Public or Private Education for Latin America?

That is the (False) Question

Laurence Wolff
Claudio de Moura Castro

Inter-American Development Bank

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Foreword

This paper is important because it seeks to enlighten a complex and often polemical debate about public and private education. It argues that the distinction between private and public is less important than the rules of the game to which critical actors of the system respond. Based on a review of a wide range of literature, the paper argues for public policies which can make public institutions more market oriented and private institutions more likely to serve the public interest, including providing systematic information on learning, giving increased power to students, parents, and other stakeholders involved in public education, providing more effective oversight of private schools, and establishing funding mechanisms for both public and private education which encourage quality, efficiency, and equity.

Juan Carlos Navarro
Acting Chief
Education Unit
Sustainable Development Department

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The Nature of the Debate between the Public and Private Sectors

THE PURPOSE OF THIS PAPER

The polemical battle between those who support private education and those who support public education plays itself out in Latin America as in many other parts of the world. Public education supporters begin by arguing that public education, especially at the primary and secondary levels, is a right of the people and that providing it is an obligation of the state. Nearly every Latin American constitution includes a clause to the effect that the government guarantees every citizen a basic education. Public school supporters argue that the state cannot abandon this obligation through "privatization." They assert that private education replaces public values with private ones, leading to a breakdown in the sense of community and the rich who attend private schools often have little or no contact with the poor, leading to a loss of shared values. As a result, the middle class loses interest in public education and the proportion of the national budget devoted to public schools decreases, further depressing quality. Private schools increase social stratification as private schools "skim" the best students as well as the best teachers (by offering them better salaries, working conditions, or both), leaving the public system to serve the poor and underprivileged. Finally, public school adherents argue that private schools often enjoy a semi-monopoly and are therefore able to charge outrageous amounts for tuition and make windfall profits. Worse, some of the private schools are fraudulent and provide students with diplomas devoid of learning.

For their part, private school adherents argue that private education is inherently more efficient than the public alternative because they have better administration and seek the most cost-effective combination of inputs. The line of reasoning is that private institutions would go out of business if they did not meet the needs of paying customers. Private school advocates argue that the public bureaucracy, of which public schools are a part, does not serve the client but serves itself, politicians, bureaucrats, or teachers. Moreover, supporters hold that private schools are much more concerned with results, such as scores on tests, retention in schools, employment, or acceptance into the next level of schooling. In addition, they claim that teacher tenure ensures that bad teachers continue to teach because they cannot be let go. They go on to contend that because public education is politicized, teachers' unions are likely to go on strike for political reasons, harming students by reducing their classroom time. Finally, many private providers, especially those with a religious affiliation, maintain that they are able to instill in their students stronger ethical and community values than the public schools. Private providers also make the point that they are well aware of equity issues and many provide scholarships or loans for needy students.

While private providers maintain that they are more efficient, they resent the unfair competition of free or highly subsidized public education. As a result, they usually lobby for subsidies or government support. In some cases they ask for nearly full reimbursement of costs because they serve a social good. In other cases they ask for partial direct subsidies. In still other cases, especially at the higher education level, they ask that the government charge tuition in public institutions so that they can compete on a more even footing. In addition, private institutions of higher education may ask the government to provide and subsidize student loans or to fund research projects. Private providers also believe that government interference (such as red tape or price

controls) has a negative impact on their activities.

All of the assertions from both camps have some truth to them. But the clash between those seeking to privatize and those seeking to nationalize has dragged on for too long. This paper seeks to enlighten the public/private debate in education. The fundamental argument is that the distinction between private and public is less important than the perceived public good of each type of institutions and the rules of the game to which critical actors respond. The paper begins with a review of the relative importance of each, as measured by enrollments and expenditures, and then reviews the literature on the relative merits of private vis-à-vis public education. The paper continues with an examination of behavior in public and private institutions and then identifies government actions that could make public schools more client oriented and market driven and make private schools more socially oriented. It concludes with an examination of the various options for government support of private education. The paper calls for increased participation of civil society, systematic and transparent assessments, new management schemes, and new funding mechanisms for both public and private education; and argues that, to improve, both public and private education require clear and coherent standards, the means to achieve those standards, and feedback on how well they are doing.

WHO EDUCATES LATIN AMERICANS?

Table 1 shows public and private enrollments by country and by level (up to secondary) in 1990 and 1996 as well as higher education enrollments in 1994. It should be noted that the data are incomplete for a number of countries and that UNESCO does not normally collect public and private enrollment figures for higher education.

At the pre-primary level, in most cases, the private sector reaches over 30 percent of the eligible population. These data are very unreliable and should be interpreted with caution because some countries only report formal programs while others also include informal programs in their report. In addition, the definition of the age cohort attending preschool varies from ages 0 to 5 to ages 4 to 6. Private enrollment is relatively high at the preschool level because most countries (with the exception of Cuba) do not consider that the government has a legal or constitutional obligation to provide preschool services. It is more than likely that middle- and upper-income parents seek private pre-schooling for their children because they are aware of the importance of early childhood development, they value the freedom of not having children at home part of the day, and they have the wherewithal to do so. A number of governments (e.g., Peru, Bolivia) support early childhood programs for the poor that, in many cases, are provided through NGOs. There are also a number of private/NGO programs aimed at the poor but there is little systematic information available on their impact and magnitude.

