLE 7-7

**Teachers' assessment of their work environment, by school type (scale: 1–5)**

Assessment	Public schools	Private schools	
		Subsidized	Nonsubsidized
Teacher has enough freedom in teaching	3.92	4.09	4.50
Principal asks for teachers' opinion	3.68	3.75	3.90
Support from a higher authority available	3.32	3.85	3.96
Principal offers input to improve teaching practices	2.59	2.59	2.39
Parents agree with teachers	3.67	4.03	4.06
Teachers burdened by wage problems	3.20	2.50	2.37
Severe conflict in the school	2.61	2.04	1.87
Substantial political interference in the school	2.19	1.83	1.73
Principal offers encouragement and recognition	3.51	3.74	4.01
Principal provides leadership	3.43	3.55	3.91
Assessment of work environment index	3.49	3.81	4.00

**NOTE:** Scale ranges from 1, strongly disagree, to 5, strongly agree.

**SOURCE:** Bruni Celli, Ramos, and González (1999).

**Subjective Relationship between the Teacher and the School.** An index was drawn up based on 15 items of the Likert scale to measure teachers' positions on a continuum, with 5 being the highest value (meaning the assumption of commitments beyond what is formally expected) and 1 the lowest (related to the sense of "acquired rights"). On this scale, teachers' commitment is quite high, even in national schools (3.95); it is even higher in the subsidized private schools (4.03).

The foregoing reveals a consistent general pattern: Teachers in national schools face adverse performance incentives, while those in the nonsubsidized private schools are offered incentives to improve their performance. Teachers in subsidized private schools are in an intermediate position.

TABLE 7-8

**Percentage of teachers who refer to each authority for problems at work, by type of school**

Authority	Public schools	Private schools	
		Subsidized	Nonsubsidized
School principal	19	21	19
School deputy principal	13	15	14
Director of regional education office	13	8	8
Sector supervisor	12	8	8
Area coordinator	8	15	13
Union representative	8	5	5
Parents' association	5	6	7
School owner	3	6	8
State education secretariat	8	6	6
Municipal education directorate	7	5	5
Other regional official	3	3	2
Other	2	3	3

**SOURCE:** Bruni Celli, Ramos, and González (1999).

## Results and Achievements

The available assessments of the quality of education in Venezuela are incomplete. All of them are from partial studies undertaken for a variety of purposes by researchers and institutions linked to the education sector. Apart from the Academic Aptitude Test taken by all those completing the upper secondary school who want to enter university, the country does not administer standardized tests of skills and knowledge.

A common finding in all the studies is that private schools (subsidized or not) perform better than public schools, regardless of the level of spending per pupil—which, in many cases, is less in the subsidized private schools than in the public schools. The reasons for this poor performance include limited effectiveness of teachers, serious management problems in the schools, and significant distortions in the allocation of education spending in the public sector.

## **Student Academic Performance**

The absence of standardized tests of educational achievement hinders a comparison of private and public school performance. However, the interest aroused by the *Fé y Alegría* model has led some researchers to attempt an assessment of the network's overall academic performance.

In 1993, a study by the Center for Cultural and Educational Research compared the performance of a selected group of schools belonging to three networks: *Fé y Alegría*, MECD's public schools, and municipal schools in the Caracas metropolitan area. In general, there was no significant difference between the three networks' performances. However, some aspects of *Fé y Alegría*'s performance should be noted (Herrera and López 1993):

- In the mathematics test, the three systems had very similar "average" results, but of the 27 pupils who passed the test (out of a total of more than 1,000), 24 (89 percent) attended *Fé y Alegría* schools.
- *Fé y Alegría* students did better in the reading comprehension test, scoring 2 points above national schools and 4 points above municipal schools.

A study by Navarro and de la Cruz (1998) compared the results and organization of the three systems in Mérida state: schools dependent on MECD, the Comprehensive Schools Project of the Mérida state government, and the *Fé y Alegría* schools. In their study, a sample group of fifth grade pupils, including students from *Fé y Alegría*'s two primary schools in Mérida, was given a test of academic performance. The test was in three parts: mathematics, reading and writing, and written expression. The *Fé y Alegría* schools ranked first (table 7-9).

The findings of these two studies suggest that the *Fé y Alegría* schools perform better than the public schools. Moreover, there is substantial evidence of the population's perception of the quality of teaching in the *Fé y Alegría* schools. That perception is reflected in the growing and unsatisfied demand for slots in those schools, despite the fact that they charge a small monthly fee.

It is very important to note that, of the two studies, only the second separated the effect of student socioeconomic background on academic performance, and then only partially. The data should therefore be treated with caution. The *Fé y Alegría* schools serve students who live in poor and marginal neighborhoods, similar to those districts served by the pub-



lic schools, which were used as a comparison. This circumstance, however, does not shield the research findings from biases of self-selection. Nor does it mean that there are no significant contextual differences among the groups of pupils attending the different kinds of schools.

### Enrollment Rates

The 1999 AVEC report provides some statistics on the comparative performance of the affiliated schools (subsidized and not) and the other schools in the country (including all the public and private systems).

These data are presented in tables 7-10 and 7-11.

The AVEC-affiliated schools perform better in terms of dropouts, repetition, and retention than do the schools in the education system as a whole. In fact, retention in these schools is about 10 percentage points higher than the national average.

### Teacher Performance

Bruni Celli, Ramos, and González (1999) sought to assess the link between the performance of teachers and the kind of institutional arrangements or school system where they work (lay private schools, private Catholic schools, municipal schools, state and national schools). Performance is hard to observe directly, and thus various approaches were taken: (1) an empowerment index that included a set of 28 factors associated with effective teachers; (2) teacher self-assessment based on two questions: How

**TABLE 7-9**  
**Average student scores (percentage of answers correct) on performance tests, by school type, 1998**

Type of test	Public		Fé y Alegría
	Managed by state	Managed by MECD	
<b>Mathematics</b>			
Average	34.11	35.67	53.03
Standard deviation	16.61	14.16	3.49
<b>Reading and writing</b>			
Average	60.45	53.46	66.79
Standard deviation	21.93	17.87	19.98
<b>Written expression</b>			
Average	23.94	26.77	39.63
Standard deviation	16.8	11.81	29.72

**SOURCE:** Navarro and de la Cruz (1998).

**TABLE 7-10****Basic education enrollment and repetition, dropout, and promotion rates by grade level, academic year 1997–98**

Grade	Enrollment	Repetition (%)	Dropout (%)	Dropout & repetition (%)	Promotion (%)
1	657,448	15.29	3.78	19.07	80.93
2	609,424	10.52	0.51	11.02	88.98
3	580,785	9.50	1.70	12.19	87.81
4	538,770	8.34	3.30	11.64	88.36
5	491,086	5.84	3.29	9.14	90.86
6	444,826	2.29	6.80	9.09	90.91
7	456,884	14.67	18.31	32.98	67.02
8	321,848	11.25	11.35	18.16	81.84
9	266,786	9.69	11.87	21.56	78.44
Total	4,367,857	9.91	5.81	15.52	84.48

**SOURCE:** Ministry of Education of Venezuela (1998).

**TABLE 7-11****AVEC basic education enrollment and repetition, dropout, and promotion rates by grade level, academic year 1997–98**

Grade	Enrollment	Repetition (%)	Dropout (%)	Dropout & repetition (%)	Promotion (%)
1	36,928	3.26	2.42	5.68	94.32
2	37,356	1.95	1.62	3.57	96.43
3	37,611	2.09	1.31	3.40	96.60
4	37,222	2.01	1.57	3.58	96.42
5	36,643	1.51	1.52	3.03	96.97
6	35,728	1.00	1.79	2.78	97.22
7	36,317	2.02	6.05	8.07	91.93
8	30,297	1.52	6.34	7.87	92.13
9	27,598	1.35	4.06	5.41	94.59
Total	315,698	1.99	2.85	4.74	95.26

**SOURCE:** AVEC (1999a).

would you assess your own performance? And how would your principal assess it?; and (3) other indicators such as expectations of pupils' success, attitude toward parents, and pupil discipline. The results are summarized below.

