The Role of the Private Sector in the Provision of Basic Social Services

Trends and Issues of Private Sector Participation in Healthcare, Water, and Education in the ESCWA Region

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INTRODUCTION

Across the diverse countries that make up the ESCWA region, there is a growing trend of private sector participation in the provision of basic social services. Limited state budgets, growing populations and increased demand for social services are some key factors behind this trend. Whether in post-conflict, developing, or high income countries, governments are interested in the additional capacity and investment that the private sector can bring to social service provision. This represents an important shift in ideas about the role of the government in a region where the welfare state was the dominant model for decades. Social services like healthcare, water, and education are enshrined as basic human rights in many constitutions and declarations in ESCWA countries, as they are internationally, because they are considered necessary components of a full and dignified life. The benefits of these services are not only felt at the individual level, however. These services are the building blocks of a strong, prosperous country. For all of these reasons, greater private sector participation in delivery and financing of these services will have highly important effects on the citizens of ESCWA countries, and the countries as a whole. Some observers and policy-makers believe that the private sector may be better suited to provide efficient and varied services.\(^1\) However, there are also important concerns about the ability of the private sector to provide services that are widely seen as both basic human rights and public goods. Ideally in such cases, the government would still be ultimately responsible for ensuring provision of services, including guaranteeing that there is full and equitable access to services. However, it may shift away from directly distributing those services.

There are a variety of different forms of private sector participation in social service provision. In some cases, it takes the form of formally-contracted Public-Private Partnerships (PPPs) between the government and a private entity. There is no single, legal definition for PPPs and interpretations vary, but they always include some shared responsibilities between the private and public sectors regarding risk and financing.\(^2\) Other forms might not fit this framework and would be better qualified as ‘collaboration’ between the public and private sectors.

On the other hand, a significant portion of private participation in the region is uncoordinated, arising because the public system struggles to meet the needs or demands of the population in terms of quality or coverage of services. This uncoordinated participation is often neglected; it may go largely unmonitored by the state and often lacks a sufficient legal and regulatory framework.

With such an influential shift in social service provision, it is an important time to conduct a broad, critical, and comparative evaluation of the role of the private sector in social services, including the full variety of coordinated and uncoordinated private participation. That is the purpose of this report. It examines trends and issues associated with the role of the private sector across different social service sectors and different countries. While there are distinct challenges and features within each country and sector, it is also important to view this as part of a larger pattern. Viewing it as such promotes a cohesive policy on private sector participation and the legal and regulatory frameworks it requires. By focusing on the effect of private sector participation on the equity and quality of services, this report provides a rights-based perspective on private sector participation that is often lost in reports

focusing on the ability of the private sector to relieve pressure off public systems or improve efficiency and economic gains.

The report is divided by sector, with regional summaries on private sector participation in healthcare, water, and education. These regional summaries are built upon country case studies. These case studies were chosen to offer a representative sample of the geographic and economic diversity of the region, including conflict and post-conflict countries. Further, they were chosen to present a range of the issues facing countries in each sector.

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**PRIVATE SECTOR PARTICIPATION IN HEALTHCARE: REGIONAL SUMMARY**

**HEALTH AS A HUMAN RIGHT**

In most countries in the ESCWA region, access to healthcare is identified as a basic human right that the government is responsible for protecting. The Universal Declaration of Human rights first affirmed this right in 1948. Article 25 calls for an adequate standard of living, including medical care and necessary social services. This principle was reaffirmed and elaborated upon in one of the foundational documents framing the government’s responsibilities for healthcare, the Alma Ata Declaration (1978). This declaration upheld health as a human right and set forth basic goals and strategies for achieving that goal. It states,

“The Conference strongly reaffirms that health, which is a state of complete physical, mental and social wellbeing, and not merely the absence of disease or infirmity, is a fundamental human right and that the attainment of the highest possible level of health is a most important world-wide social goal whose realization requires the action of many other social and economic sectors in addition to the health sector.”

Health is a unique kind of right; unlike other human rights, it can only be provided by a small and highly trained group of professionals, and ordinary citizens often lack the knowledge to understand what represents truly quality care, especially as the benefits and consequences of care are often felt over the long term. These factors make the role of the government that much more important as a provider of healthcare, ensuring that citizens receive not only equitable care, but quality care as well.

Another perspective on healthcare suggests that health is an individual responsibility. This perspective is grounded in the fact that it is ultimately individual behavior and choices that affect one’s own health, and that the individual has ultimate responsibility for his or her own body. This perspective

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can be used to justify a more limited role for governments and is prominent in countries where healthcare is primarily private.  

Until the late 1980s, most governments in the Arab world had embraced the idea that the government should take a dominant role as both a provider and a producer, leading the planning, financing, delivery, and monitoring and regulation of healthcare. However, for a variety of reasons, particularly limited state capacity, governments began to move away from this strategy. Rising healthcare costs, growing populations, and limited state budgets and economic growth all contributed to the limited capacity of states. Periods of conflict and instability also prompted the drastic expansion of the private health sector, including in Iraq following sanctions in the 1990s and during the civil war in Lebanon. These examples serve as a reminder that health is not an isolated domain, but one that is deeply interconnected with the larger social, political, and economic context.

**Growing Role of the Private Sector**

Different countries have established a variety of public systems to guarantee rights to care and to assure sufficient access to care, while also considering limited resources. All of these systems struggle with similar, well-known problems of duplication, overconsumption, and cost effectiveness. Unfortunately, methods for dealing with these issues may create new issues: out of pocket payments (OOPs) are often used to limit over-consumption, but can also reinforce inequality. The introduction of private sector participation can exacerbate these issues, but it can also create new opportunities.

Today, in all countries in the region, healthcare financing and delivery is performed by both private and public sector bodies or through some combination of the two. Significant private sector participation is both a reality and a necessity for all countries. Yet when we consider health as a basic human right, protected by the government, the role of the private sector in healthcare prompts several highly important questions: What challenges and risks emerge when the private sector is entrusted with providing and financing a basic human right? How can these risks be mitigated? In what ways do the structures and incentives of the private sector align with those of the government and citizens? In what way do they conflict?

This study will consider these questions. This includes analyzing the current role of the private sector and trying to understand how the risks and challenges resulting from this participation can be minimized while the possibilities and advantages are maximized. To do so, it presents six case studies on ESCWA countries: Tunisia, Egypt, Jordan, Lebanon, Iraq and Bahrain. These countries present a fairly representative selection of the countries in the region and serve to highlight key issues and strategies with private sector participation. While each case is distinct and rooted in the unique country context, there are important patterns and continuities across countries. By looking at these cases together, the experiences of different countries can be connected, such that certain countries can provide lessons or serve as models for other countries.

**Current Forms of Private Sector Participation**

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6 For a deeper discussion of this issue, see Minkler, Meredith. “Personal Responsibility for Health? A Review of the Arguments and the Evidence at Century’s End.” Health Education & Behavior 26, no. 1 (February 1, 1999): 121–141.


PRIVATE HEALTHCARE

It is important to acknowledge that the private sector’s role in healthcare provision is multifaceted and complex. One of the most common and straightforward forms of private sector participation is outright private provision of care. It should also be noted that private sector refers to anything not controlled by the state, a category which includes everything from family doctors, to private pharmacies, to private hospitals. When it comes to private delivery of services, the private sector tends to be more active in pharmacies, outpatient care, and specialty care, like dentistry. However, there are also many small, private hospitals offering inpatient care in the region. This is especially common in Lebanon, where public sector inpatient facilities have been quite limited, continuing the legacy of high private sector involvement in healthcare that developed during the civil war. Increasing public investment in public facilities in recent years may shift this trend in Lebanon, however.\(^9\) Except in limited cases where there is public support for privately-provided care or private insurance, private care is financed by patients through a fee-for-service system.

PUBLIC-PRIVATE COOPERATION

The private sector does not exist in isolation from the public sector. Instead, there are a variety of forms of collaboration between these sectors. A common form of partnership is contracting between the government and private hospitals or clinics to provide care for individuals covered by public insurance or subsidies. While this occurs in several countries in the region, it is especially prominent in the Lebanese healthcare system, which is largely based on public financing and private care. In 2005, 64 percent of the income of private hospitals was from the Ministry of Public Health (MOPH).\(^10\) Jordan engages in some contracting with private facilities, and Tunisia incorporated private care into public coverage in 2004 (with higher copayments than public sector care).\(^11\) A very limited amount of public funding goes towards private healthcare in Egypt. In other cases, however, private healthcare is excluded from government funding and comes entirely from households (as in Iraq) or from a mix of households and private insurance plans (as in Bahrain and Egypt).

Another common form of public-private cooperation occurs in a system by which semi-private providers use some public resources, but also collect private fees. The use of public resources helps to substantially lessen the costs of the private providers. Revenues will often be shared between the state and the staff. This kind of partnership in healthcare can serve a variety of purposes; it can provide an additional incentive for doctors to stay in the public sector and help governments cope with limited government budgets alongside high demand for services. These lower-cost, semi-private services also provide an important alternative source of care. Especially after working hours, when normal public clinics are closed, individuals do not have to resort to private care (with high OOP payments) or turn to unnecessary, high-cost inpatient care in public hospitals. This has the potential to limit costs for patients and to improve the overall efficiency of the system. At the same time, however, they create a fairly complex system that can increase corruption, conflicts of interest, and inefficiency (especially as patients see doctors in both sectors). These forms of PPPs exist in Egypt, Iraq and Bahrain (see box).

