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PROFITABLE AND AFFORDABLE
Private education in the developing world

JAMES TOOLEY reports on a study of private education in the developing world commissioned by the International Finance Corporation and to which he contributed. He shows that for-profit schools make a valuable contribution to improving the quality and range of education available to both the middle class and the poor in developing countries, including South Africa, and argues that policy-makers should encourage the growth of private education

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True or false? Government-funded schools in developing countries are fair, efficient, and developmentally and educationally sound. *False*. Public education in many developing countries is neither free nor cheap, often subsidises higher income groups at the expense of the poor, and is plagued by inefficiency and waste.

True or false? Private education is always expensive, elitist, exclusive, and exploitative, caring more for profits than for people. *False*. Research conducted for the International Finance Corporation (IFC), the private investment arm of the World Bank, shows that accessible, socially responsible, and yet profitable private education companies are mushrooming all over the world, in both developed and developing countries, including South Africa.[1] Contrary to popular prejudices, this suggests that, in education, profit and development can go hand in hand.

Drawing on this research, this paper describes a range of private and for-profit schools throughout the developing world. It draws out and analyses the factors which enable private – and particularly for-profit schools – to be both successful businesses *and* socially valuable providers of education. It argues that the private sector can and should make a growing contribution to improving access to education and educational quality in South Africa and elsewhere.

Factors for success in providing quality education

According to the IFC study, numerous factors make for successful education companies – companies that are profitable, and also satisfy consumers (learners and parents). These factors include private initiative responding to public sector weakness; active research and development; technological innovation; brand promotion; expansion and integration; quality control; large scale; and for-profit status.

Private education companies in the developing world

According to the IFC study, profitable, accessible, and educationally successful private sector schools and colleges are found all over the developing world. For example, the IFC discovered:

In education, profit and development can go hand in hand

Pitágoras Group, Brazil

The Pitágoras Group is a for-profit education company with schools in nine Brazilian states. Started in 1966, when five young teachers held a pre-university class for 35 students, it now has 80 000 students, attending courses ranging from kindergarten to professional and adult education. In 1969 Pitágoras formed an alliance with three big Catholic colleges, and began to teach their university entrance courses. Diversifying further, the teachers invested their own funds in the construction of a purpose-built school, and distinguished themselves from other schools by designing a new curriculum and teaching model. In 1994 the Network Pitágoras was established, linking other schools with the group's quality control programme.

Damelin/Educor, South Africa

With 300 000 students, an annual turnover of US$26 million, and profits of US$6 million in 1998, Educor is the largest private education group in southern Africa. Its eight education and recruitment subsidiaries were built around Damelin College, a private educational institution founded in 1943. Damelin expanded in the 1960s and 1970s by serving the untapped market of African teachers in rural areas studying for high school certificates, and by offering management and computer courses. Educor, formed when the Housewares Group bought Damelin and Midrand College, was listed on the Johannesburg Securities Exchange in 1996 and is now owned by Naspers, a highly diversified international media organisation, and the black empowerment group, Nozala Investments.

Delhi Public School Society, India

The Delhi Public School Society (DPS) is a highly successful chain of private not-for-profit schools in India, with an annual turnover of about US$4 million. It prides itself on excellent academic results and comparatively low fees (US$200-420 a year). The first DPS school was established in tents in 1949. Today there are 42, with about 50 000 students. In addition, the DPS funds and runs an educational think-tank and R&D centre, and a teachers' training college for teachers inside and outside the DPS system.

Speciss College, Zimbabwe

Speciss College is the largest provider of quality training and education in Zimbabwe, providing secondary, tertiary, professional, in-service, and remedial education and training. Founded in 1965, it has diversified into computer, print, and mail companies; remedial and language enrichment classes; psychological testing; and career advice. With about 30 000 students across five campuses, Speciss's annual turnover is about US$3 million.

The National Federation of Coffee Growers' Schools, Colombia

The Colombian coffee growers' federation has built more than 5 000 schools across the country in conjunction with public or private partners (regional education departments contribute about 30 per cent of total investment). Students pay fees of US$1 a month to attend school. In meeting the educational needs of the rural poor, the programme also demonstrates the usefulness of partnerships that combine private sector management expertise, public sector educational expertise, and finance from both.

Collegio Oswaldo Cruz (COC), Brazil

In 1963 a group of students at one of the best medical schools in Brazil set up a course named after Oswaldo Cruz, the famous Brazilian scientist. In 1972 they added a high school, and in 1979 primary and junior high schools. In 1997 COC bought Escola Morumbi, a highly respected private school in São Paulo. COC is currently seeking to open a new university. It caters to learners from kindergarten up to university entrance level, and has three wholly owned schools, 63 franchises, 26 000 students, and a turnover of US$30 million (1997).