Only 16 percent of total enrollment in primary schools takes place in private institutions. There are several factors that may account for the relatively low percentage of total primary enrollment in private schools. First, governments accept responsibility for universal enrollment in this level of schooling. Second, poor students are more likely to attend public schools for lack of resources to pay private school tuition. Third, since primary schools draw from the local population, their students tend to be more homogeneous. As a result, middle- and upper-income parents are able to find higher quality public schools in their own neighborhood. Finally, there is a relatively high consensus on the content and objectives of primary education (basic literacy and numeracy); therefore, parents and students are less likely to seek alternatives.

Interestingly, the two largest countries, Brazil (11 percent) and Mexico (6 percent), have the lowest percentage of primary students enrolled in private schools. As might be expected, Chile's policy of public financing for private education means that a very high percentage of primary school students (45 percent) are enrolled in private schools. A large percentage of Haitian primary school students (61 percent) are also enrolled in private institutions; however, this is a result of internal political conflicts and the accompanying disintegration of public institutions.

Table 1: Private Enrollment as a Percentage of Total Enrollment (by level of education)

Country	Pre-Primary		Primary		Secondary		Tertiary
	1990	1996	1990	1996	1990	1996	1994
Argentina	--	29	--	20	--	--	21
Bahamas	--	57	--	25	--	23	--
Belize	--	85	--	--	47	--	--
Bolivia	10	--	10	--	--	--	8
Brazil	26	22	14	11	--	--	58
Chile	48	51	39	42	42	45	54
Colombia	52	51	15	19	39	--	64
Costa Rica	11	10	5	5	10	11	24
Dominican R.	--	41	--	16	--	33	71
Ecuador	--	38	--	18	--	--	23
El Salvador	37	25	15	13	61	--	69
Guatemala	31	32	16	17	--	--	29
Haiti	86	--	61	--	82	--	--
Honduras	18	21	5	--	--	--	12
Jamaica	84	--	5	--	--	--	--
Mexico	9	8	6	6	12	11	25
Nicaragua	24	22	13	16	19	32	34
Panama	27	26	8	10	13	--	8
Paraguay	55	28	15	14	22	27	47
Peru	18	22	13	12	15	16	36
Uruguay	30	26	16	16	17	16	6
Venezuela	15	19	14	18	29	--	35
Regional Average (unweighted)	34.2	32.3	15.9	16.4	31.4	23.8	34.7

Sources: UNESCO World Education Report, 2000; IDB, Higher Education in Latin America and the Caribbean : A Strategy Paper, 1997.

With the exception of Chile and Haiti, there appears to be a rough relationship between what could be estimated as the percentage of "middle class" families and private school attendance at the primary level.

Enrollment in private secondary schools is relatively higher (24 percent) than in private primary institutions. At this level, it is more likely that middle-income students are opting for the private sector. Moreover, many lower-income students may have already dropped out of school altogether. In other words, at the secondary level the numerator is larger and the denominator is smaller, yielding a larger ratio of students enrolled in private schools. Another explanation for the relative increase in enrollment in private secondary schools is that government provision may be inadequate. Perhaps as important, since there is less consensus on what should be taught at this level, some parents may be seeking a dif

ferent type of instruction through, for example, schools affiliated to religious institutions.

Enrollment in private institutions of tertiary education in Latin America in 1994 averaged 35 percent (nonweighted), the highest among regions in the world. On a weighted basis, private tertiary education averages 38 percent, largely due to high private enrollment ratios in Brazil and Colombia (58 percent and 64 percent, respectively). There is anecdotal evidence that private enrollments have increased more than public enrollments since 1994. Private institutions account for a wide range of programs at this increasingly diversified level, especially at the level of post-secondary courses which last two or three years. In many cases, increased demand for higher education has not been met with increased public support. Stagnant public support has, in turn, led to a decrease in the perceived quality of public tertiary education and to increased private enrollment. Private distance education institutions (from within and outside the region) have recently begun to show an increasing interest in establishing programs or "franchises" in various Latin American countries.

It should be pointed out that the above enrollment figures do not include private short term "cram" courses designed to prepare students for higher education entrance exams (called *cursinhos* in Brazil and *academias* in Peru), which are expanding throughout the region. Nor do they include the many private for profit training programs, often in computer science or secretarial skills, which generally do not appear in official statistics.

The reality of the region's schools shows that increasingly there are few purely public or purely private institutions. Most private schools are subsidized in one way or another by the state. These subsidies take the form of tax exemptions for nonprofit educational institutions, student loans, competitive funding, direct subsidies, vouchers, and training or skills upgrading for teachers. 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 to semi-voluntary parental contributions, to service contracts with private agencies. For example, a recent study found that parents contributed an amount equivalent to 20 percent of the public costs of primary education in Peru (World Bank, 1999). *Fé y Alegría* schools, common in several countries, and enrolling a million students, are privately run but almost entirely funded by the state (Swope, et. al., 1999). On the other side, for example, public universities often provide training or consulting services to industry for which they are fully reimbursed. Indeed, some industries have provided direct support to public institutions, particularly technical schools, that are linked with their own workers. In some cases, when bureaucratic restrictions prevent direct private financing, public institutions have created nonprofit autonomous foundations.