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Iraq has also been pursuing increased private control of its facilities; is seeking to contract with private companies for the management of public hospitals and for full privatization of other facilities.\textsuperscript{12} Egypt, on the other hand, attempted to experiment with a unique public-private blend in 2007 when the Prime Minister passed a decree to turn its Health Insurance Organization (HIO) from a public not-for-profit organization into a state-owned, for-profit holding company, the Egyptian Holding Company for Health Care. All assets from the HIO, including hospitals, clinics, and pharmacies, were transferred to this holding company. The company has the right to put assets or shares in the stock exchange. However, this move prompted significant resistance. Ultimately the holding company was suspended temporarily.\textsuperscript{13}

\section*{PRIVATE FINANCING FOR HEALTHCARE}

The role of the private sector in financing healthcare, specifically through private insurance, is fairly small in the ESCWA region. As Figure (1) shows, private insurance makes up a relatively negligible amount of total private expenditure, with the exceptions of Saudi Arabia, Lebanon, and Bahrain. There are a variety of reasons for this; laws and regulations are often not favorable to insurance companies, government coverage may limit demand for private insurance, and high risks may restrict profitability. These factors tend to limit the industry and make private insurance fairly expensive, such that only large companies can achieve the scale necessary to make it affordable.\textsuperscript{14}

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\textsuperscript{12} See NATIONAL INVESTMENT COMMISSION (NIC) http://www.investpromo.gov.iq/index.php?id=61
One risk of private participation is that it will drive up the cost of healthcare and reduce the overall efficiency of the system. Private companies often have an incentive to overinvest in high-cost technologies and brand name drugs because these are associated with quality care. Additionally, private providers often have incentives to over-test, over-diagnose, and over-treat. Several countries are currently experiencing this trend, including Tunisia, Bahrain, Jordan, and Lebanon.\textsuperscript{15}

In Lebanon, a large private sector kept health expenditures among the highest in the region.\textsuperscript{16} Tunisia, which had been praised for its highly efficient, primarily public system is a particularly interesting case \textsuperscript{17} (see Box).

In addition to driving up costs and minimizing efficiency, increased private sector involvement may negatively affect equity of healthcare. The private sector is not constructed to secure human rights or to provide services on an equitable basis; it is generally constructed to earn profits. The poorest and most marginalized groups that are often in the most need of healthcare unfortunately offer the least promise of profit for private companies. Thus, private companies tend to be concentrated around urban centers and cater to higher income groups. In Tunisia, 80 percent of private general practitioners are in the greater Tunis and Eastern Central areas alone. As a result, the inhabitants-per-specialist doctor (both public and private) rate in Greater Tunis was over ten times lower than that in the Kasserine Governorate (855 inhabitants per specialist doctor in Greater Tunis, compared with 8980 in Kasserine).\textsuperscript{18} Similarly, two-thirds of private hospitals in Iraq are in Baghdad, with all others found in other major urban areas.\textsuperscript{19}

Additionally, the growth of the private sector can negatively affect the quality of public sector care by siphoning off financial and human resources from the public sector. Iraq faced severe problems with this trend following 2003, when the public health sector experienced a large shortage of doctors

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and other personnel. A similar problem is developing in Tunisia, where specialist doctors are moving to the private sector to the detriment of the public regional hospitals.

There are two primary conceptions of equity in healthcare. According to the Marxist model, care should be distributed according to need and payment should be arranged according to ability to pay. In the end, health outcomes should be the same across the population. In the less rigorous Libertarian model, an agreed-upon basic standard of care should be available to all, while others can access better care if they accept greater costs. Regarding official government stances and the wording of national constitutions, most countries tend to favor the Marxist model, particularly in the ESCWA region. However, in reality, the Libertarian model dominates. A private sector that offers superior care at a higher cost is not problematic in the Libertarian model so long as the public sector continues to meet those basic standards in terms of quality or availability, or if the state ensures that all citizens can access necessary private care. If, however, public care is considered sub-par, countries risk developing a two-tiered system, where those who can afford the higher private sector payments receive superior care, while others are limited to lower quality public sector care.

Acknowledging that the public system was deficient following the civil war, Lebanon tried to remedy this by providing public coverage of private care, though this resulted in very high healthcare expenditures. Tunisia is considering a similar option; it has recently included some private care under its national insurance plan, CNAM, but with controls to limit costs. Although it lacks the resources to cover private care, Iraq has sought to limit these effects by the public-private collaborations described earlier, thus improving access to private care. As state funding for healthcare drops and the private sector grows, this is becoming a particularly large issue for Egypt. Bahrain has traditionally done a good job of assuring full, equitable access to healthcare for its entire population, including non-nationals. In the past, non-Bahrainis have had to pay only small fees for services that are highly subsidized by the government. However, like many states in the Gulf, it is being forced to reconsider its responsibilities to this non-national population. This involves a five-step plan for compulsory insurance for all non-nationals. Non-Bahrainis make up over half the population of the country. They also tend to be among the lower income groups. If they do not receive coverage through an employer and are subject entirely to the private insurance market, there is a risk that especially high-risk individuals will face unaffordable insurance rates or be excluded entirely if their premiums are not paid by their employer.

OUT OF POCKET PAYMENTS (OOPs)

OOP payments are at the core of this issue of affordability and equity of private care. When OOP payments reach a certain level of household income, they begin to have serious consequences that extend beyond the health of household members, affecting overall household vulnerability and poverty. High OOP payments prevent some portions of the population from seeking private sector care, even in

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23 Ibid. 7-8.
cases when public care is poor or lacking. This marks the development of a two-tier system. Alternatively, many households will accept what are called catastrophic payments to cover private care. International bodies have set a threshold of five to 25 percent of total household expenditure as the line for catastrophic payments. The World Bank, among other international organizations, has chosen 10 percent as the appropriate cutoff point.

When OOP payments exceed this level, they may force households to make detrimental reductions in other expenditures or increase household vulnerability to shocks. Protection against health costs is considered insufficient when more than 5 percent of households suffer from catastrophic payments. In the ESCWA region, these rates are much higher, ranging from 7 percent to 22.6 percent in Iraq (see box).

While publicly-provided care is often covered or subsidized through government insurance programs, protection plans, or subsidies, the public sector tends to offer more limited financial assistance for private sector care, or none at all. This is a problem in Egypt, where private care has become a dominant or necessary form of care to cover gaps or

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CATASTROPHIC PAYMENTS IN IRAQ

A Family Health Survey conducted in Iraq in 2007 presents a troubling picture of health financing. It looks at OOP payments as a proportion of household income and a household’s capacity to pay (non-subistence income). The average household spends 13.2 percent of all its expenditures on OOP payments (above the 10% ‘catastrophic payment benchmark), representing 24.6 percent of their capacity to pay. Overall, this means that 22.6 percent of all OOP payments were catastrophic. Compared to other MENA countries in which seven to thirteen percent of households suffered catastrophic payments, this number is quite high (World Bank 2010, 12). These payments, which went primarily towards outpatient care, are distributed inequitably; they are even higher for rural areas, for poor populations, and for the South and Center regions. For poor populations in the South and Center regions, OOP payments reach 28 percent of their capacity to pay (MoH 2008, 26-7). This level of OOP payments can have wide-reaching negative effects. Looking only at non-poor households across the country, the survey finds that 10 percent of the population surveyed will actually be pushed into poverty due to catastrophic OOP payments, with even higher rates in rural areas. The northern Kurdistan region is less vulnerable to the effects of these payments (MoH 2008, 26).

What is interesting to note, though, is that catastrophic payments are not exclusively found among the poor. Higher classes are also suffering catastrophic payments in considerable numbers, including 20.4 percent of the non-poor households surveyed. These non-poor households spend 3.5 times more on healthcare than poor households (MoH 2008, 26-7). These numbers suggest that insufficient government services and support are forcing all segments of the population to pay more than they can afford for healthcare. Households are not only spending huge portions of their income on care, they are taking out loans and selling assets as well. One third of households studied borrowed money to pay for healthcare. This number jumps to 45.5 percent for households in which a person has been hospitalized, reflecting the serious burden of inpatient costs (MoH 2008, 27-8). Given that households of a variety of income levels are spending more than they have on healthcare, it is highly likely that both poor and non-poor groups are forgoing significant amounts of care because of cost

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29 Elgazzar, Heba et al, 12
30 Ibid, iii.
31 Elgazzar et al, 12 and Iraq, Ministry of Health (MoH) Iraq Family Health Survey 2006/7 (2008).
OOP PAYMENTS IN EGYPT

Egypt has displayed a troubling trend of increasing OOP payments. OOP payment rates have been consistently high and rising in Egypt over the past several years, but data from the most recent National Health Account (NHA) suggests that OOP payments rose substantially – almost 12 percentage points – between 2007-08 and 2008-09, bringing OOP payments to 71.8 percent of total healthcare expenditures - the highest in the region. There were some changes in the methodology of the NHA in 2008-09, with more comprehensive data on care and a shift in how household financing is counted. These changes may have uncovered OOP payments that past NHAs failed to capture (MOHP and Health Systems 20/20 2012, 3). Regardless, this rate is exceptionally high and is detrimental to the equity of healthcare and the vulnerability of households. One important reason for these increased OOP payments is changes to the user fees of those covered by Public Health Insurance. Despite seeking to expand the proportion of the population covered by HIO, this has served to reduce the quality of coverage. Changes in 2009 in particular pushed fees up to levels that were unaffordable for many beneficiaries (Shukrallah, Alaa and Khalil, Mohamed Hassan, 484).

