

INDIA INFRASTRUCTURE REPORT 2012

Private Sector in Education



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IDFC FOUNDATION

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About IDFC Foundation

IDFC Limited (formerly Infrastructure Development Finance Company Limited) was incorporated in 1997 as India's first specialised infrastructure-financing intermediary in order to address the growing requirements of the various infrastructure sectors. IDFC's mandate is to lead private capital flows to commercially viable infrastructure projects. In keeping with its mission of 'being the leading knowledge-driven financial services platform, creating enduring value, promoting infrastructure and nation building, in India and beyond', IDFC has carved out its development agenda under the rubric of the IDFC Foundation. IDFC Foundation is a wholly-owned subsidiary of IDFC Limited and a not-for-profit company under Section 25 of the Companies Act, 1956. IDFC Foundation's activities, which are aimed at strengthening the delivery of public infrastructure services, include policy advocacy and research, programme support and advisory services, capacity-building and community engagement programmes.

India Infrastructure Report

India Infrastructure Report (IIR) is the result of the IDFC Foundation's collaborative approach towards providing a forum for free, frank and open exchange of views necessary to arrive at innovative and workable solutions across various infrastructure sectors that would find acceptance among various stakeholders. It is the outcome of the efforts of academics, researchers and experts, and is widely disseminated. The theme of *IIR* every year is carefully chosen to reflect a central contemporary issue in infrastructure development. The *Report* promotes discussion on various facets around the central theme and also suggests pragmatic solutions to overcome challenges. The *IIR*, considered extremely useful by policy-makers, receives wide publicity and provides an excellent forum for scholars and practitioners to share their views with decision-makers.

All the previous *IIRs* may be freely accessed from http://www.idfc.com/foundation/policy/india_infrastructure_report.htm.

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Foreword

Nation-building rests on both physical and social infrastructure. This year, for the first time in our *India Infrastructure Report (IIR)* series, we turn to social infrastructure — in particular the educational system. Education is the cornerstone for social and economic transformation, for building a healthy, active citizenry participating in a just and democratic society.

After six decades, India has achieved near universal primary school enrolment. Increasingly, girls are going to school for basic education. While social inequalities persist, the gap has been narrowed in some areas. There are other advances too: school attendance has been rising and dropout rates have come down, though still unacceptably high. The demand for education has been growing rapidly as evidenced by the increasing number of parents sending their children to private schools in the rural areas. The private sector reaches 25 per cent of the children in elementary education, and more than 50 per cent of those in secondary and higher education.

Sadly, however, the quality of learning across all levels of the education system is abysmally low. All surveys and measurement tools unanimously point to one conclusion — extremely poor learning outcomes across-the-board. Urban schools are not significantly better than rural schools and the vast majority of private schools are not much better than government schools, after taking into account the advantage that children from wealthier, educated families have. About half of the primary school students are three classes below the levels they ought to be in reading and even more in arithmetic. These appalling outcomes continue or are even exacerbated at the secondary and higher levels. High school children do not have basic conceptual understanding. Students entering the workforce have very low employability. Clearly, *raising the quality of education is the biggest challenge in our educational system.*

After decades of neglect, education is being prioritised by policy-makers. Recent initiatives include the landmark Right of Children to Free and Compulsory Education Act (RTE), 2009, flagship schemes related to secondary and vocational education, and several Bills on higher education. The central government has also increased expenditure on education at all levels. Whilst there are positive features in all these efforts, there is a common theme that runs through them. It is more of the same: increased inputs, standardised norms and more finance in the same system. The RTE Act, though well-intentioned, could wreak further damage if it is implemented rigidly. It could aggravate the learning gap by automatic promotion to the next class. Further, thousands of schools may not be recognised under the new RTE norms and would have to close down, throwing millions of children out of school. It would kill innovation, experimentation and alternative schools; unless the states, that are bound by RTE, ensure that the rules in implementing the Act are flexible and focus on performance, not inputs.

This *IIR* makes a plea for a radically different approach. It is important to take on board the lessons from various experiments and try to apply them in a systemic way with much greater focus on assessment methods. At the school-level, the priorities should be a clear articulation of learning goals, organising children according to their learning abilities and not on the basis of their age, retaining students if they are not ready for the next class, and buttressed by professional teacher training and pedagogical reform. A major overhaul of the higher education system is also urgently needed with a view to going beyond minimum standards and enabling excellence. Along with mandatory accreditation by independent bodies, greater autonomy should be granted to institutions of higher learning that also allows them more flexibility to raise legitimate sources of financing to build endowments and provide scholarships. Further, there is a need for non-traditional approaches to regulate these institutions, relying more on internal and external evaluations and public disclosure of information.

Overall, a diversity of schools and higher educational institutions should be permitted as long as they are able to deliver quality outcomes. Greater partnership between the private sector and government is required to make all types of education, including vocational, more relevant to a rapidly growing economy and a more enlightened society.

