EDUCATING AMARETCH: PRIVATE SCHOOLS FOR THE POOR AND THE NEW FRONTIER FOR INVESTORS

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The accepted wisdom says that the poor need billions of dollars more in donor aid for state education. But this ignores the reality that poor parents are abandoning government schools to send their children to 'budget' private schools that charge very low fees, affordable to parents on minimum wages. Recent research shows that private schools for the poor are superior to government schools – teachers are more committed, the provision of inputs better and educational outcomes better – even after controlling for background variables. All this is accomplished for a fraction of the per-pupil teacher cost of government schools. The development community could therefore assist the poor by extending access to private schools through targeted vouchers. There are also opportunities for investors to contribute through microfinance-type loans, dedicated education investment funds and joint ventures with educational entrepreneurs, including the development of brands of budget private schools to help solve the information problem facing poor parents.

Easterly's dilemma

William Easterly begins and ends his latest book, *The White Man's Burden*, with the heart-rending story of 10-year-old Amaretch, an Ethiopian girl whose name means 'beautiful one': 'Driving out of Addis Ababa', he passes an 'endless line of women and girls . . . marching . . . into the city' (2006, p. 1). Amaretch's day is spent collecting eucalyptus branches to sell for a pittance in the city market. But she would prefer to go to school if only her parents could afford to send her. Easterly dedicates the book to her, 'and to the millions of children like her'. He returns to Amaretch in his concluding sentence: 'could one of you Searchers' – the word he uses to define entrepreneurs of all kinds – 'discover a way to put a firewood-laden Ethiopian preteen girl named Amaretch in school?' (p. 384).

There are Searchers across the developing world who are already finding the way, in places not dissimilar to where Amaretch finds herself. The accepted wisdom is that children like Amaretch need billions more dollars in donor aid to public education before they can gain an education – and the poor 'should be patient' (World Bank, 2003, p. 1), because public education needs to be first reformed to rid it of corruption and horrendous inefficiencies, before the needs of the poor can be met.

The accepted wisdom appears misguided. It ignores the fact that vast numbers of parents have already abandoned public education – because of its inadequacies and lack of accountability – and are using private schools instead. This remarkable fact has huge implications for the investment community.

The revolution of private schools for the poor

My recent research, funded by the John Templeton Foundation, investigated selected, officially designated 'poor' areas of Nigeria, Ghana, Kenya, India and China. Research teams explored informal settlements – slums and shanty towns – in metropolitan cities in these countries, and poor areas in the rural hinterlands surrounding these cities ('peri-urban'). They researched remote villages in impoverished northwest China, and rural communities in south India. The teams combed these poor areas, going down every alleyway in the slums, visiting every settlement in the rural areas, asking of people on market stalls and in the streets, to find where the poor were being educated. They found large numbers of schools – 918 in the 'notified' slums of three zones of Hyderabad, India, for instance. And when they found schools, public or private, they interviewed school managers, and visited, unannounced, primary classrooms to assess the activity of the teacher, and to look for selected school inputs. The researchers tested around 24,000 children, taken from a stratified random sample of schools within these poor communities. Children were tested in key curriculum subjects, and questionnaires given to children, their parents, teachers and school managers, and IQ tests to children and their teachers, to elicit data to control for a wide range of background variables, including peer-group variables.

What the research teams found points to an educational revolution that is taking place. In the poor urban and peri-urban areas surveyed, the vast majority of children were found to be in 'budget' private schools. For instance, in the poor urban and peri-urban areas of Lagos State, Nigeria, 75% of schoolchildren were in private schools. In the peri-urban district of Ga, Ghana, the figure was 64%, while in the slums of Hyderabad, India, 65% of schoolchildren were in private unaided schools (Table 1). These budget private schools are usually established by entrepreneurs from within the poor communities themselves, employing teachers from those communities – unlike in government schools, where teachers are often brought in from outside. The private schools charge very low fees, affordable to parents on poverty-line and minimum-wages. For example, in Hyderabad, mean monthly fees at 4th grade were Rs.78.17 ($1.74) in unrecognised and Rs.102.55 ($2.28) in recognised private schools in the slums – about 4.2% and 5.5% respectively of the monthly wage for a breadwinner on a typical minimum wage of about Rs.78 per day (Government of India, 2005, assuming 24 working days per month).