- In terms of the teacher empowerment index, the private Catholic and state schools are between the non-Catholic private schools (which perform best) and the national and municipal schools (which perform worst). According to the researchers, this pattern is consistent with that for the index of assessment of the working environment, suggesting that the latter (which is linked to a specific institutional arrangement) affects teacher performance.
- The self-assessment of teachers in the lay private schools was best, and that of teachers in the municipal schools was worst. Again, teachers in private Catholic schools are in an intermediate position, but above teachers in the national schools.
- Expectations of pupil success were higher among teachers in private schools (lay and Catholic) than those in public schools. It should be noted that all the private schools examined served children from the lower socioeconomic groups.
- The national schools have a diffuse "principal," limited organizational discipline, mid-range salaries, a modest assessment of the working environment, a contractual attitude of acquired rights, and low indices of civic duty and mission. Performance indicators are in the low range.
- The Catholic schools' performance is average in terms of organizational discipline and relatively high in terms of assessment of the working environment. They have mid-range salaries, a "principal" that is well-defined inside the school, as well as a high level of commitment, civic duty, and mission.

### **Unit Cost Comparisons for National Public Schools and Subsidized Catholic Schools**

Information on the unit costs of education suppliers is not available from official MECD statistics. Moreover, it is not easy to estimate costs on the basis of published financial data, in part because of the way information is reported. The following discussion takes these factors into account in attempting to estimate the unit costs of national public schools for 1997. The data on school enrollment were taken from the 1997 Report and

Accounts submitted by MECD to the National Congress for the 1996–97 academic year. The budget figures were taken from the 1998 Report and Accounts, which covers 1997 financial operations. Two kinds of costs were considered:

- *Direct costs*: those incurred by MECD that can be allocated to individual programs for direct implementation. The programs that finance the respective levels of education are:
  - Program 02: Teaching support for preschool, primary school, upper secondary school, and professional education. Only the following budget lines of this program are considered here: staff costs (2-01), material and supplies (2-02), and non-staff services (2-03).
  - Program 05: Preschool education.
  - Program 06: Primary education.
  - Program 08: Upper secondary school and professional education.
- *Indirect costs*: those incurred to support all levels of education and which therefore cannot be allocated to any specific initiative. Indirect costs are incurred in the following programs:
  - Program 01: Central services.
  - Program 03: Education planning.
  - Program 04: Socio-educational matters, excluding transfers (subsidies to the private sector and scholarships).
  - Program 97: Collective hiring.

**Direct Unit Cost.** An estimate of direct unit cost is obtained by dividing the sum of the resources allocated to programs that directly finance educational services (programs 02, 05, 06, and 08) by total enrollment in preschool, primary, upper secondary, and professional levels in the national public schools.

**Indirect Unit Cost.** The sum of the indirect costs (programs 01, 03, 04, and 97) is prorated across all educational levels by enrollment in those levels. University education is excluded because the University Sector Planning Office, a separate institution with its own budget, is responsible for this.

Two scenarios were considered in prorating the indirect costs. Scenario A only takes into account enrollment in the national public schools, which are the main recipients of MECD budgetary resources. Scenario B takes into account total enrollment by educational level (including all

public and private schools) (table 7-12). The reasoning underlying the latter scenario is that since MECD is the governing and regulatory agency for the entire education system, indirect costs finance the schools that are not directly dependent on the ministry, although to a lesser extent. It is highly likely that neither of the two scenarios properly captures the actual circumstances, but they do set the maximum and minimum limits of the indirect unit cost of national public schools.

**TABLE 7-12**  
**National public and total enrollment, by level, 1997–98**

Level	Public schools (Scenario A)	Education system total, public and private schools (Scenario B)
Preschool	397,445	738,845
Primary & lower secondary	2,267,313	4,262,221
Upper secondary	241,526	377,984
<b>Subtotal</b>	<b>2,906,284</b>	<b>5,379,050</b>
Special	37,310	46,262
Adult	142,418	307,497
Higher education	71,617	226,074
<b>Total</b>	<b>3,157,629</b>	<b>5,958,883</b>

**SOURCE:** Ministry of Education of Venezuela (1998).

**Total Unit Cost.** The total unit cost is the sum of the direct and indirect unit costs (table 7-13).

These estimates do not take into account costs related to infrastructure and school facilities, since no data are available for these. Table 7-14 provides an estimate of the unit cost for schools covered by the MECD-AVEC agreement.

Comparing the unit costs of subsidized Catholic schools and national public schools shows that the former have a clear advantage. This result should be interpreted with care, however, since it might be partially due to differences in teachers' wages. For one thing, subsidized private schools currently lack a retirement fund for their teachers and administrative staff, and thus do not incur the cost of the employer's social security con-

**TABLE 7-13****Total, direct, indirect, and unit costs of national public schools, 1997–98 (bolívares)**

Cost description	Total cost	Unit cost	
		Scenario A	Scenario B
<b>Direct</b>			
02. Teaching support			
2-01. Staff costs	7,365,665,044		
2-02. Materials & supplies	818,493,216		
2-03. Non-staff services	448,029,649		
05. Preschool education	31,580,145,584		
06. Primary education	172,989,763,765		
08. Secondary education	32,383,690,387		
Total direct costs	245,585,787,645	84,501	84,501
<b>Indirect</b>			
01. Central services	669,323,837,719		
03. Education planning	86,197,832,552		
04. Socio-educational matters			
4-01. Staff costs	1,042,750,339		
4-02. Materials & supplies	10,280,734		
4-03. Non-staff services	3,344,631		
97. Collective hiring	54,876,869,269		
Total indirect costs	811,454,915,244	256,982	136,175
Total unit costs		341,484	220,677

**NOTE:** In 1997, \$1 = 489 bolívares.

**SOURCE:** Ministry of Education of Venezuela (1998).

tribution as do MECD schools. Second, the figures do not reflect an additional contribution to the schools covered by the agreement, which provides the direct payment to teachers (their salaries are part of the MECD payroll). The value of this payment has gradually declined, but the share of all teachers paid by the state in subsidized Catholic schools is still substantial. In the AVEC schools, volunteer labor (including by members of religious communities) represents a significant contribution, the value of which also has not been estimated.

TABLE 7-14

**Unit cost of subsidized Catholic schools, 1997**

<b>Funding source</b>	<b>Contribution (thousands of bolívars)</b>	<b>Enrollment</b>	<b>Unit cost (bolívars)</b>
MECD-AVEC agreement	55,950		
Schools (contributions from parents and guardians)	3,530		
Contributions from other institutions	122		
<b>Total</b>	<b>59,601</b>	<b>342,926</b>	<b>173,801</b>

**NOTE:** In 1997, \$1 = 489 bolívars.

**SOURCE:** AVEC (2000).

### **Main Actors in the MECD-AVEC Agreement**

Following is a description of the main actors involved in developing the institutional arrangements of Venezuela's subsidized Catholic schools and the links among those actors. The section's purpose is to provide a brief analysis of each participant's role in either facilitating or hindering the development and operation of the MECD-AVEC agreement.

#### **MECD**

During the years that the agreement on the subsidy for Catholic schools has been in effect, MECD has, in general, exhibited a collaborative attitude. The ministry has provided AVEC with the resources requested, responding consistently to needs and displaying a high degree of confidence in the partnership. The victory of President Hugo Chávez in the 1998 elections did cause some tension in relations between the church and the government; these inevitably affected the links between MECD and AVEC. On several occasions, MECD has expressed its disagreement with the way in which some private schools are run and has stressed the need for more stringent oversight of private education.

To date, these factors have not seriously disrupted the agreement, but there is a perception that at any time the ministry could change the relationship with the AVEC schools or even completely suspend its support

for them. For example, the current government has already eliminated subsidies for several social programs that some religious organizations were helping to implement.

### **Ministry of Finance and Central Budget Office**

These agencies play an important role in the operation of the agreement, since the timely disbursement of funding for the schools depends on them. Thus far, the experience with these institutions has been quite satisfactory, although recently there has been a perception that the government could use budgetary constraints as a pretext to justify changes to the terms of the agreement or alter the schedule for providing funds.

