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KEY POINTS

- The role of the private sector in education in Pakistan has grown significantly in recent years. In 2017–2018, the private sector represented 37.9% of all educational institutions and 44.3% of total enrollments.
- Three types of public-private partnership models have been implemented in Pakistan. The first category comprises government-funded private schools and/or government funding for students to enroll in private schools. The second category comprises privately managed public schools through education management organizations. The third category consists of schools where the government makes salaries and utility payments while the "adopter" takes over all other expenses, including hiring additional contract teachers.
- This policy brief proposes the use of social impact bonds, among other recommendations, to improve learning outcomes. Social impact bonds are financing instruments that aim to expand funding from the private and nonprofit sectors to improve education through incentives and greater accountability.

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The Role of the Private Sector in Pakistan's School Education

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Education is a social investment that has a monumental impact in shaping long-run economic prospects. In Pakistan, the public sector struggles to meet its mandate for delivering quality education. Even though Pakistan has recorded significant improvements in overall school participation, it still faces severe challenges in providing quality and adequate education to eligible children. Almost 23 million children are out of school overall (aged 5–16 years), representing 44% of this age group's total population (DFID 2016). With over 2 million children becoming school age every year, the need to expand access to good-quality schools intensifies, rendering the public sector's job as an education services provider even more daunting.

Effective private sector engagement in delivering quality education can help the government fill the education demand-supply gap and improve learning outcomes for students. The private sector service providers are generally dynamic, incentive-driven, creative, and agile; they can swiftly adjust to changes in market demands and circumstances, given that the market functions reasonably well. The private sector education service providers have many comparative advantages, such as geographic, cultural, and social proximity to local students and communities, easier access to the local labor market, and more functional accountability mechanisms given the demand for private education services exists. Its potential and ability to deliver education as a social commodity renders the private sector a prime stakeholder and an indispensable government partner in providing quality, affordable education to society.

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THE GROWING ROLE OF THE PRIVATE SECTOR

The private sector, which encompasses a wide variety of fee-based schools, has played an instrumental role in educating children in Pakistan. Among others, the private sector comprises low and high-cost schools, schools managed and supported by provincial education foundations, and schools operated by nongovernmental organizations (NGOs).

Over the last three decades, the private sector has gradually assumed its role as a substantial education services provider in Pakistan. The number of private educational institutions has risen dramatically since the early 1990s. In 2017–2018, the private sector represented 37.9% of all educational institutions and 44.3% of total enrollments countrywide (Pakistan Education Statistics 2017–2018). The share of private schools in total educational institutions at the middle and high school levels stood at 64.5% and 57.2%, respectively. The share of enrollments in private schools has grown from 28% to 38% at the primary level over 2008–18 (Pakistan Bureau of Statistics 2005). In Punjab, around half of all primary school attendees are enrolled in private schools. Middle and high schools within the private sector have also experienced significant expansion in enrollment.

This trend is indicative of the increasing propensity of families to pay for children's education due to the substandard quality of and inadequate access to public schools. Moreover, disaggregated test score data shows that "on average, privately managed schools perform at least as well as government-managed schools in terms of student test scores" with much lower fiscal expenditures (Dahal and Nguyen 2014). The Annual Status of Education Reports (ASER) have also consistently reported superior academic performance of private school students compared to those attending public schools.

Expansion of Public-Private Partnership Education Service Provisions

In recent years, the rise of the private sector has been perceived as an advantageous partnership opportunity by the government. A variety of public-private partnerships (PPPs) have emerged in the school education sector, with Punjab being the pioneer. "PPPs have grown both in scale and scope over the past decade with exponential increases in enrollments over the last 3–5 years in Punjab and Sindh" (ADB 2019).

In these provinces, multiple PPP schemes are operational that can be broadly divided into three categories. The first group consists of government-funded private schools and/or provision of government funding for privately-enrolled students. Non-government education providers own these schools but receive government funding as education assistance. These schools aim to widen access in underserved communities and for underprivileged families. The second group of PPP schools comprises of privately managed public schools, a recent example being the education management organizations (EMO) model in Sindh. "The government contracts credible EMOs through a competitive and transparent process to manage and improve the functioning of public schools" (ADB 2019). "Adopt-a-school" programs make up the third category of PPP models, where the government bears expenses pertaining to salaries and utilities, while the adopter covers all remaining expenditures, including needs-based, contractual hiring of additional teachers.