TECSUP, Peru

TECSUP is a private, not-for-profit technological institute in Peru, with an annual turnover of about US$7 million. Luis Hochschild, a successful Peruvian businessman, set up its first campus in Lima in 1984, thanks to a donation of machinery and expertise from the German state of Baden-Württemberg. Together, they have donated US$5 million since TECSUP began. TECSUP offers a three-year core programme, aimed at school leavers and leading to a government-approved technical professional diploma; and a continuous education programme, offering short courses for company employees. TECSUP also offers a distance learning modular MBA, in conjunction with the Universidad Politecnica de Madrid, Spain, and is branching out into long-distance video education and conferencing.

NIIT, India

NIIT is the largest provider of computer education and training in India. Its market share is 37 per cent, its annual turnover US$73 million, and its profits US$13 million a year. It boasts 500 000 alumni, the largest educational multimedia software production facility in the world, and branches in 18 countries. NIIT opened its first centres in 1982, and became a listed company in 1993.

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Far from being fly-by-nights, private education companies defend their brands and market share by maintaining quality.

Successful education companies are the products of **entrepreneurial, management, and educational talent** responding to a public education system that is widely understood not to be meeting the demand for quality education. Very few, if any, developing countries can be said to have entirely successful public education systems. Frequently, entrepreneurial energy is much easier to find than public sector efficiency. And where private initiative is not repressed, many students and their parents will welcome private education suppliers.

Successful private educational companies are heavily involved in **research and development** to aid innovation. For example, the Brazilian Collegio Oswaldo Cruz's curriculum was rewritten every year. Specialised, dedicated teams – including teachers, technical experts, and ex-students – were employed to develop curriculum mate-

rials, thus ensuring that they kept pace with pedagogical, technological, and industry developments. Many companies also engaged in R&D in all aspects of pedagogy and policy. NIIT India had *two* research and development departments. The first was a pure research unit, with about 20 people spending 0,7 per cent of turnover (about $1 million) pursuing interesting ideas in education and the cognitive sciences, without any need to look for commercial applications. The second used about 5 per cent of turnover to find more efficient ways of teaching, learning, and course development.

For-profit status is conducive to educational efficiency and quality

Successful education companies try to keep abreast of **technological innovation**. The first reason for this imperative is to retain market share, and/or attract new customers – 'product' innovation. For example, TECSUP, Peru, was branching out into satellite courses, and Delhi Public Schools (DPS) were talking to the Indian Space Research Organisation about leasing satellite time for distance education programmes. The COC chain was replacing all its classrooms with a 'classroom of the future', where all desks have terminals connected to the internet. The second reason for technological innovation is cutting costs – 'process' innovation. TECSUP, for instance, was developing a 'virtual university' to deliver courses across its campuses, which would utilise the same teachers and materials and thus considerably reduce costs in the long term.

Brand name promotion was significant for about half of the private sector schools studied by the IFC. Perhaps not surprisingly, it was far less significant for stand-alone schools and universities. But for the large companies, advertising amounted to 10 per cent of turnover, and full-time marketing staff and management were employed to develop and strengthen the brand. The widest range of promotional activities were found in the case of Speciss College in Zimbabwe, including the sponsoring of a basketball team and two national athletes, careers days, film premieres, and an elaborate graduation ceremony with a high media profile. Market research in Zimbabwe showed Speciss to be the leader when respondents were asked, unprompted, about their knowledge of tertiary education institutions. NIIT also engaged in highly successful brand-building through aggressive newspaper advertising and its own radio and television shows. Market research showed that, just as people use the phrase 'making a Xerox' as synonymous with 'making a photocopy', so 'doing an NIIT' was synonymous in India with 'taking a computer course'.

Quality control is essential if the strength of the brand and the profitability of the company are to be sustained. NIIT, for instance, exercised tight control over its 400 franchises and 30 branches, insisting that each tutor underwent the same training, and that all managers were former NIIT teachers. If students did badly on standardised tests, defaulted on payment, dropped out, or gave a low assessment of their own grasp of the work, this reflected badly on the individual faculty member who had taught them. The Pitágoras group's total quality management (TQM) workshops, involving standardised tests and surveys of parents, had been attended by more than 4 000 professionals from all over Brazil. In fact, the group's total quality office was so successful that it had become a separate company within the group.

