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A Policy Note on The Grant-in-Aid System in Indian Education

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A Policy Note on
The Grant-in-Aid System
in
Indian Education

MAIN ISSUES AND OPTIONS FOR REFORM

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This Policy Note was written by Sajitha Bashir in the South Asia Human Development Sector Unit (SASHD) of the World Bank, and is part of the analytic work on "Critical Issues in Reforming State Education Systems". It draws on specially commissioned consultancy reports on particular aspects of the system of public subsidization of the private education sector in India and abroad. Najmi Nafis, consultant, collected and analyzed data from state government education budgets. Tabulations of household survey data on participation in public and private education were prepared by Indicus Analytics, as part of a broader analysis of education data from the National Sample Survey, 1995/96. New Concept Consultancy Services, New Delhi, undertook a review of the Grant-in-Aid system in India, under three heads: (i) National Overview, with basic educational statistics by stages; (ii) Legal Framework, which reviewed the GIA codes in various states; and (iii) a case study of the GIA system in Kerala, based on secondary data and interviews with policy makers, administrators, teachers and parents. James Tooley (Professor of Education Policy, University of Newcastle upon Tyne) prepared a detailed analysis of the GIA system in Karnataka, which used secondary data and information collected from field visits to schools and colleges in various districts. This analysis also examined the possibilities of reforming the existing GIA system, including the financial and managerial implications of moving to a different system. Ayesha Vawda (MNSHD, World Bank) prepared a review of international experiences in granting public subsidies to the private sector.

The report benefited from comments received from Manuela V. Ferro (peer reviewer and Lead Economist, SASPR), Charles Griffin (Sector Director, SASHD), Emmanuel Jimenez (Sector Director, EASHD) and Michelle Riboud (Sector Manager, SASHD).

EXECUTIVE SUMMARY

Main Findings and Recommendations

The system of providing public subsidies to the private education sector in India, called "grant-in-aid" (GIA), originated in the colonial times and initially consisted of financial support to private non-profit institutions for a part of the recurrent and capital costs of providing education. The private sector, in general, financed the major part of the capital costs. A significant change occurred in the early 1960s, when many states, following the example of Kerala, tied the subsidy to teachers' salaries, which were placed on a par with those of teachers in government institutions. New private institutions could request GIA – which was usually granted - by operating for a minimum number of years without aid, ensuring minimum standards and facilities as required by the GIA code and obtaining recognition from the regulatory bodies. The GIA mechanism involves supply-side financing, with grants linked to teacher salaries and considerable regulation of private institutions by the government. The experience with demand-side interventions (scholarships and stipends) has neither been on a large-scale nor very salutary.

Most Indian states have made extensive use of the private sector to expand access to secondary and higher education by providing public subsidies. The grant-in-aid institutions are significant providers of education, particularly secondary education and above, in many large states of India. At the primary level, over 80 percent of enrolment is in government schools in most states but four states have made moderate to extensive use of aided schools at the primary level. In other states, private unaided schools, rather than aided schools, are more prominent at the primary level. At the secondary level, in seven states, over two thirds of enrolment is in private institutions, most of them aided. At the tertiary level, nationally, one-third of total enrolment is in private aided institutions, but the share is significantly higher in states with as larger number of colleges.

The GIA mechanism seems to have expanded access at the primary level; it has also served the poor and the disadvantaged in many states but its performance in terms of equity goals has been mixed. Using the state as an unit of analysis, the Gross Enrolment Ratio (GER) for the 6-11 year olds is positively associated with the extent of use of aided institutions at the primary level, even after controlling for per capita state income. The relationship does not hold for the enrolment ratio for the 11-14 or 15-17 year age groups. Although it is impossible to infer causality from this association due to the limited number of observations (states), the result does raise the question whether subsidization of the private sector is an effective means of expanding access especially at the primary level. The participation of the poor and disadvantaged groups in aided institutions varies by state and level of education. At the primary level, in most states, they serve a greater proportion of SC/ST, rural and poor students than the unsubsidized private schools, but not as much as the government schools. In some states (most of them with small GIA sectors), however, the *unsubsidized* schools serve a greater proportion of the poor. At levels beyond primary, the subsidy to private institutions greatly favors the richer groups because relatively few of the poor reach the higher stages of education. An extreme case is that of Orissa where subsidies to the private sector are highly inequitable, because the state provides public aid almost entirely for private colleges while it has relied exclusively on government provision at the primary level where access is still relatively restricted due to overall constraints on government expenditures.

Six broad sets of issues which affect the present system are discussed in further detail: (i) rigidities in the GIA system for higher education including inability to adjust the subsidy to changes in student demand; (ii) teacher issues, including inflexibility in teacher deployment, delays in appointments, delays in disbursement of salaries, linking teachers' salaries to government pay scales and lack of accountability; (iii) weak legal framework and/or inability to implement laws; in addition, many states have tens of thousands of pending court cases involving aided institutions; (iv) limited resource mobilization by private sector; (v) lack of monitoring, leading to gross abuse of the subsidy in some states, and lack

of quality assurance of providers; and (vi) lack of competition and a holistic framework for private sector development.

Attempts at reform in various states have been ad-hoc and piecemeal with frequent reversals in policy, leading to disruptions in education. The primary motivation for reform has been to contain public expenditures rather than to improve the system of public subsidies to the private sector so that they contribute to the educational goals of improving access, equity, quality and efficiency. Many states tried to cut back on the subsidy bill by preventing new institutions from becoming eligible for aid, withdrawing support to teacher posts that fell vacant in aided institutions and for specific courses in higher education. The result has been often to lock in existing inefficiencies and the inequitable distribution of public spending, with older aided institutions, which often serve the richer groups, continuing to receive high levels of subsidy per student, while new private institutions, often operating at lower cost and in poor areas, get no subsidy at all. Since institutions are sometimes allowed to hire unsubsidized teachers, there are often two streams of teachers at vastly different salary levels, creating problems of morale and management.

Due to the problems in using the current system of providing subsidies to the private sector, and faced with the challenges of having to expand access to education, state governments have by default fallen back on either using direct government provision or using the private unaided (self-financing) sector. Where budgets are constrained, which is the case in the poorer states, states have relied on direct government provision to expand access to primary education in rural areas but tried to cut costs by using community supported schools, lower-paid parateachers, alternative schools and so on. In urban areas and in secondary and higher levels, they tend to rely on the unaided sector. While both strategies minimize the burden on the state's fiscal resources, they raise issues of equity, since the poor tend to receive education of a lower quality or at a higher cost (and sometimes both).

Should the government cut back or eliminate subsidies to the private sector? If expanding access, improving equity and quality are the goals of education sector policy, the question is whether the government can better achieve these goals by using direct government provision or by using the private unaided sector. Comparing the educational outcomes and costs of the government, aided and unaided sectors can provide some guidance in answering this question. There are relatively few studies comparing the sectors on these attributes, especially on the effectiveness or value added by institutions of different types. It is clear, however, that the costs in government institutions are at least as high as in aided institutions, and much higher than in unaided institutions. Under current cost conditions, expansion through the government sector alone seems a fiscally unviable option. Expansion through the private unaided sector, on the other hand, poses serious equity issues since poor students will be unable to pay the required fees, especially at higher levels.

This evidence in this study suggests that continued use of the system of public subsidies for the private sector is a viable option for expanding access for the poor and mobilizing additional resources for education and is preferable to eliminating these subsidies. Thre e main approaches in continuing the system of public subsidization of the private sector can be delineated: (i) retain the main features of the present GIA system but improve its administration to ensure it achieves educational goals; or (ii) reform the system to move to a system of performance-based grants for schools; or (iii) move to a student-based subsidy system allowing students to choose between public and private schools.

The choice of strategy will need to be state-specific, determined by state priorities regarding sub-sectors, and will need to take into account the political and social feasibility of implementing reforms. *However, for all states, it is desirable to move away from the present ad-hoc revisions to the GIA policy towards a holistic reform effort that is grounded in the state's vision for the education system.* The relative priorities for different states are discussed in the study. Reform of the higher education sub-sector is probably a priority for all states because equity issues are most pronounced here and efficiency losses are greatest, but it is also more difficult because of the involvement of Universities; consequently, it

needs a different approach from that in other levels. Overall, the reform process should be guided by educational goals and priorities and not short-term fiscal stress. Reforms are most likely to succeed when they are situated within a framework and strategy for the entire sector.

For many states, retaining the present GIA system and improving its administration is the most viable short-term strategy. International experience suggests that moving to a student-based subsidy system or a performance-based grant system for schools requires considerable development of institutional capacity to develop criteria for releasing funds and for developing systems to ensure that the funds reach the targeted students or schools. For performance-based systems, an independent quality assurance organization that provides information on school quality and learning outcomes is also required. The involvement of professional and/or competent non-governmental organizations is often a pre-requisite for implementing such systems.

Improving the efficacy of the current GIA system:

Immediate steps can be taken to improve efficiency, reduce corruption and abuse and ensure ease of compliance by managements, such as:

(a) Improve targeting of the aid for higher education by phasing out courses at the college level that face low demand and offering aid to newer courses; introducing equity criteria for colleges for continuation of the grant.

(b) Create and regularly update a computerized database on institutions, students, teachers, and performance indicators. The database should have two parts; (i) a public set of outputs that is available in hard copy and on a website could be used by parents, teachers, legislators and local bodies and (ii) an internal database that serves as MIS to improve financial management and performance monitoring. *Since many state governments lack internal technical capacity, the creation and maintenance of this database could be outsourced to competent private parties.*

(c) Publish a comprehensive update of all rules and regulations applicable to schools and colleges, neatly summarized in comprehensible language to be accessible to all.

(d) Strengthen financial management and do independent audits with elaborate parameters on a sample basis to carry out physical verification, auditing of accounts and evaluations of learner achievement.

(e) Review all existing rules and regulations to simplify and delete potentially conflicting provisions. Undertake computerization, consolidation and classification of pending legal cases to promote speedy disposal. Initiate penalties against institutions that are engaged in open fraud (for instance, with no students or teachers).

Additional steps within the existing system which, however, require careful planning and implementation, could help to mobilize resources from the private sector and enforce accountability for results:

(f) Introduce greater flexibility in fees for richer students and make resource mobilization by private managements a condition for continuing the grant.

(g) Create independent quality assurance organizations/mechanisms to monitor quality and learning outcomes and exert external pressure on institutions to upgrade quality and improve accountability.

Moving to an alternative system of providing subsidies to the private sector.

The two alternatives are to move to a performance-linked grant system for schools or to move to a student-based grant system. In the first case, the school receives a grant conditional on achieving certain performance standards (equity, enrolment, learning outcomes). In the second case, the grant is calculated per pupil and can be given either to the institution or directly to the students. In both cases, the major reform is to delink the grant from teachers' salaries and give greater discretion to private institutions in using the grant within broad guidelines. A performance-linked grant system requires establishing systems for setting

standards and monitoring quality. At the school level, this may require establishing an independent body to do this; at the college level, this requires revitalizing the Universities. A student-based grant system is theoretically better in terms of targeting of poor students, but requires considerable administrative capacity (especially if the number of students is large and hence may not be feasible immediately for states with large GIA systems).

Since both these are major reforms, and may encounter resistance from existing beneficiaries, the reform program needs to be spelt out in detail for each state. The main steps involved are discussed in the study, some of which are:

(a) At the university level, create a fund to enable institutions to opt out of GIA is probably best to jump start the process and promote voluntary buy-in to the reform. It is best to link this reform to other measures to promote quality and relevance, such as curriculum renewal, pedagogical innovation and greater autonomy.

(b) At the secondary level, both an incremental approach (allowing schools to move from the teacher-linked grant to a per-pupil based grant as aided teachers retire or leave) and an institutional opt-out approach can be considered.

(c) Both approaches will require reforms in regulations enabling private institutions to mobilize additional resources through fees and other sources.

(d) In both cases, involvement of reputable groups outside the government (professional groups or credible private organizations with no direct conflict of interest) is required to make the reform transparent and successful.

Both approaches will require additional financing in the short-term and considerable technical capacity building of government officials to design and monitor the new grant scheme and partner with outside groups in administering it – and hence, may not be feasible for states with weak administrative capacity. The willingness of the state government to undertake appropriate preparatory actions and creating organizational homes for this task will need to be assessed.

Reform of the GIA system is best situated within a coherent strategy for the sector as a whole, encompassing the government system as well as the private unaided system. *In particular, reforms in teacher management and school management are required in government institutions; and a consistent policy regarding curriculum and language of instruction is required to allow competition between the government, aided and unaided institutions.*

Finally, the risk of moving to a grant system delinked from teachers' salaries, is that annual grants can be highly susceptible to short-term budgetary constraints, creating potentially serious dislocations for students. This is because, typically, non-salary expenditure in education is not protected when there are revenue shortfalls. Measures to protect the grants from annual fluctuations will be required to make the reform process credible and acceptable.

Irrespective of the approach to reform adopted in individual states, individual state government education departments may find it difficult to start the process and develop a well-thought out program of reform without additional technical inputs or financial incentives. *State fiscal adjustment programs can offer financial incentives* for state governments to opt for change and to achieve educational goals through more efficient use of their resources. *Another strategy is for the Central government to provide financial and technical assistance for states to develop and implement reform packages that meet centrally laid down criteria and guidelines while allowing for diversity in state-specific educational needs and goals.* These interventions can also help to monitor progress in the reform program, to introduce changes with the experience of implementation and to expose states to experience of similar reforms elsewhere.

A Policy Note on The Grant-in-Aid System in Indian Education: Main Issues and Options for Reform

Background and Objectives

The aim of this Policy Note is to contribute to the broader discussion on how the private sector can be best used to achieve priority educational goals in India. These goals include expanding access to elementary education, and increasingly to secondary and tertiary education, ensuring equity in participation and completion rates, as well as improving quality and relevance at all levels of education. Achieving these goals will require significantly higher resources and also more efficient use of existing resources. Many countries are trying to use the private sector to mobilize additional funds and to promote competition and greater efficiency in the use of public funds for education.

