



## The Regulation of Private Schools Serving Low-Income Families in Andhra Pradesh, India

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**Abstract.** This paper sets out some findings of a research project carried out in private unaided schools in low-income areas of Hyderabad, India. The part of the research project documented here was designed to examine the question: ‘Is the regulatory regime conducive to entrepreneurial action and market discovery’ with particular reference to the low-income schools in Hyderabad. This paper is narrowly focused, setting out the results of pattern matching empirical data with the Austrian economic concepts of entrepreneurship, rivalry, and market discovery. The research discovered that two regulatory regimes exist, one that is set out ‘on paper’ in the Education Acts and associated rules, and another that operates ‘in practice’. That is, there is a combination of regulations ‘on paper’ and regulations existing in an ‘extra-legal’ sector. Generally it was found that the regulations ‘in practice’ are consistent with market principles. Conversely the regulations set out ‘on paper’ are not conducive to entrepreneurial innovation and market discovery. Recommendations for potential policy initiatives include the possibility of legitimising the ‘extra-legal’ sector by introducing self-regulation possibly via self-evaluation systems for the private unaided schools.

**Key Words:** competition, entrepreneurship, profit, regulation, private schools, low-income families, developing countries, India

**JEL classification:** B53, I22, I28, I38, K23.

### 1. Introduction

This paper sets out some of the findings of a research project carried out from November 2001 to December 2002, in private unaided schools serving low-income families in the metropolitan twin cities of Hyderabad and Secunderabad, in the state of Andhra Pradesh, India (the twin cities are referred to locally, and therefore throughout this paper, as “Hyderabad”). The original project’s aim was to identify ways to assist with capacity building and improvement in private schools aimed at low-income families in India. This brief included an examination of the regulatory environment, its impact on the private schools and its potential reform. The specific focus of this paper is the extent to which this regulatory environment is conducive to entrepreneurial action and market discovery.

There are three different school management types in India—government, private aided (“Grant-in-Aid” schools), and private unaided schools. Government schools are run by

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government employees and owned and funded by the State. Private aided schools are run by private management, but have teaching staff funded 100% by the government and follow Grant-In-Aid codes. Private unaided schools are run by private management and receive no grants or aid from the State; they are also supposed to follow regulations specifically targeted at private unaided institutions. The research described here focused on private unaided schools serving children from 'notified' slum areas, as defined in the Census, (Singh 1997) and/or the Hyderabad Urban Community Development book (MCH 1998).

Private unaided schools may be "unrecognised" or "recognised"; that is, if a school is 'recognised', then it is supposed to comply with government regulations conferring recognition status—although in practice, as we shall see, this is far from being the case.

Throughout this paper the term school 'entrepreneur' will be used for what is legally termed in Andhra Pradesh the school 'correspondent'; that is in practice the person who runs and manages the school (although technically, because of the regulations on profit, each school belongs to an education 'society', rather than to any proprietor). The research has found that the 'correspondent' has the characteristics and qualities of the 'entrepreneur' in Austrian economics. That is, the entrepreneur is regarded as a speculator, dealing with uncertain events, anticipating the future demands of the consumer. He will be successful in accumulating personal profit only if he recognises and anticipates future events unnoticed by others. The entrepreneur's activities determine the employment of the factors of production under the sovereignty of the consumer. Entrepreneurship is the ability to see what others cannot, with the entrepreneur driving the market process. These meanings provided by Austrian economics correspond with the role of those who manage and run the private schools in the low-income areas that participated in this case study. These 'correspondents' search for profit, as well as new and innovative methods to serve the consumer well, and are the driving force in the private school market, driven by the competitive nature of the sector, as well as profit and consumer demands.

There are three main issues that motivated the wider study. First, this research examines the private school sector because it may be an important provider of education in developing countries. Numerous comparative studies have been undertaken in a wide range of developing countries that has shown private schools to be superior to government schooling, in terms of educational efficiency (after controlling for socio-economic factors and the possible bias that parents choose private education for their more motivated and able children), and cost-effectiveness (Jimenez, Lockheed and Wattanawaha 1988, Jimenez and Cox 1989, Alderman, Orazem and Paterno 1996, Kingdon 1994, Govinda and Varghese 1993). In India and other developing countries, government schools have also been found by research to be failing to provide quality education, especially for the poor (The Probe Team 1999, Drèze and Sen 2002, Aggarwal 2000, Watkins 2000).

Second, even though much research has shown that private schools may be superior to government schools in terms of efficiency and cost-effectiveness in developing countries, international and national policy makers seem to neglect the private sector in terms of its potential contribution to achieving 'education for all'. Although the significance of achieving universal primary education is generally accepted, it is often seen as the role of governments and bilateral and multilateral agencies to solve the problem of achieving 'education for all'

(Bashir 2002, Drèze and Sen 2002, Watkins 2000, Sen 1999). Probably this is because it is widely assumed that private education does not cater for lower income families. However, there is a growing body of research that point to a private schools' market serving 'poor households' (Aggarwal 2000, Alderman, Orazem and Paterno 1996, Drèze and Sen 2002, Tooley 2001, Tooley and Dixon 2003, Watkins 2000). This research adds to this body of literature.

Third, regulation of private education is also an under-researched area. There is a lacuna in the literature on regulation of private education and virtually nothing on regulation of private schools in developing countries, and, in particular, on regulation of private schools catering for low-income families. Research on regulation of education in developing countries and transitional economies tends to focus on *higher* education (Koutsky 1996, Maxwell, Provan and Fielden 2000, Moja et al. 1996, Richardson and Fielden 1997). Conversely, much of the literature that exists in the area of regulation of private *primary* and *secondary* education tends to examine private schools in America rather than in developing countries (Foley 1996, Randall 1992, 1994, Carper and Devins 1985, Baintron 1983, Diehl 1983, Encarnation 1983, Erickson 1984, 1986, Murnane 1986, Smolin 1986, Furst 1985, Hirschhoff 1986, Chubb and Moe 1990). But regulation is very important, because regulations have the capacity to stimulate or stifle the market for private education, as well as affect the quality of education provision. It is assumed by governments that regulations may be used to inform consumers of school quality and to disseminate information transparency within the market. Regulations that enforce quality standards, it is assumed, will discourage and protect consumers and other providers from any 'fly-by-night' operators setting up that may try to "hoodwink parents". Consistency of enforcement eradicates the uncertainty for providers of any unnecessary intervention and provides consumers with the certainty that those being regulated are abiding by the same rules. Regulations governing private unaided schools are a powerful instrument in directing policy, thus the importance of the research is its conclusions concerning the future of the regulation of private education serving low income families in developing countries.

The specific focus of this paper is whether the rules and regulations that govern the private education market in the low income areas of Hyderabad are conducive to entrepreneurial action and market discovery. In fact, the research uncovered *two* regulatory environments: There is one set of laws and rules that appear 'on paper' as laid out in the Education Acts and associated codes and rules, and another which exists 'in practice', made up of a combination of some 'on paper' rules together with an 'extra-legal' set of unwritten practices. The next part of the paper (Section 2) outlines the research method, both for the wider project and for the particular focus of this paper, the 'pattern matching' of the regulatory regime with concepts of entrepreneurial action and market discovery. Section 3 provides some of the findings about the private unaided school sector in Hyderabad, while Section 4 provides a brief outline of Austrian theory concerning regulation. Section 5 outlines a summary of the findings in Hyderabad regarding the private unaided school regulations and how the findings "pattern matched" with profit, entrepreneurship, and competition. The final section considers implications for policy.