Integration and expansion preoccupied the successful companies studied, with many expanding their operations nationally and internationally, taking over other schools, or diversifying into recruitment or educational publishing. Surprisingly, many never borrowed, financing all their expansion through internal investment instead. All but one of the companies studied relied entirely on fee or other income to fund their initial growth rather than soliciting endowments or donations. Companies

such as Educor and NIIT were able to finance further expansion through rights issues. Loans were initially avoided either because of high interest rates, or because companies felt that their limited collateral would make them unattractive to banks. For many companies, franchising was an important strategy for expansion. Both NIIT and Educor had franchised computer centres, and all the Brazilian education chains had franchises.

By far the smallest group of private schools were those very expensive elite private schools that unfortunately continue to dominate the popular perception of the sector

Private education companies expand to a **large scale** not simply to reduce costs and increase revenues, but also to overcome the 'informational asymmetry' problem. Potential consumers of private education feel vulnerable to being cheated by 'fly-by-night' operators. To avoid this, they gravitate towards large and well-established brands, and education companies therefore have a strong incentive to grow because scale is a guarantor of educational quality.

For-profit status is conducive to educational efficiency and quality. It might be thought that not-for-profit companies would be more inclined to invest their surpluses in expansion, quality control, and other improvements, and that for-profit companies would be more inclined to pay dividends. However, this was not borne out by the evidence gathered for the IFC study. For-profit companies such as NIIT, COC, and Educor were among the biggest investors in expansion and quality improvement. In fact, it is questionable whether non-profit institutions can become as viable, innovative, and effective as for-profit companies that are fully exposed to market competition. This is because non-profit surpluses are easily expropriated through salary increases. Profits, on the other hand, tend to be more carefully guarded by directors and shareholders and are therefore more likely to be reinvested in ways that increase long-term sustainability.

Private education is accessible

Efficiency, innovation and strict quality control procedures may satisfy investors and students at private schools. But is private schooling elitist and unfair?

There are five reasons why private schools are very much in the broad public interest:

Innovative private education in Brazil

In the early 1960s João Carlos Di Genio, a Brazilian teacher, started a small coaching class for university entrance. Finding considerable demand, he and three friends founded an intensive 'cramming' course, Objetivo, which by 1967 was revolutionising lessons by utilising internal television broadcasting. Primary, secondary, and university entrance facilities were added in succession. In 1988 their upper levels were granted the title of University (UNIP), offering courses from business administration to engineering. Objetivo/UNIP is now the largest chain of private schools and universities in Brazil, with 500 000 students in 450 franchises across the country and an annual turnover of US$400 million. Objetivo students can now access solutions to homework problems on the internet.

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- many private education opportunities are available to a broad range of socio-economic groups;
- when hidden costs are taken into account, differences between costs of private and public education narrow considerably;
- total public spending in education in low-income countries typically favours higher income groups;
- private education fosters gender equality; and
- many private education companies promote access through student loans, cross-subsidisation, and public–private partnerships.

Some education companies also play a significant role in public education through public-private partnerships

The IFC study identified many private education institutions which, by charging modest fees, were **accessible to a broad range of socio-economic groups**. The first of three types of private schools (found in India and South Africa and run by charities, religious groups, or profit-minded proprietors) catered exclusively for very low-income groups in rural or urban areas, charged very low fees, and offered a basic no-frills education. The second type of private school was mainly patronised by the middle classes but was also accessible to poorer students through the pooling of income in extended families. Examples of this type of school were DPS in India, and the Brazilian chains. The third and, ironically, by far the smallest group of private schools were those very expensive elite private schools that unfortunately continue to dominate the popular perception of the sector. In the tertiary education sector, private companies were found to cater generally for lower and middle socio-economic groups seeking vocational training. (Academic tertiary education remains largely the preserve of middle and upper-income groups throughout the world.)

South Africa's affordable private schools

Not all our independent (private) schools are named after saints, or cater for rich families. Among the 327 South African members of the Independent Schools Association of Southern Africa (ISASA), tuition fees range from R45 000 a year at the top end down to about R850 a year at the bottom. There is a considerable overlap between the fees charged by private schools and those of many government schools; fees at the most prestigious former 'Model C' schools range up to R10 000 a year.

The rapid growth in the number of independent schools, from 518 in 1994 to at least 1287 in 2001, is an indication of increased demand among black South Africans for private education. According to ISASA's national director, Jane Hofmeyr, the main growth in independent schooling is now probably among schools which charge R8 000 per annum or less.

Sekolo sa Borokgo in Johannesburg and Cornerstone College in Pretoria are good examples of this new wave of independent schools that cater to less well-off, mostly black South Africans. Established in 1993, Sekolo sa Borokgo accommodates 300 students, and boasts a matric pass rate of 89 per cent. Its fees are R6 000 a year, but it offers a range of bursaries.