In other regions, private insurance, whether supported by employers or purchased by individuals, covers costs of private care. However, because the private insurance sector is largely undeveloped in the ESCWA region, most or all of the costs of private sector care fall on households. For this reason, OOP payments in the ESCWA region are high, with over half of total health care spending coming from OOP payments in many countries (see Figure (2)). Many countries in the region are also witnessing an upward trend in OOP payments as a percentage of total health expenditures. Following the trend of increased private care and decreased public spending, this has been a significant problem in Egypt (see box).33

Figure (2)

![OOP Payments as % total health expenditure](image)

Source: Worldbank Databank 2012

In the case of outpatient or inpatient care, these OOP payments are often fee-for-service payments due at the time or shortly after treatment, which can be difficult for households to manage. Another important source of OOP payments is pharmaceutical costs, which, for a variety of reasons, tend to account for a large proportion of health spending in the ESCWA region and represent a significant strain on household budgets.

MONITORING AND REGULATION OF THE PRIVATE SECTOR

Considering these threats and opportunities alongside the necessity and inevitability of private sector involvement, it becomes clear that private sector participation in healthcare financing and delivery requires careful,

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coordinated planning, regulation and monitoring by the state. The private sector emerged with little to no regulation in many countries in the region, and improvements in the regulatory environment are still lacking in some countries. In Tunisia, there is little state regulation of private facilities or personnel beyond a job description registry. The state does not have control over the prices of medical care in clinics. This prevents it from implementing cost-containment measures in the private sector. Further, the supply of facilities, care, and personnel are not regulated to correspond with the needs of all portions of the population, but rather respond freely to market mechanisms. The minimal state regulation of private facilities stands in stark contrast to the careful state planning and regulation in the pharmaceutical industry.\(^3\) Egypt has no formal mechanism to monitor or evaluate fee schedules of private providers, or to assure the quality of private care.\(^3\) In Iraq, the MoH is supposed to license and monitor private hospitals and medical syndicates are supposed to license and monitor private clinics and pharmacies. However, little to no monitoring actually occurs.\(^3\)

Ideally, regulation would be performed by an independent, neutral public body and most importantly, one that is separate from the planning, provider, and especially financing bodies. This regulation would be guided by consistent, reliable reporting mechanisms and a set of publicized, internationally consistent standards. This model is not yet present in any of the ESCWA countries studied, though Bahrain has initiated promising reforms, as well as the United Arab Emirates (see box).

Social and political conditions affect the relationship between the private and public sectors in ways that can often further limit the commitment to and capacity for reform. This may take the form of corruption, entrenched interests, or factional divides. Egypt offers one example. In a process labeled “the big compromise,” an established medical professional elite influenced policy reforms in Egypt during the 1960s. These elite dominated power and decision-making within the sector and pushed through policies that designed PPPs to profit private sector clinics and hospitals. The effects of this compromise are still being felt today.\(^3\) In Jordan, a powerful pharmaceutical industry helped protect inefficient, high-cost pharmaceutical practices that negatively affected the efficiency of the system and drove up OOP payments.\(^3\) However, reform efforts, including the creation of a new drug regulatory body, the JFDA, are helping to reduce some of these negative effects.

In Iraq and Lebanon, factional divides exert themselves in the healthcare system in harmful ways. Various institutions are often affiliated with a specific faction, negatively politicizing that institution and harming its ability to work with other actors and institute reforms in a just way.\(^3\)

 Hospitals and clinics in both the private and public sectors are similarly associated with religious or

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\(^3\) World Bank, Health Care Study-Tunisia, Human Development Group (MNSHD), Middle East and North Africa Region, no. 41018 (May 2006). 37-8
\(^3\) WHO, Health Systems Profile, EMRO (2006). 20
\(^3\) Jabouret al, p. 481.
\(^3\) WHO-Jordan 2006, p. 74.
political factions. Those affiliations then affect one’s access to and choice of care. A study on Lebanon found that political affiliation and level of involvement were significant determinants of the care and financial assistance one received. The spillover of social, political and religious divisions into the healthcare system can be highly detrimental to the effectiveness of the system and greatly undermine coordination.

**Benefits of Private Sector Participation**

The private sector offers much-needed resources and often enjoys a comparative advantage over the public sector in certain areas. For example, the private sector tends to be more capable of offering greater diversity of care that may appeal to different populations. Further, it tends to encourage greater innovation, which is highly important in healthcare. The private sector’s ability to fill in gaps in public coverage is highly important, especially in conflict situations. As previously discussed, this may create equity concerns if not all populations have access to private care, and it can drive up the cost of healthcare. However, Lebanon has showed that, with time, these problems may be overcome, especially by reforming public financing mechanisms for private hospitals. The Ministry of Public Health significantly lowered expenditures by switching from fee-for-service to flat rates for surgeries with fixed ceilings. Additionally, they instituted a visa payment system and patient database that improved the efficiency of payment and helped reduce duplication of coverage.

Further, the private sector can be important in relieving some of the burden of investment and financing for healthcare. Increased public contracting with private providers could help Jordan resolve issues of excess supply and inefficiency. At 9.52 percent of GDP, health expenditures are unsustainably high in Jordan. This is partly due to excess supply of private sector care – while public facilities have high usage rates and are in need of greater capacity in several areas, the average patient levels of private sector facilities are far below capacity. In order to take advantage of this supply and reduce the additional investments the government must make in public sector facilities, the state could contract with private sector providers that are lacking patient volume. The state has already been contracting with private hospitals on a limited basis and has been able to control costs while doing so and to register positive results for both the state and the private hospitals. This experience suggests that Jordan has the capacity to efficiently manage contracts with private providers on a larger scale.

Bahrain is pursuing guided expansion of private sector provision of healthcare is to allow the state to shift its focus away from the provider role in all situations and towards the planning and regulating roles. It can be difficult for the government to simultaneously serve as the dominant planner, financier, deliverer, and regulator of healthcare, and it can further create a drain government capacity and resources. As stated by Amal Akleh, a management advisor of the Bahraini MoH, “Right now we provide healthcare, but that should change…the MoH will be focusing on policy-making while outsourcing clinical and non-clinical services. Regulation will be carried out by an independent

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CONCLUSION AND RECOMMENDATIONS

In general, the role of the private sector in healthcare, especially healthcare delivery, has increased in recent years. Lebanon, coming from a situation where care had been almost entirely in the private sector, is one of the few examples of where the public sector has grown vis-à-vis the private sector. Growing populations and demand for healthcare, limited state budgets, and sometimes inefficiencies and inadequacies in public health systems all make this participation essential. However, this increased participation has had some troubling effects, particularly in situations with little regulation.

High-cost, technology-intensive private care is driving up healthcare costs across the region, especially in countries where there are no regulations of private fees. An increasingly dominant private sector is directing attention and resources away from the public sector. This is especially problematic given the strain on government budgets following the global financial crisis. Two-tier systems are increasingly common in the region, and the effectiveness and efficiency of public systems are being undermined. The threats this poses to the health of the population, especially the poorest and most marginalized, are underlined by high OOP and catastrophic payments in the region.

These problematic trends do not mean that important improvements are not being made. Significant reductions in OOP payments and increased government investment in Lebanon and Iraq demonstrate the effectiveness of key reforms in post-conflict situations. Particularly important reforms include application of common standards and improved contracting and financing mechanisms in Lebanon. Pharmaceutical reform further helped to bring down OOP payments and overall expenditures in both Lebanon and Jordan. Bahrain has taken important steps towards more effective regulation of the private sector.

A variety of additional options are available to governments. They can offer greater means-tested support and health insurance, potentially including private care. This could help ensure that essential care is financed based on ability to pay. In this effort, avoiding catastrophic payments is particularly important. However, contracts with private providers should be well-managed and emphasize efficiency of private care and financing, potentially excluding certain services to limit costs.

At the same time, governments may be advised to continue to enhance public healthcare services. Even with regulation, it is unlikely that private care will be equitably distributed according to need, so an equitably distributed public system is necessary.

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PRIVATE SECTOR PARTICIPATION IN THE WATER SECTOR: REGIONAL SUMMARY

INTRODUCTION

The water sector in the ESCWA region encompasses not only the challenges of access that one observes with other social services, but also challenges of availability: the ESCWA region has the smallest water resources per capita of any other region of the world. Most countries in the region are classified as water scarce, with less than 1000 meters-cubed of water per capita per year, and at least 12 ESCWA countries are considered absolutely water scarce, with less than 500 meters-cubed of water per capita. If water resources are not effectively protected and rationally managed, several countries face the prospect of falling below emergency-level water allocations per capita in the near future. For especially water-scarce countries, more efficient, rational water use alone is not enough. Yemen, one of the most water scarce countries in the region, may run out of water in its capital city by 2025 if it does not develop new water resources.