This study focuses specifically on the publicly aided private education sector in India. India has a very large private sector in education, much of it operating under a "voucher-like" system. Educational institutions receiving Grant-in-Aid (GIA) from the state government budget receive subsidies for teachers' salaries, in proportion to the number of students they enroll. Despite the challenges of finding additional resources to expand access and improve quality, during the nineties, many state governments in India have been trying to restrict public subsidies to the private sector in education. In order to deal with the pressures of enrolment expansion, while containing fiscal costs, governments have usually opted for utilizing low cost (and in some cases, lower quality) alternatives to expand access through direct government provision, especially at the primary level, and making greater use of the private unaided (self-financed) sector at all levels of education.

Reform of the present system of granting public aid to private educational institutions is considered imperative, both due to fiscal pressures and due to the challenges of managing this huge sector. A variety of reforms have been attempted in many states over the last decade. Reductions in GIA were explicitly posited by state governments as part of their fiscal adjustment programs, such as in Uttar Pradesh, Orissa and Karnataka. Many of these attempts failed faced with opposition by private institutions, teachers and students who often successfully approached the courts for obtaining stay orders. In many instances, the reforms have been ad hoc and they have not been necessarily guided by the goal of achieving educational objectives and an evaluation of alternative means. Furthermore, reforms have been attempted in individual states, often ignoring experience from other states; the Central government has not directly intervened in these reform attempts.

This Policy Note lays out the main issues in the GIA system and discusses options for reform. *The key conclusion is that providing public subsidies for private education is a viable means for achieving educational goals of improving access for the poor and for greater resource mobilization.* The alternatives are to resort to direct government provision, which is higher cost and may be less effective, and unsubsidized private provision, which is inequitable. The GIA system is one way of providing subsidies to the private sector, and it has worked fairly well in the past in several states, but it needs reform to improve equity targeting and performance monitoring, and reduce inefficiencies. For many states, improving the existing GIA system may be the best immediate option, but other models of giving subsidies (direct financing of students, performance linked grants to schools) should be considered where appropriate institutional capacity and implementation conditions exist. While reform efforts could be initiated in individual states, the Central government can also provide financial and technical assistance for states to develop and implement reform packages that meet centrally laid down criteria and guidelines, but allow for diversity in meeting state-specific educational needs and goals.

The paper describes the scope and coverage of the GIA system across different education levels and states; analyzes the benefits of this system and the main problems in implementation; summarizes the

recent attempts at reform in several states and international experience with public subsidization of private education; and discusses options for improving/reforming the system of public subsidies to the private sector, which could be used in the context of Central government education programs or the state fiscal adjustment programs. The paper is based on several background papers/reports: (i) a review of the national statistics and public expenditures on GIA institutions; (ii) a review of the legal and regulatory framework at the national level and in specific states; (iii) a case study of the state of Kerala which has made extensive use of GIA institutions and achieved universalization of elementary and secondary education and a high level of enrolment in higher education; (iv) a detailed study of GIA institutions in Karnataka, including financial simulations of moving to a different type of subsidy system using data from a sample of schools; and (v) a review of international experience in providing public support for the private sector in education.[1]

The Grant-in-Aid System in India – An Historical Perspective

The private sector in India refers both to institutions: (a) that were established by private persons and continue to be managed privately but which receive public aid on a regular basis (called aided institutions); and (b) that are managed privately but receive no public funds (called unaided institutions). Most of the latter are recognized institutions, i.e., they are certified by the government to have minimum standards of physical and teaching facilities and are authorized to offer students for public examinations. Some states allow unrecognized institutions, which do not satisfy these criteria to function especially at the elementary level; students from these institutions have to gain entry into a recognized institution by the time they wish to appear for public examinations or, alternatively, are allowed to appear as private candidates in public examinations. [2]

The GIA system was introduced by the British administration in 1859, in the erstwhile Bombay Presidency, with the aim of promoting voluntary effort and reliance on local resources. The role of the colonial state in direct provision of education was restricted to the few English-medium schools and the universities. Initially, voluntary effort in education was undertaken mainly by Christian missionaries, but later with the advent of social reform movements, other communities started establishing schools and seeking financial assistance from the government.

The historical origin of the GIA system has had a lasting imprint on the characteristics of the private institutions receiving public subsidies. A very large number, especially of the older institutions, continue to be those affiliated to the church; others are associated with other religious or caste groups who saw modern education as a means to economic, social and political advancement. Non-pecuniary goals often motivated the establishment of these private institutions, but education itself was seen as vital to achieving these goals. This is especially true of the regions where western education had made large inroads by the time of independence – in particular, Kerala, Tamil Nadu, southern Karnataka, and Maharashtra. The aided institutions that were set up in the post-independence era, in these regions as well as in other states which formerly had few education facilities and expanded education after independence, were more eclectic in nature. The non-profit status, although formally adhered to for legal reasons, was not necessarily the primary motive for establishing the institution. In many states, accessing political power via the education system (but not necessarily providing education itself) was the primary motive of establishing private educational institutions that received public subsidies, through instruments such as the teachers' unions. [3]

A great impetus to the establishment of private educational institutions was provided by the Constitutional provisions under Articles 28, 29 and 30, which provided that minorities, whether based on language or religion, were entitled to establish educational institutions to preserve their language

[1] *References of all background papers used for this study are given at the end of the paper.*
[2] *Again, a few states allow students to appear as "private candidates" in public examinations at the end of the lower secondary stage, which eliminates the need to study in a recognized institution at any stage.*
[3] *Kingdon and Muzammil (2001).*

and culture. They can also receive government assistance but they cannot exclude any student purely on the grounds of religion or language.

As originally formulated and implemented for several decades, the grant-in-aid system in India provides public funds to private institutions to cover part or all of the teachers' salaries and a part of other recurrent costs (called "maintenance grants"), while the private management finances all the capital costs and part of the recurrent costs. A major reform introduced in Kerala soon after independence, which introduced uniformity in the treatment of private and government teachers, became the model for most other states. Kerala had made the most extensive use of private institutions even at the primary level since the 19th century by enabling private educational institutions established by various religious and caste communities to seek public aid. The GIA rules encouraged the private managements to mobilize their own resources, only subsidizing part of the recurrent costs. This led to considerable diversity in the availability of resources across private schools, variation in teachers' salaries and teachers being subjected to arbitrary removal by management. After independence, the Kerala Education Bill (1957) sought to introduce uniformity in the operations of aided and government schools, specifically in the appointments and salaries of teachers and their rights. The Bill proposed that: (a) private institutions had to appoint teachers from a district list of qualified and accredited teachers; (b) private schools could be taken over by the government for non-compliance with the rules; (c) a local education authority would be constituted to oversee all schools in the area; and (d) private teachers were to be paid the same salary as those in government institutions although the full salary was not payable by the government. These provisions of the Bill were opposed by the private managements and opposition Congress party at the time. Nevertheless, a fresh Act passed in 1958 by the newly elected Congress government embraced almost all of them, with the major change that while private managements would retain the right to appoint teachers (fulfilling prescribed criteria), the government would pay salary to the teachers in aided institutions at the same level as in government institutions.

The Kerala "model" became the model for other states although certain features of the Kerala GIA system were not adopted by all states. Specific features of the Kerala GIA system were: (i) transparency – the GIA scheme was included in the Kerala Education Act and Rules passed by the Legislature and any changes required legislative sanction; (ii) flexibility in management structure; (iii) appointment of a Manager, who is not a teacher or a principal and who is legally responsible, by every institution; (iv) staff and student strength verification by the government to sanction teacher posts; (v) provisions for government to re-deploy teachers from "surplus" post schools; (vi) direct payment of teachers' salaries to reduce corruption; and (vii) mandatory parent-teacher associations in every school to oversee functioning of the school and prevent abuse of the aid.

Size of the Private Aided Sector in India – School Education

In school education (classes 1-12), the private-aided sector is large at the secondary and higher secondary, but there are significant differences across states. In 1995-96, the latest year for which all-India data are available, approximately 44 percent of higher secondary schools and 34 percent secondary schools were private-aided (Table 1). Only 2.4 percent of primary schools and 10.1 percent of upper primary schools were private aided.

Data on the distribution of schools by management type are available for selected states for 2000-01 and reveal considerable variation across states in the proportion of aided institutions (Table 2). In Maharashtra, Uttar Pradesh and Kerala, over half the institutions are aided at the secondary and higher secondary levels (and at the primary level also in the latter). The absolute number of aided institutions is very large in these states –8,000 in Kerala, 10,000 in Uttar Pradesh and 14,500 in Maharasthra. Uttar Pradesh, however, has almost double the number of private unaided institutions, most of them primary and upper primary schools, whereas Kerala and Maharasthra have fewer unaided institutions. The other three states – Andhra Pradesh, Punjab and Himachal Pradesh – have relatively few aided institutions, and a greater proportion of unaided institutions.

Table 1: Distribution of schools by management, 1995-96					
Type		Govt/LB	Private Aided	Private unaided	Total
Primary	No.	544040	20378	28992	593410
	%	91.7	3.4	4.9	100.0
Upper primary	No.	133935	17591	22619	174145
	%	76.9	10.1	13.0	100.0
Secondary	No.	33305	24582	14418	72305
	%	46.1	34.0	19.9	100.0
Higher	No.	10349	10926	3379	24654
Secondary (10+2)	%	42.0	44.3	13.7	100.0
Source: *MHRD*					

Enrolment shares indicate, however, that the private aided sector plays a larger role than that indicated by the share of schools, even at the primary and elementary levels. Data on enrolment are available only for 1993 from the 6th All India Education Survey (AIES)[4] The share of private aided institutions, for India as a whole, was 48 percent at the higher secondary stage, 46 percent at the secondary stage, 31 percent at the upper primary stage and 11 percent at the upper primary stage. Data on enrolment shares for individual states reveal some interesting patterns, both in the relative importance of the private aided and unaided sector across states and across different levels of education (Table 3).[5] Although the relative share of aided institutions is likely to have gone down since then, due to the curbs on giving GIA to new private institutions, the patterns are unlikely to have changed dramatically.

The first category of states comprises those which rely heavily on aided institutions at both primary and secondary level; the share of private unaided institutions is relatively small at both levels. Kerala is unique in that over half the students at all stages, from primary to higher secondary, are enrolled in private aided institutions. Tamil Nadu is also fairly consistent in its use of aided institutions, with the enrolment share rising from 30 percent at the primary stage to 42 percent at the higher primary stage. Maharashtra makes considerable use of private aided schools at the primary level (37 percent) but even more so at the secondary level (89 percent).

The second group of states – Gujarat, Uttar Pradesh, West Bengal, Orissa and Karnataka – makes relatively little use of the private aided sector at the primary level (1-17 percent) and with the exception of West Bengal, *there is greater or the same reliance on the private unaided sector rather than the aided sector at this stage*. These states, however, rely almost exclusively on aided institutions at the secondary level, with enrolment shares exceeding those in the first category of states. The private sector is relatively small at the primary stage but very large at the secondary stage. Orissa is noteworthy in that it has virtually no private sector –aided or unaided – at the primary stage, but has a large aided private sector at the secondary stage.

The third group of states (Madhya Pradesh, Andhra Pradesh, Haryana, Punjab and Rajasthan) makes limited use of the private aided sector in the primary stage and moderate use at the secondary stage. At the primary stage, there is greater reliance on the unaided sector compared to the aided sector, whereas the secondary stage, there is almost equal reliance on both types of private institutions. Overall, the private sector is relatively small at both levels, accounting for 10-20 percent of enrolment.

Finally, the last group of states (Himachal Pradesh, Assam and Bihar) make negligible use of the private sector at both the primary and secondary stages; the

[4] *Conducted by the National Council of Educational Research and Training (NCERT).*

[5] *For ease of comparison across states, enrolment shares at only primary (classes 1-4/5) and secondary (classes 8/9 –10) are used since enrolment shares in aided institutions at the upper primary stage (classes 5/6-7/8) and higher secondary stage (classes 11-12) are likely to differ depending on the whether the former is linked to secondary schools and the latter to colleges.*

Table 2: Distribution of Schools by Management, 2000-01 – selected states (percent of all schools at each level)					
State	Type	Primary	Secondary	Higher Secondary	Total (nos)
Maharashtra	*Aided*	*5.4*	*66.3*	*88.3*	*14,502*
	Unaided	5.1	25.2	4.8	6,340
Uttar Pradesh	*Aided*	*1.6*	*48.2*	*74.7*	*10,092*
	Unaided	11.9	22.9	6.2	20,266
Kerala	*Aided*	*59.7*	*50.9*	*42.6*	*7,919*
	Unaided	2.3	13.5	9.0	801
Andhra Pradesh	*Aided*	*3.6*	*8.4*	-	*3,362*
	Unaided	2.3	24.3	-	6,934
Punjab	*Aided*	*0.6*	*9.5*	*14.1*	*478*
	Unaided	6.2	10.9	9.5	1,273
Himachal Pradesh	*Aided*	-	*2.5*	*3.9*	*61*
	Unaided	-	13.9	14.3	333

Note: *The total number of institutions includes upper primary institutions.*
Source: *MHRD*

Table 3: Enrolment Shares in Private Institutions at Primary and Secondary Level by State (1993-94)						
	Primary			Secondary		
	% PA	% PUA	% PVT	% PA	% PUA	% PVT
Large private sector at both levels – mainly private aided						
Kerala	57	4	61	56	2	58
Tamil Nadu	29	3	33	36	4	40
Maharashtra	20	7	27	78	11	89
Large private sector at secondary level – mainly private aided						
Gujarat	4	12	16	89	2	91
Uttar Pradesh	4	18	22	77	9	86
West Bengal	17	0	17	74	2	76
Orissa	1	1	2	51	18	69
Karnataka	11	10	22	53	14	67
Moderate size private sector at both levels – small private aided sector						
MadhyaPradesh	3	13	26	9	20	29
AndhraPradesh	9	10	19	16	12	28
Haryana	3	7	10	13	13	26
Punjab	5	6	11	19	6	25
Rajasthan	4	16	20	9	6	15
Small private sector – negligible private aided						
HimachalPradesh	1	5	6	4	6	10
Assam	1	1	2	6	2	8
Bihar	2	1	3	4	2	6

Source: *Calculated from Sixth All-India Education Survey, NCERT.*

enrolment share in aided institutions is very low at both stages.