Cornerstone College has achieved a 100 per cent matric pass rate for five consecutive years (1998-2002). This, according to Hofmeyr, is 'no mean feat given that these pupils usually come from disadvantaged backgrounds, and many are repeaters' (i.e., they failed matric at another school). Cornerstone charges R7 790 a year.

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Public education in developing countries does not usually come free of costs, especially for poorer families. In many developing countries (including South Africa, Argentina, Indonesia and Turkey), public schools often charged registration, examination, or other fees, and public schooling in most developing countries also required spending on transportation, writing materials, and uniforms.

Means-tested education vouchers would allow wider access to high-quality private schools for the poorest children

When these costs are taken into account, the gap between annual household expenditure for a public and private school student narrows considerably, especially at secondary levels. In Indonesia, which had abolished compulsory school fees for primary and junior high schools, but where almost all schools received contributions from their parents' associations, private primary education cost households roughly 233 per cent more than public primary education. However, the cost of private education averaged only 50 per cent more than public education at junior high level, and only 30 per cent more at senior high level.

Furthermore, it is an unfortunate reality that **total public spending on education in low-income countries often favours the better-off,** and can act as an unintended transfer from the less well-off to the higher income groups. This is because fewer low-income children attend secondary and higher education institutions. In this context, encouraging the number of students in private education to rise would increase the number of better-off families that pay in full for their children's education. This would enable governments to redirect education subsidies to those genuinely in need, perhaps through the introduction of means-tested education vouchers which would allow wider access to high-quality private schools for the poorest children (see CDE Focus no 9, *No child left behind: lessons from American school voucher programmes,* August 2003).

The IFC study showed that **private education fostered gender equality** in most of the developing countries surveyed. This is because private education institutions in developing countries cater for male and female students in more equal numbers than do public ones. This is a major advantage, given the well-established social and economic benefits of increased female education in poorer countries.[2]

Companies' student loan schemes can make access to quality education more affordable to poorer people. These schemes also encourage individual responsibility and the overcoming of dependency. Students become aware that education has costs (repaying loans) as well as benefits (higher earnings). Company-run loan programmes appear to overcome a major problem with government loan schemes, that of default, in that an 'honour' system appears to be at work. Managers of company loan schemes indicated that their models were either potentially or actually self-financing, and, indeed, generated a surplus, a startling fact with implications for the wider development process.

Other ways in which education companies contributed to accessibility include **cross-subsidisation**. Morning courses often subsidised cheaper afternoon or evening shifts. TECSUP's short course programme – aimed at employees and executives – charged fees which created a surplus used to subsidise the core programme. DPS passed on computer equipment, already obsolete in city schools but still advanced for rural areas, to its village schools.

Some education companies also play a significant role in public education through public-private partnerships initiated by governments because of the higher quality of the private alternative. Both Pitágoras and the Colombian Coffee Growers schools had agreements with their ministries of education to advise on quality control, curriculum,

and management within public schools. DPS managed 32 government-owned satellite schools across 11 states on behalf of the Indian government.

Private education is good as well as affordable

The demand for private education was so great that private education companies continued to flourish in all the countries surveyed by the IFC

The research summarised here shows that, in much of the developing world, private for-profit education companies offer some of the best education available to both middle-class and poorer people. Therefore:

- Policy-makers, opinion-formers, and development institutions need to become more aware of the merits of encouraging the involvement of the private sector in education.
- Investment in private education projects which are profitable, efficient, and affordable should be encouraged. Specifically, investment should be increased in areas such as new campuses, franchises, expansion into other developing countries, technology, and revolving loan funds.
- The regulatory environment for private education should be reformed to facilitate increased investment. Regulatory reform should aim to reduce uncertainty, minimise red tape, eliminate *ad hoc* practices, legalise for-profit companies where they are banned, and eliminate barriers to competition in the education sector.

Regulations inhibit private education

The biggest difficulty faced by private educational institutions in many countries is the regulatory environment. Some regulations reflected an obsession with trivial detail: in Buenos Aires, Argentina, regulations dictated how students should stand at a flag-raising ceremony, who should direct it, who should raise the national flag, and when the national anthem should be sung. Sometimes regulations cloaked an atmosphere of inefficiency, corruption, and intimidation: in Zimbabwe, ministries often failed to respond to simple requests for permission, breeding uncertainty and inhibiting investment. Regulations were applied in an arbitrary or *ad hoc* manner, or new ones were simply invented.

Other regulations struck at the heart of honest and efficient private education. In Argentina, private schools are subject to state inspectors and may be punished for not following regulations to the letter. Since all teachers have to be paid according to years of service, private schools are unable to implement performance incentives. In Indonesia, for-profit institutions are illegal, as are surpluses; but since it is common practice for private education institutions to retain up to 50% of their surplus, bribery is common.