## 2. Research Method

The research was carried out in Hyderabad, Andhra Pradesh, using both qualitative and quantitative methods, although most of the work comparing the regulatory regimes ‘on paper’ and ‘in practice’ is based upon qualitative research findings. A sample of fifteen private unaided schools was opportunistically selected by “cold-calling” on schools during visits to the city and requesting an interview with the school manager. Each school had to satisfy the following conditions:

- It had to serve children from a notified slum area, according to the Census (Singh 1997) and/or the Hyderabad Urban Community Development book (MCH 1998);
- The school manager had to agree to the presence of a researcher in the school for significant amounts of time, in particular to interview teachers, students and parents; to observe classes; and to divulge financial information;
- The manager appeared to be aware that improvements could be made to the school and expressed at least some interest in working with the team in such improvements.

In the event, many more than 15 schools wished to take part, and an arbitrary selection was made from the list to ensure a balance of neighbourhoods and fee ranges. After the first school manager interview, and parent, pupil and teacher interviews, had been conducted, one of the schools dropped out of the research, the manager being unwilling to divulge sensitive financial information, although he was happy that the data collected from parents, teachers and pupils continue to be used in the research. Hence all the interview data for school managers, parents, teachers and pupils was collected from the 15 schools, while data on pupil and teacher numbers and finances is reported from the remaining 14 schools.

Three Hyderabad-based researchers were appointed, to be engaged in interviews, class observations, and collection of other relevant data. Structured interview protocols were designed by the Newcastle team, who trained the researchers in their use. The researchers were fluent in the main local languages, (Telugu and Urdu), as well as in English, and translated between the languages as required. The project commenced in November 2001, and was concluded in December 2002. Whilst visiting Hyderabad, the researchers from Newcastle took part in school social functions such as presentations of prizes, concerts, science fairs and sports days, which had the effect of building up a strong rapport with the school managers. There were also termly meetings organised with the school managers, to explore the project findings and discuss their implications for school improvement.

In total 15 school managers and 244 teachers (all the teachers in the schools on the days that the researchers called, with the exception of those related to the school manager) were interviewed. 315 pupils in total were interviewed, with 21 selected from each school, that is, a boy and girl randomly selected from each class from 1 to 10, plus one from the nursery classes. The parents or guardians of these children were also interviewed, either in their homes or when the parent came to collect the child. The school managers were interviewed on at least three occasions for information regarding the regulatory environment, their reasons for setting up the schools, their backgrounds, and their finances. Teacher interviews explored issues relating to salary, experience and qualifications. Parental interviews were

undertaken to explore their backgrounds, their reasons for sending their children to private unaided schools, qualities of their school, and the processes they went through for school choice. Many parents were illiterate, which militated against using a questionnaire approach for a larger number. Pupil interviews explored views on their school, their family background and whether they undertook any paid employment. Questions were also asked of the teachers, parents and students to triangulate that given by the school manager concerning fees, free and subsidised places and teacher salaries—if there was any discrepancy, this was discussed with the school managers concerned, and a solution found. Confidentiality of all information provided was assured, hence the anonymity of the schools in this paper.

School and classroom observations also allowed for an insight to be gained into the state of the school's physical facilities and amenities, as well as the teaching processes carried out in the schools. "Member checking" was carried out, with each school that took part being given a detailed report concerning the results of the data collected. School managers commented on the findings at group meetings and individually, providing feedback concerning the adequacy and relevance of the analysis. All of the research participants' identities have been anonymised in this paper in order to protect them from any repercussions, with schools being assigned letters of the alphabet and government officials only referred to by their titles.

There are two education districts covering the city of Hyderabad: Ranga Reddy (which also covers a large rural hinterland) and Hyderabad Districts. Both District Education Officers (DEOs) and their assistants were interviewed to gauge their views on the private sector, as well as the (political) Minister for Education for Andhra Pradesh, and the Secretary for School Education, the leading education civil servant in the state. All relevant regulatory documentation was also reviewed and discussed with these officials and the school managers.

The research started with an existing theory, Austrian economic theory, and "pattern matching" of empirical data was carried out to the codes generated by that theory. All of the code headings were generated from concepts of entrepreneurship, rivalry and market discovery. The sub-categories were created during the empirical data collection. These codes and sub-categories are shown in the Table 1.

During the course of the fieldwork, data collection and the analytical process, a search was made for new code headings, but those generated from the existing theory were the codes that emerged continuously from all of these stages. Some further sub-categories were generated, however, during the data collection phase, including the sub-categories of corruption and bribery; again these sub-categories fitted within the already existing code headings. Word by word and line-by-line coding was carried out for each of the verbatim comments made of each interview with the school entrepreneurs, government officials, teachers and parent interviews. Observations, quantitative data, and other case study documentation have allowed a picture to be formed of the legal and extra-legal sectors in Hyderabad and the case study schools.

The coding was not only used when analysing the interviews and the semi-structured questionnaires, but also when considering the current 'on paper' rules and regulations and the 'extra-legal' sector. Section 5 below outlines the findings. When examining the 'on

Table 1. Coding qualitative fieldwork.

Code heading	Sub-categories
Competition	Low-fees; Choice; Government alternative; Quality; Investment; Efficiency; Factors of Production
Entrepreneurship	Philanthropy; Established the school; Providing a service; Business
Innovation	English medium; Teaching computers; Replacing the official curriculum; Maths and English subjects; Cost effectiveness
Regulation	Playground provision; Impossible to achieve; Enforcement; Trained Teachers; Flexible; Library; non-existence
Profits	Everyone profits; Businessmen; Run as a business; Low teachers' wages; Commercialisation; Market
Inspection	Corruption; Bribery; Taking bribes; Government inspector's visits; Recognition status; Retaining recognition
Accountability	Consumer sovereignty; Parental control; Provision of parental choices; Test Results; teacher accountability
Government intervention	Government regulations; Syllabus; Control; Curriculum; Bribery; Interference

paper' rules and regulations, it was easy to see that there was 'no match' between these and the codes generated as above, for the rules and regulations were quite *explicit*: for instance, they forbid the making of profit (no match), and *explicitly* legislate against competition. Many of the 'on paper' rules and regulations, as will be shown, also will clearly impede innovation and competition, and so do not match the categories. Thus it was possible for the matching of the 'on paper' rules and regulations to have revealed the opposite of what in fact was found.

Regarding the information generated from the semi-structured interviews, it is important to note that, *unprompted by the researchers*, the conversations turned to issues relating to profit, markets, entrepreneurship, innovation, accountability and government intervention, and hence matches were made with the coding. Again, because of the way the interviews were structured, it would have been possible for no match to have occurred; that is, the semi-structured interview protocols were deliberately designed to elicit discussion of how the private unaided schools in low-income areas were operating in the most general terms, so that it was possible for the government officials and school entrepreneurs not to mention concepts relating to business, profit, competition and so on. If these concepts had not arisen, then there would have been no matching. The fact that these elements arose unprompted supports the pattern matching that took place here.

