

*Rotary Club of Palmerston North*

## **Private Sector Participation in Education**

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**Returned Services Association Rooms,  
Palmerston North, New Zealand**

6 September 2004

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## Private sector participation in education

I want to discuss the many roles played by the private sector in education, both in New Zealand and around the world.

In most industries, a discussion of the role of the private sector would be greeted with a yawn. This is because the private sector plays a significant, indeed dominant role in most industries – including mining, transport and retailing – in virtually all countries. And this role has been increasing in recent years as countries – particularly those in the former Soviet Union – have moved to return inefficient state-run enterprises to the private sector.

Since the reform process began in New Zealand in the mid-1980s, a number of state trading agencies have been privatised across a range of economic sectors, including telecommunications, banking and transport. Despite some recent backward steps, such as the re-nationalisation of Air New Zealand and the establishment of state-owned Kiwibank, the private sector remains the dominant means of delivering goods and services to New Zealanders.

But the dominance of the private sector as the preferred form of delivery of goods and services does not extend to education (and to a lesser extent health). In most countries education remains predominantly state financed, state delivered and state regulated. According to the recent *Programme for International Student Assessment (PISA)* study, in the year 2000:

- six percent of 15-year-old students in OECD countries were in government-independent private schools (ie privately managed and predominantly privately financed) in 2000; and
- 10 percent of students of 15-year-old students in OECD countries were in government-dependent (ie privately managed and predominantly publicly financed) private schools.

The private sector share of enrolments, however, can vary considerably across countries and across education levels. In a number of other countries, the private sector plays a much more significant role in the delivery of education services.

According to the PISA study, Korea (34 percent), Japan (30 percent), Mexico (15 percent) and the United Kingdom (9 percent) had the highest percentage of 15 year olds in government independent schools. The Netherlands (74 percent), Ireland (58 percent), Spain (29 percent) and Denmark (25 percent) had the highest percentage of 15 year olds in government-dependent private schools.

In Australia, some 30 percent of high school students are in private schools, with this

proportion rising to close to 40 percent at upper secondary.

The private education sector also plays an important role in a number of developing countries. For example, during the mid-1990s, 20 percent of primary level enrolments in Argentina, 42 percent of primary enrolments in Chile, 36 percent of secondary enrolments in Cameroon and 78 percent of secondary enrolments in Botswana were in the private sector.

Private participation in education is generally higher at the tertiary education, early childhood and secondary levels than at the primary education level. The private sector dominates the delivery of tertiary education in Asian countries such as Korea, the Philippines, Indonesia and India, representing anywhere from 60 to 85 percent of enrolments.

In New Zealand, independent schools represent less than four percent of enrolments at the school level, 17 percent of tertiary education enrolments and 75-100 percent of enrolments at the early childhood level, depending on whether kindergartens are considered state or private.

Private delivery of education comes in many shapes and sizes: 'formal' private schools and tertiary education institutions, so-called cramming colleges that prepare students for national exams, informal or community schools, individual tutoring services and internet-based providers. The education market is characterised by a wide diversity of education providers, including not-for-profit institutions and religious institutions such as the Seventh Day Adventist and De La Salle networks of schools and universities.

Recent years have seen the emergence of for-profit education providers in both developed and developing countries. These institutions come in a variety of organisational forms. They can be sole proprietorships, franchises or national/international chains of educational institutions. Some are publicly held companies listed on the sharemarket, while others are privately held companies.

The University of Phoenix (UoP) delivers vocationally based tertiary education through the 'traditional' (bricks and mortar), as well as online modes. It has more than 150 campuses and 30 learning centres in the United States. The institution targets working adults seeking to upgrade their skills, rather than recent graduates.

The UoP is now the largest private higher education institution in the United States, with 103,000 degree level students as at May 2004. A further 109,000 degree level students were enrolled at The University of Phoenix Online.

International chains include NIIT, AMA Colleges and STI, all of which are Asian-based institutions delivering primarily IT focused programmes.

The fortunes of the private education sector are very much country-specific, with some countries experiencing growth and others decline in the size of the private education sector. Again, recent trends differ significantly across education levels. Broadly speaking, however, the private tertiary education sector has grown significantly virtually across the board – in developed countries such as New Zealand and the United States, and in developing countries in the Middle East, Asia and Africa.

In New Zealand, the number of private tertiary education sector enrolments grew by 87 percent between 1997 and 2002 (versus overall growth in tertiary enrolments of 30 percent over that same period).

Internationally, growth in private tertiary education enrolments has been driven by a number of factors, including the inability of the public sector to meet the demand for post-secondary education and training, the increasing recognition of the value of a tertiary education, rising per-capita incomes, the desire on the part of students for a more job-relevant curriculum and favourable policy changes.

While most of us tend to associate private participation in education with the traditional concept of a privately owned school delivering education to fee-paying students, the reality is somewhat different.