This *IIR* brings together perspectives from experts deeply committed to the education sector. We present hotly debated alternative views and evidence to show what works and what does not. The underlying aim is to make suggestions for improving the quality of education in an inclusive way, keeping the child and the youth at the centre of the process. I hope that this *IIR* will contribute to the evolving literature on the education system, help raise public awareness and debate on the issue, and become an input to policy formulation. I would like to thank the authors, editors and all those who have contributed to the production of this *Report*.

RAJIV B. LALL
Vice Chairman and Managing Director
IDFC Limited

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The *India Infrastructure Report (IIR)*, for over a decade now, has taken up contemporary issues related to physical infrastructure. However, the writing on the wall is bold and clear — progress in social infrastructure, like education and health, should go hand-in-hand with advancement in physical infrastructure for sustainable development. Sadly, more often than not, the education sector in India is in the news headlines for all the wrong reasons. In this milieu, considering IDFC's commitment to nation building, Ritu Anand proposed that this year we should look into the concerns of the education sector.

First, I would like to express my deep gratitude to Ritu Anand for bestowing her faith in me to take up this important assignment. Her unwavering support, guidance and encouragement saw us through this publication.

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Finally, we would like to thank all our colleagues at IDFC Limited and IDFC Foundation who provided us academic and practitioner perspectives on the issues. While we have taken care to include everyone who helped us in compiling the *IIR 2012*, any omissions are purely unintentional and we hope that they would be construed as such!

SAMBIT BASU

Private Initiative in India's Education Miracle

*Parth J. Shah and Luis Miranda**

*Parth J. Shah and
Luis Miranda*

India saw the largest increase in literacy rate in the decade of 1991–2001 — from about 52 per cent to 68 per cent. From 2001 to 2011, the literacy rate increased by 10 per cent to 74 per cent (Planning Commission 2011). The increase in 1991–2001 has been the largest for any 10-year period in the history of the country. How was this increase in the literacy rate achieved? The foreign exchange crisis of 1991 had led to the Structural Adjustment Program, imposed by the International Monetary Fund (IMF) and the World Bank, forcing the Indian government to cut back on spending. The central government's education budget kept going down through much of the 1990s. It was only around 1998 that the expenditure on education went back to the pre-crisis level. Therefore, during the decade in which we saw the largest increase in literacy rate, the government spending on education was on the decline.

What explains this education miracle? Private investments and the emergence of budget private schools! As parents began to earn more in the post-reform era, they began to invest in their children. As better employment opportunities arose, the value of education became more apparent to parents. This increased demand for education was met by a rapid expansion of budget private schools — schools that charge '50–300 per month which came up or 'mushroomed' in slums and shanty towns around the country. The biggest success story of literacy in India has been written with private initiative — parents' willingness to pay and the edupreneur innovation of an affordable school.

If there were any doubts regarding what parents and edupreneurial innovation could do for education in a poor country, India has given the answer. In the first decade of reforms, India achieved an economic miracle, which is well-known, but it also achieved an equally significant education miracle, not as known or appreciated.

* The discussion in this paper is based on the experiences of the School Choice Campaign: 'Fund Students, Not Schools!'. <http://www.schoolchoice.in/> (accessed 17 October 2012).

This chapter builds on this insight and experience of the past and speculates what would be necessary to develop a 21st-century education ecosystem. It traverses apparently different themes but hopes that a patient reader would see a coherent narrative of principles, policies and practices. First, the role of the state so that it can effectively balance the trade-off between equity and efficiency concerns in the provision of education is argued for. Second, the importance and modalities of empowering parents through school vouchers is examined, including a brief description of a school voucher pilot in Delhi. Third, there is a discussion on the Right to Education (RTE) Act, particularly the 25 per cent reservation in private schools for economically weaker and disadvantaged groups, a form of school voucher scheme, and the negative impact of the input-focused school recognition norms along with innovations in the Gujarat RTE Rules. Finally we attempt to link the ideas and policies discussed so far into a set of suggestions for a broader education ecosystem reform.

EQUITY AND EFFICIENCY IN ECONOMIC AND SOCIAL GOODS

In post-liberalisation India, the importance of the private sector in economic growth is well understood and appreciated. Not even die-hard socialists argue that the state should occupy 'the commanding heights' of the economy any more. For economic growth, the state's role is primarily to enable the private sector as a facilitator, prudent regulator, impartial enforcer of contracts, and at times as a financier (say, through Public–Private Partnerships [PPPs]).

Despite the recognised primacy of the private initiative in the production of economic goods, it is commonly assumed that the state must occupy 'the commanding heights' in the production of social goods like education and healthcare. The justification is that inequality in access to economic goods may be tolerated but in the access to social goods, equality must be the norm. However, in terms of efficiency,

it is very hard to make a cogent case that the state is a more efficient producer of social goods than the market. It would mean arguing that an agency that is inefficient in producing bicycles and bread is somehow efficient in producing education and healthcare.