Overall expenditures in private education are estimated at $13 billion per year in the region, as summarized below:

Table 2: Estimated Public and Private Expenditures, 1997
(millions of US dollars)

	Public	Private	Total
Pre-primary	$ 3,831	$ 1,697	$ 5,528
Primary	$26,635	$ 4,806	$31,441
Secondary	$12,232	$ 3,664	$15,896
Higher	$ 8,040	$ 3,261	$11,301
Total	$50,738	$13,428	$64,166

Source: UNESCO Statistical Yearbook, 1999 and Guadilla. Unit costs of public education (from UNESCO) are: pre-primary and primary, $372; secondary, $551; and higher, $1,318. Assumes unit costs of private primary and secondary schools are 5 percent lower than those of public schools and 25 percent lower in higher education.

This does not exhaust the amount of private expenditure on education in the region, since there are large numbers of private education and training programs, including "cram" courses, vocational training, and industry training, for which there is very little information. In addition, 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 PTAs through

schools. Assuming $50 per year spent on public primary and secondary schools and $100 on public tertiary schools, the private expenditure on public schools could be as much as $5 billion. To complete the picture one would have to subtract the amounts of public funding going to private institutions. For example, the public subsidy of the one million students attending Fe y Alegría schools is estimated at over $250 million. Furthermore in countries such as Chile, Peru, and Argentina, significant public funds are allocated for direct subsidies of private institutions at all levels of education; and many countries also provide subsidized loans for students to attend private tertiary institutions.

THE COST EFFECTIVENESS OF PUBLIC VS. PRIVATE SCHOOLS

The accumulated research does not provide a definitive answer on the relative cost effectiveness of public vs. private education. This section summarizes the results of those studies. [1]

The literature shows that at the primary and secondary school levels private school students throughout the Americas almost invariably perform better on standardized tests and other measures of effectiveness such as school retention than those in public schools.[2] (The exception is students in a few private schools run by communities or entrepreneurs in rural or slum areas where government is absent.) These differences diminish significantly (although they do not disappear) 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 (i.e., the value given by the parents to education) are included. Finally, management elements such as the school director's autonomy, vision, and leadership appear quite important as determinants of learning and to a great extent appear to be a defining characteristic of many private schools. But these characteristics are not necessarily and exclusively the domain of private schools; examples of similar management characteristics and high scoring students can be found in public schools. A recent study of public and private schooling in Chile and Argentina (McEwan, 2001) 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 non-religious schools in Chile had little advantages over public schools and in Argentina they were only modestly more effective than public schools. This could perhaps be explained by their margin or profit-maximizing mission. This study is consistent with U.S. studies showing that Catholic schools are more cost-effective than public schools (McEwan, 2000b).

Most but not all private institutions appear to be able to keep their overhead and administrative costs lower than public institutions, and therefore have lower unit costs, even keeping student class ratios constant. If their outcomes are the same or possibly better than public institutions, then generally (but not always) they can be considered somewhat more cost-effective than public institutions. But even this advantage may shift when the differences in service mix and missions of public vs. private schools are taken into account. If private schools faced some of the mandated social missions of public schools, such as educating handicapped or disruptive students, then their administrative costs could increase. Furthermore, this advantage could be changed if public schools were freed from a variety of bureaucratic constraints.

Studies of learning at the tertiary level show somewhat different results, since both public and private institutions can be found at either extreme of the quality spectrum. A recent standardized achievement test in Brazil showed wide differences among students in both public and private higher education institutions, even

[1] See McEwan for the most recent overall review of this question. See also the Occasional Paper Series of the National Center for the Study of Privatization in Education (NCSPE), at Columbia Teachers College. Studies that examine this question in Latin America include *UNESCO/Orealc, 2000,* McEwan and Carnoy, 2000 (on Chile) and Mizala and Romaguera (on Chile and Bolivia).

[2] This is not necessarily the case in cross-national comparisons. For example, on average students in private schools in Latin America score over one standard deviation lower on standardized tests than students in the public education system of Cuba (*Unesco/Orealc 2000*).

though more of the best institutions (scoring among the highest 12 percent) were public. At the same time, private higher education institutions generally have lower overhead and administration 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 the costs of private institutions (Castro and Navarro, 1999). Therefore, to the extent that the goals of both public and private institutions are similar, it can safely be said that private higher education institutions are somewhat more cost-effective than public institutions.

Nevertheless, relatively lower cost-effectiveness is not an argument for the abandonment of public sector provision of education. In the first place public institutions will continue to have missions which are more closely attuned to broad social goals and public goods, while private institutions will continue to predominately serve private needs. Furthermore, the cost advantage of privately run institutions declines as the percentage of public financing increases, especially for institutions which are not run by charitable or church groups (McEwan and Carnoy, 2000). As the rest of this paper argues, the best public policy is to encourage public institutions to become market driven, thus increasing their cost-effectiveness, and providing incentives for private institutions to increasingly serve the public good.