The Education Fund for Sindh (SEF) was established in 2012 as a nonprofit public company by several leading private-sector corporations. Since its inception, the SEF has partnered with low-cost private schools in successfully providing good-quality education to 138,000 out-of-school children, half of whom were girls, through its voucher scheme and PPP programs. Under all programs managed by the SEF, enrollment was around 530,000 in 2018, more than double the enrollments in 2014–2015. The SEF-assisted school program funds students' education in identified low-cost private schools in the province. In addition, the fund collaborated with other education organizations, such as Building Resources Across Communities, The Citizens Foundation (TCF), and Developments in Literacy, to support students in private schools through these organizations. The SEF has also launched an adopt-a-school program. Under this program, the SEF encourages individuals and organizations (the private sector and civil society) to adopt government-run schools and guides them to ensure public school revival and undertake educational improvements for children. The SEF has recently initiated a middle and high school program where existing SEF primary schools are being upgraded to middle and high school levels (ADB 2019).

The Potential for the Use of Social Impact Bonds

Social impact bonds are a type of financing instrument where a public sector or governing authority or a donor agency propels the delivery of services and their corresponding payment, especially in areas like education, to focus on results or social outcomes achieved. These financial instruments aim to expand funding from the private and non-profit sectors to improve education through incentives and greater accountability. A typical impact bond transaction adopts a unique contractual arrangement to pay for the social outcomes or results. A private-sector risk investor is on board as a provider of upfront investment for a social service project. The risk investors' return on investment is tied to better social outcomes. A failure to achieve the desired social outcomes may result in risk investors losing their return as well as the principal (ADB 2021).

Social impact bonds have been employed in several low- and middle-income countries to encourage service providers to bid for funding to improve the standard of education over a stipulated time period. Educate Girls, along with UBS Optimus Foundation and Children's Investment Fund Foundation, launched the world's first Development Impact Bond (DIB) in education in India in 2015, which is a prime example of the success of impact bonds in uplifting educational outcomes. In the same year, the Early Childhood Development Impact Bond was launched in South Africa. More recently, schools in India are supported through the Quality Education India (QEI) DIB, which aims to improve education outcomes for over 200,000 primary school students over a 4-year period (2018–2022) (Jack 2020). The QEI DIB supports students enrolled in public and private schools as well as program-specific learning centers across four geographical regions in India. Featuring four different service providers, each offering a unique intervention, the QEI DIB focuses on improvements in children's literacy and numeracy outcomes in marginalized communities.

With over 200 impact bonds issued globally, impact bonds and other innovative finance tools continue to gain popularity in offering potential solutions to plug funding gaps in tackling complex social challenges (Table 1). Possessing the ability to enable funding collaborations between the public and private sectors, drive a focus on outcomes and increase transparency, and enable greater flexibility in the delivery of interventions, impact bonds have immense potential to be transformative for the education landscape.

CHALLENGES IN PRIVATE SECTOR SCHOOL EDUCATION

Uneven Distribution of Private Schools

The distribution of private schooling is uneven. The proportion of primary-level enrollments in private schools is much higher in urban versus rural areas. Thus, while the role of private education has grown, it is skewed disproportionately towards urban areas. In this context, 55% of students are enrolled in private schools in urban areas, whereas 28% are enrolled in rural areas at all levels of schooling (Alif Ailaan 2017). The Learning and Education Achievement in Punjab Schools (LEAPS) report by the World Bank highlights that private schools are located in wealthier villages and in richer areas within rural villages. This skewed situation reflects the severe lack of access to private-sector education in rural, remote, and poor areas of the country (Andrabi et al. 2007). The few schools that operate in these areas continually struggle to find qualified teachers and administrative staff. In addition, many families residing in these areas lack the means to afford the tuition fees charged by private sector education providers, resulting in low demand.