### 3. Background

Before moving on to discuss the regulatory environment and the pattern matching that took place, it may be worth outlining some of the findings from the wider project, in order to put the regulatory discussion into context.

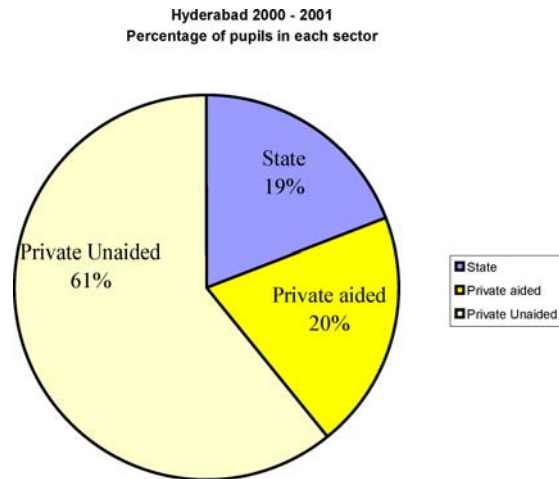


Figure 1. Official percentage of pupils in each sector in Hyderabad.

### 3.1. How Many Private Unaided Schools are There?

Private unaided schools in Hyderabad are not a small-scale phenomenon. Official figures from the Hyderabad district show that 61% of total students are enrolled in the private unaided sector, with 67% at upper primary, 61% at high school and 15% lower primary school level. There are also three times as many teachers in the private unaided sector as in the government sector. Altogether, the official figures show almost 1,000 private schools in the Hyderabad district, or 46% of the total number of schools (See Figures 1 and 2, and Tables 2–4). However, these figures are likely to overestimate the number of children in government schools, because of corrupt over-reporting, as well as underestimate the number of private unaided schools—because the unrecognised schools do not appear in government statistics.<sup>1</sup>

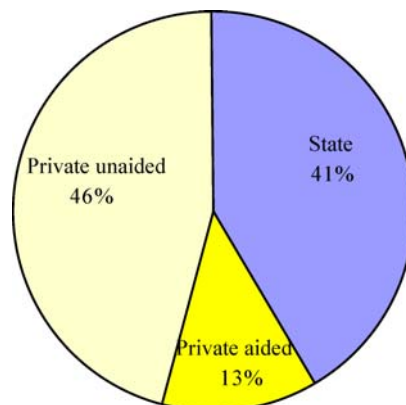


Figure 2. Official percentage of institutions in each sector in Hyderabad.

*Table 2.* Hyderabad school district: Public and private school pupils, 2000–2001.

Type/management	Primary schools	Upper primary	High schools	Higher secondary	Total
State/central govt.	35,472 (58%)	34,563 (22%)	63,945 (13%)	3,464 (24%)	137,444 (19%)
Prvt aided	6,558 (11%)	18,109 (11%)	120,388 (25%)	–	145,055 (20%)
Prvt unaided	19,206 (31%)	105,597 (67%)	301,792 (62%)	11,100 (76%)	437,695 (61%)
	61,236	158,269	486,125	14564	720,194

*Source:* Data obtained in writing from the DEO of Hyderabad 2002.

*Table 3.* Hyderabad school district: Number of institutions: 2001–2002.

Type	Primary school	Upper primary	High school	Total
Government	528 (80%)	120 (24%)	132 (18%)	780 (41%)
Private aided	33 (5%)	51 (10%)	153 (21%)	237 (13%)
Private unaided	100 (15%)	322 (65%)	447 (61%)	869 (46%)
Total	661	493	732	1,886

*Source:* Data obtained in writing from the DEO of Hyderabad 2002.

*Table 4.* Hyderabad school district: Public and private school teachers, 2000–2001.

Type/management	Primary schools	Upper primary	High schools	Higher secondary	Total
State/central govt.	695 (46%)	889 (18%)	2,541 (17%)	179 (28%)	4,304 (20%)
Prvt. aided	164 (11%)	518 (10%)	3,127 (21%)	–	3,809 (17%)
Prvt. unaided	660 (43%)	3,596 (72%)	9,187 (62%)	463 (72%)	13,906 (63%)
	1,519	5,003	14,855	642	22,019

*Source:* Data obtained in writing from the DEO of Hyderabad 2002.

### 3.2. *The Parents*

Our interview findings reveal the following about the parents who send their children to the case study schools: they are in general poorly educated, usually in manual labour on daily or weekly wages, with family incomes near or below the minimum wage in Hyderabad. Although there is no national minimum wage in India, the minimum wage for certain categories of employment and skill levels is fixed by the All India Government. For a Metropolitan City such as Hyderabad the minimum rates for manual labour range roughly



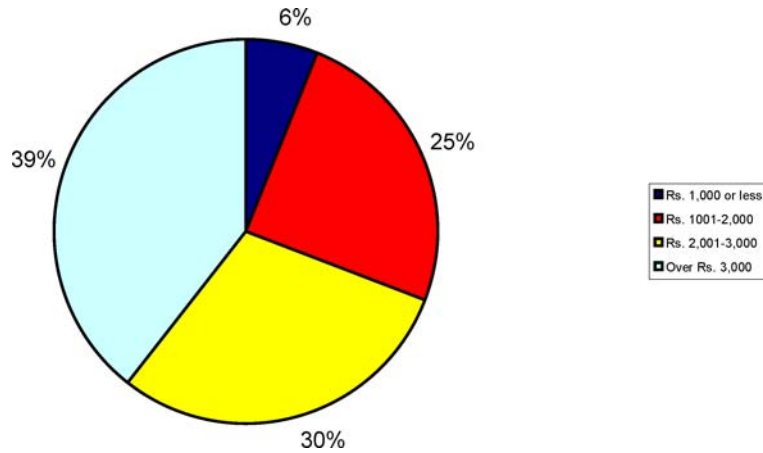


Figure 3. Percentage of families on monthly income from less than Rs. 1000/- to over Rs. 3,000/- (less than \$23.81 to over \$71.43). *Source:* Quantitative analysis undertaken for this research via questionnaires completed in the presence of a researcher with the parents.

from Rs. 52/- to Rs. 124/- per day (\$1.24—\$2.95).<sup>2</sup> Utilising these figures, the monthly minimum wage (i.e., working 25 days) ranges from about Rs. 1,300/- to Rs. 3,100/- (\$30.95 to \$73.81) in Hyderabad.

The pie chart in Figure 3 shows that 6% of the families in this research have a monthly family income (i.e., including all those members of the family who are earning) of Rs. 1,000/- or less (\$23.87), 25% have a monthly family income of between Rs. 1001/- and Rs. 2,000/- (\$23.83—\$47.62), 30% have a monthly family income of between Rs. 2,001/- and Rs. 3,000/- (\$47.64—\$71.43). Only 39% of the families that participated in this research received a family income (i.e., from all working members) above Rs. 3,000/- per month (\$71.43).

Parents' educational achievement is a good indication of the children's background. The data show that, of the 315 parents who participated in the research, 14 per cent of fathers and 29 per cent for the mothers have had no schooling. The great majority of the mothers (62 per cent) have had either no schooling or are educated up to grade VII or below (see Table 5).