Encouraging Market-Driven Public Schools

BEHAVIOR IN PUBLIC SCHOOLS

People are not intrinsically different or driven by differing or irreconcilable motives regardless of whether they are employed in the private and public sectors. As Hirschman (1970) argued many years ago, humans act in ways that promote their own interest, whether they work in the private or public sector. They seek to avoid risks and excessive work where possible, to earn and spend money, are tempted by power, guided by certain ethical principles, and so on. However, the behavior of managers as well as workers will change depending on the work environment. If we earn more the more we sell and the more we cut costs, then human nature will lead us to focus efforts on selling and economizing. If we earn more the better the quality of the services we provide, then we have good reasons to put more effort into doing our job well. People understand these signals and act accordingly. Private organizations have learned to create carrots and sticks that capitalize on their employee's self-interest. Not doing so would bring dire results—reducing profits, generating losses and, ultimately, leading to bankruptcy.

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 in the same way that private business 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, a powerful factor in redressing management errors in order to avoid tragedy.

Public organizations have a more difficult time in managing incentives because *the threat of "extinction" is much lower*. They take longer to correct errors (if at all) and to reward excellence. They have difficulties in penalizing incompetence, lack of dedication and even unjustified absences. For example, a number of public authorities in Latin America have sought to put in place systems to check teacher absenteeism and penalize unjustified 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. Moreover, public teacher's unions often have a political agenda that leads them to support a particular political party rather than the economic agenda of private sector unions.

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 these cases, civil servants are regularly and rigorously evaluated.

BUILDING A QUASI-MARKET FOR PUBLIC SCHOOLS

Hirschman identified an alternative to a non-responsive 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 and/or employers—a voice in decision making and an opportunity to "exit," i.e., to take their business elsewhere. The quasi-market also requires information to judge the quality of the educational service offered as well as financial and other incentives to reward effectiveness (Hirschman, 1970). Interestingly both perverse

and positive signals can exist, often in the same education system.[3]

There are several ways in which a quasi-market for public institutions can be created. First, providing information on success and failure rates to users, clienteles and other stakeholders and clients. Second, rewarding and/or penalizing those who are responsible for the success or failure. Third, freeing public schools from public regulation so that they are able to act, in effect, like private schools. Fourth, giving power to the consumer, in this case, students, parents, the community and the productive sector. Fifth, charging clients (at least partially) for the services provided to encourage them to demand better educational services. Given the unusual nature of the public education enterprise, the discussion that follows emphasizes the need for constant tinkering with the rules to achieve these goals. Furthermore, clear national education objectives and standards must be established and made widely known in order to encourage market and client responsiveness.

MARKET INFORMATION: MEASURING ACHIEVEMENT AND DESCRIBING SCHOOL CHARACTERISTICS

One of the most important roles of the state (and a condition of 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, including 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 ten 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 standards and develop programs to improve them, as has been done in Chile (see chapters on Chile in Reimers, 2000). Likewise, good performers, especially when defined in terms of improvements over previous scores (e.g., value added) can receive recognition through financial rewards and other rewards. Costa Rica has established exams as a partial requirement for graduation from secondary school (Wolff, 1999). 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 (IEA) and by OECD. These tests show where a country stands in relation to its competitors and are a useful tool 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; but progress in both areas is being made. Parents and students now have a tool to better recognize the best performing schools and use this information to make their choices.[4]

[3] For example, until recently, Brazil's federal higher education system suffered from every possible perverse incentive; yet, the country's over one thousand graduate programs are productive and perform well. To a great extent the same civil servants who are careless, 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 providing additional funds to the better performing ones.

[4] However, it should be pointed out that research in North America suggests that parents pay the most attention to socioeconomic status of other students in the school rather than to school quality as measured by testing (Willms).

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.[5] 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.

REWARDING AND/OR PENALIZING THOSE RESPONSIBLE FOR SUCCESS

Evaluating Teacher and Administrator Performance

The performance of teachers and administrators should also be evaluated and, where appropriate, rewarded. Unfortunately evaluation remains very problematic in the region because it is strongly 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' 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 boss not to be allowed to evaluate workers and take appropriate actions.

Yet, quantitative performance evaluations of teachers and schools have many pitfalls. First, it is difficult to measure education's *product*; namely, an educated student. Secondly, 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 school 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* (e.g., quality circle) that should be rewarded. In the schooling context, awarding the school encourages teachers to work together for a common goal and also smoothes out differences in student characteristics from year to year. Under this approach, the school director becomes the critical staff member who is evaluated, an approach which is 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 does not exist in Latin America. This type of quality control is exemplified by the French *inspecteur* who would visit schools to review practices and teacher performance, arriving *ex abrupto*, 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 was mainly concerned with bureaucratic matters. The idea that a school principal would formally and objectively evaluate the school staff has also never taken hold. Of course, school directors often informally identity non-performing 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 result of the policy announcement was a serious crisis that resulted in the establishment of a state of siege for several months. In 2000, Colombia's Ministry of Education sought to test all teachers on their content knowledge and proposed that teachers who did not make the grade would lose their jobs. Opposition was so strong that it was never able to carry out its plan. On the other hand, Mexico's teacher evaluation system, which can result in salary increases if students improve their scores over time, does not appear threatening and has the support of the national teachers union (PREAL, 2000).

[5] Aware of these issues, the American Educational Research Association recently promulgated a series of recommendations for the appropriate use of high stakes testing results. See AERA, Vol 29, No. 8.