Private schools for the poor are not just an urban or peri-urban phenomenon, either. In the deprived district of Mahbubnagar, rural Andhra Pradesh, India, roughly half of all schoolchildren were in private unaided schools (Table 1). In the remote villages of rural Gansu, China, official figures showed no private schools at all; but we found 586, serving 59,958 children. (For further details, see Tooley, 2005; Tooley and Dixon, 2005, 2006a, 2006b; Tooley *et al.*, 2005, 2007a, 2007b.)

Table 1: Schools and pupil enrolment by type of school in selected locations

Type of school	Hyderabad, India			Ga, Ghana			Lagos State, Nigeria			Mahbubnagar, India		
	Schools (no.)	Share of schools (%)	Share of pupils (%)	Schools (no.)	Share of schools (%)	Share of pupils (%)	Schools (no.)	Share of schools (%)	Share of pupils (%)	Schools (no.)	Share of schools (%)	Share of pupils (%)
Government	320	34.9	24.0	197	25.3	35.6	185	34.3	26.0	384	62.4	47.8
Private aided	49	5.3	11.4	0	0	0	0	0	0	13	2.1	4.3
Private unaided, unrecognised or unregistered	335	36.5	23.1	177	22.7	15.3	233	43.1	33.0	77	12.5	6.6
Private unaided, recognised or registered	214	23.3	41.5	405	52.0	49.1	122	22.6	42.0	141	22.9	41.2
Total	918	100	100	779	100	100	540	100	100	615	100	100

Source: Survey of schools (2004–05) in Tooley and Dixon (2006b).

Indeed, wherever we looked to supplement this detailed research, we found similar private schools for the poor – amongst battle-scarred buildings of Somaliland, in the soon-to-be-bulldozed shanty towns in Zimbabwe, and in the deprived slums of Freetown, Sierra Leone. And private schools for the poor have been reported in Tanzania, Uganda and Malawi, in other states of India, in Pakistan, in the Caribbean and elsewhere. Private schools for the poor seem to be occurring throughout the developing world (see, for example, Aggarwal, 2000; Alderman *et al.*, 2003; De *et al.*, 2002; Rose, 2002; Salmi, 2000; Watkins, 2000).

However, those development experts who are aware of their existence uniformly worry about their low quality: *The Oxfam Education Report*, for instance, notes that private schools for the poor are of 'inferior quality', offering 'a low-quality service' that will 'restrict children's future opportunities' (Watkins, 2000, p. 230). In Nigeria, private schools for the poor are reported to offer 'a low cost, low quality substitute' for public education (Adelabu and Rose, 2004, p. 74).

The current research findings suggest that such concerns are misplaced – at least in comparison to the quality of public education. In every setting, teacher absenteeism was lower and teacher commitment – the proportion of teachers actually teaching when our researchers called unannounced – higher, in the private schools for the poor than in government schools. Only on one input – the provision of playgrounds – were government schools superior to private schools across the range of studies. On all other inputs, such as provision of drinking water, toilets, desks, chairs, electric fans and lighting, tape recorders for learning purposes and libraries, private schools for the poor were superior to government schools.

Importantly, the research showed that the private schools everywhere were outperforming the government schools in the key curriculum subjects – even after controlling for background variables. In Lagos State, for instance, the mean maths score advantage over government schools was about 14 and 19 percentage points respectively in private registered and unregistered schools, while in English it was 22 and 29 percentage points. And after controlling for background variables, and, given that students were not randomly assigned to the different school management types, the school choice process, we found these differences, although reduced, were still largely in favour of private education. In Lagos State, Nigeria, the predicted score in mathematics was 45.1% for an average sample child in government school, 53.5% for the same average child in an unregistered and 57.6% in a registered private school. For English the predicted score for an average sample child in government school was also 45.1%, while there was no significant difference between attainment in both types of private school – the predicted score for the same child was 64.4%.

Significantly, private schools were found to be outperforming government schools for a fraction of the teacher costs – likely to be the largest part of recurrent expenditure in schools. Even when the per-pupil teacher cost was computed (to take into account the fact that class sizes were largest in government schools), private schools came out less expensive: in the government schools in Lagos State, for instance, per-pupil teacher costs were nearly two and a half times higher in government than in private schools.