An indication of the background of the children who attend these private schools is also given by considering their parents' employment. About 87 per cent of fathers are manual workers, some with irregular work and others undertaking jobs such as service workers, market traders, and rickshaw drivers. As would be expected in India, owing to cultural norms, the majority of mothers are housewives.

### 3.3. Why do Parents Choose Private Schools?

State education is provided free, but parents in the private unaided schools have chosen to pay fees. The question that needs to be asked is why would these largely poor

Table 5. Husbands' and wives' educational standard .

Educational standard	Percentage of husbands	Percentage of wives
No Schooling	14%	29%
Up to III standard	3%	4%
Up to V standard	5%	11%
Up to VII standard	17%	18%
Up to X standard	33%	28%
Inter	18%	6%
Degree	9%	2%
Post-grad/professional	1%	0%
Missing data	0%	2%
Total	100%	100%

Source: Quantitative analysis undertaken for this research via questionnaires with the parents.

parents pay for their child's education when there is a free government alternative? The fact that the schools are English medium is very important to the parents: 96 per cent of them indicated that this was a very important factor when they chose their child's school as shown in Figure 4. Indeed in the government schools teaching in English medium is not authorised until Grade VI.<sup>3</sup> It is certainly not the case that these private schools catering for low-income groups simply call themselves 'English medium' in order to deceive parents and enhance the number of students patronising their school. The research discloses a variety of innovative methods being utilised in the private schools to ensure that the children gain an understanding of English from the beginning of their school careers. This

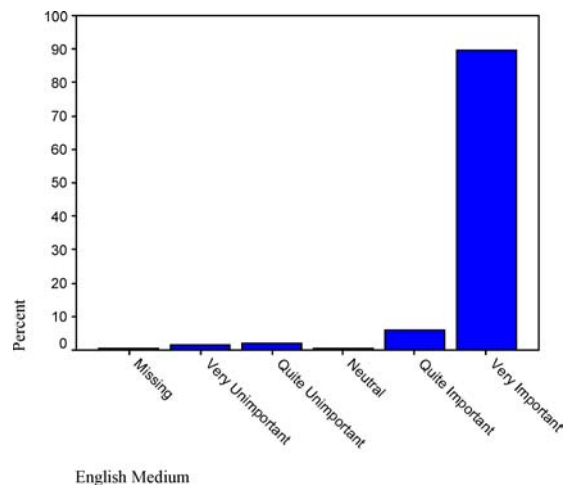


Figure 4. Ratings provided by parents of elements when choosing a school: English medium.

innovativeness includes the use of language cassettes and the avoidance of the official curriculum from Nursery to Grade 5, ensuring large amounts of time can be spent on English tuition.

Second, parents take their children out of the free state sector and send them to the private schools because they perceive that the private sector provides a better quality of education.<sup>4</sup> 98% of the parents indicate the fact that the school is considered to be a ‘good educational provider’ is an important element when they chose their child’s school. It is interesting to note that almost 75% of the parents stated that it was unimportant to them if there was a government alternative to which they could send their children as shown in Figure 5. They would choose the private school irrespective of the provision of a government school.

78% of the parents stated that they would recommend their current private school to their neighbours, friends or relatives and 93% of the parents rated their school “very good” or “good” value for money.

The school entrepreneurs were asked how many major competitors they face in the market. 10 of them stated that they face 3 or more major competitors in their area. None of the entrepreneurs regarded the local government school to be a competitor, 12 indicating that the quality of government schools is too poor to be any threat.

Government official also provided their reasons for parents choosing private schools. One senior official commented: “the teachers in the private unaided schools are accountable to the parents. The parents insist on quality. The teachers in the private unaided schools are faced with the sack if they do not perform. They can easily be removed”. Another commented: “In the private schools the manager watches the teachers all of the time. In turn therefore the teachers watch the children”. Such accountability is not present in the government schools, the officials agreed, where teachers and staff are guaranteed a ‘job for life’ owing

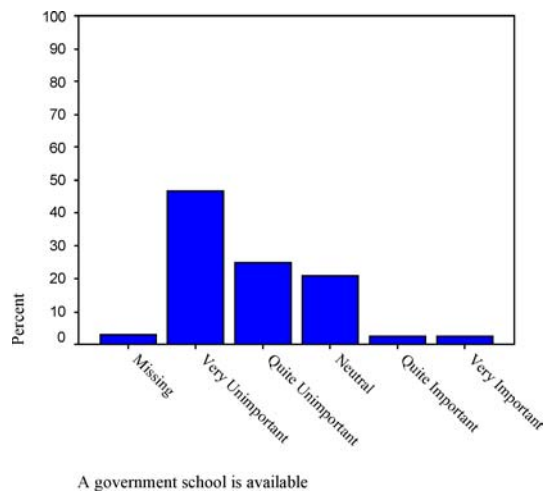


Figure 5. Ratings provided by parents of elements when choosing a school: A government school is available. Source: Quantitative analysis undertaken for this research via questionnaires with the parents.

to the strength of the teachers' unions and employment contracts. The government officials indicated that it is rare that a teacher from the government sector loses his or her job owing to incompetence.

But this accountability also impacts on the competition between the private schools. There is considerable choice and parents are free to move their children to different schools that are only a few yards apart if they deem their child's school to be failing. For instance, one illiterate father from School A remarked that if the standard didn't improve at his child's school, he would place him somewhere else. Interestingly, he felt that the teaching of English wasn't up to standard. He had been comparing the standard and ability of his child with his neighbour's children who went to another school in the same street, and felt that his child was not doing so well, even though, of course, he understood and spoke no English himself.

#### *3.4. Private School Conditions in the Low-Income Areas of Hyderabad*

Private schools are operating in very close proximity to one another. Many types of buildings are used to house these schools: purpose built buildings, rented buildings, family homes, a building that was once a chicken farm, and rooms situated above shops. Within the schools, the general impression is of intense teaching activity, with well-behaved children in a strict environment, in small classrooms furnished with desks and chairs, blackboards, chalk and dusters. Classrooms are sometimes divided into two, utilising screens, in order to facilitate the teaching of two different lessons concurrently. Most children have textbooks; workbook and pencils, which are provided by the students, those in the nursery often have chalkboards for writing and drawing. Most of the classrooms have neither window panes nor doors, although they have doorways and window spaces. Many of the schools provide separate toilets for boys and girls, as well as drinking water. All of the children wear school uniform. Some of the private schools run concurrently Telugu or Urdu medium divisions in their schools and all of the children have to take as subjects Telugu, which is the State language and Hindi, which is the national language. Urdu, the mother tongue of many Muslim families may be taken as a subject option.

#### **4. The Austrian Economic Approach to Regulation**

Kirzner (1978) recognises that government intervention produces distortions in the market causing undesirable consequences and effects. Inefficiency and economic confusion are the products of interventionism. This is especially true when the regulatory policy limits competition or controls prices. Kirzner believes the entrepreneur to be the central figure in the market, motivated by profit, searching for innovative processes to fulfil present and future consumer demands. Any intervention by government that interferes with the market mechanism will be harmful to the entrepreneurial process and thus the economy. When governments impose regulations the market process still continues, albeit on a different and possibly superfluous discovery path. Entrepreneurs still pursue profit and opportunity, but with a rearranged and re-patterned structure of incentives.