In 1996, Chile established a National System for Evaluation of the Performance of Supported Educational Establishments (SNED), a program that provides 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. While a full evaluation of the program has not yet been completed, it has been reported that school directors like the program and that teachers have become more accepting of undergoing the evaluation process now that the program's incentives are in place (PREAL 2000, Mizala, et. al. 2000).

In the United States, two recent cases illustrate attempts at taking evaluation of school performance closer to the threat of "bankruptcy." In Florida, a recently established program provides that students in schools that, during a four-year period, receive a "failing" grade on standardized tests can receive vouchers to attend the private school of their choice. Recent studies reported that under the threat of losing students, failing schools achieved significant improvements in average scores (see Kupermintz, 2001). In some states, such as 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.

In spite of the pitfalls and obstacles, progress has been made in instituting systems to evaluate teachers and administrators. These efforts must be continued. To do so, it will be important that teachers' unions understand that a strong teacher and school evaluation system will eventually lead to greater professionalization and prestige for all those involved in the teaching profession.

Decentralization

Many countries in the region are giving the schools, especially school directors, more power in the use of discretionary funds, thus giving the school director 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. However, with only a few exceptions (e.g., El Salvador) this does 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 on decentralization in the Brazilian state of Minas Gerais has identified some modest but 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 complete 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 and more are being established daily. While there is no conclusive evaluation of the experiment, the results are promising. In some cases, not enough time has elapsed for results to become obvious; in others, the results are inconclusive results. Of course, the right amount of transparency, standards and regulation is necessary for charter schools to work.

Payment by Results: Monetary Incentives for Achieving Mandated Goals

Entire 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 basic and secondary education level, but more common in vocational/technical and higher education. Chile has experimented with a program by which the state reimburses the costs of vocational training for students who can be placed in stable employment. Colombia and Brazil are experimenting with competitive funding for training programs (Middleton, Ziderman, and van Adams, 1993). In the Netherlands, technical schools receive a standard operating budget which they are free to allocate as they see fit. However, a fraction of the total funds is distributed according to the

performance of the school. Some U.S. states use the 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 and provide funding to the 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 may eventually be tempted to award diplomas with minimum school attendance. In the United Kingdom, universities get a fixed budget and 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 the socioeconomic status of its students. In addition, the institutions that attract students with the highest scores in the university entrance examination also receive additional funding. Finally, the government supports research on the basis of open competition. The "matching funds" approach, a system 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, Colombia) use open and transparent competition and quality reviews by peers to provide research grants, scholarships and salary supplements for teachers.

GIVING "EXIT" AND VOICE TO THE COMMUNITY AND PARENTS

In many cases there are no mechanisms to "exit" from a particular public school. School choice is one way of giving parents and students such power. In most countries of the region, 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 should be encouraged. 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 because of lack of alternatives. Many poor students living in urban slums or rural areas cannot afford the real or the opportunity costs of a bus ride to a better school.

Parents and students can also be afforded some measure of power ("voice") 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, Minas Gerais) of school boards that wield power at the school level. But 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). Perhaps because central management of education in the Latin America has been so poor, local control and management by parents has had encouraging results (at least in the cases of El Salvador and the Brazilian state of Minas Gerais).

Parent-teacher associations (PTAs) are another, usually more benign, form of parental involvement that have existed for decades in the region. Most commonly, these associations serve a social role in the organization of festivities and graduations. Sometimes they raise money for school activities or even to 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. This 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 parent-teacher associations, it is very important to train parents to understand their potential influence on the educational process.

A PTA tradition never existed in Minas Gerais. Yet, a strong Secretary of Education created parent and teachers boards with ample power to influence the management of schools, including choosing principals. The commitment to empowering parents was strong enough that the schools received financial resources that were to be spent by the school under the direction of the PTA. The dynamic created by these policies, including universal school assessments, appears to be correlated with Minas Gerais' recent high scores in national standardized tests.

GIVING VOICE TO BUSINESS

If businesses are major consumers of the 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 recently announced a policy of reviewing students' grades before hiring them. The president of IBM organized a national roundtable and has been writing institutional advertisements supporting school testing and assessment. This is a potential incentive to students to take their academic work more seriously.

Yet, for a very long time, except for selected support of private higher education institutions and for vocational/technical training, businesses in Latin America has 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 even aware that poorly educated students hurt business productivity. A shift in this attitude has become recently apparent 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, actively lobbying for improved quality, transparency, accountability and continuity of educational policy.

Associations of industrialists in many countries are now taking stands on issues of education and training. For example, a recent national conference of industrialists and entrepreneurs in Peru proposed increased public funding of education, a new "social contract" with teachers and increased transparency, accountability and autonomy in education (IPAE, 2000).

CHARGING THE CLIENT: COST-RECOVERY WITH DIFFERENT NAMES

Although it is well understood that 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 significant levels of cost recovery for basic education. Any charge for basic 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 at this level is cumbersome and the same result could be obtained by means of a progressive tax system.