Indeed, there is a wide variety of ways in which the private sector is involved in education.

One area of increasing private participation is for private firms or organisations to operate public schools under a management contract with central government or a local school board. These schools remain publicly-owned and publicly-funded, but are managed by a private sector operator in return for a management fee. Students do not pay fees to attend these schools. As part of the contract, the firm or organisation is generally required to meet specific performance benchmarks.

There are a number of examples of private sector management of public schools operating in both developed and developing countries.

These include ‘contract schools’ operated by Education Management Organisations (EMOs) in the US, Concession Schools of Bogotá in Colombia, Fe y Alegria in Latin America, Alternative Education in New Zealand and Transformed Schools in the Haidian District of Beijing, China.

Let me briefly discuss four of these countries.

In the United States:

- EMOs operated 463 schools, with some 200,000 students, in 28 US states in 2003/04.<sup>1</sup>
- The number of public schools under private management more than tripled between 1998/99 and 2003/04.
- In 2002, the City of Philadelphia contracted out the management of all the schools in its district to private contractors.
- The City of Chicago is the latest to look to private management as a means of improving the performance of public schools.

In Latin America, Fe y Alegria (FyA) – a non governmental organisation – operates schools in the poorest communities in Latin America. Under the FyA model, the community provides the land, construction and maintenance of schools, while the Ministry of Education typically pays teacher salaries.

FyA trains/supervises teachers, manages schools and assists them to operate as a community development centre. In 2002, there were over 900,000 students in schools operating under the FyA model in 15 Latin American countries.

In Colombia, the City of Bogota has contracted with private organisations to operate 25 schools with 26,600 students. Under this model, private schools and/or education organisations bid in a competitive process for management contracts of newly built schools in poor neighbourhoods.

Contractors may manage a single school or a group of schools. Management contracts are for 15 years and are subject to satisfactory performance. Schools receive \$US506 per full-time student per year – an amount that is considerably below the average cost of a student who attends a public school for only a half day. Schools operate with the flexibility and autonomy of private providers.

New Zealand has its own example of contract schooling called Alternative Education (AE), a programme that funds the delivery of education in nonschool settings for 13-

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<sup>1</sup> Molnar, Alex, Glenn Wilson and Daniel Allen (2004) *Profiles of For-Profit Education Management Companies: Sixth Annual Report 2003-2004*, CERU, Arizona State University, Tempe, <http://www.asu.edu/educ/epsl/CERU/Documents/EPsl-0402-101-CERU.pdf>.

15-year-olds who are alienated from the education system. Schools are funded on a per-student basis through contracts with the Ministry of Education. Schools can either deliver the education themselves or contract with state or private providers (either for-profit or community-based) to provide it.

In 2002, there were some 200 providers delivering education to over 3,000 students under AE.

The private sector is also playing a significant role in financing the building and improvement of educational infrastructure through programmes that can generally be described as private finance initiatives (PFIs). Under PFIs, the government contracts with private firms for the finance, construction and operation of educational infrastructure.

Typically, schools will lease this educational infrastructure from the private sector for a fixed period and the asset reverts to the public sector at the end of the contract period.

PFIs in the education sector have been used extensively in the UK, where virtually all new schools and tertiary education institutions are being built under PFI arrangements, rather than traditional procurement methods. By the end of 2003, 102 PFI deals had been signed in the United Kingdom, with a value of £2.028 billion.

PFIs were also used to build 39 schools in the Canadian province of Nova Scotia during the late 1990s. Closer to home, the Australian state of New South Wales is building nine new schools under PFI arrangements as part of the 'New Schools' Private Finance Project, while the University of Southern Queensland and Swinburne University of Technology have both used PFIs to construct educational infrastructure.

Private organisations such as Pitagoras Network in Brasil, the De La Salle Supervised Schools (LASSO) in the Philippines and Sabis Schools, which operates in several countries, provide various forms of curricular and management support for schools.

For example, Pitagoras provides its network of predominantly private schools with textbooks, management and teacher training, cheap internet access, management and pedagogical support. It charged schools anywhere from \$US68 to \$US157 per student in 2001 for these services.

A large number of companies provide testing services, as well as school evaluation and review services. For example, CfBT, a United Kingdom based not-for-profit education company, carries out reviews of schools in Oman under contract to the Omani government – a similar role to that carried out by the Education Review Office in New Zealand.

In the United States, Standard and Poor's provides school evaluation services (SES) to school districts. SES analyses academic, financial and demographic indicators and trends, provides benchmarks and presents its findings on the performance of schools.

In addition, a number of organisations, such as [www.SchoolResults.org](http://www.SchoolResults.org) (a public-private effort), have developed tools to allow parents to compare educational performance across schools or school districts.