Why is the government commonly seen as incapable of cultivating farms or running factories? The answer exists in various forms. One is what we call the 'Dialectics of Three "I"s' — Interest, Incentives and Information. The (self-) interest of government employees, like everyone else's, is to look after themselves. Individuals do not suddenly behave differently just because they work in a government school as opposed to a private one. The conflict between public interest and the interest of the government needs no further proof than the drama around the Sixth Pay Commission. The salaries were supposed to be increased in exchange for performance guarantees and administrative reforms. Salaries went up immediately but no one remembers anything about performance.

Incentives for efficiency are also weak. Government employees have little incentive to minimise costs, find and correct mistakes, innovate, and acquire necessary information about resources and consumer demand. The high teacher absenteeism in government schools is just one indicator of poor incentives. The information on which government decisions are based is normally as reliable as the statistics on poverty levels or balance of payments or industrial production index. The 'Dialectics of Three "I"s' is what provides a systemic explanation of why governments are normally less efficient than markets in the production of economic goods.

If the government is inefficient in producing food — cultivating land — then how could it become efficient in producing education — cultivating the mind? Tilling land is certainly a far simpler task than training the young. If government monopoly and controls play havoc in the production of simple economic goods, how could they be expected to offer opposite results in the production of rather complex social goods like education?

The equity concern requires that social goods cannot be completely left to the market; the state must play a role. The efficiency concern suggests that the state role should not be to produce social goods; it would be as inefficient in producing social goods as it is in producing economic goods. What role then should the state play that would balance the equity as well as the efficiency concern?

Broadly, the state should make the following three mindset changes:

- from controller to facilitator
- from producer to financier
- from inspector to informer

What has been done for the economy needs to be done for the education system — delicense, depoliticise, decentralise. High prices in terms of tuition fees, donations and long queues for admissions are signs of the shortage of quality educational institutions. The same paucity of supply existed for consumer goods before the 1991 liberalisation. The license-permit-quota raj still exists in our education system. Schools and colleges need to be made accountable not to education bureaucrats (licensors) but to parents and students (customers). The government policy should be to increase choice and competition in education as it has been done in many areas of the economy — facilitate, not control.

The core competency of the private and public sectors should be combined. The private sector should be allowed to produce education — manage schools and colleges — and provide it to all who can afford to pay. For those who cannot afford to pay, the government should finance their education through scholarships, education vouchers and loans. The government stands as a guarantor of education not by producing it but by financing it. Instead of focusing on the inputs to education, the government ensures the output — meaningful, high quality learning. This approach combines the efficiency and accountability of the private sector with the equity and independent supervision of the public sector.

The role of the government is to liberate the supply side, fund the demand of the poor and monitor the access and quality of education. Let the private initiative and entrepreneurship — for profit and non-profit — govern our schools and colleges. Scholarships, education vouchers and loans would offer the same freedom of choice to the poor as the rich enjoy today. Governments and Non-Governmental Organisations (NGOs) should evaluate schools and colleges and publish the results so that parents can make informed decisions.

Ideally the state role should change from controller to facilitator, from producer to financier, from inspector to informer. One idea that effectively captures this new role of the state is school vouchers.

SCHOOL VOUCHERS: MAKING SCHOOLS ACCOUNTABLE TO PARENTS

India is not the only country where state schools perform poorly. Most of the people are unhappy with the performance of state schools in their countries. The United States (US) spends one of the highest amounts per student in the world but the quality of education usually ranks as the second major issue of concern after the economy among the citizens. In a typical Western country, a vast majority of students go to state schools (almost 90 per cent in the US).

What are these countries doing to reform their education systems?

Each national education system is unique and each one tries to fix its problems in its own way. However, one common theme underlying many of the reforms around the world is the empowerment of parents, giving them more voice in the education system.¹ State schools are commonly accountable to the education department or ministry. One key goal of global reformers is to increase the accountability of schools towards parents — restructure the system so that schools are at least as much accountable to parents as they are to the education officials. There are many ways to achieve this goal: put parents on school boards or district education councils, give powers to parent-teacher associations, create something like our village education committees. One new idea in this bucket is that of school vouchers. Several countries have undertaken pilot projects. Sweden has actually converted to a universal voucher system where every child, irrespective of parental income, gets a voucher.

The voucher is a tool to change the way governments finance education, particularly of the poor. It is a coupon offered by the government that covers full or partial cost of education at the school of the student's choice. The schools collect vouchers from the students, deposit them in their bank accounts and the banks then credit the school accounts with equivalent money while debiting the account of the government. No money actually changes hands, only the voucher moves from the student to the school, and back to the government. This process could easily be digitised so that no physical voucher is necessary; smart ID cards would perform even better.

In the present system, the schools are accountable to the government. The voucher system makes them accountable directly to the students and parents since they pay for their education through vouchers. If the parent does not like the school, she can take the voucher to another school. Under the voucher system, the money follows the student. In the present system, the money follows the school.

The school voucher provides:²

- (a) *Choice for students*: The voucher empowers poor students so that they can attend a school of their choice. If the school does not meet their expectations, they have the power to change the school.
- (b) *Equality of opportunity*: The scheme satisfies the basic human right that all children are treated equally and equal opportunity for education is provided to all irrespective of cash, caste or creed.
- (c) *Competition among schools*: Today private Indian schools only compete for students with money. With vouchers, not only private schools, but also government ones will compete for all students, rich and poor.