Government regulation may limit competition and it can ‘violate consumer sovereignty, if not consumer freedom’ (Kirzner 1978:12). Regulatory barriers to entry may be erected by government regulatory strategy. The number of participants in a market can be reduced through licensing requirements, tariffs, labour legislation, and other regulatory constraints, thus imposing monopoly-like ‘deadweight welfare losses’ on the economy. Any form of price control will disrupt the signals being provided by the market to entrepreneurs. Entrepreneurial discovery of new sources, processes, and procedures will be stifled. The failure that occurs in the market may well be attributed to existing government intervention, the market mechanism will not be able to self-correct. Adding government regulation to the already failing corrective strategy will exacerbate the problem. The cost of the regulatory strategy may well outweigh the so-called benefits attained from it. The cost of regulation is the stifling of unknowable discoveries that would have occurred if the regulations had not been in place (Kirzner 1985) and the discovery process that has resulted because of the regulations will lead to new and more regulations (Mises 1949 [1996]:763–764).

The criticism that government regulatory intervention affects the discovery process is proposed by Kirzner (1978) on four levels. First, regulators may not be able to predict the course the market would have taken without government intervention. This point examines how the demand for government regulation may be based upon the current perceived failings in a market, which, if left alone, would bring about discovery processes that would correct the present situation. Second, entrepreneurial incentives are missing from governmental decisions and therefore are unlikely to generate opportunities that will best serve the consumer and increase social outcomes. Government officials setting the regulations are unlikely to discover new methods of decreasing expenditures when their duty is not stimulated by the profit motive afforded to entrepreneurs in the unregulated market. Third, the discovery processes emanating from the market will be stifled by government regulation of the market. Government control of a market or its interference with it may impede the entrepreneurial process owing to the denial of entrepreneurial profit and hence obstruct the discovery of as yet unknown innovations and opportunities. Finally, irrelevant and undesirable opportunities and discoveries may be created by the regulatory strategy and the regulated market mechanism. It is therefore imperative that the ‘dangers’ associated with government regulatory control in association with the interference to the entrepreneurial discovery process are determined and recognised.

It is also important to note the Austrian view on profit—for this arose as a primary concern in the research. Profit is regarded as a reward to the entrepreneur for his alertness. According to Kirzner (1973):

‘The profit incentive (including, of course, the disincentive of loss) operates most significantly by sparking the alertness of entrepreneurs—by encouraging them to keep their eyes open for new information that will lead to new plans’ (Kirzner 1973:223).

For Austrians, it is the competitive actions of the market participants trying to gain profits that provide better opportunities within the market. The market mechanism is set in motion by the actions of entrepreneurs in search of profit and the acquisition of wealth. Entrepreneurs search for profits in the market and therefore opportunities that will allow

them to make gains. During the search for profit the entrepreneur will fulfil consumer demand, developing innovative production methods and new products. Profits will only be made if the entrepreneur serves the consumer, the consumer is sovereign in the market and the success of the entrepreneur depends upon the approval of the consumer. It is the consumer who quite voluntarily rewards the entrepreneur who is regarded in Austrian economics as an expander of choices whereas the regulations set by the government will restrict choices. Profit motivates entrepreneurs to innovate, experiment with quality, different prices and attempt new ventures searching for the as yet unknown. Entrepreneurship, competition, and the profit motive, stimulate efficiency, economic growth and benefit society as a whole.

### **5. Private Schools in Hyderabad and Their Regulatory Environment Pattern Matched with Market Principles**

An empirical study of the private unaided schools in the low-income areas of Hyderabad focused on the regulatory environment within which these private schools operate utilising market principles as the analytical framework. In this section we consider the issue of profit, followed by discussion of general rules on the recognition and establishment of private unaided schools.

First, although under the Indian Constitution, primary and secondary education is in the main regulated at the *state* (rather than All India) level, there is one area that has significant regulation from the central sphere—the area of profit. The All India Supreme Court, in the Unni Krishnan decision of 1993, asserts the following concerning private educational institutions:

‘Imparting of education has never been treated as a trade or business in this country since time immemorial. It has been treated as a religious duty. It has been treated as a charitable activity. But never as a trade or business. . . The Unni Krishnan Decision does not imply that private schools cannot exist but states that they should not ‘commercialise education’ and impart education with the motivation to profit from it’ (Para 164, S. C. 2244).

The ‘commercialisation’ of education and the making of profits are thus prohibited under this judgement. However, in practice, this does not seem to encroach upon the actual behaviour of schools, except in terms of their reporting of accounts, and, of course, in the associated payment of bribes. One senior government official stated:

“All institutions make a profit. . . we do not stick to the laws and rules, we are very flexible, and all institutions make a profit, we just let them do it” (Government Official, February 2002).

The data concerning profits were very difficult to obtain from the school entrepreneurs, who were initially very cautious about giving out the information in fear that they would

be handed over to certain authorities. One school that had been participating in the research refused to continue to take part because he was unwilling to provide details of his school's accounts. It was only after trust had been established and anonymity assured that the other schools provided their figures. All of the schools that participated in the research stated to the researchers that they make profits and regard their schools as their businesses. Our assessment is that the average surplus came to Rs. 218,622/- (i.e., \$4,858), representing 23% of the average school's income. The range was large, from Rs. 12,520/- or 4% of income (School B) to Rs. 412,693/-, or 48% of income (School M). We can consider these figures in terms of the annual surplus per student. On average this is Rs. 378/- (\$8.40), with the range from Rs. 43/- (School B) to Rs. 1080/- (School M).

Because it is officially illegal to make a profit, many of the schools keep two record books, one for the government inspectors, and the other for their own use. These record books not only show the school accounts, but also other regulatory aspects that the school must adhere to when they are recognised.

When asked whether the school entrepreneur believed that schools should make a profit, the entrepreneur for School C said:

“We charge very low fees, but we feel that from our school everyone should profit and that includes ourselves. The teachers profit from us because we are giving them a job, the students benefit from us because we are giving them a good education and the parents are benefiting because we are giving an education that is very low cost. We therefore benefit as correspondents because we work very hard. We feel that we should be able to make a profit because of our efforts” (School entrepreneur, School C, 5th February 2002, Nacharam).

The school entrepreneur at School H commented that:

“If you left everything up to the government then this type of education wouldn't exist. The need to make a profit makes you do well. That is what I have found over the last 20 years. Otherwise I wouldn't still be in business, with two schools to my name” (School entrepreneur, School H, 8th February 2002, Premnagar).

Because the private schools make a profit, the school entrepreneurs, owing to intense competition and the desire for their businesses and livelihoods to succeed, reinvest some of their profits in their schools to improve their facilities and standards. Even though these schools make profits and run as businesses, many of the school entrepreneurs believe it is their duty to provide schooling for the most needy in the low-income areas and therefore use their own profits to finance concessionary and free places. In the 14 private schools that provided this research with data concerning their finances the maximum percentage of total places provided at a concessionary rate was 44% (school A) and the average around 12%. Generally the school entrepreneurs feel that they have a social responsibility to their communities concerning the provision of education for children.