Scarcity and diminishing quality of water in the region intensify the importance of a coherent strategy on water use and protection. These issues are related to the fact that water has both private benefits and public, communal benefits with considerable externalities. These externalities include the effects of water quality on public health and the fact that pollution or overuse of water by one group can have broad consequences across the population, given the integrated nature of water resources. The private sector is equipped to deal with water as a private good, but is less capable of dealing with public goods without significant state regulation, something many countries in the region are unable to provide.

This study seeks to examine the current role of private sector participation in the water sector in the ESCWA region, considering how it is or is not helping countries cope with the significant challenges of this sector. By drawing from the experiences of private sector participation in four different countries, it further seeks to offer recommendations for how the private sector can participate in this sector in positive ways in the future. These country case studies include Morocco, Lebanon, Palestine, and Yemen, each of which faces distinct challenges and features unique forms of private sector participation.

TYPES OF PRIVATE PARTICIPATION


PUBLIC PRIVATE PARTNERSHIPS (PPPs)

PPPs in water are a relatively recent phenomenon in the region. Morocco has one of the longest and most active histories with PPPs. This sector requires high investment combined with relatively low profit potential compared to other sectors. Telecom industries register a 3:1 ratio of investments in fixed assets to annual tariff revenues and for energy the ratio is just slightly higher at 4:1. The ratio for water and sanitation, on the other hand, is 10:1. Low profit ratios are not the only reason for the limited experience with PPPs. Given the high cost of constructing water networks, there is typically only one network system in an area, such that water represents a natural monopoly. The desirability of private participation in natural monopolies is limited, since one of the main benefits of private participation – competition and the pursuant imperative to improve quality and efficiency – is eliminated, except at the initial negotiating stage. The actual competition that exists even during the bidding and negotiating process is not necessarily high either. There is a significant amount of risk and often high initial costs that come with PPP contracts in this sector. It is often only the major, well-established international utility companies that can shoulder these risks and costs. This is especially true in the ESCWA region, where there may be additional political, commercial, and contractual risks. Given these risks, the most viable forms of PPPs in the region are those that limit the risk borne by private companies, particularly management contracts. Management contracts are longer and more open-ended than service contracts, but responsibility for investment and other commercial risks remains with the public authority. In addition, some countries in the region have experimented with Build-Operate-Transfer (BOT) contracts for specific new infrastructure projects like dams and water treatment plants.

It is important to note that international support has been critical in many PPPs in the region. First, privatization has been, and to an extent still is, an important strategy of major multilateral and bilateral development agencies and banks, particularly the World Bank. When countries seek loans or grants from these institutions, the funds are often given as part of PPP projects or with recommendations for private participation. Such was the case with Lebanon’s first PPP experience in Tripoli. When the Lebanese government asked the French Development Agency (ADF) for support to help rebuild Tripoli’s water network after the civil war, the ADF recommended a management contract for drinking water. This prompted Lebanon to pass new legislation permitting PPPs in the sector (previously they had been prohibited). Similar patterns are found with the World Bank in Palestine.

These donors offer significant technical support in creating, negotiating and managing PPP contracts and they usually provide the capital – whether through loans, soft loans, or grants – that funds PPPs. In addition, their participation offers a fundamental guarantee to private companies regarding the security of the contract and their payment. In some cases, they even offer formal insurance measures. The World Bank did this for an attempted BOT contract in Lebanon, offering a partial risk guarantee against political instability. The role of international development agencies and banks in PPPs in the ESCWA region points to the policy influence of international aid organizations in this domain, especially when state capacity is limited. In addition, it opens up questions about the viability and sustainability of PPPs in the absence of international support.

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OTHER FORMS OF PRIVATE PARTICIPATION

Given the limited viability of PPPs, gaps in public coverage are often filled by uncoordinated private sector participation. The level of this uncoordinated participation varies greatly among countries. It is minimal as a portion of essential water use in Morocco, while some rural communities in Yemen rely on private providers for the majority of their water. In the West Bank, we see that private water use tends to be highest among communities that have no access to public water networks, followed by communities with inconsistent or low-quality public water, in which cases private sector water will need to be used for drinking and/or cooking purposes.

Private water sources vary in type, quality and cost. One common form is water tanker trucks that transport water. These tanker trucks are not considered an improved water source, largely because the tanks themselves and the process by which they are emptied, filled and cleaned creates contamination. Additionally, the source of the water they transport is often unknown. These trucks tend to offer one of the cheaper sources of private water, however. Tanker water is common throughout Palestine. In areas like Jenin, Hebron and Tubas that have relatively low public network coverage, a quarter of all households buy from water tankers. Prices of tanker water vary, but WaSH MP found that they were on average 5.1 times higher than network water in the West Bank and a remarkable 20.8 times more expensive in Gaza. In Yemen, usage rates are even higher, with some rural communities turning to tanker water for 50% of their water needs.

Another source of private water is desalination plants or home desalination units. In this process, salt and other minerals are removed from salty or brackish water through an energy-intensive process. Desalination tends to be expensive, but it is an important alternative source of water when traditional sources are not available. Desalination is particularly important in the Gaza Strip, where the only aquifer has been significantly contaminated and access to other sources of water is extremely limited. The average price of private desalinated water in Gaza is estimated at NIS 50/m3, compared to just NIS 1.2/m3 for network water.

Gallon and small bottled water tend to be among the most expensive private water sources. In Lebanon, for example, people only consume .1 liters per capita per day (LCD) of small bottled water and .6 LCD of gallon bottled water on average, compared to 10 LCD of tanker water and 187 LCD of public network water. Yet if gallon and small bottled water expenditures are combined, they actually make up the majority of household water expenditures. Nevertheless, bottled water is often more readily accessible and convenient than other forms. However, the quality of bottled water is not always assured, despite their high costs. In Lebanon, many bottled water companies are neither licensed nor

58 World Bank, Republic of Lebanon Water Sector: Public Expenditure Review, Sustainable Development Department, Middle East and North Africa Region (2010). Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/2877/520241LB0ESW0B110Disclosed0July0141.pdf?sequence=1 33-34.
monitored. Further, according to the WHO definition, bottled water is only considered an improved water source if it is not also used for cooking and hygiene purposes.

Finally, private wells abound in the region. These wells are often unregistered and extract water without monitoring or restrictions. They are a particularly important source of water in Yemen, for both domestic and agricultural purposes. Wells provide an estimated 36 percent of the population with drinking water in Yemen, but only 14 percent of this water is from wells considered ‘improved’ water sources. (Covered wells are considered improved water sources, while uncovered wells are not.) The costs associated with these wells depend on a variety of factors, including the availability of water and how deep wells must be dug to reach groundwater sources. Some households have private wells for personal use, but owners of private wells also sell water to others.

**RISKS & REGULATION OF PRIVATE SECTOR PARTICIPATION**

**RISKS & REGULATION WITH PPPs**

The primary risks associated with both PPPs and uncoordinated private sector participation relate to problems with the regulatory and legal framework. Without good regulation, PPPs may result in significant price increases, or companies may fail to meet lower-income, harder-to-reach populations. Morocco provides a good example of this. Casablanca is one of four cities in Morocco with private water utilities. Casablanca has many bidonvilles, or slums, as well as informal residences. A primary criticism of the private operator in the city, Lyonnaise des eaux-Casablanca (LYDEC) is that it has failed to reach these communities (with either public standposts or household connections). While its contract stipulates that the company should prioritize low-income and vulnerable populations, the requirements and wording in the contract are not specific enough, and LYDEC largely avoided expanding coverage to these communities. It was only with government assistance and the initiative of a national development fund that improvements were made. While LYDEC may have been successful at providing services more efficiently in other areas of the city, the public sector needed to step in to reach these less attractive markets. This highlights the important point that the market must be appropriate for a PPP to be successful. Given the need to make profits, private companies are often not the appropriate actor for serving a spread-out rural population that requires significant infrastructural investments, or for reaching low-income, informal urban neighborhoods and slums. Typically, large, concentrated, urban markets with good ability to pay are preferable for PPPs.