The importance of the private sector, and the relative importance of the aided and unaided sectors are markedly different in urban areas (Table 4). In order to facilitate comparison with the overall enrolment shares in Table 3, the same grouping of states has been maintained. Several points are striking. First, the private sector as a whole accounts for 40-70 percent of enrolment at the primary stage in all states, except West Bengal (31 percent) and Orissa, Assam and Bihar (each less than 15 percent). Second, while the first group of states makes use of the private aided sector in the primary stage both in rural and urban areas, many of the states in the second and third group make considerable use of aided institutions at the primary stage in urban areas but not in rural areas. In the latter set of states, public aid to private institutions benefits the urban population to a considerable degree. Third, a significant number of states rely on the private unaided sector in urban areas even at the primary stage: between 30-60 percent of primary enrolment is in these institutions in Gujarat, Uttar Pradesh, Madhya Pradesh, Andhra Pradesh, Haryana, Punjab, Rajasthan and Himachal Pradesh. This implies that there is a clear division in urban areas in these states between the poor, who largely attend the government schools, and the richer sections, who attend the fee-charging private schools.

At the secondary stage, seven states in the first two groups rely heavily on aided secondary schools in urban areas. However, in four of them, the contribution of rural-aided institutions is greater than that of urban-aided institutions (in terms of enrolment shares in the respective locations). These are Kerala, Maharashtra, Gujarat and Orissa (italicized in Table 4). In other words, aided institutions have contributed to rural secondary education in these states more than in urban areas.

At the secondary stage, seven states in the first two groups rely heavily on aided secondary schools in

Table 4: Urban Areas: Enrolment Shares in Private Institutions at Primary and Secondary Level (1993-94)

	Primary			Secondary			Rural Secondary	
	% PA	% PUA	% PVT	% PA	% PUA	% PVT	% PA	% PUA
Kerala	60	8	68	52	5	57	57	1
Maharashtra	37	17	54	76	22	99	80	10
Tamil Nadu	50	9	59	48	7	55	25	2
Gujarat	8	31	39	87	3	90	92	1
Uttar Pradesh	11	53	64	78	6	84	77	12
West Bengal	29	2	31	73	4	77	75	0
Orissa	3	9	12	27	10	37	58	20
Karnataka	25	27	52	56	16	72	50	11
MadhyaPradesh	7	41	49	11	24	35	7	16
AndhraPradesh	22	33	55	29	23	52	5	3
Haryana	14	32	46	32	29	61	2	3
Punjab	21	22	43	37	13	50	6	1
Rajasthan	13	46	59	18	13	31	1	0
HimachalPradesh	5	35	40	6	17	23	3	4
Assam	1	3	4	6	2	8	6	2
Bihar	7	6	13	8	5	13	2	1

Source: *Calculated from Sixth All-India Education Survey, NCERT.*

urban areas. However, in four of them, the contribution of rural-aided institutions is greater than that of urban-aided institutions (in terms of enrolment shares in the respective locations). These are Kerala, Maharashtra, Gujarat and Orissa (italicized in Table 4). In other words, aided institutions have contributed to rural secondary education in these states more than in urban areas.

Size of the Private-Aided Sector in India - Higher Education

The only information available for higher education at the national level is for 2000-01. Of the total 13,072 institutions, 42 percent are private aided (Table 5). About 37 percent of the total enrolment is in private-aided institutions – approximately 3.1 million out of a total 8.4 million. However, the distribution across states is markedly different. Although the break-up of enrolments by public and private sectors is not available for individual states, it is likely that most of the growth in enrolment in states with rapidly expanding higher education sectors has occurred in private unaided colleges or in "self-financing courses". Since 1992/93, restrictions on government funding have made it difficult for governments to open new colleges, sanction new courses or staff. Many state governments/universities have granted recognition/ affiliation to unaided colleges and Universities have also authorized new "self-financing" courses in government and aided colleges.

Public Expenditure on Grants-in-Aid

The size of the aided sector suggests that a significant share of the public education budget will be devoted for subsidies to the private sector. Table 6 shows how this share varies across states at different levels of education and how it has changed over time. States have been ranked by the share of GIA in total public expenditure in 2000-01.

Eight states spend more than quarter of their public education budgets on subsidies to the private sector. The proportion is as high as 81 percent in West Bengal. In all these states, GIA accounts for over half the public spending in higher and secondary education, but the proportions in some states are as high as 90 percent. In West Bengal and Kerala, GIA accounts for 84 and 55 percent, respectively, of public spending at the elementary level. Another three states, while spending a relatively small share of their total education budget on GIA, nevertheless spend between a quarter and two-fifths of their higher education budget on GIA. The remaining four states – Madhya Pradesh, Rajasthan, Bihar and Himachal Pradesh – display relatively low shares of GIA in both total education and sub-sectoral public expenditure. Not surprisingly, these are also the states with relatively low enrolment shares in aided institutions.

One state, West Bengal, has significantly increased the share of GIA in public education expenditure from 51 to 82 percent. Three states, however, have considerably reduced the share of GIA in total education expenditure by about 10 percentage points – Tamil Nadu, Assam and Orissa. Other states have maintained a more or less constant share.

Clearly, subsidies to the private education institutions constitute a significant claim on public education expenditures in a majority of states, especially at the secondary and higher education levels. The sheer size of these subsidies implies that the management and administration of these subsidies is an important

Table 5: Higher Education: Institutions and Enrolment by Type of Management, 2000-01

Management	Universities	Colleges	Universities + Colleges	Enrolment (in thousands)
Government College	245	4097	4342	3443
Private Aided College	—	5507	5507	3134
Private Unaided College	21	3202	3223	1822
Total	266	12806	13072	8399

Source: *University Grants Commission.*

Table 6: Share of Grant-in-Aid Expenditure in Public Education Budgets					
State	Share of GIA in Total Public Education Expenditure		Share of GIA in Public Expenditure at each level (2000-01)		
	1990/91	2000-01	Higher	Secondary	Elementary
High share of GIA in Total Public Expenditure					
West Bengal	51.1	81.7	44.6	94.2	84.4
Uttar Pradesh	n.a.	n.a.	70.3	76.7	n.a
Kerala	55.2	52.8	57.1	51.7	55.3
Maharashtra	49.4	44.7	87.2	77.8	0.1
Gujarat	35.3	33.9	64.2	88.7	0.0
Tamil Nadu	59.7	32.1	54.6	34.9	26.2
Assam	33.3	24.8	29.8	66.3	6.4
Karnataka	24.1	n.a.	65.4	n.a.	n.a.
Low share of GIA in Total Public Expenditure- Large share in Higher education					
Haryana	9.9	10.0	35.8	7.8	2.0
Orissa	29.9	9.1	42.7	7.7	1.3
Andhra Pradesh	18.0	7.9	26.5	20.0	7.3
Low share of GIA in Total and Sub-Sectoral Public Expenditure					
Madhya Pradesh	5.8	5.7	12.8	7.8	1.6
Rajasthan	5.9	3.2	11.1	3.7	1.5
Bihar	1.2	1.6	0.0	3.6	1.1
Himachal Pradesh	1.1	1.3	10.5	1.1	0.4

Note: 1. Total includes GIA on technical education. 2. Data for 2000-01 are revised estimates. 3. For Uttar Pradesh, public subsidies to private institutions could not be obtained for elementary and for total. 4. For Karnataka, GIA on elementary, secondary and total not available for 2000-01. 5.Data for Bihar in the last year are for 1999-2000.
Source: Compiled from Detailed Demand for Grants for Education of individual state governments.

component of the management of the education budget as a whole.

Table 7 shows the distribution of total GIA across levels of education. In the eight states where GIA represents a high share of total public spending on education, the major share of GIA goes to secondary education. The exceptions are Kerala (where 51 percent goes to primary) and Tamil Nadu where almost primary and secondary get almost equal shares. It is also noteworthy that the states, which have a low share of GIA in total public spending on education, also tend to spend a larger share of the GIA on higher education (except for Bihar). With the exception of Haryana, these states are also those which are more backward educationally and primary enrolment and completion rates are relatively low. The most striking case is that of Orissa which spends nearly three-quarters of the total GIA on higher education. Public subsidies to the private sector have been used in these states for higher education rather than school education.

Performance and Costs of Aided Institutions Access and Equity

Public subsidization of private schools can enhance access by eliminating the direct costs of schooling. Using data for 16 states, a simple regression analysis shows that the gross enrolment ratio for the 6-11 year age group is positively related to the percentage of enrolment in aided institutions, even after controlling for per capita state income (Table 8). The relationship does not hold for the enrolment ratio for the 11-14 or 15-17 year age groups, suggesting that the grant-in-aid mechanism may have been more useful in promoting access at the primary level by greatly expanding coverage.

Table 7: Distribution of GIA Across Levels (% of row totals), 2000-01					
States	Elementary	Secondary	Higher	Technical	Total (Rs.bill)
High share of GIA in Total Public Expenditure					
West Bengal	37.6	54.8	7.6	0.0	33.88
Uttar Pradesh	n.a.	n.a.	n.a.	n.a.	n.a.
Kerala	50.7	31.2	16.7	1.4	14.16
Maharashtra	0.1	67.4	26.3	6.2	38.18
Gujarat	0.0	76.9	23.2	0.0	11.32
Tamil Nadu	40.3	39.1	19.7	0.9	16.65
Assam	15.2	66.3	18.4	0.0	5.74
Karnataka	n.a.	n.a.	n.a.	n.a.	n.a.
Low share of GIA in Total Public Expenditure- Large share in Higher education					
Haryana	8.5	29.3	56.7	5.5	1.34
Orissa	8.9	18.5	72.6	0.0	1.53
Andhra Pradesh	20.8	39.1	38.7	1.4	5.52
Low share of GIA in Total and Sub-Sectoral Public Expenditure					
Madhya Pradesh	18.5	20.7	33.0	27.8	1.36
Rajasthan	28.1	36.9	23.4	11.7	1.04
Bihar	48.8	46.5	0.0	4.6	0.51
Himachal Pradesh	18.8	21.9	59.3	0.0	0.09

Note: *See Table 6.*
Source: *Compiled from Detailed Demand for Grants for Education of individual state governments.*

By itself, the regression result for the 6-11 year age group does not establish a causal relationship and a rigorous evaluation of this hypothesis cannot be attempted without controlling for factors that influence choice of different types of schools. However, it does suggest that public subsidies to the private sector are particularly useful at the primary level to expand access. Their usefulness at higher levels depends in part on how many students are able to complete the primary level, which is related to both family constraints and the quality of schooling provided.

The participation of the poor and disadvantaged in aided institutions presents a mixed picture across states. In particular, where the GIA is concentrated on the secondary and higher education levels, a disproportionate share of public subsidies to the private sector are captured by the higher income groups (since their participation rates at these levels are higher). We examine three aspects of equity: the share of SC/ST enrolment, rural enrolment and poor students in total enrolment in the government, aided and unaided institutions.

Table 8: Gross Enrollment Ratio (6-11 year age group) and Enrolment in Aided Institutions			
	Explanatory Variables		
	Constant	Per capita income	% Enrolment in aided schools
Coefficient	43.54	3.05	0.29
Standard error	7.54	0.95	0.16
T-value	5.78	3.23	1.8

R-squared: 0.64
Note: *Dependent variable- GER for 6-11 year age group (NSS, 1995/96); real per capita state GSDP in thousands of rupees (1995/96 – state data); % enrolment in aided schools at the primary level (6th AIES, 1993/94). Number of observations: 16 states.*

The proportion of SC/ST students in aided institutions is greater than that in unaided institutions, but it is considerably lower than that in government institutions (Table 9a). This is true at all levels, but the differences are especially striking at the primary level, where it is clear that the government schools have very high proportions of SC/ST students, compared to the population share of these social groups. In Kerala and West Bengal, the proportion of SC/ST students in aided institutions is close to their share in government institutions and their population shares (in Kerala, aided institutions actually have a higher share at the college levels). Other states in which aided institutions have a share of SC/ST close to their population share at the primary level are Bihar, Orissa, Tamil Nadu and West Bengal. Beyond the primary level, the proportion of SC/ST student falls in many states. Overall, therefore, public subsidies to the private sector disproportionately benefit other caste groups while the unsubsidized private institutions do not provide for significant sections of the SC/ST population. Apart from a few states, the SC/ST students rely almost entirely on direct government provision of education.

In all states, government institutions have an overwhelming share of rural students at the primary level (Table 9b). Aided institutions have a high proportion of rural students at the primary level in Assam, Bihar, Kerala, Tamil Nadu, Uttar Pradesh and West Bengal. Other states, however, have a significantly lower share of rural students in aided institutions. Especially noteworthy are the relatively high shares of rural primary students in unaided institutions in many states in all but five states (Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal). In secondary education, government institutions cater predominantly to rural students in all states. Aided institutions, on the other hand, cater predominantly to urban students in eight states; contrary to expectations, unaided institutions have a large rural clientele in at least six states. At the higher level, the patterns are very mixed across states.