Pattern matching of empirical data with market principles was carried out in order to ascertain whether the regulatory regime that was found to exist 'on paper' or 'in practice'

was consistent with market principles. This research collected empirical data from several sources, including semi-structured interviews with government officials and members of the private school community and the scrutiny of documentation and archival records including the Andhra Pradesh Education Act and associate codes and laws and private unaided schools' accounts and records. These data show that the rules set out 'on paper' which deny profit do not pattern match with market principles. However, the regulatory regime that operates 'in practice', which allows profits to be made, is consistent with market principles.

Second, there are a multitude of written laws and rules concerning not only the licensing of the private unaided schools, in the form of recognition, but also concerning the establishment and running of private schools. These regulations could affect competition by blocking the entry of new private schools into the market because of the seemingly unattainable rules, their associated cost, and the bureaucratic procedures to be taken in order to become established and 'legal', that is operating within the official law. The sector's efficiency is also affected by the rules 'on paper' because of the need to adhere to the strict and narrow confines concerning the uses of the factors of production and the rewards paid to labour. Examples of some of the laws and rules that appear 'on paper' and that affect competition and efficiency include:

- The possession of a 4000 m<sup>2</sup> playground (*The A.P. Educational Institutions (Establishment, Recognition, Administration and Control of Schools Under Private Management) Rules, 1993*: Clause 5(7));
- The provision of a library and reading room with a predetermined number of books (*The A.P. (Integrated) Education Rules, 1966*: Clause 89, 90, 91);
- The space provided in a classrooms should allow at least 6–8 sq. ft. per pupil (*The A.P. Educational Institutions (Establishment, Recognition, Administration and Control of Schools Under Private Management) Rules, 1993*: Clause 5(2));
- The adequate housing of staff (*The Andhra Pradesh Private Educational Institutions Employees (Conduct) Rules, 1985*);
- There are a multitude of rules concerning the hiring and firing of teachers, as well as other staff members (*The Andhra Pradesh Registered Schools (Establishment, Recognition, Registration and Regulation) Rules, 1987* (Clause 12, 15) and *The Andhra Pradesh (Integrated) Educational Rules, 1966* (pp. 698–743));
- The requirement for teachers to hold a trained teacher certificate (*The Andhra Pradesh (Integrated) Educational Rules, 1966*, rule 50);
- Private unaided schoolteachers are to be paid in accordance with government teachers' salaries. Fifty percent of the fees collected from the students must be allocated for teacher's salaries in recognised schools and the scales of pay are recommended by a State Level Committee appointed by the Government (*The A.P. (Integrated) Educational Rules, 1966*, (rule 56 (i) (c)));
- An endowment fund is required to be set up with the State of the value for pre-primary to upper-primary institutions is Rs. 25,000/- (\$595) and for secondary institutions the value of the endowment fund is specified at Rs. 50,000/- (\$1,190) (*A.P. Educational Institutions Under Private Management Rules, 1993*) (Clause 5(1)).



According to the official rules government inspections are carried out on the private unaided recognised schools in order to check that they adhere to the ‘on paper’ regulations. For high schools, inspections should be carried out in private institutions every year for a period of three days, although this duration is up to the individual inspecting officer ‘depending upon the need’ where all staff must be present and all records are made available for examination and possible seizing where they do not comply with ‘on paper’ requirements. For pre-primary, primary and upper primary schools, inspectors should inspect three times per year as well as being able to make visits unannounced. After the inspection, reports are written and have to be acted upon where required ‘the inspecting officer shall record his personal suggestions or observations of irregularities noticed for implementation or rectification’ (*The Andhra Pradesh Educational Institutions (Inspection and Visits) Rules 1988: Clause 8*). The school must submit proof of rectification in order to illustrate how the inspection report’s issues have been acted upon.

However, the ‘on paper’ rules and inspection protocols are widely ignored. ‘In practice’ there is much competition between the private schools in the low-income areas of Hyderabad and the inspection procedures are generally not followed. With very little ‘official’ government interference, competition is able to flourish, stimulating innovative behaviour to raise the quality of service and efficiency whilst competing on price. This research revealed that government officials as well as every school entrepreneur who participated in this research acknowledge the fact that schools generally ignore many of the ‘on paper’ regulations.

According to the school entrepreneur at School F, the regulations on paper are impossible to fulfil at his school, but his school is granted recognition regardless of the official regulations:

“The government officials know that the teachers aren’t qualified but they still sign the forms in order to pass the school. . . what appears on the forms all of the government officials know is not true” (School entrepreneur, School F, 9th February 2002, Saroornagar).

So how can this apparent anomaly come about? Here, as with the case of profit above, this research revealed that the payment of bribes to government officials and inspectors, in effect “buys” the school entrepreneurs freedom from the ‘on paper’ regulations, allowing them in effect to regulate themselves at the individual school level. Regarding the government inspections, although inspectors reportedly make frequent visits to the private schools, the teachers participating in this research commented how they spend their time in the school entrepreneur’s office discussing ‘business’. No teacher interviewed by this researcher had participated in an inspection process, and comment was never made concerning more than one Inspector arriving at the school during one visit. Ten of the school entrepreneurs were asked how many times they were visited by an inspector in any one year. Four of them indicated three times per year and three more than three times per year. Only the school entrepreneur from School I indicated that an inspector called only once. The nine school entrepreneurs whose schools are recognised by the government were asked what best described the reasons why the school inspector comes to visit their school. The only statement that received a 100% unanimous agreement was that the inspector ‘comes to take

*a bribe*'. The general consensus of these nine school entrepreneurs is that the inspector visits for two reasons, to inspect the school register and take a bribe. All of the school entrepreneurs said that there is no follow up action after the inspectors' visits.

According to one DEO, enforcement of the 'on paper' rules is impossible:

"Indeed the whole system is corrupt. . . there is no way of checking up on the schools. There are only three inspectors for all of these schools. We can't go into every individual case we have three inspectors for 700–800 private recognised schools" (DEO, February 2002).

Officials are surprisingly open about accepting bribes. One stated that:

"The whole system is corrupt, the regulations are flexible, open to bribery and corruption. Bribery is a possibility, they can bribe me too!" (DEO, February 2002).

The school entrepreneurs made it quite clear that bribes are paid to inspectors, government officials as well as tax collectors. The school entrepreneur at School M said:

"Everything is possible if you offer the right amount of bribe. . . corruption means you can get anything done. In fact, if we follow the proper channels, every path will be closed. . . . Government is the obstacle of the people" (School entrepreneur, 12th February 2002, School M).

According to the school entrepreneur from School J, when applying for recognition for his school, he had to pay Rs. 50,000/- (\$1,190) in unofficial payments. The school entrepreneur states that there are disadvantages to being recognised, which includes high official and unofficial charges and unnecessary interference by the education department in the running of the school. The school entrepreneur understands that the school acquires credibility amongst parents through recognition and enables students to take exams as candidates. However the school entrepreneur feels that the recognition requirements are unreasonable, starting from the filling in of complicated forms, which make the process lengthy and requires the approval of too many personnel, to the emphasis on size and quality of the school's facilities, the size of the faculty and teachers' salaries.