- (d) *Performance-based payment*: The revenue of a school depends on the number of students it has, both those who pay directly and those who pay through vouchers. Schools therefore have an automatic incentive to improve quality that will increase enrolments and retain students.
- (e) *Win-win outcome*: Those government school students who get a voucher are able to change schools and do better for themselves. Evidence suggests that even those students who stay in government schools perform better. First, the Pupil-Teacher Ratio (PTR) improves and second, schools become more attentive to stopping student numbers from going down further. All students are likely to achieve better learning outcomes.

In a voucher system, instead of funding schools, the government funds students. The resultant choice and competition working together provides universal access along with constantly improving the quality of education.

Delhi Voucher Project³

This is a privately-funded pilot or proof-of-concept programme in Delhi. In 2007, school vouchers worth up to ₹3,600 per year were awarded to 408 students in 68 wards of Delhi (Plate 7.1).

In these 68 wards, more than 50 School Choice activists reached out to more than 1.2 million parents. All students in government primary schools qualified for the programme. Over 125,000 parents applied for a voucher for their child.

As a fair and transparent method of selecting students from the large number of applicants, a public lottery was held in each ward where the local Ward Councillor picked 12 students — six winners and six for a waiting list, in case some of the students in the first list had eligibility or acceptance problems.

Those who did not win the lottery submitted a petition to their Ward Councillor asking for school vouchers from the government. In the all-India campaign, more than 250,000 parents submitted voucher demands to their elected representatives.

The vouchers were awarded to winners in the presence of the Chief Minister of Delhi Sheila Dikshit and the Education Minister Arvinder Singh Lovely. In the assessment of the project, the voucher children performed better in reading and mathematics.⁴ The biggest gain was the change in the attitude, belief and aspirations of the parents of the voucher students. In the first week of school, many principals complained of voucher students not coming on time, showing up without taking a bath, combing their hair or wearing proper uniforms, and many did not bring lunch and often resorted to 'forced sharing' of lunch from others. After a couple of meetings with parents, the situation slowly improved, which meant that both the students and parents

PLATE 7.1 Voucher Award Function with the Delhi Chief Minister and Education Minister



Source: Centre for Civil Society, 2007.

became more punctual, improved their hygiene and took extra effort to prepare for the school with proper lunch and a full school bag. More importantly, after two years of the programme, the aspirations of parents changed. At the beginning of the programme, they had said that they expected their children to study until Classes V or VIII; after seeing the changes in their children, they said they would like them to study until Classes X or XII and a few even hoped that their children would go to college. This transformation also probably demonstrates that several parents spent more on their children's education after winning the voucher than they had done before. This 'crowding in' of investment is very powerful — when the parents find more responsive schools because of others' investment (through vouchers), they also begin to invest more. These attitudinal and aspirational changes are far more important in the long run, not just for the education of the voucher child but for all the other siblings in the family.

PAHAL in Uttarakhand⁵

This is the first government-sponsored school voucher programme in India. It is billed as a PPP initiative that provides school vouchers worth ₹3,000 per student per year to children (6–14 yrs) who are rag-pickers, scavengers, snake-charmers, or orphans. The eligibility criterion is that the child should have been a drop-out for at least a year or

never enrolled and that there is no government school/ Education Guarantee Scheme (EGS) centre within a kilometre of their habitation. The scheme was started in 2007 in the city of Dehradun and based on its success, a year later, was expanded to Nainital and Udham Singh Nagar with a total of 651 children.

Alternative Voucher Schemes

Vouchers are a very flexible instrument and can be easily adapted to address specific challenges of a particular population group or geographical area.

- (a) There should be targeted vouchers for specific underserved groups such as migrant, out-of-school or street children; girls; ST/SC/OBC, Muslim or differently-abled children; those from poor families or living in peri-urban areas (e.g., resettlement colonies); children of refugees, prisoners or migrating tribes; and orphans.
- (b) Vouchers could be used to reward performance of government schools. When a government school attracts voucher students who could also go to a private school, the voucher amount could be given to the school/teachers as an incentive.
- (c) Mobile schools for children of migrants could be supported by vouchers where educated members of the community run schools and get paid through the vouchers from students. This would ensure that children

of such communities receive education throughout the year.

- (d) To encourage establishment of community schools, vouchers could be introduced specially in areas where there are no or very few government schools.
- (e) School vouchers could be used to provide opportunity to enterprising government school principals/teachers to compete with the rest of the schools. Such principals and teachers could opt for more managerial and financial autonomy with 100 per cent funding through vouchers and no direct state grant.
- (f) A city or state could decide that all new government schools would be funded through vouchers. The government would fix the voucher amount per student and the school would get money depending on the number of students it attracts and retains. A part of the payment could be tied to learning achievements of students.
- (g) Universal vouchers can be given to all children in urban slums where there are no government schools and no space to open a school.