60 MOPH and Unicef, 39.

Morocco has been learning the importance of a strong, clear regulatory and legal framework for instituting PPPs. The first concession contract (in Casablanca) was awarded in a non-competitive, non-transparent manner to LYDEC, a company with colonial-era ties to the country and the water sector. There was a strong popular sense that the influence and bargaining power of LYDEC was greater than that of the public authorities and that it was Casablanca residents that were suffering from this imbalance.\(^{62}\) However, in response to growing criticism from the public, media, and even politicians, the government began to reform its legal and regulatory framework. These reforms included switching to a competitive bidding process and the passage of Act #54-05 on Delegated Management in 2005. This act sought to subject all concession contracts in the country to a single, uniform legal process and to improve transparency. It also created an independent regulatory body whose evaluations would later be important in encouraging further reform. While these reforms have led to important improvements in PPP management, there are still problems with providers not following through with contract requirements, especially in terms of expanded coverage and investments. Tensions around this issue came to a head during the spring of 2011, in the context of the Arab uprisings, when residents of Tangiers set fire to the building of the private utility company operating there, calling for its downfall using the same language that others used to call for the downfall of dictators.\(^{63}\)

Yemen also faced challenges with its regulatory framework. After a lease contract for water in Sana’a failed to attract private interest (largely because the market was not considered profitable), Yemen pursued a more modest contract for the urban area of Taiz with the company Vitens NV. This was classified as a Utilities Support Program (USP): Vitens was to provide management support for Taiz’s utilities through a performance-related payment contract. There was much room for improvement in the Taiz utility. Taiz’s water network had low coverage, high non-revenue water (NRW) rates (the water that is lost before it reaches (paying) users and thus does not contribute towards revenue), and could not recover costs. However, the USP failed to realize improvement in these domains. The technical audit of the program found that it did not register any significant change in coverage, quality or efficiency due to a variety of factors linked to limited state capacity. These factors included weak communication between TWSLC and Vitens, a lack of

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implementation procedures, indicators, and reporting mechanisms and insufficient commitment on the part of TWSLC.  

Instability has been another important factor limiting PPPs. Short-term management contracts for water in Gaza and the West Bank, supported by the World Bank (both financially, and with a guarantee to the private companies contracted), were jeopardized by the outbreak of the second Intifada in September 2000. The West Bank contract was terminated early, while the Gaza contract had to switch its efforts towards repairs and was not renewed.

The case of Morocco reinforces the previously-mentioned point about the supremacy of large, well connected international utility companies. Two such companies – Lyonnaise des Eaux (the specific Casablanca branch is abbreviated as LYDEC) and Vivendi – dominate all the concession contracts in the country. Lyonnaise des Eaux has enjoyed a historically powerful role in the city, beginning in the protectorate era. Vivendi, as the major shareholder in a conglomeration, was able to win two concession contracts and buy up the third concession contract in Rabat. The dominance of these two companies contributes to a general lack of a competitive force in PPPs in the country, raising concerns about the power these companies enjoy vis-à-vis the government and regulatory bodies.

These cases clarify the point that the effectiveness of PPPs depends on the nature of the market they are serving, the negotiating and regulatory capacity of public institutions, and other external circumstances. They are not always appropriate and cannot be seen as a simple solution to limited state capacity. However, in combination with public reforms, they can improve efficiency of water systems.

RISKS AND REGULATION WITH UNCOORDINATED FORMS OF PRIVATE PARTICIPATION

The major concern with these private sources of water is that they are often unmonitored and unregulated. This is not surprising due to the fact that, in general, they emerge as a result of limited state capacity in water provision. As with any social service, this is a concern because an unregulated private sector cannot be expected to consider issues of public well-being, equity, or various other externalities. For those social services considered to be essential human rights, market principles will not always ensure the breadth and quality of coverage that is required for a human right. But beyond health and equity concerns, the unique, communal, fragile, and scarce nature of water resources creates additional externalities that make coordination and regulation of water use and management even more crucial.

ACCOUNTING FOR EXTERNALITIES AND POPULAR WELL-BEING

Some examples of private water providers in the ESCWA region illustrate how the market forces of an unregulated private market fail to consider popular well-being and externalities, with potentially dangerous consequences. In Gaza, private desalination plants compete to produce what they advertise as the ‘purest’ water. This involves demineralizing water to very low levels. However, the WHO reports

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64 MWE & GTZ, 19.
that water with too low of mineral levels has a “definite adverse effect on the animal and human organism.” This belief that having fewer minerals makes water healthier and purer is the result of a lack of consumer knowledge and uncontrolled competitive forces. Unfortunately, this trend could have adverse health effects on the population. Among 19 private desalination plants sampled in 2003, all revealed mineral levels lower than the WHO-recommended levels, with some levels as little as one-tenth of the recommended amount. Over time, however, consumers have actually developed a taste for this demineralized water, despite its adverse health effects. This is a troubling trend, particularly because a basic level of regulation could easily prevent it. Unlike many other issues of equity and quality, eliminating this problem is not outside the capacity or interests of the private market.

In another example, the private water networks serving Sana’a lack the capacity to monitor water use of the populations they serve. For that reason, they tend to charge a flat fee for connections, with the result that households have no incentive to conserve water and may choose to over-use water. This is highly problematic in Yemen and particularly in Sana’a, where water scarcity is among the highest in the world. It is critical that water consumption be managed more rationally in such a fragile situation where the behaviors of these private companies can hold dangerous consequences for the population at large.

ENSURING QUALITY AND EQUITY OF SERVICES

One of the key problems with the lack of licensing and regulation of private water suppliers is that the quality of that water is not guaranteed, such that consumers face uncertainty about the health effects of the water they buy. This is major a problem for communities who have limited choices in private water sources, particularly in Palestine. This questionable quality is an issue despite the fact that consumers often pay high prices for private water, costs that often push their overall water expenditures far beyond the WHO-recommended levels. These high water costs can place significant burdens on the population, especially the poorest and most vulnerable. Area C communities in the West Bank—those communities under the strictest Israeli controls where the infrastructure and support of the Palestinian Authority largely does not reach—are the most extreme example of this. Not connected to the public network and with harsh restrictions against building and other infrastructure, these communities often must spend half of their income on minimal, unimproved water supplies.

Like Area C communities, those communities that lack sufficient public water (and thus must turn to private sources) are also often the poorest and most marginalized communities that are the least capable of bearing the higher costs and quality concerns of private water. In such circumstances, public support and subsidies are crucial so that expenditures won’t push households into greater vulnerability or force them to either forgo water use or rely on low-quality water. This is a problem in Gaza; households that cannot afford expensive water from desalination plants have to turn to the contaminated public network water, including for drinking. This can have serious health effects,

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69 Ibid. 5-6
particularly due to high nitrate levels. \(^{72}\) Health statistics from Gaza point to the forced reliance on unsafe water: the United Nations Relief and Works Agency (UNRWA) suggests that 26 percent of diseases in Gaza are water-related, while 12 percent of young deaths can be attributed to diarrhea. This is in addition to a disease called Blue Baby Syndrome, a disease found in Gaza that can kill young children and infect pregnant women. \(^{73}\) In Yemen, lower-income groups are consuming less than higher income groups, and less that the Global Emergency Response standards for absolute minimum necessary water use. \(^{74}\) The water to which they do have access is often of a low quality, with significant health effects. Currently, 75 percent of Yemen’s population is considered at-risk for water-related diseases, particularly children. \(^{75}\) Insufficient and unclean water is a major factor in Yemen’s high child mortality rate. This rate is twice that of other MENA countries, and half of child deaths are due to diarrhea. \(^{76}\)

**Benefits of Private Sector Participation**

Looking beyond the risks and limitations of PPPs, various forms of PPPs have offered valuable improvements in terms of efficiency, cost and debt recovery, customer satisfaction, and, to some extent, coverage. In Morocco, where there have also been considerable public sector investments to improve water services, it was those cities under private concession contracts that registered the biggest decreases in NRW. Tetouan registered the most dramatic improvement, with a 14 percent drop in NRW, from 47 to 33 percent. On average, those cities with private provision of water reduced NRW by 9.5 percent. Those with public utilities witnessed a 1 percent increase in NRW during the same time period (see Figure (3)).\(^{1}\)
Even in more unstable and trying circumstances with less advanced forms of PPPs, the private sector can provide valuable technical capacity and expertise, potentially achieving even greater results given low initial system capacity and efficiency. Turning back to the water utility management contract in Gaza, before the outbreak of the Intifada, the PPP actually registered significant improvements. It lowered network inefficiencies by 35 percent, increased consumption by 50 percent, collected twice as many revenues, and repaired 2000 leaks. 77

CONCLUSION

Insufficient network coverage is at the core of these concerns with uncoordinated private sector participation. Extending public and private networks is an important priority, so that the various private sources mentioned above do not have to fill essential water needs. Public and private networks can offer lower-cost, more convenient water supplies than almost all non-network private providers. Additionally, with a centralized system, it is easier for regulatory bodies to monitor quality and rational use. However, as countries struggle to improve coverage and quality of public networks, better licensing, monitoring, and regulation of these alternative private sources represents an important first step.

PPPs may be a good option for improving service efficiency, depending on local circumstances and the specific market being addressed. Ideally they would be approached as one component of broader reforms, and preceded by careful efforts to improve the legal and regulatory framework and monitoring capacity of public institutions. It is preferable that this include not just an independent

regulatory body, but also some mechanism for consideration of consumer complaints. If consumers feel
they do not have the power to affect decisions of private companies, controversies and conflicts like
those found in Morocco may develop. Improving transparency and competition are other important
objectives, such that a small number of powerful companies do not dominate the private market. This
may include reaching out to and offering incentives for smaller, local companies.