These findings concerning competition and what is happening 'on paper' and 'in practice' were pattern matched with market principles; the core heading being 'competition', the sub-headings including 'quality', 'efficiency', and 'factors of production'. The entrepreneur's desire will be to maximise profits and therefore search for the lowest cost mix of factors of production employing the most efficient use of resources. Any regulatory controls concerning these inputs will prevent the entrepreneur from seeking the least cost method of delivering schooling through experimentation with the mix of inputs. There are 'on paper' regulations specifically targeting 'capital' and 'land' usage. How the school's space is utilised is not left to the entrepreneur's discretion, even though his innovativeness, motivated by competition and profit may result in the most efficient utilisation of space. The entrepreneur has lost the right, at least 'on paper', to allocate his capital and land in the

manner best determined by him. In this respect limitations may have been placed upon innovative use of facilities.

The regulations 'on paper' also limit entry to those who can afford the endowment payment and abide by narrowly defined rules concerning facilities and school inputs. The market process is kept in motion by competition and the freedom of entry into the market by new firms and entrepreneurs. Entrepreneurs in search of profit will bring about competition that ensures innovativeness and better opportunities for consumers. Equilibrium is never attained and therefore the process is continuous. Competition will only be facilitated when there is freedom of entry into the market. The Austrian view is that any rules or laws that restrict entry in any way, such as licensing laws, will reduce the size of the sector, reducing competition and the number of new entrants attracted to the market and hence innovation and growth. 'On paper' there are a multitude of written laws and rules concerning not only the licensing of the private unaided schools, in the form of recognition and registration, but also concerning the establishment and running of private schools. These regulations could be seen as blocking new entrants from the market, dissuaded by these rules as well as the bureaucratic process concerning the applications for this status. Entrepreneurs entering the market in search of profit also stimulate competition. Therefore if the profit motive is denied competition will be limited. These official laws and rules that stifle competition are not consistent with market principles. When pattern matching the empirical findings with the laws and rules that appear 'on paper', this research found that the 'on paper' regulatory environment is not consistent with market principles.

'In practice', however, it has been found that the entrepreneurs employ the best mix of factors of production, in order to serve the consumer as well as maximise profit and compete in a very competitive environment. The entrepreneurs are driven by consumer demand, serving the parent's needs, providing, for instance, an education in English, setting up computer laboratories as well as employing cost effective measures to make their businesses both affordable by those in the locality as well as to maximise profit levels. Even though the schools may be unable to attain the regulatory requirement they often use innovative methods to provide costly or unavailable facilities to their students by 'some other means'. Some examples include private unaided schools using nearby parks or open spaces for playgrounds, hiring computer teachers with their own laptop to act as peripatetic instructors visiting schools a few times a week, or employing graduates instead of government trained teachers who are willing to work in private unaided schools at the current market rate. The private school entrepreneurs have found that student achievement levels are not hindered by their apparent 'disregard' for the 'on paper' rules where it seems, according to the private schools that participated in this research, that pupil admissions and examination achievement continue to rise each year.

This research has established that the private schools participating in this research do not comply with the official rules and regulations in Hyderabad and that bribery and corruption are the order of the day. The entrepreneurs are able to buy their way out of the official regulations and proceed with a self-regulating strategy, enforcing their own rules owing to accountability and the desire to maximise profit. Thousands of private schools operate in Hyderabad, competing with one another, making profits and the 'on paper' regulations waived. It is an innovative, thriving, prosperous industry answerable not to the government

but to the consumer, the parent. Therefore the question ‘Is the regulatory regime ‘in practice’ conducive to entrepreneurial action and market discovery?’ has been answered in the affirmative, via the pattern matching of data obtained in this case study with concepts of entrepreneurship, rivalry, and market discovery.

## **6. Conclusion and a Possible Way Forward: Creating a System of Self-Regulation for Andhra Pradesh**

This paper focused on the regulation of private unaided schools for low-income families in Hyderabad, Andhra Pradesh. It found that, in theory, the schools are controlled by government, through a wide range of regulations ranging from teacher salaries and qualifications, to class size, playground size, school facilities, composition of governing bodies, examinations, syllabus and curriculum adherence etc. However, in the case study schools, it turns out that these regulations are widely ignored, subject to the payment of bribes. There is an “extra-legal sector” operating, where the payments of bribes and operating in a corrupt environment engenders uncertainty for the entrepreneurs. Both the school entrepreneurs and the government officials confirmed the existence of bribery and corruption, stating that the majority of regulations and laws set out by the Education Acts and associated rules are in practice ignored.

By pattern matching the data gathered through semi-structured interviews, questionnaires, archival records, documentation, observations and physical artefacts, it was found that the current regulations that are set out ‘on paper’ are not conducive to entrepreneurial action and market discovery. The rules set out ‘on paper’ deny profit (e.g., the Unni Krishnan Supreme Court Decision), erect entry barriers (e.g., the rules surrounding recognition), stifle innovativeness (e.g., the curriculum and syllabus regulations), set wage rates above and fees below the market rate and suppress competition. However, what is occurring ‘in practice’, it turns out, *is* conducive to entrepreneurial action and market discovery. Having paid bribes and “bought” some regulatory freedom, profit and entrepreneurship are encouraged, there are few barriers to entry or exit, and innovativeness and competition are burgeoning. In the market ‘in practice’, consumers are sovereign because they have the ability to take their custom elsewhere in the market if it is perceived that their provider is failing or not providing them with what they require.

These findings are similar to those of De Soto (2000) who discovered the extra-legal sector in the developing world to be extensive. However, operating in the extra-legal sector, it was suggested to the researchers, brings four major disadvantages for the managers of the private unaided schools and the parents who patronise them: First, uncertainty of the law deters entrepreneurship and economic growth. Development may be stifled where there is uncertainty of the law and the lack of coordinating institutions. Second, because schools according to what appears ‘on paper’ operate illegally, they cannot access capital from banks—as they have uncertain property rights and the profits made are illegitimate. Thirdly, the entrepreneurs fear that their enterprises could one day be forced to meet the regulations that appear ‘on paper’ if for some reason bribery no longer constituted a payment for freedom. There is therefore a constant threat of enforcing the regulations that appear ‘on paper’ and thus of schools having to close owing to the impossibility of attaining these

regulatory requirements. Moreover, if the official laws were to be enforced, legally the government could take possession of all of the private schools' assets (who are operating outside of the 'on paper' regulations) and imprison the school entrepreneurs for operating illegally (*The A. P. Education Act* (1982): Sections 25 and 26).

Finally, because it is apparently relatively easy to obtain government recognition through the payment of bribes, this exacerbates the 'information' problem facing parents, who seek to choose schools within the market. Two examples illustrate the kinds of problems faced by parents: First, we were invited to a slightly more up-market school than the project schools, charging fees of Rs. 300/- (about \$7.14) per month. This was one of the schools that poorer parents might inspire to send their children to, if they could afford the fees. Part of the school's attraction was its glossy brochure and the manager's office had marble floors and air conditioning, but part may be also that the school argues that it is 'recognised' by the government of Andhra Pradesh. It was easy to see how parents could be very impressed by all of this, and wish to struggle to send their children to the school. However, when we asked to have a school visit, we saw classrooms which were indistinguishable from the slum classrooms, listened to senior children reading English without comprehension, and saw the same lack of facilities such as libraries and laboratories. It was clear that the school could be hoodwinking parents with its outward façade.

