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## Vouchering School Education in India

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*The problem with the existing school education system in India is that most of the public money allocated to government schools is spent inefficiently. Introducing competition between schools, through education vouchers, can resolve this problem. Education vouchers typically transfer purchasing power to needy students, rather than government schools.*

### Introduction

Despite various efforts, the government has not been able to provide access to education for all. Moreover, there is wide inequality in schooling opportunities with quality varying widely across schools. The quality of education accessed often depends upon household income – the rich are able to access more expensive and often better quality schooling, which is denied to the poor. The government has enacted the ‘Right to Education’ Bill for ensuring 100 percent access to elementary education, but systemic changes are needed for significant impact on the ground.

More than 90 percent of our population is located within a kilometre of a primary government school. But, the conditions of government schools, which still constitute the bulk of our schools, are deplorable and not conducive for learning. The majority of the schools are one or two rooms units, with a teacher per room. Apart from the lack of space, many other features of these schools are cause for worry: unhygienic surroundings with lack of sanitation facilities for girls, substandard quality of teaching, high student-teacher ratios, absenteeism and a chronic lack of punctuality among teachers, etc. As a result, drop out rates before completion of primary education are high, implying wastage of huge amount of public money, which ostensibly constitutes public expenditure for the poor. Thus, the outcomes of the government’s huge outlay on school education are much below expectations.

A United Nations Educational, Scientific and Cultural Organisation (UNESCO) study shows that the Indian literacy rate is one of the lowest in Asia, even though around four percent of the gross domestic product (GDP) is spent on education – much higher than the Asian average of 3.6 percent. The problem is not the size of the

budget, but its inefficient implementation and corruption. The Comptroller and Auditor General (CAG) reports are filled with cases of diversion of funds provided for school education to unauthorised use. For example, the CAG report of 2008<sup>1</sup> highlights that government officials in six states have siphoned off Rs 471 million meant for *Sarva Shiksha Abhiyan*, a Central Government educational programme meant for school children. Another programme, the mid-day meal scheme, introduced with the objective of increasing enrolment and ensuring better nutritional status among children, has also suffered the same fate.

Experience from the world over suggests that it is not so much the size of the government budget but how it is spent that determines the efficacy of the system. In India, one of the important reasons for inadequate effectiveness of government expenditure on schools has been the inability of the government to provide targeted assistance to needy students. The government has been financing schools in place of financing children. There is thus a need for suitable change in the policy framework, without which even an increase in mentioned public expenditure to six percent of the GDP will not help in correcting the existing situation of poor education and alleviating illiteracy.

The rationale for the mentioned change in the policy framework rests on the fact that parents desiring good quality education for their children are often constrained by their purchasing power in accessing it. As a result, their children continue to languish in poor quality government schools. The provision of direct government assistance to children, instead of schools, can provide parents (children) the freedom to choose the school they prefer, whether affiliated to the government, the private sector or a non-government organisation. This can be done through education vouchers, which typically

transfer purchasing power to needy students, rather than schools. In other words, funds go to the providers which prove themselves to be superior to others through competition, but only through parents/children and not directly.

This recommended system is very different from the current system in which government expenditure on earmarked schools carves out a captive market for such schools by subsidising education provided by these schools. These schools are, therefore, not exposed to quality-enhancing competition, thus, poor quality results.

### **Rationale for Government Intervention**

The provision of free school education to disadvantaged children can be justified on the basis of the substantial ‘neighbourhood effects’ generated. Friedman<sup>2</sup> describes ‘neighbourhood effects’ as the gain from education which accrues not to its direct recipient or his/her parents but resulting indirectly to other members of society. Therefore, Friedman supports the free provision of school education, but not higher education, as the latter is an investment in human capital which provides considerable returns to the individual in terms of productivity and returns.

In India, the government ensures equitable access and improved quality of education, through a combination of public funding, public delivery and public regulation. But, as mentioned, this system confines children from low income households to poor quality government schools, even when better schools may be available in the neighbourhood. The public expenditure incurred would be more effective in enhancing both quality and access, if it was to generate competition, choice and enhanced quality – through the demand-side, by placing additional purchasing power in the hands of parents, and through the supply-side, by enabling all schools, public and private, to compete for funds flowing into the system, through enhanced educational expenditures by parents.

Such competition among schools in the quality space would imply that better quality schools would capture more of the fund inflow and enhance the quality of their education services further, while others would be phased out. Thus, undesirable characteristics of the present education system, such as absenteeism among teachers, would be alleviated and learning outcomes would improve.

### **Education Vouchers**

The idea that the introduction of education vouchers would improve educational outcomes was perhaps first suggested by Milton Friedman<sup>3</sup> in 1955. He described education vouchers as tax-funded certificates, through which parents are given the ability to pay for the schooling of their children and the school of their choice.

Since then, the use of vouchers for improving choice, efficiency and equity has been debated.

Education vouchers usually finance all or most of the tuition fees charged by the school. As parents are free to spend the liquidity embodied in these vouchers on government schools as well as private schools, the system of vouchering subjects all schools, whether government or private, to competition. This forces them to improve their quality to attract students. Thus, vouchering education can be an important step in improving the quality of education to poor students and enhancing equity in provisions across rich and poor recipients of schooling. Schools with quality will attract more students, redeem more vouchers and prosper, while poor quality schools will be forced to either improve the quality or close down.