### **Presidency and the National Assembly**

These entities share the view that the state is the core of the education system, as the governing agency and as direct participant and supplier. They have publicly questioned the participation and performance of the private sector, using labels such as “merchants,” “elitists,” and so on. This attitude creates an atmosphere of constant tension, which inevitably affects the institutional arrangements of the subsidized Catholic schools. Another factor contributing to this tension is the aforementioned confrontation between the church and the government. Moreover, after a January 21, 2001, radio address during which President Chávez expressed his disagreement with the AVEC initiative, there has been growing uncertainty about the government’s willingness to provide unlimited support (as previous administrations had done) for the MECD-AVEC agreement.

### **AVEC**

AVEC has tried to be an efficient partner in terms of managing and using the resources provided by the government. AVEC has great prestige and is considered a leader in the field of education policy. Its representatives have consistently sought to make a constructive contribution to the national debate on education, voicing opinions and making recommendations to improve quality.

Along with several education unions and civil society organizations, AVEC helped draft an Organic Education Law, which was submitted to the National Assembly for its consideration on January 19, 2001. This initiative emerged amid the intense debate triggered by the approval of



Decree 1.011, which created “traveling supervisors.” These inspectors have very broad authority over the operation and management of all types of schools, including the authority to remove private school principals and administrators. This has aroused much concern, not only in the private schools themselves, but also among the parents of the pupils who attend those schools. In the aforementioned radio address, President Chávez noted that AVEC received support from his government through the MECD-AVEC agreement. According to some analysts, this could be interpreted as an “invitation” to AVEC to withdraw from the public debate on education policy.

### **Fé y Alegría**

The role of Fé y Alegría is very similar to that of AVEC. It too is an organization with a high level of national prestige, as the experience of the West Caracas Education Complex has shown (box 7-2). However, some interests oppose Fé y Alegría’s expansion among the lower social sectors.

The current government has also been hesitant to support the institution’s activities. In particular, it has been reluctant to transfer by free loan to Fé y Alegría the other two schools in the Catia area, despite the fact that this must occur in carrying out the plan for 20,000 new places for students at all educational levels in the area.

Fé y Alegría, like other organizations affiliated with the Jesuit order, seems to have decided to remain on the sidelines of the disputes over education policy. In fact, when he referred to AVEC in his radio program, President Chávez mentioned that some spokespersons for Fé y Alegría had expressed their disagreement with the association’s participation in the debate on education.

### **Participating Schools**

Principals, teachers, and administrators in the participating schools have unilaterally accepted AVEC’s requirements. They comply with the procedures and provide the requisite information to be supplied to MECD.

The parents and pupils similarly offer full support to the agreement. Demand for slots in the subsidized Catholic schools far exceeds the schools’ capacity, and although places in public schools are sometimes guaranteed, the AVEC schools are the first choice.

## BOX 7-2

**The Case of the Luis Cañizales Verde School**

In the low-income communities of the Catia area in western Caracas, students face many challenges. One of the most serious of these identified in 1998 was the fact that many students were not being promoted to the next grade, but were instead dropping out or being held back.

In an effort to solve this problem, MECD decided to transfer on free loan to Fé y Alegría the facilities of the Manuel Palacio Fajardo high school, the Julio Calcaño technical school, and the Luis Cañizales Verde primary school to create a West Caracas Education Complex. By consolidating these facilities, and establishing the Jesus Obrero University Institute, a linkage was established between the schools. This guaranteed the provision of education at all levels and provided alternative solutions through occupational training programs.

The project immediately became a lightning rod of controversy. While many in the communities supported the initiative, presenting a petition of support to MECD containing more than 6,000 signatures and boasting the backing of some 60 organizations in the area, many others—notably teachers hired by the ministry—opposed the project on the grounds that it was an effort to “privatize” education and impose fees.

The bitter dispute, together with the government’s reservations about supporting the project, delayed the transfer of the schools despite the demands of the parents in the area. By 1998, only the Luis Cañizales Verde primary school had been transferred (under the previous administration).

Under Fé y Alegría management, the school has performed quite differently than when it was run directly by MECD. As the following tables show, this is evidenced by a strict compliance with the school calendar, higher enrollment, and a more favorable pupil-teacher ratio.

**Enrollment**

Acad. year	Grade			Total
	7	8	9	
'96-'97	171	81	57	309
'97-'98	191	87	89	357
'98-'99	270	146	83	499
'99-2000	217	176	117	510

**Staffing**

Acad. year	Teachers	Admin	Other workers	Total
'96-'97	29	10	18	57
'97-'98	25	10	17	52
'98-'99	24	4	8	36
'99-2000	34	3	4	44

## Communities

The AVEC-affiliated schools usually enjoy the support of their local communities. However, as the experience of *Fé y Alegría* in Catia has shown, when the expansion of their activities affects the interests of some actors, reactions can be negative. An example is the case of MECD teachers whose jobs were threatened by a possible transfer of some schools to *Fé y Alegría*. Those teachers established a dispute committee to encourage opposition to what they termed school privatization. This group's intervention divided the education community to the point of inciting clashes between the project's supporters and opponents.

On the other hand, the transfer of the Luis Cañizales Verde School was a very different situation. Due to skillful mediation on the part of the school's then-principal, the transfer to *Fé y Alegría* was accomplished smoothly and without incident.

## Future Prospects for Subsidized Catholic Schools in Venezuela's Education System

The future prospects for subsidized Catholic schools in Venezuela are uncertain for a number of reasons:

- The current tension between the Catholic Church and the government could affect how the MECD-AVEC agreement works. In 1999, a difficult situation arose between MECD and AVEC in light of a threatened significant reduction (up to 30 percent) in funding for the agreement. Ultimately, resources were cut by 8 percent, and AVEC was forced to suspend further work on its comprehensive schools project (double shift schools), an initiative similar to MECD's Bolivarian schools initiative. The quality of education in the schools covered by the MECD-AVEC agreement is acknowledged within the ministry. There have been suggestions, however, that resources might be used inappropriately, for example, to finance activities for children from families that could easily afford to pay.<sup>3</sup> Thus AVEC has been urged to allocate the agreement's funds to schools that exclusively serve lower social sectors and to provide evidence that it has done so.

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<sup>3</sup>Similar questions are not raised about the public schools, which are also attended by pupils whose families could afford to pay for the service.

- There has been a sharp dispute over the state's role in education. The promulgation of Decree 1.011, which created traveling supervisors, and the (unofficial) expansion of a project to change the way education communities are organized and operate have been interpreted as a distortion of the state's regulatory role in private education. Several educational organizations, including AVEC, have resisted state efforts to intervene excessively in the administration of private schools, triggering a serious confrontation with MECD. The schools covered by the MECD-AVEC agreement are a vulnerable target in this dispute because more than 80 percent of their financing comes from the state.<sup>4</sup>
- Another factor that weakens the position of the schools covered by the agreement is the nature of the contract itself. Decree 722 of 1990, which regulates the granting of subsidies to private schools registered with MECD, stipulates that the agreements are for a one-year trial period, at the end of which time the ministry is to assess the results and decide whether to extend the agreements. The decree also makes clear that the agreements are not necessarily permanent: "The agreements concluded with civic associations and other nonprofit organizations...will initially be on a trial basis..." In reality, the arrangement has worked quite smoothly with more than satisfactory results, but since the first accords were signed in 1992, they are still not permanent, and the government insists that they continue to operate as originally conceived. As mentioned earlier, the contract between MECD and AVEC does not specify the results the subsidized schools must attain, noting only that they must submit financial accounts. This contractual under-specification means that there are no incentives for greater efficiency in service provision and broad scope for discretion, which could give rise to arbitrariness in MECD's supervision.
- A very significant constraint on the administration of subsidized Catholic schools is the lack of a pension plan for teachers and administrative staff. This creates an incentive for teachers and

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<sup>4</sup>Ending the subsidy and deactivating and downsizing many of these schools would trigger serious social problems which would chiefly affect the pupils from low-income families who currently attend such schools. Perhaps for that reason—and notwithstanding budget cuts in recent years—the dispute between the government and subsidized private schools has almost always remained in the realm of rhetoric.

administrators in these schools to move to the national public system at some point in their careers. This usually happens after a significant investment has been made in staff training, the benefits of which the AVEC schools thus cannot take advantage.