At higher levels of education, however, cost recovery can be better justified. In the case of 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. In public tertiary education, therefore, cost recovery can be a major tool to improve governance and efficiency, since paying students will demand more from their schools. They are less likely to stay quiet when the quality of teaching falls or when course offerings do not respond to market demand, resulting in saturated markets and inefficiency in general. 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 the 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 the need. But it should be noted that running a good student loan scheme 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 in the region is an explosive political issue. Nevertheless, some countries, notably Chile, Argentina, Mexico (outside of the UNAM), Venezuela (in only one public university) and a few Brazilian states have experimented with different 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 as well as 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 payments exert some pressure on public schools to perform more effectively. A recent study of Peru, for example, found that parents in primary and secondary schools paid a significant amount of the costs of schooling, equivalent to US$33 per year for the poorest families and US$73 for families in the highest income quintile (World Bank, 1999).[6] According to Carnoy and Torres (1994), budget cuts in the late 1980s and early 1990s often resulted in an increase in the share of costs paid for by students. Countries and regions with strong communitarian traditions have relied on the parent-teacher associations to collect funds, which were usually provided on a voluntary basis. These contributions often paid for supplies (such as books), maintenance, equipment, and even the salary of additional staff. However, in most cases, these contributions were insufficient to pay the salaries of teachers. At the tertiary level, schools may charge laboratory, library, testing, and parking fees.

[6] This is common throughout the developing world. See for example work by Tsang (1999) on Thailand and Pakistan.

Encouraging Private Schools to Serve Public Objectives

BEHAVIOR IN PRIVATE SCHOOLS

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

The private system also, in principle, offers a variety of alternatives that could not be offered in a publicly-funded institution or 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 providing education geared to particular preferences. The latter include, for instance, religiously-affiliated schools (Protestant, Jewish, Catholic), schools that emphasize values that do not represent the national average (such as schools at either end of the liberal/conservative spectrum), and Steiner or Montessori schools. Because private schools vary greatly, in principle they have more leeway to explore different paths and test new ideas.

Private institutions are not without their shortcomings. Indeed, one of the most insidious is the fact that although a deficient private school can inflict serious damage on its students' future prospects, the situation is difficult to detect and difficult to correct. When a student performs poorly, it might not be clear whether that performance is due to poor teaching or the student's own lack of commitment or ability. There are no clear definitions of what a "good quality" education is, whether 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 creates a strong temptation to cut corners (or even to defraud students) by providing "credentials" that lack real learning or competence. Without careful quality control, private institutions can be tempted to become so-called "diploma mills," producing 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 least cost means of meeting credentialing requirements. In short, in order to serve the public good, private schools must be properly regulated. The next section summarizes the alternatives for oversight and regulation, followed by an argument and options for public support of private education.

TOWARDS INTELLIGENT OVERSIGHT OF THE PRIVATE SECTOR

There is no such a 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 ISO standards, etc. Education is no different. Regulations, if they are not well conceived or executed, can also impede creativity, competition and development. This section summarizes some of the options for public oversight of private education. Recently prepared case studies on Guatemala, Brazil, Colombia, and Argentina suggest that much of the state's oversight is counterproductive, often encouraging low quality and monopolistic tendencies (Sorj, Lavarreda, Vergara, Morduchowicz, 2001).

The principles of oversight and incentives for private education are no different than those for public institutions, although specific applications

may differ. In particular, there is a need for market information, evaluation and rewards for good performance and allowing prices to affect decision making.

Market Information

The needs for consumer and market information are the same in private as in public institutions. To meet this need, governments need to require and/or encourage private institutions to divulge standard indicators, such as scores on achievement tests, dropout and flow rates and teacher qualifications. Dropout rates are particularly important because private schools, especially correspondence schools, have been known to advertise extensively, to collect tuition payments in advance, and encourage or condone dropping out. Many private institutions consider detailed financial information to be proprietary. Nevertheless, at the least, private educational institutions should be required to regularly provide information on tuition and fees.

El Salvador began development of a system of higher education evaluation and accreditation in 1997 (Bernasconi, 2001). As a result of the program, several private institutions have closed their doors and others have sought to raise standards. The publication of rankings appears to have increased competition and improved the quality of the teaching staff, libraries and equipment.

Another recent example of the impact of making information about test results publicly available is Brazil's experience with the *Provão*, a national test given during the last semester before graduation in all higher education institutions in specific areas (e.g., law, education, medicine, etc.). It is reported that three fourths of the private higher education institutions have responded to the test by improving the quality of their teaching staff.

Evaluation, Accreditation and Regulation

In the private as well as the public sector, performance evaluations are very important. In the case of 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 authorization to open a private school. However, these barriers to entry into the education market do not ensure the quality of the approved institutions and can lead to the creation of semi-monopolies for already approved private and public schools. As is the case in other industries where a few firms control the market, private education associations can often be the most enthusiastic proponents of strict barriers to entry that 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 entail minimum requirements for an institution to operate, that is, an assessment 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 management and organization.

A particular aspect of private school regulation involves so-called "truth in advertising" laws. As is the case with other advertisers, private schools must also 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. A number of private proprietary as well as non-profit institutions in the United States have been cited for false and misleading advertising. But consumer protection in the region has rarely focussed on advertising in education.

An alternative to rigid public regulation is the creation of voluntary associations of private education institutions, a common tradition in Anglo-Saxon countries. Accreditation committees composed of educators and community leaders undertake periodic evaluation visits to assess the institution's strengths and weaknesses

and renew (or not) its accreditation. Although associations of this type exist in Latin America, they tend to do a better job 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, Vergara 2001, on Colombia, and Lavarrreda, 2001, on Guatemala). 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 discouraged from expanding; they could even be encouraged to shift their focus to other levels or move to other regions. Anecdotal evidence also shows that, in some cases, institutions operating under these conditions may create a "black market" in additional fees. When prices are set too high, private school operators are able to increase their profits. 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), as well as to publicize objective information on school quality.