In implementing this model, governments do not have to spend additional public money on vouchers, but reallocate money previously directly spent on government schools to education vouchers supplied to parents. When the parents choose a school, the money equivalent of the voucher accrues to the school. But, to attract parents, schools have to provide quality education. Thus, vouchering ensures that government money is only spent on well-functioning schools. Moreover, the compulsion to improve quality to withstand competition forces schools to spend money accruing to them through vouchers in an efficient manner.

The impact of vouchers on access can also be influenced by their design. Two examples are in order. Friedman’s<sup>4</sup> proposal advocates freedom of choice for both parents and schools, i.e. parents should be given freedom to spend vouchers allocated to them on any school and schools should be free to choose their intake and organisation. Topping up of vouchers by parents, if these do not fully cover school fees, is also allowed under this model. The value of each voucher is also fixed at either the average cost of schooling or a proportion of this average cost. On the other hand, Jenk’s<sup>5</sup> proposal is liberal and much more concerned about equity. His view is that while topping up should be allowed, the value of vouchers allocated to parents should be dependent on income – lower income households should get larger vouchers, implying that schools catering to a larger extent to financially disadvantaged children would receive extra resources.

Vouchers not only exist in theory but now also in practice. Vouchers have been introduced in various countries such as US (Milwaukee, Wisconsin, Cleveland and Ohio), the UK, Spain, Colombia, Chile, Bangladesh, etc. The present school funding system in the UK, which allocates financial resources to schools on the basis of enrolment and pertinent indicators of disadvantage, is in effect a quasi-voucher system.

Some doubts about the success of vouchers on the ground persist. It is feared that the poor will not be able to make the right choices regarding the quality of schools and this system will also damage the system of government schools. Such criticisms should be empirically verified. Moreover, even if ability, rather than financial capacity to make choices, is lacking, there are enough ways, including information dissemination, which can enhance such ability.

However, there is general consensus that outcomes will be better if the system of vouchering is limited to a moderate numbers of poor students in urban/semi urban areas or rural areas adjoining such areas, where private schools are available and have the necessary surplus capacity.

### Regulating Vouchers

Implementing education vouchers does not just involve converting public spending on schools into vouchers and supplying these to parents. Enforcement of certain regulations is required for proper implementation. It is equally important to ensure that schools where vouchers are admissible have the academic autonomy to determine their syllabi and appropriately control the quality of teachers and, therefore, of offered education. The following points may require regulatory attention:

- Ceiling on parental income qualifying for vouchering;
- Whether an inverse relationship should exist between the value of vouchers provided by the government and household incomes;
- Identification of schools at which vouchers can be used; and
- Ensuring the autonomy of independent schools: It is likely that schools would be required to meet various standards which may invite government interference.

### International Experience

Systems of education vouchers have been implemented in many countries such as Chile, Colombia, Sweden, Netherlands, New Zealand, Poland, Czech Republic, Bangladesh, Canada, US and UK. These have been marked by both success and partial failure. The use of vouchers in public schools with a value much less than 100 percent of the cost per student has been successful in Sweden, Poland and Milwaukee (US), where efficiency gains have resulted from the slow but sure dilution of the public monopoly in school education. Various country experiences in implementing vouchers are discussed below:

#### *Milwaukee (US)*

The vouchering programme was motivated by high dropout rates, low marks and high disparities in educational opportunities between low and middle income households. In 1990, the vouchering programme was initiated for 300 students in six private schools. With opposition from various groups, including parents and teachers, the government put certain restrictions on the

programme. One such restriction was on the number of children: only 1.5 percent of Milwaukee's 0.1 million school-aged population was covered. Another restriction was that vouchering private schools had to limit the number of vouchered students to 49 percent of the total strength – the selection of students for vouchering was done on the basis of a lottery.

In Milwaukee, the vouchers can be used at private schools and the school, on random basis, selects voucher recipients from low income applicants. The vouchering school receives the same per capita funding as public schools through vouchers and it is not allowed to charge any tuition fees from the vouchered students.

The Milwaukee voucher system, though small, warrants attention because it is the source of hard evidence on effects of vouchers in the US<sup>6</sup>. The evaluations have set to rest various fears about the voucher programme:

- The fear was that this system would just help non-poor individuals. On the contrary, the evaluation shows that it has helped the poorest of the poor households.
- Another fear was that this system would lead to segregation on the basis of race, merit or other lines. However, contrary to expectations, evidence shows that the Milwaukee programme has fostered diversity instead of segregation. It has been found that “the programme is offering opportunities for a private school alternative to poor families whose children were not succeeding in school. This is a positive outcome of the programme”.

#### *Chile*

In case of Chile, there was a considerable increase in the number of students attending private schools after the introduction of vouchers in 1980. The voucher programme in Chile is funded by the government and applicable to all school-going children. For both private and public vouchered schools, the money is directly paid to the school in proportion to the number of vouchers received. Thus, both public and private vouchered schools are treated equally by the system.