- In the agreement signed in 2000, AVEC was asked to undertake feasibility studies on the creation of a staff pension fund. AVEC has made the necessary estimates and has taken some steps toward setting up the fund (such as depositing any financial surplus into it), but it is clear that this additional financial burden cannot be borne without state support. MECD officials believe the authorities will have to tackle this problem at some point and that the state will have to take on the commitment.
- The AVEC schools, like those in the public sector, are victims of what is termed the “specter of the double shift.” Because teachers’ wages are low, they tend to work double shifts to increase their income (a double shift is 10 hours long; the typical school day for most students is 4 to 5 hours long). They thus only work the requisite number of hours and feel overburdened, which doubtless affects their productivity.
- An additional problem has sprung up recently: the movement of staff to the Bolivarian schools. These schools operate for the whole school day (eight hours), offering teachers 100 percent of the wage for the first session plus 60 percent of the wage for the second session. The decrease in teachers’ salaries is offset by a reduced workload and savings in the time and money needed to travel from home to work. At present, a teacher can work two shifts, but not in the same school.
- Another risk factor for the spread of this model in Venezuela is related to the scale of activities. Although AVEC and *Fé y Alegría* have managed their schools efficiently to date, consideration should be given to the question of whether a massive increase in the number of schools under their care would have a negative effect on their managerial and administrative capacity.

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## CHAPTER 8

# THE CHALLENGE OF REGULATING PRIVATE EDUCATION

*Pablo González\**

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So-called “private” participation in school management may take a variety of forms. To begin with, privately run schools may be publicly or privately owned, or even some combination thereof. The state may impose various types of limits on private management, regardless of whether it provides financial support. (For example, in France as early as 1886, a law was passed that allowed the government to supervise private schools to ensure that their teaching did not conflict with the interests of the state.) The public financing of privately managed schools can take various forms and is usually associated with certain requirements. Different forms of financing allow for different levels of discretion as to the amount of resources provided, changes over time, and institutional quality. In general, the private sector functions best when rules are stable over the long term—which unfortunately is not always the case.

The circumstances affecting private education arise out of the specific cultural context and set of historical events and seldom in accordance with a single act or rational plan. Although there are no panaceas or superior models when it comes to public regulation of private education, experience shows that it is possible to predict the consequences of certain decisions and to identify some of the problems that must be faced. Understanding the various experiences in different countries can provide valuable information on beliefs and values embodied in regulation and on the impact of alternative policies.

The case studies examine experiences rooted in a common cultural basis—the shared legacy of Latin America—but featuring a diversity that

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arises from the individual identity and history of each nation. This chapter reviews some elements that illustrate this diversity, with a view to highlighting specific trends and problems. The first section describes different forms of private participation and their determinants. The second reviews the experience of the various countries, with an emphasis on how they approached the key aspects identified in the previous section.

### **Forms and Determinants of Private Participation**

In general, the state determines how private education develops, affecting both supply and demand. The demand for private education depends primarily on families' preferences, the country's levels of income and income distribution, and the relative costs and characteristics of both private and public education. In addition, the recent growth in minority churches and the separation of church and state may contribute to a greater demand for private religious education. The state can affect demand for private education by reporting on the quality of education delivered by the schools or in other ways influencing individual preferences, altering the relative costs of each type of education, or changing the quality or availability of public schooling. In countries with very low income levels, the state might not be able to finance education for the whole population, and thus a segment may seek a private alternative, particularly in secondary and higher education. The lower the levels of equity in income distribution, the higher the demand for elite education, which can be provided by the private sector or, regressively, by the state.

On the supply side, regulation and financing can influence private sector development. The state can affect the resources available for private activity in a number of ways, including through public financing and through incentives or restrictions on private financing. Other factors, such as the availability of religious staff or teachers, their preferences, or the philanthropic activities of the population, can affect private education as much as the norms regulating it. Among the most important of these norms are provisions on architectural standards for schools and norms for teachers, including salaries.

Historically, regulations that affect the private sector and financial support for private schools have been linked to the relationship between the state and the church, particularly the Roman Catholic Church. This is



not the place to review that history, so only the current types of relationships will be described.

In almost all the countries studied, there can be found the most traditional form of private school management, which is paid for solely and directly by families. These schools are subject to various rules with different levels of interference from each country's ministry of education in curricula, plans and programs, school calendar, assessments, accreditation, staffing and salaries, levies and exemptions, fee rates and adjustments, and so on.

Private sector management does not necessarily entail ownership of the school premises, as with those public schools that are subcontracted to private companies in concession programs such as Bogotá's, or that are designated more directly, such as with the corporations for professional technical education in Chile. Public assets can also be privately managed by cooperatives or other parents' organizations (Manutara in Bolivia, Educo in El Salvador, the National Program for Educational Self-Management in Guatemala) or by teachers (municipal schools in some Chilean municipalities); they also can be institutionally diverse, like the charter schools in the United States.

State financial support may take various forms: payment of teachers' salaries (Argentina, Peru, Venezuela, and New Zealand); subsidization of teachers hired by the state (France and Paraguay); provision of food, textbooks, and educational programs (United States and Chile); scholarships, guarantees, or loans to students or their families (particularly in higher education, but also through voucher schemes as in the United States, Bangladesh, Pakistan, and Colombia); and even the extreme case of providing financing under conditions similar to those of the official or public sector, at least for operational costs (as in the Netherlands, Belgium, and Chile, where the private sector accounts for more than 40 percent of total enrollment). The state's financial support may vary depending on family characteristics (the Netherlands) or on the educational establishment (Chile). Other forms of public financial contributions include tax laws that provide incentives for donations by companies or private citizens (these tend to be more prevalent in higher education) and tax exemptions for private operators of educational establishments. In the United States, public financing accounts for a quarter of total private school costs and covers four main areas: tax exemptions, textbooks, transport, and programs (Levin 1999). Table 8-1 summarizes the various institutional forms in practice.

TABLE 8-1

**Private participation in education and support from the public sector**

Ownership	Types of management	Potential sources of financing
Private	For-profit or nonprofit	Families
	Parents' cooperatives, religious orders, teachers' associations, corporations or societies	Gifts and donations Exemptions for private operators Public contribution: salary or subsidy to teachers; educational programs; scholarships, guarantees or loans to students; demand subsidies
State	Contracts and agreements with companies, associations, teachers, parents' cooperatives	

**SOURCE:** Prepared by author.

The regulations governing the entry and withdrawal of private suppliers can be more or less flexible. Flexibility helps promote competition and set standards that ensure minimum levels of service quality. Caps on fees charged to families also vary, as does the public financial support available to help cover fees. Demand determines the limitations on fee increases, and competition among suppliers should ensure that prices reflect the marginal costs of production. This competition depends on the regulations governing entry and withdrawal, and the potential for monopoly.

As noted earlier, the state may provide different types of subsidies for operational costs or for land and buildings, and might apply different tax rules. These subsidies affect the relative development of the private sector and the efficiency, quality, and equity of the overall education system. Other rules that vary from country to country concern the length of school days and the academic year, the curriculum, and plans and programs. The available options range from complete state control of contents and calendars to almost full school autonomy. The need for a certain level of coordination to ensure standards of international competitiveness should be balanced with an appropriate degree of flexibility to address diverse and changing contexts.

Other factors make for significant differences among countries. Labor laws, including salary requirements, which regulate teachers' employment conditions, vary considerably in both the public and private sectors. Of

interest is not only the regulation of a sector, but also how the sectors complement each other. Private schools in some countries must be assessed by public institutions. In others, there are universal assessments for all institutions, which can be used to inform families or facilitate education policy- and decisionmaking. There may be different forms of public intervention when management problems arise, ranging from compensation programs to a change in school administration.