To what extent do private aided institutions serve the poor at each level of education? At the primary level, the proportion of students from the poorest 40 percent of households (classified by per capita monthly consumption expenditure) varies from 9-15 percent in five states and from 16-30 percent in nine states (Table 9c). It is only

Table 9a: SC/ST Enrolment as Percentage of Total Enrolment – By Level and Type of Institution (1995-96)

	Primary			Secondary			Higher		
	Govt.	Aided	Unaided	Govt.	Aided	Unaided	Govt.	Aided	Unaided
AP	28	13	9	19	12	10	6	10	6
Assam	26	37	4	26	28	23	8	22	0
Bihar	26	17	10	11	2	3	14	2	2
Gujarat	34	10	0	33	18	0	30	6	0
Haryana	30	15	11	14	10	0	12	0	0
Karnataka	25	8	11	22	14	14	12	6	
Kerala	12	9	5	11	5	11	11	15	0
MP	10	18	15	34	9	24	20	4	0
Maharashtra	27	15	11	29	17	24	11	21	0
Orissa	35	40	9	25	21	30	23	10	0
Punjab	46	16	13	23	12	8	27	11	21
Rajasthan	36	19	20	33	17	0	21	26	0
Tamil Nadu	33	24	16	21	16	18	15	11	11
UP	28	16	16	22	14	15	15	14	0
West Bengal	38	36	16	34	26	3	20	15	0

Source: *Computed from NSS 1995/96.*

Table 9b: Rural Enrolment as Percentage of Total Enrolment – By Level and Type of Institution (1995-96)									
	Primary			Secondary			Higher		
	Govt.	Aided	Unaided	Govt.	Aided	Unaided	Govt.	Aided	Unaided
AP	85	29	45	55	15	25	21	40	6
Assam	94	61	45	85	61	54	85	70	100
Bihar	90	51	56	63	37	61	42	76	87
Gujarat	81	3	4	66	33	12	41	11	0
Haryana	92	24	58	85	4	35	33	2	0
Karnataka	83	23	10	73	63	48	31	37	39
Kerala	80	81	66	77	72	69	30	58	62
MP	82	18	35	61	28	30	33	0	0
Maharashtra	78	20	3	59	51	41	35	29	18
Orissa	89	32	27	76	83	98	53	55	27
Punjab	84	27	47	79	23	43	37	43	0
Rajasthan	88	24	44	74	23	11	53	14	100
Tamil Nadu	78	49	23	71	29	20	28	25	43
UP	93	58	65	77	72	61	42	38	0
West Bengal	82	65	18	68	55	12	40	21	0

Source: Computed from NSS 1995/96.

in Kerala that the enrolment share of the poorest two quintiles slightly exceeds their population share (45 percent). The share of poor students in unaided schools is generally lower than in aided

Table 9c: Enrolment of Poor as Percentage of Total Enrolment - By Level and Type of Institution (1995-96)						
	Primary		Secondary		Higher	
	Aided	Unaided	Aided	Unaided	Aided	Unaided
AP	18	18	3	11	0	0
Assam	19	9	17	12	0	0
Bihar	21	11	8	4	1	0
Gujarat	9	6	18	12	8	0
Haryana	13	21	5	12	0	0
Karnataka	12	6	11	18	2	9
Kerala	45	13	22	15	10	4
MP	11	7	5	0	1	0
Maharashtra	18	11	19	26	6	2
Orissa	26	5	11	11	3	0
Punjab	20	23	11	5	14	0
Rajasthan	9	12	14	0	0	0
Tamil Nadu	26	4	9	0	2	0
UP	18	30	18	20	8	0
West Bengal	29	4	5	0	0	0

Note: Figures indicate the share of pupils from the bottom two expenditure quintiles in total enrolment at each level and type of institution.
Source: Computed from NSS 1995/96.

schools, with some important exceptions – Andhra Pradesh, Haryana, Punjab and Uttar Pradesh. In these states, the private unsubsidized schools are providing greater access to the poor than the subsidized private schools. Overall, however, the poorest children are enrolled generally in government schools. The proportion of the poor in aided institutions drop at the secondary level, partly because of their lower completion rates. As a result, at the secondary level, the proportion of the poor is more similar in aided and unaided institutions. At the higher level, there are very few poor students overall, and negligible numbers in both aided and unaided institutions.

Summarizing the conclusions from these analyses:

- in Kerala, the aided institutions serve the SC/ ST, rural and poorest sections, at least in proportion to their population shares and the shares of these students are at least the same as in government institutions
- aided primary institutions in half the states serve primarily urban students
- aided secondary institutions cater predominantly to urban students
- aided institutions at the primary level have a higher proportion of the poor than unaided schools (with some exceptions) but a lower proportion than government schools. At other levels, they predominantly benefit the richer sections
- overall, government schools serve the poor and the disadvantaged to a greater extent than aided and unaided institution.

Quality

There is little documented information on the relative quality of government, aided and unaided schools. No assessments of student learning are available nor is there reliable evidence on labor market outcomes of students in different types of institutions. Average examination results at the secondary level in Andhra Pradesh, Tamil Nadu and Kerala indicate that students from the private unaided schools do much better than private aided and government students. However, apart from the problems associated with using examination results as an indicator of quality, the examination marks are not "value added" measures and do not control for the better socio-economic background and higher prior performance levels of students entering unaided institutions. Two studies that have been done for Tamil Nadu and Kerala, respectively, that do try to control for student background and prior performance show that aided institutions do better than both government and unaided schools at the primary level (Bashir, 1997 and Verghese, 1996). Furthermore, there are significant variations within each sector with low performing and high performing schools within government and aided schools.

In principle, the fact that there is greater private control over the management of the teaching force in aided institutions should lead to improved teacher performance. Most state laws allow institutions to recruit teachers themselves (with government representation and under government guidelines) and aided teachers are not subject to transfer or deputation, which allows continuity of teachers in the institution. Job security and salaries on par with those of government teachers also promotes stability and prevents the frequent staff turnover that is a characteristic of unaided institutions, which offer much lower salaries and short-term appointments. The general impression (undocumented by systematic studies) is that teacher accountability and performance is better in aided institutions than in government ones in Kerala, Tamil Nadu, Karnataka and Maharashtra.

Nevertheless, various studies indicate that the quality of teachers and their performance can be as low as in government institutions. Motivation is low when salaries are paid late; teacher vacancies caused by inability to fill sanctioned posts (either due to lack of government approval or unavailability of eligible teachers in reserve categories) increases the workload for employed teachers. In-service teacher training and professional development are not mandatory in private institutions and many state governments do not allow private-aided teachers to participate in their own programs.

In Uttar Pradesh and Orissa, there is considerable evidence that a large number of aided institutions at the secondary school level are of inferior quality to

government institutions. In Orissa, many institutions had not passed a single student in the secondary school leaving examination. In these states, it appears that aided teachers are less accountable than government teachers. A related problem impinging on quality is that in these states, the private managements do not provide the necessary minimum infrastructure and facilities. A feature of both these states is that aided institutions have been primarily established by politicians.

The conclusions regarding quality are necessarily tentative but can be summarized as follows. Where private managements are interested in providing the educational service (for whatever reason – political, cultural, religious), and where general public demand for education is high, the quality and performance of aided institutions (on average) tends to be higher than that of government institutions. In this case, the greater management control over teachers enables greater accountability and managements also invest their own resources to improve quality. On the other hand, where the purpose of establishing aided institutions is not primarily educational but motivated by capturing the public subsidies through employment of teachers, private management control actually seems to lower teacher accountability and there is no additional resource mobilization from the private sector.

Costs

Studies of unit cost in government and aided institutions are not available for all states. Analysis of per pupil public expenditure data for Andhra Pradesh (Oxford Policy Management, 2002), Karnataka (World Bank, 2002), Tamil Nadu (Bashir, 1997), and Uttar Pradesh (Kingdon, 1996) suggest that in these states at least, unit costs are comparable, if not lower than in government schools, at the elementary and secondary level.

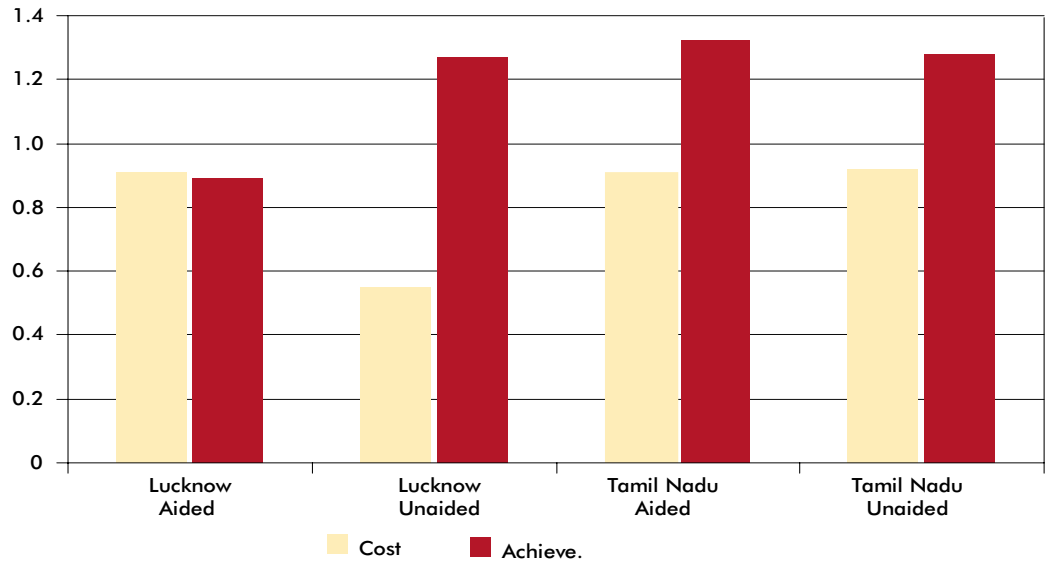
Comparison of costs and effectiveness are even fewer. Data collected for two studies in the early nineties suggest that private schools (aided and unaided) do perform better than government schools and at lower cost in Tamil Nadu and Uttar Pradesh at the primary level (Bashir, 1997 and Kingdon, 1996). However, these results need to be confirmed for other levels and other states with more up-to-date data.

Issues for Reform in the GIA sector

Six broad sets of issues merit consideration:

(i) rigidities in the GIA system for higher education; (ii) teacher issues; (iii) weak legal framework and/or

Chart 1 - India: Costs and Performance of Government and Private Schools



Note: *Variables are (1) ratio of private to public cost and (2) ratio of private to public achievement*
Source: *For Tamil Nadu, Sajitha Bashir (1997); For Lucknow (UP), Geeta Kingdon (1996)*

inability to implement laws; (iv) limited resource mobilization by private sector; (v) lack of monitoring and quality assurance of providers; and (vi) lack of competition and a holistic framework for private sector development.

Rigidities in the GIA system for higher education

Inability to adjust the subsidy to changes in student demand:

At the college level, new courses that are in line with student demand are not eligible for GIA in many, while the older, less popular courses with low student enrolment continue to receive full subsidy. This creates the situation where public subsidy is provided to courses that are not in demand in the labor market (although in higher education, some courses which have low enrolment may deserve subsidies on account of externalities and/or the need to preserve domain knowledge).

Problems in defining the workload for college teachers:

For primary and secondary school teachers, workload is defined in terms of a pupil-teacher ratio (and lesson plan), in colleges it is defined in terms of teaching contact time (16 hours per week for degree level work and 20 hours per week for pre-university colleges). This sometimes leads to the creation of new combinations of subjects to increase the workload even though there may not be many students for the course.

Teacher issues

Inflexibility in teacher deployment:

Since teachers are appointed for permanent positions, the present system is relatively inflexible when enrolment declines in a particular aided institution. While many state governments have the legal authority to redeploy teachers should there be a surplus, and some have done so (Kerala, Karnataka), redeployment is usually time consuming, difficult to implement and does not always reduce the fiscal burden. In Karnataka, aided teachers can be redeployed only to other aided institutions (since government teachers get some additional benefits); in Kerala they are redeployed even to non-teaching government posts because of the overall decline in enrolment. Managements that run several institutions can also manipulate enrolment to keep the sanctioned posts. The problem is especially severe for regions where the child population is declining (Kerala, Tamil Nadu, southern part of Karnataka, Andhra Pradesh) and where private unaided schools are growing. The permanency of posts also affects quality to the extent that it is difficult to get rid of incompetent teachers. Security of tenure, on the other hand, is important for ensuring teacher continuity and commitment, and for ensuring that the system benefits from skills gained through experience and investments in in-service training.

Delays in teacher appointments:

Although managements have the authority to recruit teachers, approval has to be first sought for recruitment and a government representative often sits on the recruitment board since a public subsidy is involved. This often leads to delays in appointments reducing quality. Where reservation quotas apply, there are further delays since eligible candidates from the reserved categories may not be available.[6] The issue here is how to ensure that the public subsidy is used for the stated purposes.

Delayed disbursement of salaries:

In Karnataka, this was universally reported to be the case both at school and college level (although they were eventually paid by the end of the month), but delays were not reported in Kerala. Other studies in Delhi and Bihar indicate long delays in release of salaries. Often, the ways and means position of the state government means that salaries for teachers in aided institutions remain in arrears for several months.

Linking of teachers' salaries to government pay scales:

Although this is not legally binding, since the amount of aid is not a "right" of the management or teachers, in practice, most state governments offer the same or similar pay scales to teachers in aided

[6] *There are variations in state practices in reservation for aided teacher posts: Kerala has no reservation while Karnataka employs the same quotas as in government institutions.*

institutions. Benefits and pensions often differ, however. (In Kerala, however, aided teachers are statutorily required to get the same benefits and pay as government teachers, which adds to the fiscal burden). The revision of pay scales due to the Fifth Pay Commission has created additional expenditure pressures on state governments as well as litigation and unrest, when pay scales have not been upgraded.

Management "commissions" for recruiting teachers:

In all states, including Kerala, it is reported that managements take commissions from prospective teachers for recruiting them. Due to the enormous difference in pay and benefits between teachers in government-funded institutions and private self-financing institutions, there is an over-supply of teachers for the former. Estimates suggest that each new teacher contributes about two or three years' of her prospective salary to get a job in an aided institution. Existing teachers may continue to pay 10 percent of their monthly salary to managements in order to retain the job. Where guidelines for recruiting teachers are adhered to, these practices will not necessarily affect the quality of education; where the guidelines are flouted, in effect sub-standard teachers are recruited at high cost to the public exchequer. Field reports from teachers suggest that many institutions use these "donations" for partially financing investment in new facilities and improvements in quality, but many managements simply pocket them.

