In 2016, the Philippines will bring its educational system in line with other Southeast Asian countries, adding two years of senior high school. Building on the experience of a public-private partnership that works to alleviate overcrowding in public junior high schools, the government is working with private providers, on a voucher scheme to provide financial assistance to poorest students to enrol in a private senior high school.

The Philippines is alone in Southeast Asia in providing just 10 years of basic education: six years of primary followed by four years of secondary schooling. A 2012 presidential decree has presented the educational authorities with an urgent challenge to be solved by 2016 – bringing the system into line with its neighbours and the wider world by extending basic education by two years, at the senior secondary level. The aim behind this reform is clear and highly commendable: to better prepare Filipino students for an increasingly competitive world. But, making the reform actually happen in only two years will be tough for the Department of Education (DepEd). It means finding places for almost three million secondary school students, while recruiting 68,000 additional teachers. This is a significant logistical challenge, involving mass scale teacher training and the physical construction of around 4,500 new schools, as well as representing a considerable financial burden. Not having enough schools or teachers available for the anticipated cohort of more than one million students in 2016 is simply not an acceptable option, as that would breach both constitutional requirements and carry political risks. One major part of the government’s strategy for answering this supply-side challenge is to turn to the private sector, which could absorb 30% or more of the expected new senior high school (SHS) intake. The motivation for this highly unusual pro-private stance is partly practical (since DepEd recognises the sheer scale of the task and the limited time available), and partly ideological (since the current administration was elected on a pro-private sector ticket). No doubt DepEd is also influenced by its longstanding funding of the Education Service Contracting Scheme (ESC), which is one of the world’s largest educational Public-Private Partnerships (PPPs), operating in the Philippines since 1986 and providing a prototype for ways government can provide school access for public students via private school places.

The ESC programme in action

The ESC was a policy response to public high school overcrowding, allowing so-called ‘aisle students’, those with no place to sit, to move to under-populated private schools. The ESC provides an annual per pupil subsidy to certified private junior high schools (JHS) to accept public school students who cannot be accommodated in nearby congested public high schools. To qualify for participation in the ESC programme, a private JHS must fulfil certain criteria concerning the number and qualification levels of its staff, its facilities, its school achievement, and its use of an approved curriculum. The school must also be located near an overcrowded public JHS.

The ESC is not a full subsidy, rather a flat fee of 6,500 pesos (USD 151) per pupil across the country,
other than in the National Capital Region, where it is 10,000 pesos (USD 232) per year. Parents are then required to pay top-up fees bridging the difference between the ESC grant and the total cost of tuition; in 2009 the average top-up fee was 4,298 pesos (USD 99). Pupils graduating from public elementary schools are selected for the ESC subsidy in a participating local private school by a local selection committee in each school. The committee takes into account family income and a student’s likely capacity to complete the four year JHS course without dropping out.

The ESC is not perfect, and a number of evaluation studies draw attention to several elements that could and should be improved (World Bank, 2010). One area of criticism focuses on concerns of equity: since the ESC scheme requires top-up fees from parents, it is rarely the poorest students in a community that can afford to take advantage of the switch to private schooling. The school selection committees tend to choose students from families that can afford it, rather than the targeted ‘poor but deserving students’. Equity is also problematic between regions of the country since household incomes all differ widely between regions. Finally, the scheme is administratively heavy as it involves negotiations on student numbers with each of the nearly 3,000 participating private JHS, and then follow-up in terms of monitoring.

Nonetheless, the partnership works: today there are over 750,000 participating ESC students. With the ESC, the government successfully obtains increased school access without needing to invest in further school infrastructure. On their side, private schools are enjoying stable student demand together with guaranteed subsidy revenues. Also, given that national annual average per pupil capitation fee in public schools is around 14,000 pesos (or 325 USD), the ESC is driving significant cost savings for the government by shifting some of the costs to households.

**Widening educational PPPs: the voucher scheme**

Despite its flaws, which can still be addressed, the ESC has embedded the idea of private sector participation within DepEd and the wider Filipino society’s approach to public schooling. Could the Philippines build on this experience to help meet the challenge of offering two years of SHS – particularly as the appetite from existing and new private sector providers to participate in SHS and invest in new schools is very high? DepEd has been actively considering what an education PPP could look like for the 2016 reform. Drawing on the work of GEMS Education Solutions’ consultancy team, DepEd announced in September 2013 the adoption of an education voucher scheme to provide financial assistance to poorer students who enrol in licensed private SHS.