Second, one of the case study school managers pointed out how he was in competition with four new schools in his neighbourhood, none of which had students in high enough streams to enter for the state examinations at Standard 7. He was having problems with parents because his internal test scores at Standards 1 to 4 were much lower than in these competitor schools, even though his tests, he said, were of the standard required for students to enter for the state examinations. The other schools, he contended, were deliberately providing easier tests to inflate their scores, thus encouraging parents to believe that they were better. A market test might appear when the children finally did sit for Standard 7 exams, but by then it may be too late—his school may even have been put out of business by his competitors by this stage. Whether or not the school manager was accurate in his description of the situation, clearly what he described could plausibly arise in the current environment—and government recognition, because of the issues raised above, would play no positive role in helping parents discriminate between such schools.

These examples illustrate the kind of predicament faced by parents when making school choices. The government solution is to provide detailed regulations that schools must meet to be recognised; the badge of recognition ostensibly solves the information problem for parents. Unfortunately, this research shows that recognition can be bought through bribery, so signifies only that these payments have been made, not that standards have been met.

Given these findings, what are the recommendations for the sector? On the issue of bribery, it has to be noted that corruption is 'endemic' in India (Dreze and Sen 2002:53), and not something that can be easily wished away by recommendations here. India is ranked amongst the top ten most corrupt nations in the world (Mitra 1998:38). Dreze and Sen (2002:363), note that 'terrible consequences' of 'rampant corruption' in Indian society, including the undermining of democratic accountability. However, it has to be said that the extent of the regulations on the private unaided sector, which cannot be met by schools within their budgets, fosters the culture of corruption. If there were fewer regulations, then there would be

the need for fewer bribes. Now, the research reported here suggested that the current ‘extra-legal sector’ is conducive to entrepreneurial action and market discovery. The findings from the wider research project also showed, through a meta-analysis of research from developing countries, that a regulatory regime that was conducive to entrepreneurial action and market discovery is also likely to be consistent with raising standards in schools (Dixon 2003). Taken together, the recommendations here focus on the possibility of legitimising the current ‘extra-legal’ sector by introducing *self*-regulation mechanism in the private sector.

Self-regulation is commonplace in other areas of the economy—indeed, it is suggested that much of the regulation in the American economy is entirely private self-regulation, produced and enforced by trade associations and independent third parties (Yilmaz 1998). Examples given include:

- Underwriters Laboratories Inc.: an independent non-profit organisation that establishes safety criteria for a wide variety of manufactured products, systems and components, including electrical appliances and equipment. It offers testing, certification and quality assessment services. It has also developed national and international standards that are widely used by manufacturers and other certification agencies (as well as government agencies).
- The American Dental Association (ADA): a membership organisation for dentists and dental students. It establishes standards for dental products and equipments, reviews products for dental safety, and sets guidelines for advertisement of dental products. The ADA has been involved in standard setting for almost 125 years. Its seal of acceptance is carried by 350 different companies and by 1,300 dental products. A Seal of Acceptance from a product may be removed at any time if the manufacturer fails to abide by a standard after the seal has been awarded. The seal can also be removed from a product if a company violates the rules for use of the seal at any time.
- Inspection of Kosher Food: More than 130 independent and non-profit organisations inspect and certify kosher food. The Orthodox Union is the largest certifying agency. After certification, producers can use the approval symbol of the certifying organisation on their products. Rabbis inspect the facilities and rabbis can become full time inspectors. Kosher food certifying agencies announce in their newsletters, magazines, and Internet sites foods that have passed or failed their certification process. The kosher symbol is regarded as a sign of reliability and cleanliness for consumers. Private kosher regulations have been highly successful. Companies in the kosher food business have accepted third-party certification as a requirement for survival.
- The Council of Better Business Bureaus (CBBB): is the central organisation of more than 150 local nonprofit bureaus. The CBBB sets ethical conduct standards for member businesses and provides free business reports for consumers. Companies can apply for membership if they have existed for 6 months or more. Membership criteria include compliance with guidelines set by the CBBB concerning advertising, selling, promotion of goodwill in addressing consumer complaints and compliance with local and federal regulations. It also handles consumer complaints.
- The Good Housekeeping Institute: the consumer product evaluation laboratory of *Good Housekeeping* magazine. Founded in 1901 for the purpose of consumer protection,

education, and product evaluation, the Good Housekeeping Institute mainly tests for the durability and quality of products. Products that pass the evaluation tests can place an advert in the magazine. The Institute also award the Seal of Good Housekeeping, which is a warranty statement that promises that Good Housekeeping will replace the product or refund the purchase price if the product bearing the seal proves to be defective at any time within one year of purchase.

Models of self-regulation are also found in education in the UK and South Africa. In the UK, the Independent Schools Council (ISC, 2002) has 'enforced' self-regulation (see Braithwaite 1982), where the regulating agencies are approved by government, and take over the statutory inspection roles required by government. A similar system is in operation in South Africa, (ISASA 2001) which features a self-regulatory regime that functions for membership of the private school association. Moves are underway to incorporate the quality control procedures into those required by the state, hence also creating a system of 'enforced' self-regulation. These models provide possible ways forward for the regulation of the private schools serving low-income families in India that would counter some of the problems currently found within the system of government regulation that is clearly not functioning as it was intended to do.

The new self-regulatory regime would need to be bribery proof and the targeted areas of the regulatory regime would need to be attainable. One possible way forward would be for educational accreditation bodies to be set up. External verification of standards reached would culminate in a nationally recognised accreditation for the school. Once the accreditation was awarded then continual monitoring, via the schools own submission of evidence to the external assessor or verifier, in addition to mentoring from the accreditation company or federation, would need to be facilitated. The accreditation award would be removed and publicly denounced upon non-compliance or a deterioration of the quality standard. The key point is that the accreditation-awarding body would depend for its own financial and institutional credibility on only giving awards to schools that meet the standards. If it became clear that its awards were being given away on the strength of bribes too, as is clear to parents regarding government regulation, then its whole *raison d'être* would disappear. This is the key difference between the proposed private self-regulation and current government regulation.

## Notes

1. A larger empirical study is currently underway in five countries (India, Ghana, Nigeria, Kenya and China) in both urban and rural districts (including urban Hyderabad and rural Andhra Pradesh), to ascertain how many private schools actually operate in the poorest areas. This research has yet to be published; however, in three poor zones of Hyderabad, the provisional figure is that 66% of school children in the slum and low income areas are in private unaided schools, and over half of these are in schools that are unrecognised.
2. Throughout this paper the exchange rate is given as Rs. 42/- is equal to \$1, as pertaining at the time of the study. For minimum wages, see table 5.2, Area 'A' at [www.labour.nic.in/annrep/files2kl/labs.pdf](http://www.labour.nic.in/annrep/files2kl/labs.pdf)
3. The private schools are 'through' schools, that is they cater for Nursery (3 year olds) through to Grade X (14–15 year olds). Grade V caters for 9–10 year old children and Grade VI for 10–11 year olds.
4. Research is currently being carried out to compare the achievement of pupils attending government and private schools in Hyderabad testing 4,000 students, controlling for IQ, family background and self selection

bias. This research is probing in more depth the reasons for school choice and the rationality of parents' choices.

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