Lack of accountability:

Teachers in aided institutions serve at least two masters: the government, which pays their salaries, and the management, which has the right to appoint or terminate them. In colleges, the affiliating university could also be considered another master. Accountability for quality and outcomes is not fixed at any level.

Weak legal framework or implementation of laws

Credible legal framework:

Unlike many developing countries, Indian states have a well-developed legal framework but there are variations across states in the clarity of the rules and regulations and more importantly, in their enforcement. Many states have a "grant-in-aid code", which is a collection of government orders that form conditions upon which aid is granted and regulated.[7] The code is non-statutory in nature; however, as executive instructions, they have constitutional sanction under Articles 162 and 74 of the Constitution. Violations of the conditions of the GIA code can also result in criminal sanctions. The Kerala GIA scheme is unique in that the conditions for grant are embodied in the Kerala Education Act and Rules framed under the Act, and hence are more transparent – major changes can therefore be enacted by only the legislature. Orissa, on the other hand, has not even compiled all the relevant Government Orders into an easily accessible GIA code. Most state governments have clear guidelines on entry and exit that are enforceable by law and provisions for penalty for abuse of the subsidy, mismanagement and non-performance. However, these provisions are rarely invoked and criminal actions against managements for misuse of subsidy or non-performance are rare. More importantly, violations of the GOs are often retroactively legalized by either the courts or the legislature. An example of this is the Orissa Aided Educational Institutions (Appointment of Teachers' Validation) Act, 1989 that approved the appointment of teachers who had initially been appointed in violation of the existing rules.

Abuse and fraud:

Open cases of fraud are frequently reported in Uttar Pradesh and Orissa. These include non-existent institutions, fictitious teachers and inflated enrolment to justify teacher positions. At the other extreme, such open abuse does not exist in Kerala, while some cases are reported (but are also dealt with by the government) in Karnataka. Open abuse is closely associated with the level of monitoring both through data collection systems and by communities through parent teachers' associations.

[7] *See Annex 2 on distinctive features of GIA codes in various states.*

Over-regulation:

Aided institutions are covered by specific grant-in-aid codes, specific government orders issued from time to time, general laws covering all educational institutions and government employees as well as national and state case law. Karnataka, for example, has as many as 6 codes for granting aid for each sub-sector, in addition to the general laws. There are five basic issues: (i) regulations cover minute details regarding school facilities and leave little room for managerial discretion or innovation (ii) incompleteness of rules and regulations, including those relating to eligibility, type of grant given and financial management processes (iii) inconsistency between practice and policy and between the various different acts leading to litigation (iv) frequent minor changes to rules and regulations that cause confusion with managements and allow scope for abuse.

Non-compliance with regulations due to inflexibility in the norms:

There is discrepancy between the "law" as laid out in the books and as understood in the field and as actually practiced. Schools serving remote areas or in urban areas are not able to meet all regulations (for instance, land requirements for playgrounds are almost impossible to meet in urban areas) but nonetheless providing valuable, otherwise unmet, educational opportunities.

Litigation:

States are overwhelmed by litigation, which runs into tens of thousands of cases. Review of litigation at the national level and in selected states shows that litigation has burgeoned in the field of admission in higher education (by students) and in service matters at all levels (by teachers). There are very few instances of state-management disputes with respect to audit. Litigation regarding admission is generally related to issues of reservation and whether managements turned down eligible students for specific courses. Litigation regarding service matters relate to teacher appointments, promotions, pensions and so on. The reasons for few cases regarding audit is that either the state is not regularly conducting audit or enforcing standards. Cases of penalties enforced against non-complying managements are negligible, despite the enormous detail in the regulations.

Limited resource mobilization from private managements

The key problem is that fees are very low or non-existent, so management has no separate income in which to invest in facilities:

This is compounded by declining enrolment for many institutions. Most GIA codes do not have a provision for matching grants from the private sector. The financial contribution of the private sector is expected to be met through the numerous regulations regarding provision of physical facilities and other inputs, which are often flouted. The wealthy charitable trusts and foundations are able to invest heavily and to that extent, the GIA system does promote private sector resource mobilization. However, other managements are not able to (or are not interested) to do so. At least part of the reason for heavy "management commissions" on teacher appointments (as reported by teachers themselves) is to plough back part of the contributions into upgrading school facilities. However, there is no guarantee that the resources mobilized in this way will lead to investments in education; at least part of the public subsidy reaches private pockets for non-educational purposes.

Negligible Investments in Quality Improvement:

One result is that managements do not invest in quality improvement and curriculum upgradation (the latter is also regulated by the government or University). Many states do not allow aided teachers to participate in government provided in-service teacher training; neither do the aided institutions invest in teacher training themselves.

Weak Monitoring and non-existent quality assurance

Weak monitoring systems:

Many states do not have well-established systems for data collection even for numbers of institutions, students and teachers. Kerala and Tamil Nadu, on the other hand, have good statistical and monitoring systems. In these states, the GIA institutions are also required by law to establish Parent Teacher Associations that act as a monitoring mechanism.

However, even a fairly advanced state like Karnataka has serious issues with data collection and reliability: very little data is collated at the state level and there is hardly any computerization or analysis of this data; data are readily available at the district and block level but there are many anomalies. Aided schools in Karnataka are not required to establish School Development and Monitoring Committees. Other states with very large GIA systems do not undertake systematic data collection even at the lower levels. Data on students and teachers in aided institutions at the college level is unavailable at the state level in almost all states except Kerala. Consequently, the entire financial management system of GIA has weak underpinnings.

Limited involvement of beneficiaries:

The current GIA system is in the nature of a contract between the government and the private management. Apart from Kerala and Tamil Nadu, most states do not mandate parent teacher associations or school development committees in private institutions. The experience of both these states, as well as international experience, suggest that the involvement of parents in monitoring use of the aid, student and teacher performance could reduce gross abuse of the system.

Quality assurance is absent at all levels:

Currently, public examinations at the secondary and higher secondary levels provide the only means of assessing quality at the school level. Universities are unable to fulfill this function adequately in higher education, because of the hundreds of affiliated colleges and political involvement in the management and administration. The absence of reliable quality assurance systems is one of the main reasons why many of the legal provisions regarding withdrawal of aid for non-performing institutions cannot be implemented.

Lack of competition and a holistic framework for promoting private sector participation

GIA system locks in existing inefficiencies and poor quality:

The conventional argument for public subsidies to the private sector is that they promote a more efficient and equitable production of educational outcomes by allowing choice for students and greater competition among providers. The GIA system, however, eliminates competition since some private institutions receive grants in perpetuity (although contingent on student enrolment) while others do not get any public subsidy at all.

Lack of a holistic policy framework for the private sector:

Private education either takes place outside the system altogether or is subject to extensive government regulation. Private unaided schools are allowed to offer instruction in the English medium and different curricula (for example, of the more demanding Central Boards of Education) but private aided schools and government schools are not allowed to do so. This has led to a fall in demand in some areas, and surplus teachers and unutilized facilities financed by public funds. The differential treatment creates inequities in educational provision with richer students being able to access education that is considered more beneficial either for higher/professional education or for labor market outcomes. The existing subsidy mechanism does not enable poor students to access these private schools. At the same time, the distinctions between the grant-in-aid and other unaided institutions are getting blurred and it is not clear that that the subsidy is being used for intended purposes, as aided institutions are now allowed to open self-financing courses (at the college level) or fill vacant posts with teachers hired at market rates (schools and colleges).

The GIA mechanism does not allow flexibility to promote specific educational objectives:

Since the GIA allows government funding to be channeled only through the supply side, targeting specific population groups or areas, or promoting educational goals such as introduction of innovations and quality improvement is difficult.

Recent Attempts At Reform

The Constitution itself provides an example for the reform of the grant-in-aid system but until recently

many states have not introduced major reforms. Article 337 of the Constitution entitled aided educational institutions managed by the Anglo-Indian community to continue drawing aid, on a reducing scale, for the first ten years after adoption of the Constitution. Thereafter, aid was completely stopped for these institutions. Recent attempts at reform in individual states, some of which are discussed below, have been driven mainly by fiscal compulsions to reduce revenue expenditures. Many states have introduced provisions since the early nineties barring inclusion of new private institutions within the GIA scheme – and new institutions have to give an undertaking that they will not seek admission to GIA. This has not been followed in Uttar Pradesh and Orissa, until recently; some states, such as Karnataka, have made specific exceptions for institutions with SC/ST management. States have also stopped or reduced "maintenance grants", so that public aid is restricted to teachers' salaries. With the exception of Gujarat, the reform efforts have tended to be ad-hoc in nature, and fiercely contested, leading to many reversals and patch-up agreements between the government, managements and teachers. All of the efforts, including those in Gujarat, have not dealt with the issue of using public subsidies to the private sector for promoting educational goals (promoting equity, enhancing quality and instituting accountability), focusing almost exclusively on reducing the fiscal burden to the state.

Kerala

Kerala's rapid demographic transition and absolute decline in the child population has led to two issues in school education: (i) falling pupil-teacher ratios; and (ii) unviable schools of very small size. Demand for English-medium education has also exacerbated these issues.

The government has taken the following steps to address these issues:

- *Redeployment of surplus teachers in aided schools*: The unofficial estimates of such teachers, called "protected teachers" because their salaries continue to be paid by government irrespective of whether they work, vastly exceed the official estimates (12,000 – unofficial; 2,408 - official). Relatively few have been re-deployed, partly due to resistance by private managements because they lose their discretion in selecting teachers (and hence commissions), because of subject mismatch and because aided teachers (unlike government teachers) are free to participate in political activities. Most surplus teachers are primary teachers and special teachers (language, craft, etc.). "Protected teachers" are therefore often re-deployed in non-teaching posts.

- *Reduction of salaries to surplus teachers*: In 2001, the government announced that those teachers who could not be absorbed elsewhere before June 30, 2002 would be paid only half their salaries. Following a 32-day strike in May 2001, the decision was postponed.

- *Closure of uneconomic schools*: About 2,244 schools are considered uneconomic with enrolments below hundred. About 58 percent of them are aided; the overwhelming majority of them are lower primary schools. 48 schools have been closed to date and another 393 schools would be closed in 2003. Since the criterion for closure is only low enrolment, there are significant negative impacts on equity. Most of these small aided schools are in hill areas and in remote areas, which serve tribal and dalit communities.

- *Sanctioning of English-medium classes in government and aided schools*: This policy has been adopted to specifically address parents' demand, which also leads to the students joining unaided schools. In 2002, the government announced that English-medium classes could be started from class 5 in aided schools and that qualified English teachers will be appointed in both government and aided schools.

- *Delinking of the pre-university (classes 11 and 12) from colleges*: In 1996, the government announced that these classes would be attached to schools. Teachers who became surplus in colleges were absorbed by

introducing special subjects such as travel and tourism, communicative English, etc. Selected secondary schools (both government and aided) were to be allocated the "plus two" courses. The government selection was set aside by the High Court in June 2000 following a petition alleging arbitrary selection of schools. Subsequently, the Cabinet approved sanctioning of plus-two courses in unaided schools also and unaided courses in aided schools. All these moves are being opposed by the Aided Schools Managers Association.

- *Identification of surplus teachers in colleges*: Approximately 1700 private aided college teachers and 1500 non-teaching staff are considered surplus, but redeployment is virtually impossible at this level. The government has not been filling vacancies and managements have been allowed to fill in posts with part-time and guest teachers for the last five years.

Karnataka

The GOK has taken the following steps to try and reduce the GIA expenditure:

- *In 1997, the government announced that only colleges and schools founded before 1987 would be admitted to the GIA code.* Subsequently, the order was relaxed for institutions with SC/ST management to allow institutions that were founded up to 1992. The private school managements and employees associations are lobbying for extension of the cut-off date so that new institutions can get the subsidy.

- *New GIA courses have been banned since 1990-91*; this order has largely held although some colleges get around it by creating "new combinations" of courses, creating workload and/or recruiting new teachers. New courses in colleges are unaided courses with teachers paid at much lower levels.

- *In March 2000, the Chief Minister announced a 15 percent cut in GIA to colleges*; the government contribution to teacher salaries would be reduced with colleges having to make up the difference. Following protests by college teacher unions, the order was reversed.

- *A recruitment freeze on all teaching and non-teaching posts in aided institutions was announced in March 2001*; all vacant posts in colleges were to be treated as unaided. Again, the teachers' union led to a cancellation of this order so that posts that were vacant on March 1, 2001 could be filled (but not subsequent ones).

- *In 2001, the pre-university colleges were separated from the previously composite colleges by a government order.* This would enable the teaching staff to be recruited at lower PUC scales, rather than the degree college scales.

- Both in schools and in colleges, managements are allowed to hire unaided teachers at market salary levels for unfilled vacancies.

- *In the last two years, a few thousand aided schools teachers have been re-deployed.* However, the process has not continued this year. Due to the difference in benefits for aided and government teachers, the Department cannot re-deploy aided teachers to government schools.

Madhya Pradesh

GOM decided to withdraw its aid to private schools at the rate of 20 percent per year for five years. The aid will be converted to a block grant, giving schools discretion to purchase inputs. Schools and colleges will be expected to raise their fees and compete for students. The new policy also makes colleges and universities the employers of teachers who recruit new staff on renewable five-year contracts with promotion on merit. Guidelines for staff salaries have been prepared by the state government.

Gujarat

Gujarat is the only state with a sizeable aided sector at the secondary level that has attempted major reform of the financing mechanism. The main features of the reform, introduced are: (a) grants for new institutions are restricted to

schools in certain geographical locations which are underserved; (b) financial support is given on a declining basis reaching 50 percent of total recurrent expenditure; (c) the government pays a fixed amount of Rs. 4,500 per teacher (which is about two-thirds the salary of a primary teacher in a government school); managements are allowed to pay higher amounts; (d) there is flexibility in fees; and (e) the maintenance grant is delinked from the number of teachers and has been linked to the number of classrooms.