Vouchers don't annihilate state schools; they make them more accountable to parents and compel them to compete with other schools to attract and retain students. Most government schools are better equipped than the budget private schools that the poor use in terms of infrastructure of libraries, labs and playgrounds; the amount of funds they have per student; and qualification, training and salaries of the teachers. On head-to-head competition, government schools should out-perform budget private schools. That does not happen currently, but vouchers provide the missing ingredient that will change the incentive structure towards better performance of state schools.

The recent RTE Act builds on the idea of government funds empowering poor parents to choose private schools.

THE RIGHT TO EDUCATION ACT: 25 PER CENT OPPORTUNITY SEATS

Section 12 of the RTE requires private unaided schools to reserve 25 per cent seats in the entry-level class (nursery or Class I) for socially disadvantaged and economically weaker sections. The government would provide private schools with reimbursements equal to their fees or the per student cost in government schools, whichever is lower. Various associations of private schools had challenged this compulsion in the Supreme Court. The Supreme Court in a 2-1 judgement upheld the constitutionality of the 25 per cent reservation. When fully implemented, Clause 12 would create the world's largest school voucher programme — public funds would support students to go to private schools of their choice.

The onus is now on the government to design a transparent, fair and accountable method to implement this in private schools.⁶ Instead of '25 per cent reservation', it is perhaps better to call the initiative '25 per cent inclusion seats' or '25 per cent opportunity seats'. A general estimate is that anywhere between 2.5 to 7 million poor students would benefit in the first year of full implementation. And this number would double every year thereafter for eight years. The future of a large number of underprivileged children is at stake in proper implementation of the 25 per cent opportunity seats.

Different stakeholders — parents, schools and the government — have their own concerns and problems, and we need to understand these clearly and triangulate them well in order to create an effective model of implementation.

The underprivileged parents are concerned whether those who really qualify would get seats in the elite private schools or the seats would get auctioned off to the 'connected' ones or the highest bidders. Even after getting admission, what other costs would the schools pass on, either directly or indirectly? How hard would schools and teachers work to make it easier for their children to adjust to this new challenging environment?

The schools need to ensure that it is easy for parents to get application forms, provide them with the required supporting documents and run a credible lottery process for the final selection. They need to get their teaching and non-teaching staff aligned to the inclusion objective and train them in understanding and sensitivity. The schools are particularly worried whether the promised reimbursement by the government would come at all or in time. Many schools in Delhi admitted children under the 25 per cent system last year but are yet to see any payment from the Delhi government even after the year is over. The government has not yet even outlined the process of reimbursement clearly in a mutually acceptable manner. The high-fee private schools are worried about the reimbursement amount that would be far less than the fees they charge. The Ministry of Human Resource Development (MHRD) minister has recently suggested that the government is considering ways to bridge this gap in the 12th Five-Year Plan.

The government has to make sure that the qualified students are admitted under the 25 per cent opportunity seats and its own officers do not abuse this provision to seek admission for their preferred students. It needs to supervise as well as help schools to achieve full-hearted social integration and holistic learning, and design an efficient process of timely reimbursement, along with finding ways to bridge the gap between reimbursement amount and the actual cost of private schools as far as possible.

This admittedly is not an exhaustive list of issues and problems but is a good indication of the challenges that

must be immediately addressed to make this historic provision well accepted and implemented. From the multitude of consultations and discussions that have happened over the last two years on the 25 per cent provision, there are certain clear ideas that should help fulfil this promise of inclusive education.

First, the central government must directly pay for the 25 per cent opportunity seats instead of relying on state governments to reimburse schools on a state-by-state basis. State governments have already been pointing out that the Sarva Shiksha Abhiyan (SSA) funding they receive from the Centre does not include the cost of the 25 per cent seats in private schools. Instead of including this cost in the SSA budget, which would vary widely from state to state, it is far more convenient and straightforward for the Centre to take this responsibility directly. The amount to be paid should be decided by state governments as per the costs incurred in providing education in state schools, and this would vary by state. The payment however should be directly from the central government.

The central government should adopt a uniform criterion for adjusting the reimbursement amount from year to year. The current state RTE rules differ widely in re-calculating the amount for future years. Some states offer to re-look at state expenditures every two years and re-calculate the reimbursement amount, while some others suggest adjusting the first year's amount by the rate of inflation for all future years. It is better to have a uniform national rule about re-calculating the reimbursement amount.

Second, the centre should create an independent special purpose vehicle (SPV) to manage the reimbursement, which may be called the India Inclusive Education Fund or the India Education Opportunity Fund. The central government would deposit all its contributions to the Fund. The Fund would also raise extra money from corporates (under Corporate Social Responsibility [CSR] or otherwise), foundations and individuals. These non-government funds could be used to incentivise schools to do a better job of social and educational inclusion of the poorer students under the 25 per cent opportunity seats. The private schools would be free to raise their own funds to bridge the gap through donations, or charity events like music concerts, cultural fairs, annual events, but they could also get support from the Fund. The Fund could also offer 'inclusion awards' to schools that do well in social integration and holistic learning of the 25 per cent students. These awards could help cover a part of the gap for private schools as well as incentivise them to take the challenge of inclusion more seriously.