The existence of this burgeoning and vibrant private sector provides one way in which Easterly's Amaretch can be reached – through targeted vouchers or scholarships aimed at those, like Amaretch, whose parents cannot currently afford a place in private school. (These could also have the impact of encouraging educational entrepreneurs to set up schools where current provision is patchy, by giving the poorest parents funds to pay for private education). Indeed, private school owners themselves are already showing the way – offering free or subsidised places to the poorest of the poor, including orphans or those with widowed mothers. In the slums of Hyderabad, for instance, the research found that 18% of all places in the private schools were provided free or at concessionary rates. Building on this philanthropy could provide a school place for Amaretch where teachers are accountable, unlike in the government schools where development agencies point to high levels of teacher absenteeism and lack of commitment.

The enterprise of education as investment opportunity

Providing Amaretch with a school place may be one solvable challenge. But what about the quality of schooling where she is provided with that place? Here a creative new frontier for investors is dramatically revealed, where the investment community can potentially make a huge difference to the lives of poor people. The key relevant finding of the research is that the vast majority of private schools in the poor areas are businesses, not charities, dependent more or less entirely on fee income and, very importantly, making a reasonable profit. In Ga, Ghana, for instance, 82% of registered and 93% of unregistered private schools were proprietor-owned. In Hyderabad, 91% of unrecognised and 82% of recognised private schools were entirely dependent on student fee income, receiving no outside funding at all.

We explored school surpluses with 10 to 15 case-study schools in each setting, where we were able to gain a deeper insight into finances. In every case, the mean of the case-study schools showed a viable return for the proprietor. For instance, in the shanty

Table 2: Income and expenditure of a typical private school for the poor in Makoko, Lagos State, Nigeria

Item	Amount in naira	Amount in US dollars
Term fees	1,800	12.41
Monthly teacher salaries	4,388	30.26
Recurrent monthly spending	7,450	51.38
School owner's monthly salary	8,000	55.17
Annual income	1,081,080	7,455.72
Annual expenditure	869,928	5,999.50
Annual surplus	211,152	1,456.22
Annual surplus as a percentage of income	20	20

Note: The school is assumed to have 220 students and 13 teachers.
Source: Author's estimates.

town of Makoko, Lagos State, a typical case-study school had 220 pupils and 13 teachers, and average fees of N1,800 per term ($12.41), with 9% of students on free scholarships. Teacher salaries averaged N4,388 ($30.26) per month, with other recurrent expenditure at N7,450 per month ($51.38), plus the proprietor's monthly salary of N8,000 ($55.17). Such a school made a surplus of about $1,456 per annum, or about 20% of its income (Table 2).

Because the private schools for the poor are run as businesses, this provides at least three ways forward for investors to help in improving quality. First, to help school proprietors improve their infrastructure, micro-finance loans could be provided, through existing or purpose-created micro-finance organisations. Two pilot loan schemes were set up during the research in Hyderabad and Lagos, offering loans of $500 to $2,000, at commercial interest rates, to help private school managers improve their infrastructure. Typical projects included building latrines, refurbishing or building new classrooms and buying land. We found a hunger for finance, from schools that couldn't usually access other funds because they didn't have formal property rights or were operating semi-legally – the kind of small businesses highlighted by Hernando de Soto in *The Mystery of Capital* (de Soto, 2000). These pilots point to the possibility of investment in larger-scale micro-finance projects to provide loans to private school proprietors. Technical assistance could supplement this investment, to provide financial advice. The problem of improving private school infrastructure appears relatively easily solvable.

But what about the quality of the education provided? Private schools for the poor generally follow rote-learning methods traditional throughout developing countries, and the state curricula, crammed with subjects that might not all be relevant to poor children, and omitting areas that might be valuable, such as enterprise education. The development community is concerned about the quality of similar educational provision. Current pedagogical methods are 'too rigid', reliant on 'rote learning, placing students in a passive role' (Dembélé and Miaro-II, 2003). Curricula are 'insufficiently sensitive to . . . learners' socio-cultural circumstances' (UNESCO, 2004, p. 31). The usual route followed by development agencies to improve educational quality involves millions of dollars of expenditure getting teachers to change their methods and children to rise above passive learning. Large amounts have been spent on high-tech solutions – television, interactive radio or information technology – to bypass teachers altogether, or to train teachers in 'modern' methods, or to supplement teaching with these beamed-in add-ons (see, for example, EDC, 2001; Leach, 2005; Murphy *et al.*, 2002; Potter and Silva, 2002; Rhodes and Rasmussen-Tall, 2005).