Grant-in-Aid Mechanism and Public Subsidization of the Private Sector – an International Perspective

The grant-in-aid financing mechanism can be treated as an implicit voucher scheme since students can choose between a public and private school and since payment of the subsidy in these systems is tied to enrolment, with common criteria for public and private schools. The classic voucher scheme envisages a payment (cash or coupon) given directly to students with students submitting vouchers to the school of their choice. The value of the voucher is determined on the basis of a common level of expenditure per pupil. The general principle, however, is that funding follows students; the intended purpose is to enable choice among consumers and hence, competition among schools. The GIA system is similar to the classic voucher system in that if a student chooses a private aided school in India, funding (in the form of payment for teachers' salaries) follows students. In principle, the GIA system allows a student from a non-privileged background to move to a private school. The main difference from a classic voucher scheme, however, is that schools do not have discretionary choice over how to spend the public subsidy since the grant is tied to teachers' salaries.

There is a considerable amount of theoretical work on the avowed advantages of the voucher mechanism – specifically, on benefits derived from promoting parental choice and competition among schools - although practical experiences with large-scale voucher plans are limited in the world, including in the United States. There is no single voucher plan and there are many differences in scope, in the provisions made for financing and in the extent of regulation of schools. The empirical evidence on the impact of vouchers on quality and efficiency is mixed.

As Table 10 shows, the private sector is relatively small in most industrialized countries but tends to be larger in developing countries. Even in those countries with large private sectors, the extent of private financing is relatively small, indicating a reliance on public subsidies. By contrast, many developing countries have large private sectors, but even amongst them, the extent of private financing is relatively low indicating that public funds subsidize the private sector.

Industrialized countries that offer the classic voucher scheme are relatively few in number. Most industrialized countries that subsidize the private sector do not operate classic voucher schemes but pay directly for teachers' salaries and other expenses, often linked to norms in public schools. The former group of countries has a very small private sector in education and the subsidy is linked to the level of per-pupil allocations in public schools. Coverage in terms of percentage of enrolment is therefore low. The voucher provides a high level of subsidization, covering 70-100 percent of total costs, including most teacher costs and also some operating expenses, materials and equipment, building costs and even transportation.

Among those which operate the classic voucher scheme are Denmark and Sweden, where the government gives private schools a per-pupil subsidy or grant that the schools manage themselves. In Denmark, the voucher makes up 80 – 85 percent of school tuition cost and parents contribute the rest of the tuition and fees. Sweden's voucher plan requires every municipality to fund local enrolments in private schools; the value of the voucher equals the per pupil expenditure in public schools and independent schools must be open to all students and charge no tuition. The U.S. has no uniform voucher scheme. There are examples of public and privately financed vouchers, although all are small compared to schemes in the rest of the world. Generally, the voucher equals a proportion of

Table 10: Cross-Country Comparison of Private Sector in Education, 1998			
Country	Proportion of enrollments in private institutions (%)		Proportion of financing from private sources (Primary and Secondary)
	Primary	Secondary	Percent
Australia	26.3	34.0	15.9
Chile (v)	41.6	45.2	31.3
Denmark (v)	10.9[a]	15.1[a]	2.1
France	14.3	20.3	7.3
Germany	1.9	6.8	24.1
Hungary	3.2[a]	4.6[a]	8.0
Indonesia	17.2	42.4[a]	18.2
Japan	0.8	16.5[a]	8.3
Jordan	24.8	9.4	2.0[b]
Korea, Republic of	1.7	37.5	20.7
Malaysia	1.4	3	2.0[c]
México	6.3	10.7	13.8
Netherlands	69.9	78.7	5.7
Norway	1.5	4.7	0.9
Peru	12	16.1	38.2
Philippines	7.7	29.5	40.3[b]
Spain	32.4	26.7	10.8
Sweden (v)	2.3[a]	1.7[a]	0.2
Switzerland	3.3[a]	7.8[a]	11.9
United States (v)	11.7[a]	9.6[a]	9.2
United Kingdom	5.2	8.3	5.7 *

Note: a. 1995 data; b. 1997 data; c. 1996 data. (v) indicates that the country operates a classical voucher scheme.
Source: Vawda, 2002.

per pupil expenditure in public/private schools and targets low-income minority households. Similarly, the New Zealand Targeted Individual Entitlement Scheme (TIE) has a very low coverage, covering 160 students per year. Low-income Maori children were helped to receive quality education in private schools with the voucher amounts varying by grades and covering part of the school tuition.

Examples of classic voucher schemes in developing countries are also few. The largest program is the Chilean voucher scheme, where all schools received payments based on monthly enrolments and an administratively determined voucher for each pupil. The Colombian program, where scholarships are given to poor students for secondary school attendance, was initiated as part of a Bank-funded project.

Industrialized countries that offer subsidies to private institutions through payment of teachers' salaries include Australia, France, Germany and the Netherlands. Only the Netherlands has a very large private sector. It also offers the best example of this where fiscal equality between public and private schools is constitutionally mandated.

The Indian grant-in-aid system is comparable both in size and in the nature of the subsidy to the system of subsidizing private schools in the Netherlands. Nevertheless, there are important differences between the Indian and Dutch systems. The similarity between the Indian and

Dutch systems lies in their common objective (protecting rights of parents of different backgrounds) and in the extent of their coverage at the secondary level. The Indian grant-in-aid system, however, is equally pervasive at the tertiary level but hardly so at the elementary level (except in a few states) whereas the Dutch system is pervasive at the elementary level but not at the tertiary level. The other common features are: the legal framework for private schools (to be established as non-profit organizations), the extent of regulation regarding teachers' salaries and fees and the mode of delivery of the subsidy (payable to institutions). Beyond these basic common features, there are marked divergences between the two systems.

Public subsidies in India cover mainly the salary component while the private promoter is expected to incur capital and other non-salary recurrent expenditures. In the Netherlands, all costs are covered by the government. These differences arise from the different objectives in the two countries – in the former, promoting voluntary contributions for education is important, whereas in the latter, promoting equity in financing of public and private schools is considered important. In India, state governments are responsible for determining eligibility for the subsidy and for providing it allowing considerable diversity across states; in the Netherlands, the Central government provides the entire subsidy. One major difference lies in the coverage of private institutions: in India, new private institutions are generally not eligible, creating a situation whereby some institutions permanently receive aid while others never get any aid. In the Netherlands, on the other hand, every private school is eligible for aid. Differences in the regulatory framework regarding the type of education, selection of pupils and fees are also striking. These are much more regulated in India to be in conformity with regulations in the government schools – hence, private aided schools follow the same curriculum, teaching methods and examinations; they are obliged to admit all eligible pupils and cannot charge fees except in line with those set by the government schools. In the Netherlands, differences in content and teaching methods are explicitly allowed, although the government prescribes the broad curricular areas. More importantly, schools can refuse admission to pupils of other religions – a feature that has considerable ramifications for the social effects of the education system.

India has not adopted other mechanisms for providing subsidies to private institutions on a large scale. Examples of demand-side interventions do exist – for example, scholarships for SC/ST students and rural girls in some states – but their coverage is small and uneven, and corruption is rampant in many states. Other countries have adopted other mechanisms for promoting private participation. The schemes include interventions on the supply-side (subsidies to private operators to encourage them to establish schools) or on the demand-side (targeted at eliminating the demand constraints that are either preventing families to send children to school or continue in school).

A review of these mechanisms shows that if the subsidy does not cover teachers' salaries (as in the direct or implicit voucher scheme), the subsidy enables only a small proportion of the poor to attend private schools and the private sector tends to be small (because it caters only to those that can afford the fees). On the other hand, if the private sector is large and caters to a large number of the poor, it tends to be of very low quality. The use of such financing mechanisms can ensure better-targeted finance, but because of the need for transparency and capacity building to administer such subsidies, they have been most successful as part of an externally financed project with considerable external supervision.

Targeted bursaries and matching grants are examples of supply-side interventions. *Targeted bursaries* are cash payments that may go directly to schools, municipalities, or provinces and are earmarked for specific purposes, such as improving the curriculum or increasing school access for minority, indigenous, or poor children. Therefore, they have the potential of improving access, equity, and educational quality by introducing competition between schools/school districts. Governments may also target resources to schools or communities through *matching grants, community grants, a mix of public and private sector support and community financing* schemes to either propel the supply of schooling and/or catalyze the demand for education. These mechanisms employ

the school, community and/or the private sector in contributing financially as well as in proposing innovative programs for educational improvement. They could be given in lump sum, but are usually tied to outcomes, including the number of students attending a school, the number of classrooms constructed by a private school, the land and student performance.

Examples of demand-side interventions (other than the classic voucher scheme) are stipends and student loans. *Stipends* are cash payments that a public agency makes to a family to either offset a child's schooling expenses or to compensate a family for the loss of the child's labor. Generally core expenses such as books, tuition, and transport, and incidental expenses such as materials, game fees, and clothes are covered. A stipend is particularly effective in the poor to attend an institution of their choice. The Bangladesh Female Secondary School Program, which is externally funded, is one of the largest such programs. *Student loans* are used usually at the tertiary level. Loans can be in the form of commercial private loans or government-guaranteed student loans. The government may take an active role by selecting candidates or establishing regulations.

Recommendations for Reform

As stated earlier, the impetus for reform of the GIA system has come from fiscal considerations and state governments have resorted to various ad-hoc measures to contain the growth in expenditures. These considerations have often ignored the fact that state governments are committed to achieving certain educational goals, including universalizing participation and completion of elementary education, improving equity at higher levels and raising quality at all levels. Should the government cut back or eliminate subsidies to the private sector or should it use alternative means to achieve these goals? The alternatives are to resort to direct government provision or to use the private unaided sector. Comparing the educational outcomes and cost of the three different systems – government, aided and unaided – can help to answer this question. There are relatively few studies comparing the sectors on these attributes, especially on the effectiveness or value added by institutions of different types. It is clear, however, that the costs in government institutions are at least as high as in aided institutions, and much higher than in unaided institutions. Under current cost conditions, expansion through the government sector alone seems a fiscally unviable option. Expansion through the private unaided sector poses serious equity issues since poor students will be unable to pay the required fees, especially at higher levels.

This evidence in this study suggests that continued use of the system of public subsidies for the private sector is a viable option for expanding access and mobilizing additional resources for education and is preferable to eliminating these subsidies. Three main approaches in continuing the system of public subsidization of the private sector can be delineated: (a) retain the main features of the present GIA system but improve its administration to ensure it achieves educational goals; or (b) reform the system to move to a system of performance-based grants for schools; or (c) move to a student-based subsidy system allowing students to choose between public and private schools. Before discussing these approaches in greater detail, this section outlines some general principles that should guide the reform.

Agreement on the goals and principles of the reform program is necessary and their articulation is necessary to build public support.

The following are important for most states: promoting greater equity, reducing abuse and inefficiency in the use of subsidies, enhancing quality and accountability, enhancing resource mobilization from the private sector and introducing different mechanisms for administering subsidies in order to achieve different educational objectives.

State-specific approaches are required in order to take into account the enormous differences across states in the use of GIA.

States should decide which sub-sector(s) is (are) a priority for reform, and which strategy is appropriate, based on an evaluation of how best to achieve educational goals and the institutional capacity to implement reform. *For all states, however, it is desirable to move away from the present ad-hoc revisions to the GIA policy towards a holistic reform effort that is grounded in the state's vision for the education system.* Consensus building among the

main stakeholders about the goals of the reform and detailed operationalising would be required to sustain the reform program. Broadly speaking, the relative emphases and priorities for various categories of states are as follows:

(a) *states where GIA has been used to improve access at the primary level*: These are Kerala, Tamil Nadu, Maharashtra and West Bengal. Reducing GIA, or closing down small aided schools, would immediately have a negative impact on participation of the poor and those living in remote areas. Where there is a decline in the child population, the immediate priority is to introduce greater flexibility in the teacher norms without reducing access. A new strategy for small schools would be appropriate – modeled on those in other countries facing similar issues – in order to save on resources while providing education of high quality.

(b) *states where there is heavy reliance on GIA at the secondary level*: the above four states as well as Gujarat, Uttar Pradesh, Orissa and Karnataka fall into this category. Improving the equity targeting of the public subsidy and using it to leverage more private sector resource mobilization for quality improvement are the main issues for these states.

(c) *states where a disproportionate share of GIA goes to higher education*: Orissa and to a lesser extent Andhra Pradesh fall in this category. In both states, participation and completion levels at primary and secondary levels are very low and strongly biased in favor of the rich. Hence, subsidies to private colleges are captured by the rich. The main issues here are to (a) redirect the subsidies for higher education to primary education; and (b) find alternative financing sources and mechanisms for higher education. In both cases, a policy framework to use the private sector participation for the benefit of the poor needs to be developed.

(d) *states where there is limited reliance on GIA at any level*: these are Madhya Pradesh, Rajasthan, Bihar and Himachal Pradesh. As noted earlier, these states have a government sector and a large private unaided sector. Urban primary education in many states is also of the same kind. Since the poor are effectively barred from attending fee-paying institutions, they attend the lower quality government institutions, which reduce their chances of continuing to higher levels of education and their labor market performance (employment and earnings). The main issue for these states, and in urban education for many states, is to promote greater equity through targeted subsidization of the poor to attend private schools.

In addition, the political strength of the private sector managements and teachers' associations needs to be taken into account. States with large aided sectors have powerful lobbies of these groups that are able to influence policy. Among them, Karnataka and Uttar Pradesh, both with large GIA sectors, are two of the four Indian states which have an upper house (Legislative Council), which has 1/12 members elected by graduates and 1/12 by teachers. Representatives of the private managements' association and teachers' association are often members of the legislature.

Reform in the higher education sub-sector requires a different institutional framework from that in the school education sub-sector.

The government has a smaller direct role to play in higher education even vis-à-vis GIA colleges, especially in relation to quality improvement and performance monitoring which is the role of the Universities. In school education, on the other hand, the government can play a more direct role since it sets the standards for curriculum, examinations and academic standards.

Working out mechanisms to resolve conflict, in conjunction with clear articulation of goals, is necessary to avoid the reform program being mired in endless litigation.