To assure schools that they would be reimbursed on time and in full as per the process outlined by the Fund, the Centre should include its contribution in the annual central

education budget as a separate line item. The Centre should calculate its liability as equal to the amount paid out by the Fund in the previous year and deposit that amount on 1 April in the Fund's account. The adjustment of the reimbursement amount for the current year should be made by August and the Centre should then deposit the corresponding amount on 1 September to meet its full obligations for the academic year.

Third, the definition and identification of qualified candidates under the 25 per cent should be left to state governments. Some states have suggested that they would issue 'Student Cards' to those who qualify and this Student Card would then be used by schools to determine eligibility for the 25 per cent seats. Some states may issue 'smart coupons' or vouchers or biometric cards. There is certainly a need for experimentation to discover better methods of identification. After some years of experience, we may evolve a commonly accepted method across the states.

The verification of the qualified candidates should be done by the National Commission for the Protection of Child Rights (NCPCR), its state branches and affiliated NGOs. The NCPCR should have the powers to take action against states that have significantly high rates of identification errors of omission and commission (Type 1 and Type 2 errors) in order to keep the pressure on the states to improve their identification processes and technologies. The NCPCR may require that the failing states contribute to the Fund in proportion to the degree of their failure.

Many more details and processes need to be worked out for effective implementation of the 25 per cent education opportunity seats but the above three ideas form the foundation of a structure that will help fulfil the historic promise.

School Recognition Norms under the RTE: Demise of Private Budget Schools

On the one hand Clause 12 of the RTE Act opens up opportunities for underprivileged children to access private schools through a de facto voucher programme, and on the other the strict school recognition norms would shut down a majority of the private schools that the poor can afford to use. Out of the underprivileged, 25 per cent would benefit from the Act but the remaining 75 per cent would lose whatever little choice they had for their children's education.

The RTE Rules of Gujarat offer an innovative approach towards recognition of existing private unaided schools.⁷ The Committee in charge of drafting the rules in Gujarat, headed by the former Chief Secretary Sudhir Mankad, has broken new ground in understanding the policy issues faced in the realm of education in India today.

Instead of focusing only on input requirements specified in the Act like classroom size, playground, and PTR, the Gujarat RTE Rules put greater emphasis on learning

outcomes of students in the recognition norms. Appendix 1 of the Gujarat Rules is one that has a path-breaking formulation for recognition of a school, a weighted average of four measures:

- (a) *Student learning outcomes (absolute levels): weight 30 per cent*

Using standardised tests, student learning levels focusing on learning (not just rote) will be measured through an independent assessment.

- (b) *Student learning outcomes (improvement compared to the school's past performance): weight 40 per cent*

This component is introduced to ensure that schools do not show a better result in 'absolute levels' simply by not admitting weak students. The effect of school performance looking good simply because of students coming from well-to-do backgrounds is also automatically addressed by this measure. This measure will not be available in the first year, in which case the weightage will be distributed among the other parameters.

- (c) *Inputs (including facilities, teacher qualifications): weight 15 per cent*

- (d) *Student non-academic outcomes (co-curricular and sports, personality and values) and parent feedback: weight 15 per cent*

Student outcomes in non-academic areas as well as feedback from a random sample of parents should be used to determine this parameter. Standardised survey tools giving weightage to cultural activities, sports and art should be developed. The parent feedback should cover a random sample of at least 20 parents across classes and be compiled.

This is one of the first times that education policy in the country has focused on children and parents rather than the public sector producers of education services.

Furthermore, the Gujarat RTE Rules have taken a more nuanced and flexible approach in other areas too. For instance, both class size and PTR have been defined not in absolute terms, but in relative terms. The required classroom size is 300 sq. feet, but in case the classrooms are smaller, then instead of re-building them, the rules allow for a way to accommodate that with a different PTR. The formula is:

$$\text{PTR} = (\text{Area of the classroom in sq. feet} - 60) / 8$$

This approach not only allows smaller classrooms to exist but also gives schools a more efficient way to manage physical infrastructure.

If a private school is unable to meet recognition norms, then the RTE Act de-recognises the school and forces it to close down. This sudden forced closure would create serious problems for students and parents who would have to find a new school in the neighbourhood. The Gujarat RTE Rules allow for the state to take-over the school or transfer

management to a third party. This creates a possibility for the school to continue and meet the norms. This, once again, demonstrates the focus upon the interests of students and parents.

This approach is significantly better than that of the other states where recognition norms are based solely on input requirements, which are also rigid (like playground, classroom size and PTR). The Gujarat approach recognises the substantial contribution made by budget private schools in urban and semi-urban areas where land and buildings are very expensive. The other states need to re-look at their rules and use the approach taken by Gujarat to assure quality education to the poor.