PUBLIC FINANCING OF PRIVATE SCHOOLS TO ACHIEVE PUBLIC POLICY GOALS

Why Public Support of Private Schools

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 support private education. Among the reasons for subsidizing private education are: a) 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; b) to encourage diversity and competition through increasing the opportunities for choice; c) to help to target poor students in basic education or to ensure that worthy students are not denied access to secondary or higher education for financial reasons (in other words, for equity considerations); d) to support technical or professional training in areas where the pay is not sufficient to attract the best students (examples are certain industrial technicians, teachers and middle-level health professional and technicians); e) to support the production of public goods, such as basic or precompetitive research; and f) to encourage the dissemination of new ideas, approaches, and technologies. At the same time, public financing, without appropriate oversight and accountability, can sometimes encourage in private institutions the very elements of inefficiency often associated with public institutions and can heighten inequities. Recent studies of Argentina and Peru have shown that public subsidies of private schools can be based on out of date considerations and influenced by lobbies, resulting in increased inequity (Morduchowitz, 2001; Navarro, 2001).

In principle the objectives of high quality public education and encouragement of expansion of private education are not contradictory objectives, but, with the right policy framework, are self-reinforcing. But the region already suffers from the impression of 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 the least not appear to be done 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. A recent study (Wolff, 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 in principle could fully cover these costs if real GNP per capita grew at 3 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 GNP per capita growth is inadequate.

In countries recently beset by civil disturbances, such as Haiti, Guatemala, and El Salvador, the private sector expanded rapidly, even at the ba-

sic education level, in the absence of government authority and financing. The challenge, as civil authority has been restored, is to build on this existing private infrastructure rather than to 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 sections outline 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. They are used mainly at the higher and graduate education level, but have been used in some cases for private upper secondary and technical education. Scholarships can be an effective "neutral" means of leveraging public funds, since they can be distributed in an individual basis, giving the right to attend any school. Often they are granted to institutions of learning that themselves choose students to whom to concede the scholarships. In this case they can be used also to 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 robust enough to permit this kind of identification.

Similar in function to scholarships are subsidized student loans for students. Capital markets are usually inadequate to support loans of this sort, since the only "collateral" is the individual himself (rather than, for example, property). Under this mechanism, students borrow to finance their education. These credits can serve to pay monthly fees or sustain the student during the studies. There are scores of student loan schemes throughout the world (Albrecht and Ziderman, 1993). 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, including the problem of collecting debt after graduation. A wide variety of approaches throughout the world have been taken to increase repayment of student loans.

The Pan-American Association of Student Credit Institutions (APICE), an organization of over 30 student loan organizations, both public and private, in the region, has analyzed best practice in the management and provision of student loans, and has reported significant growth as well as improvements in the region over the last decade (see Tellez and Orostegui, 2001). The United States, with a vast system of student loans and varying subsidies depending on the student's financial needs, recently reported the lowest default rate (6.9 percent) in the history of the program. [7] 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.

Vouchers, the idea of granting students a coupon to exchange for education, are associated with Milton Friedman, the indefatigable defender of markets and private initiatives. Vouchers are basically portable scholarships provided to the student or his parent and are usually considered at the primary and secondary levels. By using "consumer choice," the voucher scheme in principle helps to ensure that only the private institutions which provide the highest value added to students are able to flourish. Vouchers in the United States, some of which go to religiously oriented schools, are the subject of strong debate, especially because of the long tradition of separation of church and state.

Beginning in 1992 Colombia implemented a voucher program, targeted at more than 100,000 students, and designed to provide additional places in private secondary schools. An evaluation of the program (King et. al.) concluded that the program 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,

[7] "National Student Loan Default Rate Lowest Ever," released October 2, 2000, visit http://www.ed.gov

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 has since ended.

Over the past 15 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 the last year of pre-school) which are financed by the state on the basis of enrollments. Chile now has three education networks: fully private, enrolling 9 percent; private subsidized by the state, 35 percent (including technical/vocational institutions); and municipal, 56 percent. The introduction of the system resulted in a surge in private highly subsidized schools. The purely private schools are the traditional schools of the middle class and the elite.

The great risk of the voucher system is what it leaves behind. Private schools financed by the voucher system attract the best of the public schools, including middle class families with an awareness of school quality and greater financial ability move around the system, thus creating a problem for those schools such as, in Chile, the public municipal schools, that lose the "good" students. Chile's scheme has been evaluated by a number of researchers (Mizala and Romaguera, 2000; Carnoy, 1998; McEwan, 2000). There appear to be some gains in efficiency although there continues to be a problem of "skimming."

To encourage private schools to meet public goals, loans, scholarships, and vouchers can be used to encourage quality improvement in private institutions, by insisting that institutions meet minimum standards before they are eligible for such financing. To encourage internal efficiency, they can also terminate after the student attends a fixed number of years. They can be targeted towards areas considered of greatest social need, such as teacher education or training public health workers.