The state may regard the private sector as either a strategic ally or a threat to be neutralized. Its stance will depend on the ideology and preferences of the groups in power. The case studies described in this book provide an idea of the trends and challenges existing in each country. The following is a recapitulation of some details from these cases as they relate to the foregoing discussion.

### **Lessons from the Case Studies**

Legislation tends to favor outcomes that are halfway between a centralized public system and a system that allows for vigorous private sector participation. In attempting to address the efficiency problems engendered by state monopoly, design details are critical. This is why so much can be learned from the case studies.

In the various countries studied, private operators have been free to enter and leave the market for some time, subject to meeting certain reasonable requirements. This situation is conducive to competitive market development. Nonetheless, public sector regulations impose costs on the functioning of this market. For example, 62 percent of the private schools surveyed in Guatemala indicated that the Ministry of Education imposes a significant administrative burden.

Public policy toward the private sector and the regulation of management vary markedly, and some policies are not conducive to strengthening private initiative.<sup>1</sup> This, together with the prospect of increasing

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<sup>1</sup>The text reviews several examples of price regulation. In Guatemala, a trend toward recentralized management undermines the unconventional forms of private participation in school management developed by the previous administration. In Colombia, the wages of public sector teachers have been set as a minimum for the private sector. The municipality of Bogotá, however, has sought to foster a long-term alliance with the private sector, with a view to improving education for the poorest sectors.

system coverage by expanding the public supply and the economic crisis currently plaguing the educational private sector,<sup>2</sup> has spurred a recent and relative decline in the private school share, despite the fact that families perceive this sector as providing better education.

This perception is based on the prestige won by private schools, as corroborated by their better gross results on national examinations in four countries. This advantage is reduced or eliminated when family characteristics are taken into account. Repetition and dropout rates are lower in the private sector, but the gap is being narrowed as a result of improvements in the public schools that benefit from ministry of education programs. In any case, effective schools can be found in both sectors.

The private sector has enabled enrollment in higher education to expand at no cost, or at a much lower cost, for the public purse. In Guatemala, there is a negative perception of the efficiency of public universities;<sup>3</sup> in Colombia, there is negative impression of the quality of private universities.

Information is also important in primary and secondary education. In this sector, there may be less diversity than in higher education, since what is required is more general schooling in the abilities and knowledge common to various professions and occupations. In the countries studied, however, progress has been made in terms of greater curricular freedom, which reflects the current lack of consensus regarding best processes and the diversity of options available. This freedom has made assessments more complex, since they must cover only subjects in the common core curriculum. In Guatemala, the principals of private schools that were members of the Circle of Education Entrepreneurs argued that assessments are discriminatory and filed a lawsuit, which to this day prevents publication of private schools' assessment results. Nonetheless, 97 percent of heads of families and 74 percent of principals surveyed said they believed assessment is necessary and that the results should be made public. Positive opinions about making more and better information available can be found in the other case studies as well. Lack of information creates

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<sup>2</sup>The crisis has not only lowered demand for private institutions but has also led to an increase in late payments. Higher income groups seem to displace lower income groups when the latter move to the public sector because of unaffordable private school costs.

<sup>3</sup>Low fees have resulted in long student tenures at Guatemala's public university. The increased time to graduation has raised the cost per graduated student to between two and three times that of private universities.

a very sizable demand for those institutions that have gained prestige over the years—which in turn allows them to charge higher fees.

The tension created by a lack of information, controversial use of assessment mechanisms, curricular freedom, and the interests of suppliers is a challenge that must be faced by education systems that hope to foster diversity. It must be resolved through an assessment that takes into account all matters relevant to quality education. The interests of those that might be disadvantaged by the dissemination of results—e.g., those schools whose prestige might decline—must be subordinate to the welfare of society as a whole, which requires information in order to make the best decisions for the education of new generations.

Other regulations that the state imposes on the private sector vary among countries. In Colombia, two measures directly affect schools' freedom of management:

- *Parental involvement*: Parents must be involved in the management of private schools. This can be positive from the perspective of the involvement of families in the education of their children, but some of those interviewed were bothered by excessive intervention in administrative and financial matters. In any case, families cannot determine fees, and their representative on a school's governing board can only express an opinion on the subject.
- *Fee-capping*: Currently, fee increases linked to past inflation rates are set by decree. Nevertheless, the law allows a mechanism to be used in adjusting fees in accordance with a rating of the service. The law has also prevented schools from charging families other fees, which were often used to finance investments.

In Guatemala, the laws are equally stringent, but they seem to be complied with less often. Private schools can only charge fees authorized by the Ministry of Education. Schools cannot request an increase that exceeds the authorized quota by more than 15 percent, and the increase sought must take into account the economic circumstances of both the school population and the services offered. In actuality, however, schools levy extra charges by other means—which are sometimes reported to the ministry by parents. Some 57 percent of principals surveyed said the main problem they face is the regulation of school fees. Fees must be justified with investments, improvements in school conditions, and/or an increase in teacher salaries. The school must give pupils and their parents a form outlining costs as defined by the federal government.

Fee-capping measures might reflect a fear or mistrust of private activity in education and might be designed to offer families legal protection, just as the labor codes in the 1970s sought to protect workers by creating rigid requirements which eventually impeded job creation and economic growth. Questions can be raised about the costs of this rigidity in terms of constraining development and quality in the private system, since this tension is present in many countries.

In a free market, prices reflect the costs of providing a service or higher quality. Competition should prevent increases that do not reflect those costs. Legislators seem to distrust this force for price control. An alternative approach that takes account of education market failures—and which has been discussed throughout this and the previous chapters—is to provide more transparent information to families and greater rights when there is a longer term relationship between users and suppliers. In any case, if the cap on fee increases is based on length of relationship, it would never be justified for new pupils entering the schools each year, unless an exception was provided for in legislation. Additional intervention would require analyzing whether there is competition in the market. Consolidated prestige in a context of poor information might become a source of income under conditions of imperfect competition, but better quality service may demand a higher price and require it for its financing. On the other hand, better test results can be a consequence of a concentration of superior students rather than an indicator of higher quality service.

Teachers' pay in the private sector is determined privately in Guatemala (as well as in Brazil), resulting in lower average salaries than in the public sector in the former case and higher in the latter. Regulations impose more restrictions in Colombia, since they require payment of at least the same salary for the same category of teacher on the public wage scale. Other working conditions in these three countries are governed by private contractual norms. In Argentina, private schools are free to select teachers, but there are obstacles that make it difficult to fire them and to restrict wage levels, which results in higher average wages in the private sector. In some cases, the differences may stem from the payment of bonuses—for example, for good attendance—which amount to incentives and can improve results. It would be helpful to strengthen this potential virtue of private schools, allowing them greater flexibility in this and other areas of human resource policy. The right to choose staff is valued highly in this field.

Colombia has experimented with various forms of public financing for private schools: teachers on assignment, in-kind subsidies, extra days, vouchers for poor families (Expansion Plan for Secondary Education Coverage—PACES—scholarships), and—recently—concessions. The concession system is a response to an assessment that the PACES scholarships did not result in higher quality, since poor families are too poorly informed and trained to demand it. The concessions set explicit quality standards for concession-holders. In recent years, a system of loans for families to finance overdue payments in private primary and middle schools was established. Student loans are available in higher education, as are competitive research grants.

In Argentina, the government supports more than 70 percent of private schools, but lacks a clear formula to define the amount of contributions. Fiscal support accounts for 40 percent of private schools' total income. On average, institutions in this sector have 16 to 18 percent more resources than state schools.

In Guatemala, public subsidies are available only for private nonprofit institutions at the preschool, primary, and lower secondary school levels in marginal urban and rural areas.<sup>4</sup> (Additionally, there are scholarships available for displaced children to attend private schools.) Moreover, for-profit or nonprofit private schools and universities are exempt from income tax, value-added tax, property tax, and tax on mercantile and agricultural businesses. Higher education is exempt from the tax on vehicle traffic. The country's private universities and one public university benefit from fiscal incentives for donations, which do not apply at the primary and secondary levels, although they do apply to other cultural and scientific institutions.