Funding Constraints

Private schools that cater to low-income students are increasingly gaining popularity among parents seeking alternatives to government schools. However, local entrepreneurs who often own these private schools lack the resources and incentives to expand enrollment or improve teaching and learning quality. Schools generally operate in areas with limited access to credit, and loan products tailored to their needs are inadequate, with only a handful of microfinance institutions offering small funds. This means that school fees or personal funds must finance any improvements in the provision of education services. When donors and investors step in to provide support to private schools, they tend to focus on larger operators with a chain of schools, which typically implies selective funding to a limited number of schools rather than broad support to the schooling market.

Insufficient funding continues to pose a significant challenge for PPP schools as current funding levels are not high enough to support significant scale-up. Moreover, the per-child subsidy

Table 1: Education Impact Bonds

Low- and Middle-Income Countries	Complete	Underway	Total
Number of Projects	1	2	3
Number of Individuals Served/Targeted	73,000	202,000	209,300
Amount Invested ($ million)	0.28	3.65	3.93
Max. Potential Outcome Funding ($ million)	0.42	12.76	12.76
Developed Countries	**Complete**	**Underway**	**Total**
Number of Projects	3	16	19
Number of Individuals Served/Targeted	6,285	147,809	154,094
Amount Invested ($ million)	24.0	10.2	34.2
Max. Potential Outcome Funding ($ million)	33.4	17.7	51.2

Source: Brookings Institution

offered to PPP schools is usually lower than the equivalent cost of public schooling, putting low-cost private schools at a disadvantage. "For example, in Punjab, the per-student cost at the primary level in public schools is about PRs1,500 per month, but the government gives the Punjab Education Foundation (PEF) a per-student subsidy of PRs550 per month" (ADB 2019).

POLICY RECOMMENDATIONS

In many countries, including Pakistan, private educators offer a significant contribution to education, and improved interaction between government and private schools is essential for increasing equity and quality. To augment the contribution and enhance the efficacy of private sector engagement in Pakistan's school education, the government must encourage innovation by providers, strengthen accountability mechanisms, and promote diversity of supply (SABER 2014). Evidence from the literature demonstrates that teacher behavior and accountability mechanisms are pivotal in boosting the effectiveness of private schools. We recommend the following policy measures to improve education service delivery by the private sector and render public-private partnerships in school education more effective.

Promoting Diversity of Supply of Education Services

The government should proactively facilitate market entry for a more diverse set of service providers and gradually shift greater responsibility for results to the private sector by increasing accountability towards citizens and the state. Greater choice in terms of education service providers can serve as an effective means to raise school quality and broaden access. By widening choice options to a more varied set of providers, the government can intensify client power and render providers directly accountable to students and parents for results. While the public sector will always remain important and, in most instances, the predominant provider of education services, greater educational choice can be used to bolster the public sector (World Bank 2003). Allowing multiple types of providers (e.g., faith-based,[2] community, for-profit) to operate in the education sector cultivates the potential for a more diverse, innovative education market (SABER 2014).

The government should strengthen mechanisms that expand school choice options as a policy goal by encouraging new and varied providers to enter the market. Greater competition can have favorable effects on students in both public and private schools. Higher private school competitiveness has been shown to raise the quality of public schools as measured by educational attainment, wages, and high school graduation rates of public-school students. To facilitate quality improvements through increased school competition and choice, the government should allow multiple types of providers to operate, promote clear, open, affordable, and unrestrictive certification standards, and make government funding (and other incentives) available to non-state schools. In addition, the costs of school registration, certification, and operation should be kept at manageable levels, and new entrants should be incentivized through easy access to government facilities, land, grants-in-aid, and subsidies on utilities.

The government should focus on creating a regulatory environment for the education sector that encourages diversity of supply among all providers. Regulatory measures to stimulate supply and circumvent monopolistic power should include allowing all types of providers to operate, providing access to information on registration processes, setting certification standards, and ensuring that regulatory fees do not prohibit entry. The government should define broad guidelines for the functioning and fee structure of independent private schools, and then let them operate with minimum interference. Schools may be allowed to determine their fee levels but held accountable for high-quality outcomes. In instances where the government supports private providers by offering financial assistance, it must ensure an equal playing field. Schools should be clearly notified in advance of the amount of funding they can expect from the government to plan and prepare accordingly. Promoting diversity of supply can increase choice for parents if the government provides stewardship of the market.