The existing legal framework does not confer public aid as a matter of right on institutions and hence, in principle, there should be no difficulty in changing the terms on which aid is given. Aid is given granted on the basis of agreements; there is no legal impediment to changing the

Table 11: Comparison of Public-Funded Private Schools: India and Netherlands		
	India	Netherland
Objective	Promote voluntary effort in education; protect educational and cultural rights of linguistic and religious minorities	Freedom to establish schools and determine principles and organization of teaching. Encourage parental choice and financial equity between public and private schools
Level of education	All levels, but especially secondary, higher secondary and general higher education	Primary and secondary (classes 1-12)
Coverage	In many states, only private institutions established before 1986-87 but varies across states. Considerable variation in coverage but half the institutions at secondary and higher levels in many states are private aided	All private schools in the country (70 percent of all schools, covering approximately 70 percent of pupils)
Private management	Varies according to legislative framework in different states; in general, can be individual, institution and corporate body but institution has to be run as non-profit organization.	Any group of parents; schools have to be run as non-profit organizations
Contribution of private institutions	All capital expenditure (land, buildings, equipment,non-salary recurring expenditures as per government norms) to be incurred by private institution; voluntary parental contributions allowed.	None (additional parental contributions allowed)
Type of subsidy	Payment of salaries of teachers and some non-teaching staff by government; number of teacher posts and salaries to be approved by government and are usually based on the same norms as in government institutions	Voucher (formula-based); government covers cost of facility, equipment, staff and running expenses as in public sector schools of same level
Mode of delivery	Payable to institutions/teachers	Directly to all private schools
Public financing	State governments; Central government has no direct financing role	Central government: 100%; local government has no financing role
Education content and processes	All publicly funded institutions must follow state government prescribed curricula, textbooks and submit pupils to common public examinations along with government institution students. Language of instruction has to be Indian; English medium institutions are not eligible for subsidies. Unaided institutions are not subjected to regular inspections.	Schools are free to determine principles and organization of teaching – but Central government regulates curricular goals. An independent inspectorate evaluates all schools, government and private.
Selection of pupils	Schools must admit all eligible students, irrespective of community or religion; religious instruction is not compulsory for pupils	Schools can refuse admission to children of different religion
Fees	No tuition fees payable; other fees set at nominal level in agreement with government and common for all institutions of a particular level in a state	No tuition fees

Source: *For Netherlands, compiled from Vawda (2002).*

framework. Nonetheless, as the extensive litigation on the subject shows, the legal powers of the government alone do not determine whether reform can be implemented without judicial challenge. The method of implementation, the extent of change and the duration of the transition would determine the legality. The courts are concerned with the "arbitrariness" of government action, the immediate impact on teachers and negative consequences for students' interests. Another consideration is whether the interests of concerned parties are taken into account in proposing new changes. As a facet of fair procedure, notice of impending change and meaningful consultation with affected parties are likely to reduce litigation that can stall the entire reform process. Specific steps that could be considered are:

- informing the concerned parties about proposed changes
- seeking the views of these parties in a meaningful dialogue
- giving sufficient time for adaptation by institutions, teachers and students
- providing the rationale and justification for the change, specifically in terms of the overall goals of the government in education, promoting equity, instituting greater systems of accountability, making institutions viable, avoiding corruption and enabling public subsidies to reach a greater segment of the population

Where aid is non-statutory, changes can be carried out by appropriate amendments to government orders, the Codes and amending individual contracts after securing the consent of the donee institution – with the caveat that the amended orders should be publicized in easily comprehensible language (see below). If the terms of aid are contained in Rules, the amendment to the Rules has to be justified at various government levels; if the terms of aid, or some conditions are found in parent Acts, approval of the State Legislature will need to sought to amend those parts, necessitating, in turn, a broad political consensus over the nature of the reforms.

Three broad approaches to reforming GIA can be delineated:

(i) Strengthening the existing system in order to improve effectiveness, equity orientation and responsiveness to demand.

(ii) Moving to a performance-based grant system.

(iii) Moving to a student-based grant system.

Possible steps for each of the above are discussed below and could address many of the issues listed in Section 8 above. *The first approach will not address the issue of promoting greater competition or introducing greater variety in financing mechanisms for specific objectives. The other two approaches are better in this respect, but they are also more demanding in terms of design and implementation as the subsequent section discusses.* The steps listed for the first approach are a pre-condition to moving to either of the two approaches. For many states, moving to either of the second or third approach involves a major reform and considerable additional institutional capacity, and may required to tried out on a smaller scale.

Strengthen the existing GIA system – priority actions

Immediate steps can be taken to improve targeting of aid, modernize data management processes, improve the legal framework and strengthen financial management (Steps (a) - (d)). The existing system can also be modified to enable private managements to mobilize additional resources and to introduce performance monitoring (Steps (e) – (f)), but this will require further operational detailing for determining criteria for fees, estimating revenues and setting up assessment systems.

(a) Improve Efficiency and Targeting of the Aid

(i) Allow colleges to opt out of GIA for unpopular courses in return for receiving aid for newer courses. This addresses the issue of the subsidy going to irrelevant and outdated courses while the newer courses rely exclusively on private

financing, which limits quality improvement. Courses that were considered necessary for protecting domain knowledge could continue to receive aid. The college would have to enter into an agreement with the government to opt out of GIA and be responsible for working out agreements with teachers. This could also be attempted at the secondary level.

(ii) Establish equity criteria for providing the grant-in-aid, such as proportion of students from disadvantaged or poor backgrounds and link the grant to fulfilling such criteria

(b) Modernize Data Management Processes

(i) Revamp the data collection and management system for aided institutions at the school stage (including higher secondary). At a minimum, reports must show enrolment, teachers, institutions, broken down by district and management type (government, aided and unaided) and growth over time. Over time, more sophisticated indicators such as performance, repetition, dropout, promotion, and graduation rates, student/teacher ratios and per student subsidy cost can be given. Given the limited technical capacity of most state education departments, the best course is to outsource the data management and analysis to competent specialized agencies. Data collection methods must be improved by giving specific responsibilities to head teachers, block and district officers for collecting and checking the reliability of the data. The professional agency could carry out random checks in the field. The data itself could be maintained and regularly updated on a website that is accessible to the public.

(ii) Parallel recommendations would apply for higher education, but the responsibility could be fixed either with the state government directorate or with the respective Universities. Further detailed breakdown of the data by discipline and courses will also be required for policy planning.

(iii) Data analysis should cover indicators linking physical and financial data such as expenditure per pupil, per teacher and per institution, variations across socio-economic groups, regions and levels.

(iv) The data on student enrolment should be used along with school-mapping exercises and demographic projections to evaluate teacher needs in different types of schools and make forward estimates of these requirements.

(v) Funding and appropriate technical expertise will need to be provided for some states that currently lack adequate capacity.

(c) Improve the Legal Framework

(i) Create an accessible, updated summary of all rules and regulations in comprehensible language. Such a document could be relatively easily collaged at the government level and distributed at low cost to all institutions and to the department officers. This could also be maintained on a website for open access.

(ii) Simplify rules and regulations. A comprehensive enquiry should be undertaken into whether existing rules and regulations are required to raise standards in schools with the aim of simplifying them.

(iii) Computerize and classify pending cases with the aim of speedy disposal. This is essential both in order to reduce the inordinate time spent by government officials on court cases and in order to enable introduction of new reforms.

(iv) Create and support strong parent teacher associations in aided schools that are made responsible for monitoring student attendance and teacher presence. Legal

codes and orders should be amended to confer specific powers on these bodies. The committees/associations could be the nodal point for forwarding complaints so that the government has an independent feedback mechanism. This will help to reduce abuse on account of connivance between managements and teachers.

(v) In states where abuse and fraud are rampant, implementing the existing legal provisions, including revoking of recognition or imposition of penalties, discontinuation of the grant (while taking appropriate action to protect the interests of students) is a necessary first step.

(vi) Establishing clear and simple criteria, related to monitorable indicators of student performance, for withdrawal of aid and implementing these will help to improve quality.

(d) Strengthen the Financial Management and Institutional Capacity

(i) Pay salaries directly to teachers. This will help to reduce open fraud and abuse by management.

(ii) Evaluate the nature and effectiveness of audit and other controls by outsourcing audit with elaborate parameters. These include: a) an independent audit of a certain percentage of schools/colleges on a random sample basis, similar to random scrutiny of income tax returns. In this method, the auditor would go into the records and carry out physical verification of students, teachers, facilities and expenditure; b) test audit of all accounts books and inspection of all equipment; c) evaluation of learner achievement on a random sample basis of 5-10 percent of aided institutions each year by a reputed outside agency; and d) comparison of the independent audit report with the returns filed with the government.

(e) Enhance Resource Mobilization by the Private Sector

(i) Introduce greater flexibility in fees with reimbursement or waiver of fees for poorer students. In order to combine this with the equity targeting of aid, the government needs to develop criteria for students who can be charged higher fees, more precise estimates for revenue mobilization and monitor the use of additional resources. A monitoring mechanism needs to be put in place.

(ii) Make resource mobilization by private managements a condition for continuing the grant

(f) Create independent quality assurance organizations/mechanisms to monitor quality and learning outcomes and exert external pressure on institutions to upgrade quality and improve accountability.

Move to a performance-based grant system

The basic principle of this reform is that continuation of the grant would be contingent on various aspects of performance. The grant would continue to be given to institutions but the existing grant would be de-linked from teachers' salaries and given in a lump sum. To begin with, the total grant would be the existing teaching grant, which is gradually reduced to a pre-determined level (for instance, it could cover 50 percent of teacher costs or could be a fixed salary contribution per teacher). The key feature of the system is that the grant would be linked to outcomes and processes, such as student performance, innovative programs, inclusion of special groups, and matching grants from the private sector or the community. The important element of the design is to define the nature and scope of the subsidy, what costs it would cover and how performance would be monitored.

In order to do this, the areas in which performance would be appraised and the method of performance appraisal will need to be delineated.

- *Student performance*: At the school level, assessment of student learning at various levels (e.g., Terminal years of primary, upper primary, secondary and higher secondary stage) could be a condition for aid. All institutions receiving aid would be required to have their students assessed. In order to be fair and credible, assessments must be done by a competent professional agency and the content and methodology of the assessment must be subjected to professional and public scrutiny. Further, allowance must be made for the background of students in an institution, since poorer and more deprived students generally perform lower on tests. In this case, a "value added" approach, focusing on improvements in achievement will be more appropriate. Performance targets will need to be set for individual institutions. Models for establishing such systems of assessing student performance exist in other developing countries and could be followed – although their adaptation to a system of providing grants has proved more problematic. In higher education, the role of the Universities in monitoring student performance has to be enhanced; appropriate changes to the University Acts may be required for this.

- *Teacher accountability*: Again at the school level, insistence on a system of performance evaluation of teachers, including but not restricted to a system of self-appraisal, is feasible. Insistence on professional up gradation of teachers (through participation in in-service programs, or additional qualifications) would also be desirable to promote investments in training. Managements could be allowed to develop a system of incentives and penalties for teacher performance. This could be supplemented by external supervision (on a sample basis) on teacher performance and reports from parent committees.

- *Institutional rating*: In this case, performance would be judged on such issues as management processes, innovations in curriculum and teaching-learning methodology, community participation and other aspects of institution functioning. This kind of rating would be most appropriate for secondary and higher secondary schools and colleges; most elementary schools are too small to do this.

One method of introducing such a system on a gradual basis is to provide funding to all schools on the basis of development plans prepared by institutions with the participation of the parents' committees. Reform could initially be restricted to high schools, which in any case, appropriate the greater share of the current grant-in-aid. A portion of the existing grant-in-aid could be converted to grants for improving quality and performance, with conditions for matching grants from communities/ private sector (which could be relaxed for schools in disadvantaged areas or serving such groups). Alternatively, additional grant money could be provided to schools with the incentive of accessing more untied funds if they surrender some of the existing grant-in-aid (for instance, as aided teachers retire or leave the post). Schools would develop their own performance criteria on the various outcomes. This approach has the added merit of devolving greater authority, responsibility and accountability to schools, which is necessary to bring about substantial improvement. However, in order to initiate this process, manuals and procedures for preparing and approving development plans, and for releasing funds will need to be developed.

An alternative approach is to establish an autonomous organization for monitoring school quality and conducting learning assessments. Although its main objective will not be (and should not be) to determine how much grant will be released, its rating of individual institutions on outcomes and processes could form the basis for release of grants on pre-determined criteria.

Move to a student-based grant program

In this approach, the subsidy would be given directly to students who would have the freedom to choose between different types of institution. The institution's total grant will depend on the number of students

who opt to enroll there. Possible ways of doing this are discussed below.

With an incremental approach, a policy is required to compulsorily transfer GIA funds that arise through vacancies and/or teacher requirement to a "Student Scholarship Trust Fund" (SSTF). In order to incentives schools to take on disadvantaged students, an "Incentive Contribution for Enrollment could be initiated. The scholarship fund could be used to provide scholarships to poor students to attend school and to pay the school's incentive contribution for new students.

Adopting a more radical approach, individual institutions could opt for complete financial autonomy in return for opting out of GIA status, but would have to provide scholarships for poor students. The school could move two teachers each year out of GIA (through normal attrition or retirement, but this could also be incentives) and replace them with unaided teachers. The grant-in-aid for these teachers' salaries would be converted to a scholarship fund. In this case, schools or colleges would begin a process of cost-recovery from richer students in a phased manner, while the remaining students would have their fees funded out of the scholarship fund. Since administration of a scholarship program has not been salutary, involvement of credible non-government groups with no direct stake in such a program would be necessary.

Financial simulations undertaken for Karnataka on the basis of data from a small sample of schools and colleges show that initially additional financing would be required for the transition, but over a period of seven years, institutions could finance an increasing proportion of poor students from the scholarship fund and would have a small surplus left for re-investment.[8]

The major disadvantage of this approach is that the good institutions may opt out of the scheme leaving the poor performing institutions to continue receiving the aid. Hence, enabling institutions to opt out would need to be combined with remedial actions, penalties or discontinuation of aid to errant institutions, giving students the option to join other institutions (and making acceptance of such students a condition for "opt out" by other institutions).