Despite all this, the demand for private education was so great that private education companies continued to flourish in all the countries surveyed by the IFC. Even in Indonesia there were more than 1 000 private educational institutions, often with substantial surpluses. In the face of this degree of popular support for private education, policy-makers should stop battling against what the voters want and aim instead to help private education companies provide excellent service.

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- Public–private links should be encouraged to enable private sector expertise to benefit the public sector.
- Finance for private education should be extended to include company student loan schemes and government-funded *per capita* subsidy schemes, perhaps in the form of vouchers.

Policy-makers should stop battling against what the voters want and aim instead to help private education companies provide excellent service

The DPS, Pitágoras, and the Colombian Coffee Growers' Federation all offered examples of small but significant **public–private partnerships** in education. The keys to these developments were public authorities willing to fund schools in part while allowing the private sector to manage them, and a private sector willing to invest in schools in anticipation of a return through efficiency savings or improved public relations. In the United Kingdom, for instance, 'education action zones' have been proposed in which private companies (possibly including NIIT) will take over the management of state schools, especially those perceived as 'failing,' utilising only the public funds currently available.

For-profit companies (Edison and Sabis) have already taken over the management of some schools in the United States, using only the funds that normally go into public schooling, with the aim of making a profit after a massive investment of company resources (Edison is investing US$1–$2 million in each school and has recently started to show a modest profit). In general, where governments are putting sufficient funds into public education but quality is perceived as low, the transfer of these funds, suitably contractually protected, to a known private education brand could reap the

Private student loans in Peru

Most of TECSUP's core programme students came from the low- to lower-middle income levels of Peruvian society. Some 54 per cent had family incomes of less than US$500 a month, and 38 per cent family incomes of US$500–US$1 000 a month.

Anyone who passed the entrance examination was guaranteed a place at the school. All those who passed the exam were asked for details of parental income. Those too poor to pay the lowest fees were offered – after further checks and parental interviews – credits varying from 25 per cent to 100 per cent of fees, depending on income. The credit was given by public deed, and two guarantors signed the contract. In the event of non-payment, these guarantors would be approached to pay, and legal action would ultimately be taken.

After students finished their three-year course, they were allowed six months before they had to start repaying their loans, and were expected to have repaid 42 per cent in six years. In lieu of interest on repayments, the size of the loan to be repaid was linked to the level of student fees currently charged. For example, if a course originally costing $200 a month cost $260 by the time repayment had to begin, the latter figure was the amount owing.

Non-payment of loans was reduced by trying to select serious students – those more likely to obtain employment after graduation. In the very few cases of non-payment, TECSUP had rescheduled debts to allow some part of the loan to be repaid. TECSUP believed that almost all non-payers genuinely could not find employment, and that the strong honour system around TECSUP graduates inhibited people from deliberately avoiding payment.

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benefits of efficiency, innovation, and quality control. Even where governments are not able to provide enough incentives for a private company to take over a school,companies might supplement the funds available from their own resources as a social responsibility cross-subsidisation measure (the DPS village schools), or seek philanthropic or other aid (Edison in California).

A final, but very important, dimension of ensuring that private education is accessible to the less well-off is to **open up funding possibilities** for individual students who may be too poor to fund their own education. The TECSUP student loan scheme may well provide an excellent model for increasing access for the poor, as do the Milwaukee voucher programme, and Arizona's education funding system (see CDE Focus no 9, *No child left behind: lessons from American school voucher programmes*.)

Private education companies can play a major role in meeting the demand for both basic education and advanced technical skills

Concluding remarks

Public education systems all over the developing world are struggling to cope with growing demands for a simple, basic education, let alone being able to provide the skills required by the 21st-century global economy.

Private education companies such as those described here can play a major role in meeting the demand for both basic education and advanced technical skills. Companies such as these charge modest fees, and foster healthy competition in the education market. Far from being fly-by-nights, most are well-managed companies that defend their brand and their market share by maintaining quality.

When policy-makers are properly informed of its potential, when regulations are reformed to encourage investment, and when comprehensive student loan and voucher systems are in place, the private sector will undoubtedly make a major contribution to improving education and, therefore, quality of life in South Africa and throughout the developing world.

Endnotes

1 J Tooley, *The Global Education Industry: Lessons from Private Education in Developing Countries*, Institute of Economic Affairs, London, 1999

2 J Tooley, *The Global Education Industry: Lessons from Private Education in Developing Countries*, Institute of Economic Affairs, London, 1999

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