Why is a school voucher a potentially better mechanism for subsidising public students, rather than simply continuing the ESC grant currently in use? The voucher scheme will consist in providing coupons to partially or fully compensate students and their families for the cost of private school tuition. One of its distinguishing features is that instead of determining which private schools to subsidize and focusing on the supply side, the government transfers this power to parents and students by allowing them to choose from among eligible schools.³ This demand-side approach, based on a student’s self-selection and personal investment decision, makes the allocation mechanism more transparent and gives the student greater freedom of choice about whether, where and how to deploy their state subsidy in a school which best suits their needs.

All students who have attended a public JHS for at least four years should be eligible. The proposed voucher design also includes a pro-poor targeting mechanism, limiting eligibility only to those students whose household income falls at or below the median national household income level of around 150,000 pesos (USD 3,450). The voucher design therefore also includes a recipient means-test and five price points to better reflect the different regional tuition-fee levels with the likely student demand. The annual voucher will be worth at least the estimated capitation allowance of public SHS – nationally around 15,000 pesos (USD 345) per student – to reflect more accurately school costs and affordability levels required by top-up fees (Figure).

Though the additional top-up tuition requirements will remain a challenge for the poorest
households, this design should limit the regressive nature of subsidising middle- and upper-class households and will help achieve better equity levels. With such a targeted pro-poor system, private providers will only consider participating if their fees are affordable to those within the lower 50% of household incomes; this could create a competitively priced market of lower-cost private SHS across the Philippines. Though the voucher scheme could start relatively small, it is calculated that the potential pool of recipients could be as high as 1.3 million after 2017. The inherent simplicity of a voucher scheme for large-scale funding and quick school access makes it administratively attractive to DepED. Since it will only be redeemable after a student has successfully enrolled at a private SHS, a voucher should, in theory, limit funding wastage and pay only for filled student places.

Driving up school quality

Many developing countries have successfully driven up the number of students attending school but often at the expense of quality. The Philippines, like many emerging countries, is grappling with the twin challenges of universal school access while maintaining standards. Vouchers are established as a useful tool for funding large number of school places within private schools – as they do in Chile, Columbia and Pakistan – but they could help improve school quality, too.

The voucher design proposed for DepEd builds a number of components into the voucher scheme deliberately to drive up quality standards. The first feature involves linking voucher funding with demonstrable outcomes, with each of the three payments made over an academic year linked to key student milestones reflecting both attendance and academic test results. These multiple payments underscore DepEd’s determination to raise student attendance and competency to expected levels, and give private schools a financial incentive for achieving them. The second feature involves combining a meaningful inspection regime – able to remove voucher students from failing schools – with new consumer information, advice and guidance resources to unlock parental choice and encourage a ‘flight-to-quality’. Parents and students need to have easy access to reliable public information on school quality levels, course availability and tuition fees, if they are to make an informed choice on where to school and if the competing schools are to experience the effects of consumer choice as a disincentive to offering inferior quality levels.

These scheme features provide transparency to all parties involved. Students and parents, on the demand side, will know how much the voucher is worth and what they can afford for top-up tuition. Private operators, on the supply side, will know what portion of fees are government backed and will be able to make individual commercial judgements about local demand, competition and pricing levels. The main lever DepEd has for stimulating private investment in new SHS school supply is the voucher’s financial value.

The introduction of the SHS reform will, no doubt, be scrambled and messy – how could it not, with fewer than two years now remaining and such a huge volume of students needing school places? But the government is to be applauded for taking such a bold step in recognising that the private sector offers both a way of providing additional places and improving quality. It will be some time before the voucher scheme can be fully introduced, and even more be-fore evaluations reveal whether or not learning outcomes have improved. However, the private sector wants to participate and help improve the entire nation’s educational standing. If there is a readiness to invest private capital at scale in such critical national infrastructure in the Philippines, who’s to say similar private sector participation and innovative funding mechanisms won’t also work in other countries too?

Footnotes:

¹ The K–12 Reform under course in Philippines follows the K–6–4–2 model. Elementary schooling covers Grades 1–6 for 6–11 year olds; Grades 7–10 for 12–15 year old junior high school students and the new Grades 11–12 for 16–17 year olds in senior high schools.

² Private sector in this context means the existing private junior high schools, the private Higher Education Institutes and private Technical and Vocational Training Institutes. It would also be feasible for new market entrants to begin
new senior high schools.

³ The voucher scheme is likely to be opened to all types of private school providers, especially those in poorer areas of the country which have proved they meet minimum national curriculum and quality standards.


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