In Colombia, private schools benefit only from a value-added tax exemption. There are no exemptions for donations for education. Only company spending on the welfare of workers, including education, is deductible from income taxes.

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<sup>4</sup>Subsidies officially began in 1997, although there were some precedents dating from 1995. The subsidy is expressed in amounts per student up to a maximum of 43 percent of teachers' salaries, the only use permitted for these contributions. In 2001, for institutions that do not charge fees or that levy very low fees, a per teacher salary subsidy mechanism was established; this subsidy can meet up to 90 percent of public sector salaries.

In sum, the state provides financial support to institutions and families in a variety of ways. Whatever formula is chosen, it is important that it be made to work through stable and efficient regulations. The higher public costs per student of higher education—and the regressiveness of this cost—should spur reflection on the need to strengthen loan systems, which in turn should be linked to quality accreditation mechanisms. The stability that enables optimal educational development would be best secured through long-term technical and political agreements that prevent abrupt changes brought about by ideology rather than serious assessments.

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## CHAPTER 9

# THE CHALLENGE OF DELIVERING QUALITY EDUCATION

*Juan Carlos Navarro*

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### Revisiting the Original Question

After considering the details of each case presented in the preceding chapters, it is important to note the central question that inspired their preparation: *how to achieve quality education for all children and youths in Latin America*. Despite significant achievements in expanding coverage, the region's education systems have failed to bring educational quality to uniform levels that match the expectations and needs of present-day society. The vast majority of Latin America's schools lack sufficient resources and the capacity to put the few resources they do have to work effectively. Few schools can claim to have the teachers they need, few teachers can claim that they manage to do the work they should be doing, and few pupils can claim to be learning what they are expected to learn with the best methods.

Doubtless the region can claim partial achievements, good practices and programs to improve some of the many things involved in running a good school system. But the widespread scale and persistence of problems suggest that it is necessary to look at institutional matters rather than confining the assessment to a microanalysis of more or less successful innovations in teaching or technology. These case studies are an attempt to address this institutional aspect of the problems in Latin American education by analyzing the experiments in cooperation between the public sector and private education suppliers. The prime motivation for this effort is not to increase knowledge about private education in Latin America, but to understand the constraints on the region's education systems through a comparative analysis of their institutional arrangements.

The idea underlying the case studies is that there is a series of inter-related contracts that create incentives for those participating in the insti-

tutions which can influence their practices. On occasion, such practices can serve socially beneficial objectives; sometimes, however, they cause distortions in conduct and resource allocation which worsen the general outcome of school operations. In particular, the contracts within organizations can be analyzed as a process of interaction between a principal and an agent; and the institutional problem can be described in terms of how to make the agent act in a way that is consistent with the principal's goals.

The case studies present experiences in which innovations have been made to the contractual arrangements in the vast majority of the region's public education systems. The standard contractual arrangement in all of the case studies except Chile is the public school, in which the state acts simultaneously as the source of finance and the direct administrator. There are school principals, to be sure, but in practice they do not manage their school's staff or budget. The main oversight mechanism is a network of inspectors who visit the schools to ensure that the curriculum has been taught and to handle special cases. The system features a centralized authority, which could be the national government, a regional body to which responsibility for education has been delegated in a specific jurisdiction, or a provincial or city government. This authority manages a large number of schools, which lack both a minimum degree of autonomy to resolve their own problems and a clear idea as to whom they must account for their performance.

The Chilean case examines what happens when this situation is shifted to the public financing of privately run schools. The other studies look at how the countries involved have arrived at various combinations of public financing and private management and the consequences of that mix.

The case studies are not definitive analyses of issues that doubtless will be revisited in greater detail and at greater length in the future. It is possible, however, to draw some tentative conclusions from them.

### **Institutional Arrangements in Subsidized Private Education**

Much of the case studies' richness lies in their description of the contractual arrangements that cause publicly financed and privately run schools to function differently. This approach led to the identification of those features of the relationship between the school and its surroundings, and of

relations within the school (among principals, teachers, pupils, and parents or guardians), that are relevant to the schools' performance. These features amount to new principal-agent relations that differ markedly from those found in public schools.

- *The presence of administrators in the school networks who are less remote and more proactive:* A good example is the role played by the support offices of Fé y Alegría in supervising schools and administrators. In other cases, the communities of parents and guardians serve as important “principals” for administrators and other teaching staff. In some cases, administrators have been given greater authority and more effective management tools, as has happened under the private school management model described in the chapter on Peru (chapter 6), which enables them to better define their role as principals (as opposed to agents) for the teachers.
- *Contracts between private schools and the state that more clearly define observable results and rules on renewal, penalties, and rewards:* Economic theory states that it is impossible to draft contracts that provide for all possible contingencies, but the program of privately run public schools in Bogotá shows that it is possible in the education sector to conceive and implement performance-related contracts if public schools are made responsible for their results. And the agreement between the Venezuelan Association of Catholic Education (AVEC) and Venezuela's Ministry of Education (MECD) shows that even a relatively unspecific contract (compared to those in Bogotá) can ensure that the parties' conduct is predictable, which facilitates the running and expansion of publicly financed private schools.
- *Stimulus to the functioning of a quasi-market in education:* In Chile, this entailed the introduction of competitive pressures among schools. This pressure can be viewed as a key factor, since subsidized schools operate in an environment in which (1) they must agree to be compared with other schools if they want to continue and (2) amassing prestige is crucial to a school's sustainability.

The cases also offer a wealth of detail that may be of considerable interest and use to those in government or involved in international organizations' technical assistance projects when they consider how to devise incentives for schools and school systems.

## **Are Publicly Subsidized Private Schools Better?**

The case studies focus on describing contractual systems that offer an alternative to conventional public education. But it is almost impossible to separate the treatment of this issue and the description of good practices from the need to determine the extent to which these institutional arrangements produce quality education for all (including the socially disadvantaged) at a cost that is equal to or less than that of public education. The question thus becomes the relative cost effectiveness of schools that are publicly financed and privately run.

Answering this question requires detailed information on the performance of schools with different kinds of incentives, as well as their costs. The case studies show that there are significant variations in the availability of such information across the various countries. And at least one case, that of the concession schools in Bogotá, had not been operating long enough to undertake a reasoned assessment. The case of publicly financed and privately managed education in Peru offers fragmentary evidence, mostly arising from the special attention paid to *Fé y Alegría's* network of schools. In Venezuela, information on costs is much more detailed, which facilitates comparison with the public system. Chile probably has the longest and most systematic experience, and the comparative performance of municipal and subsidized schools has been a constant theme of educational research over the past decade. There is inadequate information on the performance of private schools in Guatemala, and only limited information in the case of Argentina.

The overall findings clearly indicate that in Chile, Peru, and Venezuela, privately run schools are more cost effective. In Argentina, subsidized Catholic schools perform better than state schools even when correcting for socioeconomic class. There is sufficient evidence to argue that publicly financed and privately managed schools provide an education whose quality is at least equal to and probably better than that provided by public schools, and that they do this at a lower cost.

These are preliminary conclusions, subject to qualification until there are detailed data from field research. Each case study discusses the main limitations of its conclusions on this issue. Note, however, that in none of these cases was public education compared with elite private schools, but rather with private schools that receive substantial public subsidies

because they serve pupils from lower socioeconomic levels. The *Fé y Alegría* schools in Peru and Venezuela, for example, are private schools whose mission is to provide educational services “where the asphalt ends”—that is, in environments where poverty is prevalent.

### **The Origin of Alternative Institutional Arrangements**

How have the incentive systems that seem to produce desirable behavior in schools come into being? The institutional peculiarities and particular circumstances of each national experience examined have had different effects on the institutional arrangements that exist today. The experiment of concession schools in Bogotá, for example, must be understood in the context of Bogotá District’s administrative autonomy and financial strength—the result of a years-long process of decentralization and fiscal reform. The organizational strength of Venezuelan Catholic education largely explains its capacity to demand (and successfully negotiate with the state) a stable regulatory framework for public subsidies to private schools. Chile’s recent political history makes it easy to understand how a major reorganization of the school system was possible in the 1970s, and how these reforms continued when the military government was replaced by a democratic administration a decade and a half later. And the political baggage that the debate on private education acquired in the early 1990s largely explains the dislocation and relative regulatory paralysis apparent in Peru.