Despite the expanding role of private institutions in the education sector, the private sector's legal and institutional frameworks remain fragmented. The regulatory and funding frameworks governing private education need updating to ensure a flexible operating environment for private schools while also meeting quality standards. The directorates responsible for private education in the provinces need strengthening to make them more effective.

Strategic Scaling Up of Public-Private Partnerships

Efficiency, accountability, and quality make up the core components of PPP models, including routine assessments of students (and in some cases, of teachers) at schools, and contract renewal for private operators tied to the achievement of student outcome targets. In Punjab and Sindh, PPP schools dedicatedly focus on regular monitoring and evaluation and in-house teacher training. Teacher accountability tends to be higher in PPP schools compared to public schools since teachers in PPP schools are usually hired on a contract basis, and contract renewal is linked to performance.

Postprimary schooling, including middle and secondary levels, is a key subsector within the education system where PPP schools should be strategically scaled up. At these levels, access to both public and PPP schools is limited and participation rates are dismally low. Upgrading existing PPP schools to post-primary levels offers a far more cost-effective, immediate solution than investing in substantial infrastructure to build new public schools in underserved areas. It would also be important to pay salaries high enough to attract and retain good teachers (ADB 2019).

[2] It is noted that faith-based education providers have different regulators from other education service providers.

Lessons may be learned from the recent use of vouchers in certain countries, such as the Philippines, to successfully and substantively broaden access to higher secondary education. The use of vouchers may prove more effective in urban areas with a sizeable concentration of private schools, such as in Karachi or Lahore. Some programs of the SEF and the EMO models could be scaled up extensively to the middle, high, and/or higher secondary school levels. Local governments could also "consider providing stipends to girls in PPP schools as they do in public schools to encourage girls to attend schools, particularly at post-primary levels where their participation rates are lower" (ADB 2019).

Provincial governments could consider outlining a clear policy for PPPs in the school education sector. More predictable and increased funding is recommended to increase the number of PPP schools. Strategically expanding PPPs in education would facilitate the delivery of quality education to a rapidly growing population by supplementing public school delivery. Simultaneously, it would put pressure on public schools to improve (LaRocque 2006). Stronger competition can potentially have positive effects on students across the board – in public and private schools.

Provincial education foundations, such as the PEF and SEF, do not have the staff and capacity to significantly expand while still maintaining the quality of the programs. Therefore, provincial governments need to invest in providing substantially enhanced financing for the new PPP schools and improving quality assurance, both technical and financial. In addition, they should support these schools by reinforcing program management capacities and providing competitive remuneration to staff to minimize staff turnover. This will be key to assist the SEF and PEF in providing capacity building and training to private operators. It will also be critical to limit political interference in these organizations.

Introducing Social Impact Bonds in Pakistan

Impact bonds are novel financing mechanisms that require coordination across different actors at once. ADB's stakeholder consultation on impact bonds for education maintains that issuing impact bonds has emerged as one of the high potential impact areas for further improvement in the education sector (ADB 2021). Within the education sector, a potential impact bond designed to improve access and retention of girls at the middle and secondary school levels was identified as being a high priority.

Expanding Private Schools' Access to Finance

While public schools can rely on government financing to improve services, the growth of private providers is constrained due to limited financing options. In Pakistan, a research team supported by funders that included the Strategic Impact Evaluation Fund ran a pilot to test the efficacy of offering unconditional cash grants to small private schools in rural Pakistan and measured the effects on enrollment, school investments, school revenues, and student learning. The experiment also investigated whether the impact of the grants varied depending on the number of schools in a village that received funding. The findings established that schools increased their investments relative to a control group, focusing mainly on infrastructure, and their revenues grew. In schools located in villages where every school was offered a grant, teachers' salaries rose, and student learning improved. The ability to offer higher teacher salaries is crucial in finding and retaining good-quality teachers, who are key to enhancing student learning levels. In villages where only one school received a grant, schools increased enrollment, but student learning remained unchanged.

The evaluation results demonstrate that expanding access to credit could be an effective channel for improving small-scale private schools in Pakistan. Easier access to finance can facilitate schools in making improvements that not only benefit students but also assist them in generating higher profits through increases in either enrollment or fees, or a combination of the two (World Bank 2019).

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