PRIVATE SECTOR PARTICIPATION IN EDUCATION:
REGIONAL SUMMARY

INTRODUCTION

A series of factors are contributing to increased private sector participation in education in the
ESCWA region at various levels of schooling. These factors include limited state budgets coupled with
growing demand for education, especially at the secondary and tertiary levels. Also important are
perceptions that the private sector may better equip students for the job market, or that public schools
do not sufficiently prepare students for exit exams. This increased reliance on the private sector is
occurring at the level of state policy as well as at the household level, where families are turning to
the private sector in lieu of public education systems, including in countries where the private sector has
been largely excluded from education, like Tunisia.

This report examines four countries in the region: Sudan, Kuwait, Egypt and Tunisia. These cases
cover the full range of socio-economic development present in the region and highlight some of the key
challenges facing a variety of countries in the region. Kuwait provides an example of a country with a
large private education sector that primarily serves the huge non-national population of the country. On
the other hand, Tunisia has the lowest rate of private schools in the region. While there is a growing
private sector, it illustrates the Tunisian government’s attempt to limit private participation to specific,
strategic domains. In Egypt, the uncoordinated, unregulated, and illegal expansion of the private sector
– in the form of private tutoring – shows how forms of private activity can emerge to fill the voids of the
public system. Further, it elucidates the important problems associated with private tutoring, which is a
growing issue in many countries. As a least-developed country, Sudan demonstrates some of the key
challenges faced by countries with highly limited resources, including significant regional disparity and
high household and community funding for education.

CURRENT FORMS OF PRIVATE SECTOR PARTICIPATION IN EDUCATION

78 Lewis, Laura and Harry Anthony Patrinos. 2012. Impact evaluation of private sector
Figures (1) and (2)

As Figure (1) shows, countries in the ESCWA region have drastically different experiences with private education, with private enrolment ranging from over 70 percent of total enrolment in Lebanon, to under two percent in Tunisia. When averaged out, it appears that average private enrolment rates in ESCWA countries are fairly typical compared to rates to countries in Asia and Latin America (Figure (2)). This hides the fact that, among the ESCWA countries with the highest rates of private participation (Lebanon and UAE), rates are significantly higher than any other country shown here.

The significant variation among ESCWA countries depends on government strategies for private sector participation, the country’s legal and regulatory framework, and the nature of the education market. Private schools tend to vary significantly in cost and quality, but, as in most regions of the world, a significant portion of them are often expensive and cater to a political and economic elite.

**Distribution of Private School Enrolment**

The ESCWA region is unique in that private enrolment is higher for primary school than for secondary school. In some cases, it is even higher in primary schooling than in tertiary schools. The percentage of private secondary enrolment is greater than that of private primary enrolment in only

Source: World Bank Databank 2012
three countries: Saudi Arabia, Tunisia, and Sudan. Averaging the results from Figure (2) by region, Figure (3) illustrates that, in contrast to ESCWA countries, the Asian (including China, Indonesia, Korea, Malaysia, the Philippines, and Thailand) and Latin American (including Argentina, Brazil, Chile, Mexico, and Peru) countries examined above have increasing private sector participation at higher levels of education. These patterns tend to be more in line with typical best practice recommendations, which encourage higher public coverage for lower levels of education to ensure equity in access and quality of education at the more foundational levels. The negative consequences of higher private participation in lower levels of education will be discussed further in the following section.

Figure (3)

HISTORY OF PRIVATE SECTOR PARTICIPATION IN EDUCATION

Some countries have decades of experience with an active private school sector, while others only drafted a legal and regulatory framework for private schools in the past ten years. Kuwait’s private school market developed in the 1960s to serve a growing expatriate population, especially Arab schools serving the children of foreign workers coming from other countries in the region (see box). Tunisia, on the other hand, had negligible private participation and no specific legal framework for private education until quite recently. The state had long sought to maintain a dominant role in education provision, mirroring other sectors in which the Tunisian government has attempted to produce a well-managed, high-quality public system and limit private participation to specific roles.⁷⁰

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Cited in Box:
CURRENT ROLE OF PRIVATE SCHOOLS

Even among countries with little history of private schools, the region is witnessing a move towards increased private sector participation, particularly with technical and vocational training and shared financing. The private sector fills in for limited state capacity in a variety of ways in the region, sometimes as part of a deliberate government strategy, other times to make up for weaknesses in the public system. Governments often informally rely on private schools to limit the population that the public system must cover. Reliance on the private sector to cover the large non-national population in Kuwait represents one form of this. In Egypt, on the other hand, the government requires students to score above a certain level on exit exams to qualify for public schools at the next education level. For students who fail to do qualify, private vocational schools are one of their only other options for continued education. There is not necessarily a formal agreement between the government and private schools for this arrangement. Instead, private providers simply respond to an open demand. One consequence of this, however, is that private vocational schools have received a negative reputation for being second-choice, sub-par schools in Egypt. A similar situation had developed in Sudan, where private schools were often devalued as a place for those who fail exit exams. However, with increasing overcrowding and exhaustion of resources in public schools (partly as a result of increased primary enrolment), more and more families began turning to private schools over public schools, which is altering public opinion of private schools.

PUBLIC PRIVATE PARTNERSHIPS (PPPs) AND COORDINATION

While private schools are one of the most conspicuous forms of private sector participation in education, there are several other alternatives that offer private and public actors the opportunity to share provision and financing roles for education, as depicted in Figure (4). In such situations, the state is still active in ensuring provision of education, even if it is not directly involved in delivering that education. Perhaps the most common are forms in which the private sector serves as a provider, but also receives public funding. This may include management of public institutions by private companies or public support for those seeking private schooling. A variety of other forms of collaboration between the public and private sectors are found in the ESCWA region, including private companies consulting on curriculum development, or dual training programs linking training centers with private companies and future employers.

While it is not a case study of this report, Lebanon is in a unique situation as a country where private enrolment is greater than public enrolment at all levels. While most private schools are funded entirely by families, some are tuition free and subsidized by the state, while others have funding from private, often religious, sources. It is important to note, however, that the private, state-subsidized schools tend to rank significantly lower than the regular private schools on tests and quality of resources.

Figure (4): Provision and Finance of Education

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The Technical and Vocational Education and Training (TVET) initiatives sponsored by many donors in the region are an interesting form of public-private cooperation, along with donor organizations. Tunisia and Egypt are home to numerous programs creating partnerships between the public and the private sectors in the interest of improving training programs. One example of these programs is the World Bank-supported Education for Employment (e4e) in Tunisia, which seeks to build a public-private network for training centers to encourage private sector investment in tertiary education and vocational training centers through an improved regulatory framework, and to improve the investment climate for education. Egypt is home to the Mubarak-Kohl initiative (MKI), supported by German-Egyptian cooperation. It offers a three-year, dual training program for students in which they combine more traditional technical courses with direct training in a variety of occupations to ensure that they gain the skills that are most needed in the job market. The role of international donors in these and similar initiatives is noteworthy, demonstrating an international consensus in favor of this strategy.

PPPs are not only occurring in professional and training programs, however. Many countries have been seeking to encourage PPPs generally, including in education, and this has helped facilitate new forms of private involvement. In Egypt, for example, two new laws in 2009 and 2012 streamlined the legal process for PPPs generally, created a unit for managing PPPs, and simplified the dispute resolution process. With these improvements, the country sought to initiate one of the largest education PPP initiatives in the region, the New Schools PPP. This project would seek private investment to build 500 schools independently and another 2210 schools through a PPP contract. In this contract, the private provider would build the schools and then retain maintenance responsibility for cleaning, security, maintenance, the help desk, and catering for 15 years in order to ensure cost recovery for the investment in building the schools. However, while the legal framework PPPs had improved, there were concerns about the feasibility of the project in the Egyptian economic and banking environment at the time, and the project was sent back for restructuring. In particular, Egyptian banks were not considered prepared to finance PPPs. The Central Bank of Egypt (CBE) has restrictions on exposure that limit the ability to leverage investments, while local lenders lack experience with PPPs. They are not equipped or accustomed to long-term loan repayments like those required by PPPs (20 years is considered the standard).

**PUBLIC FUNDING OF PRIVATE SCHOOLS**

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Public support for private schooling is fairly limited in this region. Kuwait is one notable exception, given how it seeks to support the education of non-Kuwaiti residents via private schools, rather than incorporating them into the public system, as discussed previously. Other countries in the region have small, targeted support funds. For example, Tunisia offers partial tuition funding for students studying in priority fields at private training centers in regions that lack public centers. This program, referred to as a training cheque, demonstrates the importance the state places on improving the relevance of education to the job market, especially in strategic areas of the country.86

UNCOORDINATED PRIVATE SECTOR PARTICIPATION

There are also examples of uncoordinated private sector participation in education in the ESCWA region, particularly private tutoring. Tutoring takes a variety of forms, but in places like Morocco and Egypt, it goes beyond the traditional role of tutoring: meeting special needs of students in exceptional circumstances.87 Instead, it has become more widespread phenomenon, seen as practically essential for supplementing regular classes that, in some way, do not provide sufficient instruction. Exit exams that determine whether or in what schools students will proceed in their studies are one factor creating demand for private tutoring, especially when those exams emphasize memorization and specific knowledge, rather than intelligence or critical thinking. This trend is particularly pronounced in Egypt (see box).