If such a major reform were contemplated, there would need to be broad political consensus, strong leadership and professional inputs to:

- draft an appropriate incentive scheme
- establish partnership with a credible third party (professionals or private organizations with no direct stake in running such institutions)
- monitor its progress and adapt in the light of implementation experience
- insulate the reform program from short-term political considerations.

As discussed earlier, the theoretical advantages of a student-based voucher program are many, but there has not been much experience worldwide with large-scale implementation. Specific issues that need to be addressed at the design and implementation stage are:

- targeting and selection of beneficiaries eligible for scholarship
- eligibility criteria for participating institutions
- assessment of the capacity and motivation of private institutions
- a sound system for tracking students and voucher renewals
- ensuring timely payment of scholarship grants
- minimizing the costs of administration, which can be high for such schemes
- amendment of the existing legal framework
- introducing budgetary changes to transfer salary expenditures to grant expenditures

The Reform Program Requires Management and Technical Capacity Building and Additional Financing in the Short Run

The major constraint to the effectiveness of subsidization mechanisms in developing countries has been the implementation capacity of operators, intermediaries, and administrations given different responsibilities. Capacity building through training

at all levels of implementation is required to minimize problems. Government institutions will need to take on new management and accountability functions instead of merely paying teachers' salaries. Many of the reforms suggested in the previous sections, including those for improving the existing system, require that certain actors play a role that they were neither willing to perform nor capable of fulfilling. Individuals or organizations given resources to operate their own schools may or may not have the capacity or organizational skills to meet the challenge.

In the short-run, any serious reform program will require additional funding either to strengthen monitoring and financial management processes, or to create quality assurance mechanisms. Moving to a performance-based or student-based system will require even more funding initially. Reforming the GIA mechanism into an instrument for promoting equity and quality cannot be seen merely as a cost-cutting exercise. In the long run, this may leverage additional resources from the private sector and plug efficiency losses in the use of public funds.

A crucial aspect of moving to a non-salary based grant system is to protect the non-salary expenditure component, which is typically reduced when state governments are faced with budgetary constraints. Reduced or delayed payments reduce program credibility and ownership by beneficiaries. The secondary school scholarship program in Colombia was adversely affected due to such delays with negative consequences for the long-term objective of improving quality. Finding methods to protect such expenditures in the budgetary process will be a challenge.

Irrespective of the approach to reform adopted in individual states, individual state government education departments may find it difficult to start the process and develop a well-thought out program of reform without additional technical inputs or financial incentives. *State fiscal adjustment programs can offer financial incentives* for state governments to opt for change and to achieve educational goals through more efficient use of their resources. *Another strategy is for the Central government to provide financial and technical assistance for states to develop and implement reform packages that meet centrally laid down criteria and guidelines while allowing for diversity in state-specific educational needs and goals.* These interventions can also help to monitor progress in the reform program, to introduce changes with the experience of implementation and to expose states to experience of similar reforms elsewhere.

Annexure 1

Kerala

The state of Kerala has made extensive and long use of the grant-in-aid system; it is also the state with the highest levels of educational participation and completion. Almost 90 percent of students who enter class 1 reach class10. Something on outcomes – private sector contribution.

The grant-in-aid codes were operational since the early 20th century in the princely states of both Travancore and Cochin and enabled private educational institutions established by various religious and caste communities to seek public aid. However, the GIA rules encouraged the private managements to mobilize their own resources, only subsidizing part of the recurrent costs. This led to considerable diversity in the availability of resources across private schools, variation in teachers' salaries and teachers being subjected to arbitrary removal by management.

The major reform of the GIA code occurred under the first elected Communist Ministry in Kerala, which came to power in 1957. The Kerala Education Bill (1957) sought to introduce uniformity in the operations of aided and government schools, specifically in the appointments and salaries of teachers and their rights. The Education Bill became the subject of the most intense political conflict; managers of the private institutions (linked to other political parties) led the opposition to the Bill, which eventually led to the dismissal of the government. Three specific points of contention were (a) private institutions had to appoint teachers from a district list of qualified and accredited teachers; (b) private schools could be taken over for non-compliance with the rules; and (c) a local education authority would be constituted to oversee all schools in the area. Private teachers were to be paid the same salary as those in government institutions but the entire salary was not payable by the government.

The next Congress government modified these clauses and passed the Education Act of 1958. Ironically, the main feature of the previous Bill – unification of the salary, leave and other service conditions of teachers in government and aided institutions and protection of teachers against

Annex Table 1: Key Features of the Legislative Framework for GIA in Kerala

Transparency	GIA is governed by KER; in other states, there are a multiplicity of codes and acts that govern aided institutions.
Management structure	Flexibility regarding structure of management – individuals and trust, societies and religious organization can establish schools/colleges but they have to appoint and pay for Manager.
Conflict of interest	Person appointed as teacher cannot be Manager.
Staff strength verification	Education officer fixes teaching posts after finalizing number of division. Effective pupil attendance is calculated through surprise visits by education officers.
Disciplinary action	State govt. can take disciplinary proceedings against aided teacher, if the management does do not so.
Redeployment of surplus teachers	State govt. can appoint surplus staff to other aided or government schools.
Inspection	Schools are subject to regular inspection by administrative officers of School Education; Vice-Chancellor has the authority to dismiss a manger guilty of corruption, malpractice etc.
Parent Teachers' Association	Mandated by the Rules in all aided schools and actually in existence.

arbitrary action – was preserved; however, managers retained the right to appoint teachers while the government undertook to pay the salary of the aided teachers. Increasingly, managers took recourse to the rights accorded by the Constitution for protection of minorities, to shield their rights in appointments of teachers. In effect, the rights of the managers were preserved in almost all conditions except salary, which was passed on to the government. The political influence of the managers led to an enormous increase in the subsidy to the private sector.

The Kerala Education Act and Rules became the model for the GIA policy and practice across many states. The key features of the legislative framework are shown in Annex Table 1.

Strengths of the Kerala GIA system:

Equity focus – aided institutions, both at school and college level, are distributed fairly evenly across all the districts. For the state as whole, 59 percent of all schools are aided; the variation across districts is 42-71 percent. Unaided schools represent only about 4 percent of the total in almost all districts. Although some aided schools cater to the richer students (especially in urban areas), the majority cater to the same clientele as in government schools.

Government monitoring of student and staff – a special cell, called the Supercheck Cell, headed by a Deputy Secretary to the government has been constituted. The cell conducts regular checks to ensure schools follow staff fixation norms and check enrolment and attendance of students. The cell reports irregularities to the Director of Public Instruction, who may take action based on the report. The Deputy Secretary also checks the annual data and inspection reports of the Education officers; the order regarding staff fixation is issued on July 15th and inspection is to be completed by November.

Less abuse of public subsidies – due to the above, as well as the existence of PTAs, cases of non-existent aided institutions and fictitious teachers do not arise, unlike in other states. However, there are problems of corruption in appointment of teachers, discussed below.

Issues in the Current GIA System:

Despite its strengths, the Kerala GIA system faces many problems and requires reform. These problems have arisen due to two main factors: (i) rapid demographic changes, leading to an absolute decline in the child population; and (ii) changing demand for education, in terms of curriculum and courses. The present GIA framework does not allow easy adaptation to these changing conditions. The problems are as follows:

Surplus teachers: Due to decline in the child population, the number of surplus teachers has increased. Officially, there are about 1500 such teachers; unofficial estimates put the number at 12-15,000. The KER mandates that the government is responsible for the protection of the salary and benefits of teachers rendered surplus, even though they can be redeployed to teaching or non-teaching posts. This leads to a fiscal burden for the state government, while at the field level, there is corruption in order to "save" redundant posts.

Inflexibility in the curriculum: Institutions receiving aid have no choice regarding the curriculum. At the school level, the state curriculum with instruction in the mother tongue must be followed. On the other hand, private unaided schools are allowed to offer English medium instruction and alternative (recognized) syllabi. There is greater demand for this, leading to decline in enrolment in both aided and government institutions. At the college level, institutions get aid for teachers only in approved courses. Introduction of new courses requires approvals of the University and the government is not obliged to provide aid for such courses. This leads to a situation where the low-demand courses continue to receive the highest subsidy (aid) while the newer courses receive no subsidy. Low student demand renders existing aided posts surplus, but there are enormous difficulties in declaring these posts surplus.

Management commissions in teacher recruitment: Financial donations by prospective teachers to the managements at the time of recruitment are reported to be commonplace. Notification and advertisement is mandatory as per the KER but interviews are considered a formality with a decision having been

taken beforehand. The amounts range from Rs. 3 lakhs for a primary teacher to Rs. 8 lakhs for a secondary teacher (approximately 3 years' average salary at each level). College teachers pay similar amounts. The system of donations has become more widespread now and even teachers who had been recruited earlier reported that while such donations were not taken earlier, management now demands regular contributions in the form of deductions from the salaries. However, most respondents in interviews conducted for this survey felt that "about half" the amount was used by managements to invest in infrastructure for the school.

Recruitment of temporary teachers: The KER provides for appointment of a temporary teacher if a teacher is on leave for more than two months, who becomes a claimant if a vacancy arises. Managements also charge for hiring temporary teachers and often 2-3 claimants arise for subsequent vacancies, leading to litigation.

Litigation: The number of court cases is not computerized and estimates ranged from 4-5000 pending cases. On average, the Kerala High Court has pronounced a judgment on about 15 cases relating to aided institutions every year for the last twenty years. Cases relating to colleges, constituting about one-fifth of total cases, almost always relate to student admissions (eligibility, reservation, disciplinary action) or teacher appointments. The majority of cases at the school level on the other hand, relate to staff/management conflict (appointments, suspensions promotions, seniority).

Annexure 2

Comparison of Grant-in-Aid Code of different States

State	Management	Teachers' Condition of Service		Fee Control	Grants	Audit	Teachers' Training	Distinct Features
	Whether only society/trust or also through individual	Whether parity in pay scale with Govt. teachers	Prior approval required before dismissal/ turnover	Whether state has control	Heads of Grant: 1.Recurring Grant 2.Non-recurring Grant	Account-ability Whether also required to file returns	Whether code applies to teachers' training institutes	
Delhi	Society/trust	Yes	Yes	Yes	Yes	Yes	No	1. Rules provide that every school should be administered by a registered trust or society. 2. Provision for rent grant and hostel grant is provided in the Rule.
Orissa	Yes	Yes	Yes	Yes	Not known	Yes	No	1. Sec. 23 prescribes for the Orissa Education Development Fund. This fund is managed by a committee constituted by the State Government. Grants of the state, and donations are credited to the fund. The objects of the funds are: i. to issue grant in favour of educational institutions for implementation of improvement schemes ii. grants of interest free loans to educational institutions.
Karnataka	Society/trust	Yes	Yes	Yes	Yes	Yes	Yes	1. No proprietary or single manager school is recognized under the Code. 2. Not more that one member of a family be a member of Managing Committee.
Kerala	Yes	Yes	Yes	Yes	Yes	Yes	No	1. The Act provides for individuals to constitute the management. 2. Sec. 9 of the Act prescribes that the Government is under an obligation to pay the salary of all teachers in aided school directly or through the Headmaster of the school. The Government assumes complete responsibility for the disbursement of salary of teachers and other members of the staff. Thus, the very concept of a teaching grant has been eliminating. 3. Part II of the Act deals with compulsory education. Sec. 23 directs the State Government to provide for free and compulsory education of children. Sec. 26 obliges the guardian of child to send him or her to school 4. Welfare schemes for teachers, such as provident fund, common pool of surplus teachers, who would be given employment, provision for compassionate appointment, etc., is provided in the Act. 5. Amendments are carried out only through Legislative Assembly by passing a law, whereas in other states it can be done at the departmental level by way of Government Orders.

State	Management	Teachers' Condition of Service		Fee Control	Grants	Audit	Teachers' Training	Distinct Features
	Whether only society/trust or also through individual	Whether parity in pay scale with Govt. teachers	Prior approval required before dismissal/ turnover	Whether state has control	Heads of Grant: 1.Recurring Grant 2.Non-recurring Grant	Account-ability Whether also required to file returns	Whether code applies to teachers' training institutes	
Madhya Pradesh			Yes	Yes				1. The state has a complete control over the primary education, which is free and compulsory. 2. The grant in aid code is in the form of Government Orders. It is apparently a matter decided by the Government and intimated to the institutions seeking aid.
Andhra Pradesh	Yes				Yes	Yes	Yes	1. Like in Delhi, Andhra Pradesh also has provision for hostel rent. 2. Other than school grant in aid code also relate to colleges for general education and for teacher's training and also for institutions for special education.
Maharashtra	Society/trust	Not known	Not known	Yes	Yes	Yes	No	1. Act provides that the management should be registered either under the society registration Act or under the Maharashtra Public Trust Act. 2. There is a provision for School Board or Education Committee who are responsible for maintaining adequate number of primary schools, for sanctioning grant in aid for also withdrawal of recognition.
Rajasthan	Society/trust	Yes	Yes	Not known	Yes	Yes		1. The Rajasthan grant in code also relates to the institutions for educational, cultural development and physical culture of the people. 2. Proprietary institutions, which are not registered under the Society Registration Act and Rajasthan Public Trust Act, are ineligible for receiving grant. 3. The managing committee of the institution reflects a secular character. As per the provision not more that two-thirds of membership of the managing committee can belong to any particular caste, sect or creed.
Uttar Pradesh	Not known	Yes	Yes	Yes	Yes	Yes	Not known	1. There is a provision for a separate board for Basic Education, intermediate Education and Secondary Education. Such boards are established by the State Government. 2. There is a provision for a recognized school whose financial resources are made available by the management of such schools in accordance with the standard as specified by the board. 3. Any person related to the management cannot be appointed as Headmaster or assistant teacher of a recognized school. 4. Separate Rules for Gratuity Fund for the teachers of aided school.

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