SOME IDEAS FOR EDUCATION ECOSYSTEM REFORM

Just as in economic reforms, the list of education reform ideas could be quite long. This paper suggests that two principles should be the focus of reforms in the education ecosystem — efficient use of public funds and the promotion of equity and quality through choice and competition.

Achieve Efficient Use of Public Funds

- (a) Fund students, not schools (school vouchers, charter schools, conditional cash transfers);
- (b) Convert state funding to per student basis and link it to performance;
- (c) Pedagogical and operational autonomy to state schools;
- (d) Give poorly performing state schools to private parties on learning outcome contracts;
- (e) Hire teachers at the school level, not at the state level;
- (f) Put all budget and expenditure data in digital form in the public domain.

Promote Equity and Quality through Choice and Competition

- (a) Learning outcomes as the central focus of regulation:
 - (i) Apply the same standards to both private as well as government schools;
 - (ii) Annual independent learning outcome assessment across all schools;
 - (iii) Decentralise and depoliticise syllabi and textbooks;
 - (iv) Open Central Board of Secondary Education (CBSE) and state board exams to all students, not only for students who study in CBSE or state board affiliated schools.
- (b) Encourage edupreneurs
 - (i) Remove the license raj;
 - (ii) Declare education an 'industry' for easier access to credit and venture capital fund;

- (iii) Offer schools (and colleges) the choice to be non-profit or for-profit and treat for-profit ones as companies for disclosure and taxation norms.

Most of these ideas are quite self-explanatory so this paper elaborates only on a select few.

Fund Students, Not Schools

The current model of guaranteeing education for the poor is for the government to give grants to government schools, which then provide education for free. This system of financing education has created a situation in which government schools have become a monopoly provider of education for the underprivileged. The poor have only one place to go — the government school. Like any monopoly, these don't deliver good education and are less responsive and accountable to their customers.

This monopoly must be broken by changing the way the education of the poor is financed. Instead of giving grants to schools, the money should be given to poor parents through a school voucher. The parent would take this voucher and go to any school of their choice. The school collects the voucher, deposits it in a bank, and the government transfers the equivalent money into the school's bank account. School vouchers are a special scholarship that empowers the underprivileged with the choice that the richer parents enjoy.

Conditional cash transfers go one step further — they not only cover the cost of education (like the voucher) but also provide cash incentives if the child stays in school and achieves specified attendance and learning targets. The cash incentive compensates for the lost earnings from the children or lowers the opportunity cost of going to school instead of work. Typically the cash is transferred directly into the bank account of the mother.⁸

Charter schools are fully funded by the government (just as government schools) but the management is with a private body that is given the 'charter'. The students do not pay any fees; the entire cost is born by the charter school. Managerial autonomy and often extra funding from philanthropists allow charter schools to stand out among state schools. The American experience in charter schools provides a very good case study. India needs to pass a 'charter law' to open this option.⁹

Fund Government Schools through a Per-Student Formula

Wide differences in state funding to government schools with the same number of students are very common. This inequity in funding is inhumane and unjust. This archaic mode of funding must be changed; schools must be funded based on the number of students they have. It would obviously not be a simple multiplication but would require a

somewhat complex formula, which would have to take into account the fixed costs, variable cost per student, location of the school, composition of the student body (more challenged students would get higher amount), and other pertinent factors.¹⁰ The per student funding approach would provide strong incentives to schools to work hard to attract and retain students.

Currently there is no link between the performance of government schools and the grant they receive. There is no incentive for better performance; whether student learning achievements are good or bad, the schools get the same funds. It is critical to link the grant amount to performance.

One way to start the process is to link increments in the grant to schools to performance — that is, increments in per student funding would depend on increments in learning outcomes or specified performance parameters. The current grant amount can continue if the performance is below par but the next increment could be tied to performance. If the school consistently fails to improve, it can be given to the community or a third party for management.

Grant Managerial and Financial Autonomy to Schools, Principals and Teachers

The government schools are minutely controlled by education departments. The schools hardly have any autonomy to manage their affairs. They are closest to their customers and should have the necessary freedom to adjust their functioning to be better able to meet the changing needs of students and parents. The principals should be education leaders and role models, not just bureaucrats. They and the teachers must be empowered and given the freedom that their private school counterparts enjoy. The schools should hire teachers directly, not through the state education department. The teachers would enjoy the same salaries and perks as they currently do but hiring and performance assessment would be done at the school level. This would also help principals to be genuine leaders of their schools, with all the staff accountable to them.

Give the Worst Performing Government Schools on Learning Achievement Contracts

A group of worst performing government schools should be selected and handed over to other interested and qualified parties to manage them. There are many ways to identify such parties. One could be through tenders, based not on the amount of money the parties would charge, but the degree of improvements they promise in student learning. The government can promise to pay the same amount per student to the new managers as it currently spends. The parties then compete on the degree and type of progress they promise to achieve every year during the period of the contract.