Initially, the schools were not allowed to charge any tuition fee, but with the rise in inflation and no revision in the value of vouchers, the government allowed the private vouchered schools to charge tuition fees from parents. Parents have now been also allowed to pay additional sums voluntarily to schools for maintaining or improving quality of education. On the other hand, public schools are not allowed to charge any tuition fee, but these are provided a larger amount per voucher. In effect, this amounts to a subsidy for public schools, which distorts consumer choice in their favour. This voucher programme came with high degree of government regulation of private voucher schools in terms of admission, curricula, teacher's qualifications and entry of new schools.

The outcome of this vouchering system has been mixed. Research indicates that in middle income areas, private schools showed higher average academic achievements than public schools, while in low income areas the opposite was true<sup>7</sup>. Furthermore, enhanced competition from private schools, facilitated by the vouchering system, improved overall achievement at the district level, despite leading to higher disparities across school types.

### **Colombia**

In Colombia, vouchers were introduced to solve the problem of shortage of seats in public secondary schools, which was responsible for poor enrolment in low income areas. The programme targeted those children from low income families who on completion of middle schooling from public schools did not find place in public secondary schools.

The government and municipalities on 80:20 sharing basis financed the vouchers and the municipalities administered the programme. Though the elite private schools did not participate in the programme, the number of commercially-oriented schools increased after introducing vouchers. However, financial assistance for public schools did not go down even in cases in which the number of students went down.

There has been a rise in enrolment in secondary schools after the introduction of vouchering. Educational achievements also improved with convergence among public and vouchered private schools, which, however, operated at a level of quality lower than private non-voucher schools.

### **UK**

Vouchers were introduced in England and Wales to provide opportunities to able but poor students. The voucher programme in UK is different from other countries, as only public schools are covered under the programme. The system created only limited competition among public schools due to 'the surplus places rule<sup>8</sup>', according to which no new school can be established as long as there are places available in an existing nearby school. The programme had little effect on competition between public and private schools, as private schools were not included in the programme. Thus, poor quality public schools had no motivation to improve the offered quality of education.

Research indicates that academic achievements improved after the introduction of vouchers, but other factors might also be responsible for the change<sup>9</sup>. The UK experience raises the following issues:

- In view of the government's stated wish to encourage competition and market discipline why is the programme so limited in coverage?
- Why are vouchers limited mainly to able students who have exhibited potential for high academic

achievement and can expect a higher lifetime income, whether or not they are assisted by vouchers?

- The UK programme offers a contrast with Milwaukee's programme in which vouchers were provided for the education of low-income students who had not been succeeding in school.

### **Lessons for India**

As discussed earlier, Friedman has argued that vouchers covering the cost of quality education should be available to all parents to provide them freedom for choosing schools for their children. The resulting competition between public and private schools would thus create a quality education environment which would be a win-win situation for all stakeholders – parents, students and teachers.

International experience seems to suggest that providing direct support to children can benefit them in terms of quality and force public schools to improve their quality. To begin, the programme can be implemented in urban or semi-urban areas characterised by a sufficient number of both private and public schools. The children attending government schools can be offered a choice between private and government schools through the voucher scheme. The voucher scheme can then be expanded to cover rural areas, after encouraging private schools to open in those areas.

Indian school education is plagued by high dropout rates and wide disparity in access to educational opportunities across income categories. The Milwaukee experience being similar can be useful for India. There may be reservations against vouchers on the ground that vouchers will destroy government schools, as these will not be able to compete with private schools. However, the example of Chile illustrates that private schools can

#### **Box 1: Education Vouchers Open a New Chapter for the Poor**

In India, the education vouchers are being implemented in Uttarakhand, UP and Rajasthan. The state governments are opting for this scheme not just for the sake of quality enhancement but also because of its cost-effectiveness. For example, the Uttarakhand government has estimated that it annually spends Rs 10,537 per child in a government school. In comparison, the government will spend only Rs 3000 through the voucher scheme.

The programme '*PAHAL*' is being implemented in three districts of Uttarakhand. The programme has targeted rag pickers, scavengers and beggars in the age group of 6-14 years. Evaluations have revealed that children enrolled under this scheme have performed on par with, or outperformed, others in mathematical and linguistic skills.

*Source: Adapted from Business Standard, September 22, 2008*



compete effectively with public schools under a voucher scheme. In the Chilean case, the government supplemented the voucher scheme by putting in additional effort into improving the quality of education and management of these schools.

## Conclusion

The education policy in India needs to be redefined as government schools are no longer able to meet the demand for quality education. More than 95 percent of the expenditure on these schools goes into salaries, leaving nothing for the maintenance and capacity enhancement of such schools. Children who attend these

schools do so because of the poor purchasing power of their parents.

Given such a state, vouchers enhance choice for students constrained by the ability of their parents to pay for school education. This results in both an increase in the average quality of education as well as equity.

At the same time, more indepth research into the impact of vouchers in Indian settings is required. Small scale trials in different parts of the country under different socio-economic and cultural settings are the need of the hour in this regard.

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