Direct or Contractual Public Support of Private Schools

The advantage of contractual arrangements is that the state can terminate support if schools fail to deliver quality education. Of course careful and powerful oversight is required to ensure that these institutions do provide the education that they promise. In Latin America, the most widespread example of contracting for services is the Fé y Alegría school system, which enrolls over one million students in 14 countries in the region and is an example of a private institution serving public policies directed toward equity, quality and lower cost. Fé y Alegría schools are run by a nonprofit church-affiliated organization, restricted to poor areas. The state pays the costs of teachers, who are public employees. Recent evaluations have suggested that Fé y Alegría schools cost less and have better results than public schools located in similar neighborhoods (Swope and Latorre, 1998, and 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 clienteles. Based on the problems encountered with vouchers described above, the city of Bogota, Colombia, recently established similar arrangements with private institutions serving slum neighborhoods (Vergara, 2001).

In many countries in the region (e.g., Bolivia, Ecuador, Colombia), Governments contract with NGO's and community associations to provide early childhood development services to at risk clienteles (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 trained staff, is adequate to have positive developmental results. Several Governments, with multilateral assistance, has been providing training to communal 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. For a period in the 1960's the Brazilian federal government partially supported 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 religiously oriented institutions, is politically and historically difficult. In Brazil, for instance, long-standing clashes among the defenders of lay and religious schools make direct payments to private religious schools currently politically impossible.

Competitive Funding

Competitive funding is common in vocational/technical training and in graduate education and research. Chile has experimented with a program 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 are experimenting with competitive funding of training programs outside of the classical SENAI and SENA systems (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). In both cases the state is seeking the most efficient and highest quality provider of a service it considers important, such as training or research, be it a public or a private institution, and the private and public receive the same treatment. Yet, it should be pointed out that the ability to present good proposals often depends on the existence of an education and/or research infrastructure that in many cases is 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 is in part a problem of the overall weakness of capital markets in the region. In addition, education may be an area where traditional lenders are wary because of uncertainties brought about by price controls as well as a changeable market and a difficult to measure product. Yet better access to capital may well be a very inexpensive way of encouraging private education development. Recognizing this problem, Brazil's Banco Nacional de Desenvolvimento Economico y Social (BNDES), with IDB support, has established a special program of support for capital improvements in both public and private higher education (see BNDES, 1999). One approach to evaluating requests for financing would be to take a 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, through defining a minimum set of teacher, curriculum, or physical facility specifications, or even restricting lending to certain high demand occupations. The second approach, while on its face preferable, runs a risk of bureaucratizing the entire process. In fact, the program in Brazil is reportedly having some difficulty moving forward because of requirements to provide detailed financial and pedagogical information to the Ministry of Education as a prerequisite to received funding. In principle similar programs of capital investment can be directed towards primary, secondary, and technical education.

Tax Incentives

A wide variety of tax incentives for private education are possible in the region and elsewhere. In the first place most, but not all, private institutions are nonprofit, and therefore do not pay taxes on any profit. 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 its administrators as well as to relatives of administrators. In Latin America nonprofit schools are often exempt from value added taxes or import duties.

The United States has developed a variety of tax incentives to individuals who pay for private education. These include: a) up to a certain income level, a tax deduction to cover the partial cost of attending higher education institutions; b) permission to use individual pension accounts

(IRAs) for educational expenditures, before retirement age, without penalties; c) exemption from the annual $10,000 limit for gift taxes for payment of educational expenses of third parties; d) deductions from gross income of charitable donations; and e) most recently, setting up 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 income tax rate is 39 percent. One advantage of these incentives is that 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 these 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 of support, in the form of training and provision of up-to-date information to small and medium size productive enterprises. The assumption is that these enterprises do not have the human or financial means to keep up with changes in their field and that there is a public interest in increasing their productivity. Surprisingly, there is no such attitude towards "small and medium" education enterprises, which may also find it difficult to assimilate best practices also, especially at the secondary, technical, and higher education level. After all, if private (or public) institutions are teaching that the earth is flat, or are unaware of 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, this paper supports a new idea: a training and extension service to private institutions, especially at technical and higher levels, but equally open to public institutions, to introduce new ideas and technologies. For this service to operate effectively it should be privately operated but jointly supported by government and the private sector, not unlike institutions which support innovation in areas as varied as agriculture, fisheries, the shoe industry, electronics, etc. This support could be of particular importance in the area of distance education.

Postscript: Public or Private, a False Question

Private or public, this is a false question. This is old ideological battle, a carry over from the past. The epic clash between those seeking to privatize and those seeking to nationalize has dragged for too long—in particular, in relation to education. We need both, public education with private efficiency and private education fulfilling social goals. Wild capitalism and unresponsive civil service must be considered as equal candidates to the trash bin of history. *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. Furthermore with the right policy framework, there is no contradiction between high quality public education and encouragement of expansion of private education.* The greatest obstacle to effective public education is the lack of appropriate incentives. The greatest obstacle to private solutions which serve the public good is the incapacity of the state to design and implement an environment and appropriate incentives where the private gain more when they behave in ways that promote public interest. *To improve, both public and private education require clear and coherent standards, the means to achieve those standards, and feedback on how well they are doing.*

The challenge for the modern Latin American state is to abandon its role as operator and learn to exert itself in a normative function, as an intelligent overseer and controller. This is as important for education as it is for telecommunications.

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