A characteristic shared by Venezuela, Peru, and, to a certain extent, Colombia and Argentina, is the predominance of Catholic schools in public-private partnership schemes. The policies that protect private education in these countries thus have been strongly influenced by church-state relations. Sometimes, the church’s position on certain policy issues (not necessarily education policy) has created tension or hindered relations between education ministries and private schools. Sometimes, the fact that most, if not all, private schools receiving public subsidies are Catholic is problematic for the state, either because non-Catholic educational organizations protest or because of understandable reservations about what can easily be perceived as support by a secular state for faith-based schools. The case studies prompt the conclusion that all interested parties would benefit from policies geared to regulating private education

and establishing general rules applicable to all private suppliers, not just church-related institutions.

### **Incentive Systems, Regulatory Frameworks, and Policy Alternatives**

If the discussion were confined to the question of what private suppliers of education need to operate effectively and perhaps even expand, the answer would probably not be very different from that for private actors in other areas of the economy:

- *stability* (the capacity to predict what the government will do and the confidence that the rules and regulations will not continually change), and
- *transparency* (the perception that the same number of well-known rules will be applied to all the actors).

In the education sector, public subsidies are also required, because the capacity to pay for services is extremely limited except at the highest socioeconomic level, and the social benefits that arise from a good education for all far surpass the willingness of private agencies to pay for primary and secondary schooling. These subsidies must be subject to public policy criteria that make them transparent, equitable, focused, and efficient. The concerns about finding a satisfactory subsidy system give rise to regulatory policy issues, such as the need for appropriate systems of monitoring, supervision, and accountability in private schools; and the need for systems that do not produce incentives that distort the beneficial behavior they are trying to promote.

The case studies differ markedly in the number and intensity of these features. In all of them, there is an association of public subsidies with private suppliers, and this combination seems to result in the provision of quality education for pupils from low-income families. But in Peru, for example, the regulatory framework is neither transparent nor stable. Public oversight of private schools in Guatemala and Argentina is neither transparent nor effective. Venezuela, Colombia, and Chile have developed diverse contractual frameworks to govern relations between public education authorities and private schools, all of which offer significant stability and transparency. The Chilean program is the only one that seems to include open competition among suppliers, although some elements of this can be found in the rules governing bids for the management of part-

nership schools in Bogotá. In this latter case, the contracts regulating relations with schools specify results-related supervision and control mechanisms. Contracts require a determination as to whether the funds produce the expected outcomes. The MECD-AVEC agreement in Venezuela only includes control mechanisms for inputs; the agreement calls for an assessment of whether the funds were used for their intended purpose.

The Peruvian program has the most limited coverage and the most uncertain future. In contrast, the Bogotá case, although it is a local experiment, has great potential for expansion. The increase in the number of schools covered by Venezuela's MECD-AVEC agreement suggests that this accord, even with all its limitations, has provided a minimum level of predictability, facilitating expansion in the subsidized private sector. The Chilean experience shows that a regulatory framework applied to a whole education system can make the subsidized private sector grow to almost 40 percent of total enrollment in primary and middle schools.

These comments are not meant to suggest that Chile's regulatory model is the best. Rather, its operation and development indicate the subsidized private schools' potential for expansion. A careful reading of the Chilean case shows that it is a model that has yielded substantial benefits in terms of cost effectiveness for the educational system, but that it also has very stringent requirements in terms of information and institutional complexity for it to work well. It is notable that the system has been able to deal with successive adjustments in what could be termed a process of continuous improvement.

But it has also been a process of increasing technical and political complexity. Once it was decided that all schools should receive the same subsidy per pupil, the problem of schools in particularly disadvantaged environments emerged. Then, when the subsidy was adjusted for, say, rural areas, the issue arose as to the extent to which parents should contribute beyond the amount provided by the state. This issue seemed to have been resolved, when doubts surfaced as to whether it was equitable to provide the same subsidy to children and youths from families with different incomes. These problems can probably be solved, but each solution adds complexity to the system and often entails a considerable cost in terms of disputes and political disagreements.

One way to understand Bogotá's partnership schools program is to see it as the result of a learning process resulting from a series of experi-

ments with school vouchers in various parts of Colombia. The constraints and complexities of several of these schemes sprang from the decision to use an approach based on supply rather than on demand subsidies, and on contracts with education suppliers rather than on funds for the pupil. Although a program such as Bogotá's might make significant information and management demands, they are fewer than those in programs that rely wholly on demand subsidies. The agreement in Venezuela can be understood as a kind of mid-point between this level of complexity and the almost complete absence of a systematic subsidy policy in Peru.

In Peru, relations between the subsidized private schools and the state are marked by high levels of disconnection and high transaction costs. The education system spends almost nothing on supervision or the rationalization of regulations, and it functions with little reliable information for the main actors—the government, private schools, families, and pupils. Its high transaction costs are obvious, since each agreement between the state and a group of schools is negotiated separately, the regulatory and administrative institutions are weakened, and socially beneficial actions are not forthcoming. These circumstances condemn subsidized private education to a state of chronic underdevelopment. This regulatory uncertainty and many of the corresponding transaction costs are what the Venezuelan agreement between MEDC and AVEC sought to eliminate—to a large extent successfully—although the accord does not include a detailed performance contract as in Bogotá.

In contrast to the above, over two-thirds of private primary and secondary schools in Argentina—which enroll about one-quarter of all students—receive some sort of state subsidy, and most private nonprofit schools in Guatemala also receive a state subsidy. Yet oversight is, to say the least, inadequate.

### **Conclusion: The Importance of Details**

The cases reveal a public-private partnership continuum ranging from situations in which the agency relationship is effectively resolved through performance contracts or the inclusion of market competition (but with stringent institutional and informational requirements that entail substantial costs), to those where the costs of information, regulation, and management have been reduced to a minimum while creating very high transaction costs in agent relations. One way of understanding public edu-



cation from this perspective is to view it as an extreme form of regulatory simplicity combined with a multitude of unresolved agent problems, evident in the distorted incentives described in several of the case studies.

From a public policy standpoint, there is no single optimal model because of the diversity of circumstances in the different countries. Each country makes a tradeoff between the institutional and informational complexity needed to operate a system based on highly efficient incentives and contracts, and regulatory simplicity accompanied by high transaction costs in relations between the government and education suppliers. Four of the case studies are located between these two extremes, with Chile closest to the extreme of efficiency with complexity, Peru at the extreme of high transaction costs with simplicity, and Colombia and Venezuela in intermediate positions. Guatemala and Argentina are examples of both complexity and lack of transparency.

It is impossible to choose an efficient incentive system without taking into account practical considerations about the relationships between the actors and their technical, administrative, and political capacities. A country might be willing to pay the price of a regulatory system for subsidized private schools with high transaction costs, since it lacks information systems, procedures on the design and implementation of sufficiently sophisticated public policies, or the right political environment. The price will be reflected mainly, but not solely, in the fact that the subsidized sector will be smaller than it could be.

Another lesson to be drawn from the case studies is that details matter. The fact that transfers to Peruvian public schools take the form of teaching positions rather than cash might be important, because it is linked to constraints on the schools in selecting their teaching staff. The fact that in Chile the money is transferred to the schools and not to the families, or that municipalities receive guarantees that they will be given additional funds to cover the resulting financial deficits once they have spent the per student transfers, probably lessened the impact of the vouchers program on stimulating competition in the school system. The fact that the rationale for financial transfers to private schools in Argentina has not been reviewed for decades means that public goals of equity and quality are not likely to be achieved.

The conclusion that there is no ideal regulatory system suited to all times and places must be complemented by the assertion that the overall

choice of a system (supply-based rather than demand-based, for example) is only the start of a long chain of choices, and that adjustments to the system's details will have to be made. Clearly, these choices can make a big difference in the results of public-private collaboration on education.