REGULATION OF PRIVATE SCHOOLS

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86Tunisia, Ministere de l'Education et de la Formation. P. 40.
The history of regulation of private education differs significantly across countries. Kuwait passed its first law regulating private schools in 1967, setting forth a fairly extensive list of regulations, including a system controlling tuition fees. In Tunisia, on the other hand, private schools were managed on an informal basis until 2000, classified as a form of vocational training. This changed with Law No. 73 of 2000 for private tertiary institutions and Law No. 23 of 2002 for private non-tertiary institutions. Similarly, Sudan lacked a clear regulatory framework until the turn of the century. From 2000 to 2003 it passed a series of laws and decrees dealing with monitoring and requirements for teachers and curricula.

Private schools in the region are typically subject to a series of regulations covering - to varying degrees - curricula, qualification of teachers and the administration, graduate certifications, and reporting. Monitoring and regulation is typically carried out by the Ministry of Education. A ministry or similar authority tends to cover tertiary institutions, while pre-schools are often monitored by bodies dealing specially with families and/or children. As with any form of private sector provision of social services, a regulatory regime is highly important. Ideally, regulation should assure a degree of consistency in education standards across public and private schools. These may be primarily technical, dealing with curriculum, infrastructure, teacher qualifications, graduation certification, reporting and accreditation. However, in order to fully ensure equity and quality, some countries take additional measures, including regulating private school fees. This is the case in both Kuwait and Tunisia, where regulations seek to ensure that prices are

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**Private Tutoring in Egypt**

While private schools enrolment is relatively limited among the general Egyptian population, private tutoring is pervasive, creating a parallel or ‘shadow’ education system. Private tutoring is officially prohibited in Egypt, but in practice it is widely tolerated despite a sense from the Ministry of Education that it is undermining the formal education system (Bray, 62). Private tutoring emerged largely as a response to the importance of the memorization-based national exams alongside low public sector education quality. In the final year of preparatory and secondary school leading up to exit exams, estimates suggest that 80 percent of students receive private tutoring (Hartman, 74). This is reflected in household expenditures on education in Egypt, over half of which come from private tutoring, and which are much higher than comparable countries (World Bank, 34&42). Even families that cannot afford tutoring feel the need to pursue it, pushing up household expenditures on education as high as 50% of household income (Hartman, 60). Beyond a form of preparation for exams, private tutoring has become a normal part of students’ lives, such that some students will prioritize tutoring over regular schooling (Hartman, 57). The government did try to address this phenomenon by introducing an official form of group tutoring as an alternative to unofficial private tutoring. This form of tutoring usually takes place at the school or another communal space, led by teachers of the same school. With relatively low fees, group tutoring is more accessible to all portions of the population. While private tutoring sessions tend to cost between 10 to 15 Egyptian pounds, group tutoring costs between three to eight Egyptian pounds (Hartman, 72&41). However, group tutoring is less popular and seemingly less valued than private tutoring, with participation rates actually falling leading up to exams. (El Zanaty, 114)

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89 Tunisia, Ministere de l’Education et de la Formation, 17

Cited in Box:

fair and to expand the population that can access private schools by limiting costs. In Kuwait, regulations require that school fees are based on the quality of the resources and facilities and also limit the amount tuition can increase each year.91

At the same time, however, if regulations are too strict, they may reduce autonomy in managerial and curricula decision-making. Best practices recommend that centralized bodies take on a planning and coordinating role in education, but leave managerial decisions to the schools themselves.92 This autonomy is important for allowing innovation, variety, and flexibility in the education sector. There are some concerns that Egypt’s restrictions on the curricula of even private schools is limiting the ability of these schools to offer diverse styles and content, thus lessening one of the perceived advantages of private sector participation.93

Regulations on curricula vary across countries; Tunisia requires that private schools implement ‘formal’ programs that are found in public schools, but these can include specialized or international programs.94 Some governments pay more attention to the role that education curricula can play in shaping national identity and shared values. In Kuwait, for example, the government states that one of the roles of education in the country is, “Building the correct Islamic faith in the educated so that its principles become a method of thought and style, which develops the preparation of educated with Arab-Islamic heritage and loyalty to the Arab-Islamic identity.”95 For this reason, regulations also require that private schools, including those using a foreign curriculum, teach Arabic and Islamic religion, history and culture.96 This conception of the role of education can also explain the preference of the government not to include non-Kuwaitis in the public system, as they might not share in the national identity in the same way as Kuwaiti nationals.

Governments concerned about the role of education in shaping national identity and opinions (even serving as a source for associative, activist, or even opposition movements at higher education levels) may also implement strong monitoring systems for all schools, including private schools. As a recent World Bank study reported, monitoring systems in schools have often been used as a tool to ensure compliance with ministry rules rather than to observe system performance and inform policymaking.97 While monitoring systems are an important part of the regulatory system, they can be misused.

RISKS OF PRIVATE SECTOR PARTICIPATION
PRIVATE SCHOOLING- EFFECTS ON EQUITY

In most ESCWA countries, public funding or subsidies for private education are limited. At the same time, there is a consistent pattern of expensive private schools that cater to a political and economic elite. These schools are largely inaccessible to most portions of the population regardless of merit or achievement and provide students with superior resources and opportunities than other schools in the

92 World Bank 2008, 193
country. It is important to note that, in many countries, there are more affordable private education options as well. In Sudan, there are low-cost private schools serving low-income and slum populations in major cities. However, the quality of these schools tends to be low, often lower than public schools. In Egypt, tuition fees range from a few hundred Egyptian pounds per year to several thousand. However, even among more affordable private schools, fees are often far beyond the means of households. As Figure (5) shows, private school enrolment in Egypt is negligible except among the highest income bracket. Figure (5)

On top of this, private schools in Egypt are often restricted to urban and economic centers, failing to reach the majority of the country. While 42.7% of Egypt’s population is urban, this still disadvantages non-urban populations. There are similar patterns in Tunisia and Sudan. Access to private schooling may be more evenly distributed across income groups in countries with higher rates of private schooling, but if the state does not offer need-based support for the entire population that needs it, inequities will persist. In cases where the public sector offers full education coverage of a high quality, these equity issues will be less problematic. However, in countries where the public sector fails to meet the needs of the population – lacking resources, as in Sudan, not fully preparing students for entrance exams, as in Egypt or failing to make students competitive in the job market, as in Kuwait and Tunisia, equity is a concern. Compounding this problem is the fact that the existence of private sector alternatives can reduce the perceived necessity of improving the public sector, particularly as those with decision-making and policy-setting power in the country tend to have greater access to private schooling.

Households will often take on enormous payments for private education because of social prestige associated with higher education and the hope for high future returns on education. However, this is not always a sound investment for households given limited employment opportunities in many countries, even for graduates. Looking at available data on private rates of return in combination with the structure of the labor force by education, the average rate of return for ESCWA countries is significantly below that of other lower-middle and middle income countries sampled (see Figure (6)).

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99 Hartman, 60.
102 Data based on this estimation technique is only available for Jordan, Morocco, Yemen, Tunisia, and Syria.
To get a better idea of the rates of return to private education specifically, it is necessary to compare them to rates of return of public school at different levels and for different genders (given significant differences between gender). Figures 7 through 10 present a complicated picture. In Yemen and Jordan, private schooling does have significantly higher rates of return than public schooling for women. The same is true for men in Jordan, but not in Yemen. In both Morocco and Egypt, there are in fact significantly higher rates of return for public education at almost all levels, for both genders. While it is difficult to interpret these results without more information, they do not show consistently higher returns to private education and thus seem, at least on the surface, to support the conclusion that high investments in private education will not necessarily translate into improved employment opportunities.

**Figures (8-10)**
In states like Kuwait where the private education sector primarily serves the needs of a large expatriate community that is excluded from the public system, the issue of equity of access to private education is somewhat different. Given that the tuition subsidies provided for non-Kuwaiti students in private schools do not fully cover costs and the high private tuition rates, households may be left shouldering huge payment burdens for education, to the point that they even have to choose between children for schooling.103

Beyond issues of limited access to private schooling, the distribution of private enrolment can negatively affect the equity of the education system. As described earlier, the private sector is playing a larger role in the primary level than the secondary level, and sometimes even the tertiary level, while best practices suggest that the state should take care of the basic levels of education in order to ensure equity, quality, and coverage at the most foundational levels of the system. A lack of full state coverage becomes less problematic for higher levels because that level of education is usually considered less essential. One could also argue that private sector participation is more desirable at this level because there is a need for greater specialization and variety at higher education levels. The private sector often has greater flexibility and resources that allow it to meet the diverse needs and interests of the population at this level. There is less need for such specialization in primary education.104

In contrast, high private enrolment at basic levels of education means that there is greater inequity in the quality of education received at the foundational level, such that those without access to higher-quality private primary schools are disadvantaged from the beginning of their studies. Such handicaps risk being compounded in later years. The signs of this are particularly clear with higher education enrolment in Egypt. Only 4.3 percent of university students are from lowest wealth quintile, compared to 74 percent from the top two wealth quintiles. Of those who graduate from higher education, 52 percent are from the highest wealth quintile alone, and are predominantly urban.105 This suggests that the more limited opportunities and achievement gaps go on to limit the opportunities of poorer, more rural students later on in the education system, and thus in the job market as well.