But little impact has been shown for these expensive interventions. Teachers tend to revert to their preferred methods once the aid missions have moved on (see, for example, Murphy *et al.*, 2002). Such projects do not manage to harness any incentives for poor people to continue with, or invest in, the intervention. However, the existence of burgeoning private school markets provides the key to investment opportunities that genuinely harness incentives for quality improvements in education. In the intensely competitive markets of private education, the incentives lacking in traditional aid interventions are everywhere, and paramount.

Recently I collaborated on a small-scale project in a private school in the slums of Hyderabad with Dr Sugata Mitra, Director of Research at NIIT Ltd, one of India's largest software companies. Mitra has experimented with peer-group learning using information technology – dubbed 'the hole in the wall' by the media (see Mitra, 2005). Hyderabad is flooded with call centres; many graduates from private schools for the poor seek employment in these, but are stymied by their low standard of English pronunciation – their teachers can't help, because they don't speak English well enough either. We tried the hole-in-the-wall approach: could children teach themselves to improve their English pronunciation?

The details – based on a speech-to-text recognition programme (see Mitra *et al.*, 2003) – need not concern us here. The experiment showed that this method was successful in improving English pronunciation. But what happened after we finished the experiment was most relevant here. Many other private school proprietors, who heard about the experiment, wanted the technology in their schools, and were prepared to pay for it. The preferred investment previously, once suitable surpluses had been accrued, was to buy a suite of second-hand computers plus teacher. Now proprietors were saying: 'Perhaps we don't need a computer teacher. We need the hole-in-the-wall.'

The school proprietors were hungry for innovation. Why? Firstly, simply because, whatever the critics of private schools for the poor may claim, many care about children's education. On its own, this might be enough for some to invest in new technology. But, the power of the market means that it's coupled with another major incentive: proprietors know that they are in an increasingly competitive market. They need parents to know that their school is special, to maintain or increase market share. If a method of learning seems to have demonstrably better outcomes, they'll want it for their schools.

This suggests a second way for investors to assist in providing educational improvements that are sustainable. Investors – assisted with donor funds if necessary to help carry initial risks – can back small-scale R&D (like the experiment in Hyderabad with Mitra) to find out what works to improve desired curriculum and pedagogical outcomes. Investors can then partner with local entrepreneurs to ensure that the improved methods are made available, suitably packaged, at a price acceptable to school entrepreneurs. The problems of sustainability and scalability that so bedevil any aid intervention are solved. Mitra's 'hole-in-the-wall' method of learning, for instance, could easily be replicated in private schools. The technology costs around $2,500 to install per 'kiosk' with three computers that serve 200 children. A typical school in the shanty town of Makoko, Nigeria, for instance (see Table 2 above), could easily afford to purchase one with surpluses over two or three years – perhaps utilising a loan to do so. In other countries surveyed, it would be even more affordable. The international finance community could assist local entrepreneurs – again supplemented with technical assistance if necessary – to set up the infrastructure to provide these innovations at a suitable price.

The brand-conscious poor

In *The Fortune at the Bottom of the Pyramid*, C. K. Prahalad challenges the 'dominant assumption' that the poor are not bothered about brand names: 'On the contrary,' his findings suggest, 'the poor are very brand-conscious' (2005, p. 13). In private education, brand names could be important to help solve the genuine information problem that exists – and this provides a third major opportunity for investors to enter the education market. How can poor parents judge if one private school in their community is better than another, and that it is adequately serving the educational needs of their children? Typically, my research showed parents using a variety of informal methods, such as visiting several schools to see how committed teachers and the proprietor appear. Or they talk to friends, comparing notes about how frequently exercise books are marked and homework checked. Importantly, I found that if parents choose one private school, but subsequently discover that another seems better, they have little hesitation in moving their child to where they think they will get a better education. And school proprietors know all of this, so make sure teachers turn up and teach, and invest any surpluses in school improvement, to ensure parental satisfaction. So there is an information problem, but there are ways around it.

However, in other markets, brand names provide a safer way of overcoming parallel information asymmetries. Buying into trusted brands would be one way of overcoming the information problem too, for poor parents wanting the best education for their children. Already, small embryonic brands are emerging in the educational markets explored, as educational entrepreneurs expand their own, or take over other, schools, because they are providing what more parents want. Some proprietors have four or five such schools now, and are eager to extend further.