Private suppliers of state-subsidized education can deliver quality services at a low cost for students from low-income families. Such schools have a different internal organization and are connected to their environment through different rules and regulations. This should be a significant focus for everyone involved in improving education in Latin America: how to make schools work better. Each country will need to decide whether it wants to improve schools with public subsidies, or whether it prefers to change the incentives with which public schools operate. For either course of action, the case studies offer plentiful lessons.

## CHAPTER 10

# PUBLIC POLICY AND PRIVATE EDUCATION: WHERE TO NOW?

*Laurence Wolff*

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This book seeks to change the nature of the debate about public versus private education from a polemic on which system is better or best serves society to one that focuses on defining and implementing the right rules of the game—public regulation, laws, and oversight for both public and private institutions. The clash between those seeking to privatize and those seeking to nationalize education has gone on for too long. This is an old ideological battle, a carryover from the past. Both public education with private efficiency and private education that fulfills social goals are needed. The distinction between private and public education is less important than the perceived public good of each set of institutions and the rules that critical system stakeholders follow.

Until now, little systematic information has been available about the extent and roles of private education in Latin America, as well as its relative effectiveness. In particular, little has been known about oversight and regulation of private education, and whether such oversight had positive or negative effects regarding such educational goals as equity, quality, and the efficient use of public funds.

The case studies in this book help to end this ignorance and shed light on the role of private education in the region. The studies show that private education serves society and provides returns to society beyond the individual returns to students. Private education, especially when run by nongovernmental organizations (NGOs) and religiously affiliated groups, is at least as effective as public education, can often reach the poor and underprivileged, and is frequently less costly than public education serving a similar clientele. The government has a role to play in the regulation and oversight of private education in terms of ensuring truth in advertising and minimum quality of services offered, providing information, and

offering extension services to private institutions in much the way that it supports small enterprise development. The government also can encourage and sometimes subsidize private education when it sees that it can achieve objectives of equity, quality, access, and research more effectively through the private sector. Recognizing the social value of private education, governments throughout Latin America subsidize or support private education in numerous ways, including through tax exemptions, student loan schemes, purchase of places, vouchers, contracts, and support for capital development.

The case studies show that the public and private sectors can interact in many ways, with positive—and sometimes negative—results. In many cases, governance, oversight, and even subsidization of private education have been counterproductive. Instead of leading to increased quality, equity, and responsiveness, the government role as currently practiced in a number of countries in the region (and as documented in the Argentina, Guatemala, and Peru case studies) has often led to increased inequity and inadequate benefits to consumers as well as to society as a whole. There are also political risks—for example, the abandonment of public schools by the upper middle class can lead to inadequate political and then financial support of the public system. Nonetheless, in the right policy environment, private schools can provide the same or better education than public institutions and at lower costs.

There are no guarantees, however. The private sector can be—and has been, in some cases—an advocate for insufficient information, communication, and transparency, as well as a barrier to the entry of new institutions. At the same time, the greatest obstacle to private solutions that serve the public good is the state's inability to design and implement an environment and set of incentives by which the private sector gains more when it behaves in ways that promote the public interest. The specifics of oversight, management, and information are essential to public policy's achievement of goals of quality, equity, consumer satisfaction, and value-added for society.

There is no one “right” way of supporting private education to achieve public policy objectives. For example, Chile's voucher system requires constant tinkering to make it work. And the city of Bogota's supply-based approach to private provision of education services has been the result of negative experiences with voucher programs. The state must simulta-

neously strengthen processes such as autonomy, feedback, and transparency in its management of public sector institutions in order to increase society's benefits from its public schools.

Note, however, that accountability, feedback, autonomy, the right incentives, and even timely subsidization of private education are conditions for the improvement of education in the region. It could be said that if you offer a carrot to a one-legged man, he will not be able to take it. We need to provide the second "leg," which in the case of education means well-educated and committed teachers; an adequate learning environment; and clear, consistent, realistic, and measurable learning standards. In particular, the teaching profession needs to be far more highly valued than it now is. Ways and means must be found to attract and retain more highly motivated and better prepared teachers, and far better guidance and direction must be provided to them to change what happens in the classroom.

This book is not the last word on the subject by any means. While it has mainly covered primary and secondary education, the region's private sector is in fact strongest at the higher (postsecondary) education level. And private postsecondary education is expected to grow even more rapidly as the increased need for lifelong learning and an increasingly diverse clientele lead to more highly differentiated offerings at this level. Distance and Internet education will be of particular importance. A broad range of Latin American and international private education institutions are seeking to enter the distance learning area. New credentialing mechanisms will be needed to oversee the quality of the offerings at this level (especially of non-university courses) and the increasing number of private international education institutions in the arena. Need-based loans to students (educational credit) for higher education should be studied further, with a view toward their expansion. There are many such programs in the region, but they cover only a small percentage of eligible students and often have management and repayment problems.

The role of the private and NGO sectors in providing preschool and early childhood development services is another area for future study and growth. The research on the significance of early childhood development services for successful performance in later years of schooling and in the job market—especially for at-risk populations—is persuasive. While countries such as Uruguay have expanded public provision of preschool

services, in most countries, the private and NGO sectors already provides a high percentage of these services and may offer more cost-effective solutions. The critical issue at the preschool level is to ensure that a minimum standard of services is provided and to keep the impact on public finances at manageable levels by effectively targeting public resources toward poor and disadvantaged populations.

There is also a growing but as yet unexamined set of private “cram” courses offered to students preparing for their university entrance examinations (e.g., *cursinhos* in Brazil, *academias* in Peru). To what extent can public policy deal with the potential issues of inequity posed by the need for fee-based courses to ensure entry into prestigious, often free, public institutions? How can the apparently cost-effective methodologies of cram courses be harnessed to increase learning and reduce inequity? There is a huge variety of private technical and vocational programs, usually for-profit, burgeoning throughout the region, about which little is known. The development of adequate regulatory mechanisms to ensure truth in advertising, adherence to minimal quality standards, and, where appropriate, the prosecution of scams will be critical. There is an increasing need for lifelong learning for workers, parents, and an aging population, but little is understood about the proper role of the government in supporting opportunities for such learning.

The issues raised in this book about the proper role of the public and private sectors in education are a subset of the broader issues related to economic reform and the role of the state in Latin America. Much of the focus of the economic reform of the 1990s was on cutting back the oversized role the state had assumed. Government had set itself up as producer of many goods and services that could be provided more efficiently by the private sector; government regulation of economic activity was oppressive, and government itself was far too centralized. But it has become clear that cutting back government is not the same as ending the governmental role in the economy. In fact, as the state pulls back from producing goods and services and from micromanaging the economy, it needs a far more competent (if smaller) cadre of public servants, resistant to the pressure of lobbies and short-term political gain and aware of the subtleties and difficulties of encouraging competition, transparency, value-added, and equity. A strong and capable state is vital in supporting newly opened markets; conversely, an arbitrary, corrupt, and/or incompetent state will

impede economic development and change. By relieving the state of those activities it does not do well, the state is instead freed to concentrate on the key functions that it alone can fulfill—including providing critical institutional infrastructures for oversight and regulation, ensuring the provision of public goods, and looking after those members of society least able to care for themselves. For this reason, the region needs a second generation of reforms that will focus on building the institutions that let the state perform its critical functions effectively. The task is no less difficult and challenging—and no less crucial—in education than in financial, tax, trade, and market reforms and in political decentralization and democratization.





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Programa de Promoción de la Reforma Educativa en América Latina y el Caribe  
Partnership for Educational Revitalization in the Americas

THIS BOOK SEEKS TO CHANGE THE NATURE of the debate about private education in Latin America from a polemic about whether public or private education is better, to one that places the discussion in the context of public policies that encourage—in both the public and private sectors—increased equity, access, quality, and responsiveness to the needs of students, stakeholders, and society as a whole. From this perspective, the distinction between public and private education is less important than the rules of the game to which the critical actors of the system respond. Not only are more efficient public schools needed, but also private schools that more effectively serve national education objectives. This book examines these issues by reviewing the academic and empirical research on the topic as well as through case studies of experiences in Argentina, Chile, Colombia, Guatemala, Peru, and Venezuela.



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