Looking specifically at private training and vocational schools, the private sector can offer unique advantages to improve the quality of training and relevance to the job market (discussed in the following section). However, it is not necessarily desirable to rely only on privately funded training centers. Doing so can lessen the equity of the educational system, such that those who can afford private schools get degrees that allow them to access the job market, while those in the public education system are largely excluded. In addition, full private ownership of training centers is not always profitable, particularly because they tend to require significant investment in resources and equipment. Such is the case in Sudan, where the market for private schooling is small and the existence of political risks increases the costs and risks shouldered by private companies.106

PRIVATE TUTORING — EFFECTS

The potential consequences associated with the phenomenon of private tutoring are most evident in Egypt. Private tutoring fills the needs of both students, who risk failing critical national exams due to low-quality public schools, and teachers, who need an additional source of income to supplement low public salaries. Yet at the same time, private tutoring undermines the public system, significantly drives up household education expenditures, and can create serious consequences for those students who cannot afford private tutoring. This is all despite the fact that there is no conclusive evidence that private tutoring improves the success of students.

Students often prioritize their afternoon tutoring over regular classes, contributing to absenteeism in the formal system as students skip classes to spend more time on tutoring leading up to exams.107 At the same time, there are worrying reports regarding conflicts of interests among teachers stemming from the overlap of teachers’ tutoring and regular classes. Some students complain that teachers tend to favor the students who go to them for private tutoring over those that do not, potentially resulting in neglect and even, according to some reports, higher rates of corporate punishment for non-tutored students. Additionally, students suggest that teachers purposefully do not cover the entire syllabus so that students are required to seek tutoring from them.108 In addition to undermining the public system, this can have serious consequences for equity. Lower-income households cannot afford private tutoring, such that half as many students in the lowest wealth quintile rely on private tutoring than in the highest wealth quintile.109 This means that it is low income students that suffer most from potential discrimination by teachers and incomplete instruction. While private tutoring represents a distinctly different kind of private sector participation than private schools, it is also emerging due to inadequacies in the public system regarding the quality of instruction, the structure of national exams, and low teacher salaries.

BENEFITS OF PRIVATE SECTOR PARTICIPATION

Many ESCWA countries are facing the dual challenge of improving the quality and relevance of their education systems while also expanding those systems. Across almost all countries in the region, and especially the countries examined here, a key factor encouraging increased private sector participation

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107 Ibid, 57.
108 Ibid, 58.
109 El Zanaty, 114.
is the need to improve graduate employment and the relevance of the education system to the labor market.

For many countries, improving the quality and relevance of education systems requires significant restructuring of current structures and curricula, on top of considerable resources. Such is the case in Kuwait, where the assurance of employment in the large public sector (that employs 90 percent of the Kuwaiti national workers) has lessened the need for the public education system to adapt itself to the needs of the labor market, which can create a disconnect between the public education system and the skills needed in the global labor market. Other countries in the Gulf face a similar problem, to varying extents. As in many other countries, emphasizing professional and vocational training programs and streamlining them into the regular education system could be a useful strategy. However, this may require restructuring popular attitudes, not just curricula and programs. In many countries, technical and vocational tracts are undervalued, seen as an inferior option for students, as discussed previously.

Many countries are also facing a growing youth population that puts strains on the capacity of existing educational facilities. This strain is compounded by increasing demand for education, partly resulting from Education for All efforts to expand primary enrolment, which have further translated into increased secondary and tertiary enrolment in many countries. Simultaneously trying to expand coverage and quality/relevance is pushing the budgets and capacities of many countries beyond their limits, particularly given that the ESCWA governments already spend significantly more on education than governments of comparable countries in other regions (see Figures (11) and (12), note that data is not available for all countries in the region).

Figures (11) and (12)

Private sector participation offers an important strategy for governments to address these challenges without relying solely on government-funded and government-delivered education. Private sector participation is a particularly promising when it comes to improving the relevance of the education system to the job market. The private sector is seen to enjoy a variety of advantages over the public sector in this objective, particularly because private providers tend to have stronger ties to the private sector generally. Further, private schools often have better resources and greater autonomy than public schools, allowing them to be flexible and responsive to changes in the market and labor market.
needs and to innovate so that graduates are in tune with new technology and other developments. For these reasons, Tunisia, Sudan, Egypt and Kuwait are all pursuing or considering some form of increased private sector participation in professional or training programs. Providing public funding for privately managed training centers can allow governments to take advantage of private sector capacity while minimizing concerns with equity and helping ensure that the centers will be profitable for private companies.

Even without governmental support, there is significant popular demand for private schools offering professional training and degrees. Many private schools realize that providing specialized education and emphasizing high employment rates of graduates fill one of the biggest gaps in the public education system, thus assuring their place in the market. This is true of schools in Tunisia, despite the fact that the private education sector has been quite limited. Tunisia’s unemployed graduate population is the largest in the Maghreb (as a percentage of total graduates) and has grown significantly in the last decade. Almost half of graduates that enter the job market will still be unemployed 18 months later.\(^{110}\)

In this context, students are desperate for greater assurance of their job prospects post-graduation. Some schools seek to sell this assurance, going to lengths to ensure that almost all or all graduates receive jobs, and then by advertising 100 percent post-graduation employment rates. Tunisia has already witnessed significant growth of private training schools and, if students believe that private schools are the key to employment, there will continue to be significant growth in this sector.\(^ {111}\) In this way, the challenges of the public sector feed directly into the growth and shaping of the private education sector.

Another advantage of private schools is that they have greater autonomy than public schools. In Egypt, where the education is highly centralized at the level of the Ministry, it can be difficult to introduce new initiatives and reforms in individual public schools and districts. Turning to private schools offers an alternative to dealing with a difficult bureaucratic and regulatory framework, with people relying on private or non-governmental schools to experiment with new methods or policies. However, this is not a sustainable solution and it can lead to stagnation of the public system.\(^ {112}\) Often times it is not increased private sector participation that is necessary, but simply increased decentralization and diversification of the public sector. This may involve private sector participation – like the various TVET initiatives throughout the region – that allows the public sector to take advantage of the expertise and advantages of the private sector.

Given the diverse range of private schools within countries, let alone across them, it is difficult to determine the effect these schools have on the quality of education generally. In many cases, the greater resources and smaller student bodies of private schools mean that they can offer students more opportunities that tend to lead to better education outcomes. Such is the case in Egypt, where private school class sizes are usually significantly smaller than in public schools. The quality of these private schools can be examined through national exam scores – private school students are four times as likely to be an ‘achiever’ (scoring 90 or above) on secondary exit exams than public school students.\(^ {113}\)

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\(^{113}\) Ibid, P. 46
However, the nature of private schools is too diverse to assume that they always offer higher quality education. The role that private schools play in the education system as a whole, the market they serve, and the regulations they undergo will all affect the quality of instruction. In Sudan, the teacher-student ratio of private schools is not necessarily better than that of public schools for basic and secondary schools.\textsuperscript{114} Looking down the line at education outcomes, in many regions of the country, private schools do not have better passing rates for secondary school examinations than other students. \textsuperscript{115}

**CONCLUSION**

The different cases and issues discussed above highlight the potential of the private sector to provide additional investment in education, improve linkage to the job market, and exercise greater autonomy and innovation in schooling. However, as in other sectors, increased private sector participation may lessen equity if efforts are not taken to ensure that the benefits of increased private sector participation are spread equitably across the population and that they complement a strong public sector. The countries examined in this report illustrate various policies to mitigate equity issues and improve the benefits associated with private sector participation.

Governments can explore possibilities to expand private sector participation in ways that will help improve the relevance of academic programs to the job market, as Tunisia is doing with its *Training Cheque* program, or by building public-private partnerships and collaboration in vocational and training programs. TVET programs can be especially beneficial if they are well-integrated into the regular education system. Given some of the key challenges facing this region – unemployed graduates and a disconnect between education systems and the job market – as well as the comparative advantages enjoyed by private sector actors, such reforms could be particularly beneficial.

Similar to Kuwait’s system of subsidies for Arab non-nationals, subsidies and need-based support can help expand access to private schools. This is especially important in areas where the public system may be inadequate or for populations that do not have access to public schools, as with non-nationals in Kuwait. Access to private schools can also be expanded through government regulation of private tuition, as in both Kuwait and Tunisia. Tunisia has also taken important steps to improve its broader regulatory framework. These steps include instituting laws to clearly delineate methods and responsibilities for monitoring private institutions and regulating standards for private schools without restricting their ability to provide specialized curricula.

Another way to encourage more equitable private sector participation is to funnel private investment towards higher levels of education, while focusing public capacity on ensuring that all portions of the population have access to quality primary education that will provide them with better academic and professional opportunities later on. Reforming exit exams can help countries deal with problems of widespread private tutoring. Jordan, Kuwait, and Tunisia all abolished exit exams for primary education. Further, governments could reform national tests to emphasize ability, not simply past instruction.\textsuperscript{116}

\textsuperscript{115}Ibid, 128-9.
\textsuperscript{116}World Bank 2008, 189.
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