Assisting the market in the creation of educational brand names that will help parents make their judgments in a more informed way is a third possible area for investor action – again, supplemented with donor support initially if required to satisfy investors of the viability of the market, or to provide technical assistance on legal and financial matters to educational entrepreneurs. One possibility would be for investors to assist expansion-minded proprietors in accessing loan capital, in the way already outlined above. Or it could involve creating a specialised education investment fund, to provide equity to proper, legally-constructed education companies that run chains of budget private schools. Suitable exit strategies could be worked out for the investment fund, perhaps by giving advice on how to list on local stock markets, or to get other investors on board.

A further possibility could involve investors engaging in a joint venture with local educational entrepreneurs to set up a chain themselves. Investment in initial R&D would be required, to create the standards for a demonstrable and truly replicable model of education for the poor. This might best be accomplished within an existing school that would then demonstrate the efficacy of the model, to parents, investors and potential franchisees – if a franchise model was deemed appropriate – and be used to train new school managers and teachers.

Such R&D would explore the technology, curriculum, pedagogy and teacher-training requirements for the successful educational model, and the quality control, financial and regulatory requirements for the brand-name chain. The setting up of a chain of 'budget' private schools, serving poor communities, would seem an extraordinarily exciting and innovative project for investors to engage in.

Why would private school owners wish to become part of the chain of schools, either as franchise holders or managers? Competition would be a chief spur: school proprietors realise a key problem now is the powerful competition from other private schools – from the roof of one school in the slums of Hyderabad, seven other private schools are visible, all competing for the same children. School proprietors are eager to differentiate themselves in this market, and one of parents' key concerns is educational quality. By becoming part of the brand name, managers could show that they emphasise quality above their competitors, and so attract an increasing number of children.

Parents would prefer their children to attend one of the brand-name schools, because it solves for them in a neat way the information problem. Children, too, might prefer to be in a brand-name school, benefiting from the improved curriculum, pedagogy, technology and teacher training in their school. They would be part of a much larger organisation, and benefit from the networks and opportunities this creates. And as the brand name became well-known, future employers and further education institutions will trust where children have been educated, giving the pupils an edge for the future.

What of schools that don't become part of the chain of schools? In the short term, they could suffer, perhaps even go out of business – but only as a result of parents shifting their children to the school where they perceive educational quality to be higher. But in the dynamic market of education, two things are likely to happen: firstly, individual educational entrepreneurs will seek to improve what they offer, in order to retain children, or win back those who have left. Secondly, and most fundamentally, if the financial and educational viability of an educational brand name is demonstrated, others will soon enter the market, setting up competing brand names that offer quality education at a low cost.

Prahalad observes that the founder of Aravind Eye Care System – that provides cataract surgery for large numbers of the poor – was 'inspired by the hamburger chain, McDonald's, where a consistent quality of hamburgers and French fries worldwide results from a deeply understood and standardised chemical process' (2005, p. 37). There is, it seems, every reason to think that a similarly 'deeply understood and standardised' learning process could become part of an equally successful model of private school provision, serving huge numbers of the poor.

A solvable problem

Private schools for the poor are burgeoning across the developing world. In urban and peri-urban areas they are serving the majority of poor schoolchildren. Their quality is higher than government schools provided for the poor – perhaps not surprisingly, given that they are predominantly businesses dependent on fee income to survive, and hence accountable to parental needs. Those worried – like Easterly – about how to extend access to education for the poor, could usefully look to the private education sector as a way forward. By extending what private schools for the poor already offer through free and subsidised places for the poorest, sensitively-applied targeted vouchers could extend access on a large scale. Crucially, because the private schools serving the poor are businesses, making a reasonable profit, they provide a pioneering way forward for investors to get involved too. Investment in micro-finance-style loan schemes so that private schools can improve their infrastructure is one way forward. Providing investment for innovation in curriculum and learning, which, if successful, could be rolled out on a commercial basis, provides a second possibility. And investing in a chain of schools – either through a dedicated education investment fund or through joint ventures with educational entrepreneurs – could help solve the information problem for poor parents and improve the educational opportunities on offer. Educating Amaretch is a solvable problem. The Searchers who have created private schools serving the poor are hungry for investment – and investors can assist them in pursuing their central role in providing quality 'education for all'.

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