Private sector organisations such as the Educational Testing Service, Pearson Educational and Kaplan in the US and the Center for Educational Measurement in the Philippines provide testing and assessment services that help track educational performance for schools and governments. In 2003, the standardised testing industry was estimated at \$US600 million and is being spurred on by the accountability provisions contained in the No Child Left Behind Act of 2001.

Still other organisations provide information and rankings to help inform students' educational decisions. These include US News and World Report, which ranks American colleges, the Australian Good Universities Guide, Macleans Guide to Canadian Universities Magazine and the Montreal Economic Institute's guide to Quebec schools, published annually in *L'Actualité*.

The private sector is also playing a more significant role in the regulation of education, proving that this need not be the exclusive preserve of the government. As Yesim Yilmaz has argued:

Much regulation in the American economy is private, produced and enforced by independent parties or trade associations. These private organizations can oversee market participants' actions by different processes, such as standard setting, certification, monitoring, brand approval, warranties, product evaluations, and arbitration. Private regulation works, and it deserves closer attention.<sup>2</sup>

Examples of independent third-party regulation include: safety standards for a range of manufactured goods (ie Underwriters Laboratories and its competitors), computer hardware and software standards (ie Microsoft and its competitors), internet ratings, Kosher and Halal foods and bicycle helmet safety standards.

The private sector plays a significant role in regulating the education sector through

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<sup>2</sup> Yilmaz, Yesim (1998) *Private Regulation: A Real Alternative for Regulatory Reform*, Cato Policy Analysis No. 303, Cato Institute, Washington DC, [www.cato.org](http://www.cato.org).

a range of mechanisms, including the private provision of school review and evaluation (as discussed above), school registration (eg Cameroon) and private accreditation/quality assurance (eg US, Philippines, Oman).

This brief overview shows that there is considerable private participation in education. And there are many ways – through delivery, financing, management and regulation for example – in which the private sector can help the government meet its policy objectives in education.

Many other forms of private involvement could have been included in the above list, including the many examples of privately financed scholarships being offered by various organisations and the important role played by vouchers and other parental choice policies in promoting private options in education.

Opponents of private participation often point to ‘market failure’ as a justification for government intervention in education. There is no doubt that markets may fail – for a variety of reasons. This, in and of itself, does not justify government intervention given that, in many cases, the costs exceed the benefits of intervention – ie the ‘cure’ would be worse than the ‘disease’.

For example, some argue that education is a ‘public good’<sup>3</sup> or that it generates external effects and that, as a result, there must be a government monopoly over the delivery of education. This is plain wrong.

First, education is not a ‘public good’ as economists define it and hence is amenable to private sector delivery and finance. The late Edwin West has documented the extent of both literacy and schooling in the mid 1800s – before the Education Act of 1870 in England.<sup>4</sup>

Secondly, the existence of externalities in education argues only that the government should subsidise education, not that education should be delivered exclusively by government providers. From a role-of-government perspective, the dominance of public delivery in education in New Zealand and elsewhere is less a product of good policy than it is of bad politics.

Unfortunately, this basic premise of education policymaking has often been lost on decision-makers – in New Zealand and elsewhere. Although there have been many

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<sup>3</sup> Public goods are those goods whose benefits are available to everyone and from which no one can be excluded, and no one can fully appropriate the benefits (eg national defense).

<sup>4</sup> West, Edwin G (1970) *Forster and After: 100 Years of State Education*, Economic Age, Volume 2 Number 5, August/September 1970, pp 1-2.

positive developments on the education policy front in recent years – for example the rise of school choice policies and the growth in the private tertiary education sector around the world – many governments continue to be wary of private participation in education.

This has certainly been the case in New Zealand, where the government has, both through words and actions, been less than welcoming toward private involvement in education.

Witness the capping of independent school subsidies, the Minister of Education describing private early childhood providers as ‘Kentucky Fried Childcare’, the scaling back of subsidies to private training establishments (PTEs) and, most recently, the controversy over the outsourcing of education delivery to PTEs by polytechnics and wananga.

In my view, much of the opposition to private involvement in education stems from a failure to recognise that the public and private sectors can be complementary. Too often, private involvement in education tends to be seen in zero-sum terms.

The existence of a strong private sector in education, unlike in other sectors, is seen as a negative and is taken as evidence that the public education sector has failed. Whatever was gained by ‘private education’ must have been lost by ‘public education’.

This is a curious view. It is also a flawed view in that it fails to see publicly and privately provided education as complements and that both are working toward the same ends.

The ‘publicness’ of education ought to be defined by whether it serves the public interest, not by whether the education was delivered by a publicly or privately owned school.

This mindset change may be challenging to some, but in my view, it is essential if we are to move on from debilitating debates about whether education ought to be delivered in publicly or privately owned educational institutions and instead focus on the more important task of improving educational outcomes.