Apply the Same Standards to Private and Government Schools

Private schools have to meet stringent standards set by the government to be recognised. However, the government exempts itself by not requiring government schools to go through the process of recognition. Therefore, under the law, the government school must meet the same norms but in practice it may or may not, since no one would close down a government school for failing to do so. This means that for a richer child going to a private school, the government guarantees that the school would meet all its requirements while for a poor child going to a government school, there is no guarantee that the situation would be the same. The government treats the children of the poor like second-class citizens. This inequity must end; government schools must meet the same standards of quality. Every government school should be required to follow the same application process for recognition as private schools and must be formally recognised by the education department. It would be even better if government schools actually exceeded the standards and became a role model for private schools to emulate.

Establish Independent Learning Outcome Evaluation Agencies

Except for board examinations, there is no objective information to judge the quality of schools in India. We need to develop more meaningful systems of evaluation other than high-stakes annual exams, and implement them at regular intervals. These evaluations should be made public so that parents can make informed decisions. Given the size and diversity of the education market in India, we should have several competing independent agencies to perform this task. Recently, financial rating agencies have started rating maritime training institutes under the initiative of the Directorate General of Shipping. They are a good case study for understanding the mechanisms of school rating.

Remove the License Raj

It takes anywhere between 15 to 36 licenses to open a school (Wadhwa 2001). Some states require that the proposed school must first demonstrate that it is 'essential' in the area in which it will be opened. Given the difficulties in acquiring licenses, we suffer from adverse selection. Those who are

not so good in providing education but very proficient at getting licenses enter and dominate the sector. Why else would politicians dominate the education scene in India?

Shed the Hypocrisy of Only Non-Profits in Education

As most people suspect, private schools in India earn a handsome 'surplus'. Under the current law they have to find discreet methods to distribute the surplus among founders and managers. What do we gain by forcing schools to be dishonest?¹¹

Historically education has been a cherished philanthropic activity, with some of the best schools and colleges of the world being based on charity. There is no reason to believe that philanthropy in education is going to subside. However there is nothing to lose by allowing for-profit entities to also compete in the education space. Let the non-profit, for-profit and government-funded institutions compete on a level-playing field. This could start with higher education institutions and depending on the experience a decision made whether to open up school education as well.

CONCLUSION

Let us remember the 1948 United Nations (UN) Declaration of Human Rights, which also forms the basis of the current Millennium Development Goals (MDGs). Article 26 of the Declaration says:

- (a) Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.
- (b) Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.
- (c) Parents have a prior right to choose the kind of education that shall be given to their children.¹²

The Right to Education enshrined in the first two clauses becomes meaningful only when it addresses the third clause, that is, when it becomes the Right to Education of Choice!

NOTES

1. See Hoxby (2003) for the larger theme of school choice and school competition. For debates on vouchers in the US, see Greene and Marcus (2008); Forster (2009).
2. These are authors' inferences from a large number of studies on vouchers and from the first principles of choice and competition. Success of any voucher programme depends on several factors and so whether to assign the failure of any particular voucher programme to the idea itself or to any part of the design or implementation is always a judgment call. There is a vast literature on vouchers; see Shah and Braun-Munzinger (2006) for a review of global voucher programmes and Shah (2009) for specific challenges from an Indian context. Muralidharan (2006) suggests various types of PPP models for India, including school vouchers. The counter arguments are not dealt with directly since the canvass in this chapter is much broader than just vouchers.
3. The project is managed by Centre for Civil Society (CCS) as part of their School Choice Campaign: 'Fund Students, Not Schools!' In 2009, CCS also launched another voucher pilot with 400 Muslim girls.
4. The details of the assessment are provided in CCS (2009).
5. Mahapatra (2011); Yasmeen et al. (2009).
6. The discussion in this section is based on Shah (2012).
7. For the Gujarat RTE rules, see Government of Gujarat (2012).
8. 'As of 2010, all but two countries in Latin America and over 15 countries in Asia and Africa had a CCT [conditional cash transfer] program as part of their social protection systems . . . CCT average effect sizes on enrollment, attendance and dropout are all positive and statistically significant and larger in magnitude for secondary than for primary schooling' (Saavedra and Garcia 2012: 2–3).
9. Some of the summary studies of charter schools are Bulkley and Fisler (2012); CREDO (2009); Toma and Zimmer (2012).
10. See Snell (2006) for various formulas used in the US to calculate per student funding by the state.
11. For a broader discussion of private vs state and for-profit vs non-profit education, see Coulson (2008).
12. <http://www.un.org/en/documents/udhr/index.shtml> (accessed 23 October 2012).

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Today, India's education sector remains a victim of poor policies, restrictive regulations and orthodoxy. Despite being enrolled in schools, children are not learning adequately. Increasingly, parents are seeking alternatives through private inputs in school and tuition. Students are dropping out from secondary school in spite of high financial returns of secondary education, and those who do complete it have inferior conceptual knowledge. Higher education is over-regulated and under-governed, keeping away serious private providers and reputed global institutes. Graduates from high schools, colleges and universities are not readily employable, and few are willing to pay for skill development. Ironically, the Right to Education Act, if strictly enforced, will result in closure of thousands of non-state schools, and millions of poor children will be left without access to education.

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