Educational Privatization and School Choice: The Case of Innovative Financing Mechanisms

FSU | FLORIDA STATE UNIVERSITY

FSU UNDERGRADUATE RESEARCH OPPORTUNITY PROGRAM
CENTER FOR UNDERGRADUATE RESEARCH & ACADEMIC ENGAGEMENT

Alexander Bayramov, Anna Ottesen, David Margaryan, and Dr. Wajeeha Hazoor

Abstract

Innovative financing mechanisms have emerged as a key feature of New Public Management since the 1990s, emphasizing performance-based funding to address social sector inefficiencies. This study examines how these mechanisms operate within education, evaluating their effectiveness in aligning incentives between funders and agencies through principal–agent theory (Saltman, 2017; Heinrich & Kabourek, 2019). Utilizing systematic keyword searches via the Florida State University Library and Google Scholar, peer-reviewed articles were synthesized across regions including the United States, Turkey, Brazil, and Sub-Saharan Africa. Findings indicate that innovative financing can enhance accountability and attract private capital when supported by strong institutional capacity and clear performance metrics (Temple & Reynolds, 2015; Saltman, 2017). However, evidence also reveals mixed results, including challenges in capturing long-term impact and regional variability driven by local political structures (Esper & Acosta, 2023; Güngör Göksu & Altundemir, 2019). These results suggest that while such tools address financing gaps, they are not universal solutions and may reinforce structural disparities if capital funding is inequitable. The study highlights the necessity of contextual adaptation, rigorous evaluation, and equity considerations. Future research should prioritize longitudinal and comparative analyses to better assess long-term outcomes and inform the design of hybrid financing models.

Introduction

- Innovative financing mechanisms involve the government contracting a private agency to carry out a public project, funded by private investors (Saltman, 2017; Heinrich & Kabourek, 2019).
- Investors receive a government-backed financial return only if the project meets specific performance metrics (e.g., test score targets).
- Social Impact Bonds (SIBs) are a key example and have been implemented globally across multiple sectors, including education (Cássio, Goulart, & Ximenes, 2018; Esper & Acosta, 2023).
- Supporters argue SIBs:
  - Inject much-needed private capital into historically underfunded public education systems (Saltman, 2017; Temple & Reynolds, 2015).
  - Provide flexibility and responsiveness during crises, such as the COVID-19 pandemic (Esper & Acosta, 2023).
- Critics argue SIBs:
  - Represent the privatization of a public good (education) (Cássio, Goulart, & Ximenes,2018; Saltman, 2017).
  - Turn education into a profit-generating tool for private investors (Tse & Warner, 2020).
  - Encourage "cream-skimming," where programs target less vulnerable populations to ensure performance targets and investor returns (Tse & Warner, 2020; Heinrich & Kabourek, 2019).

Methods

- Literature was identified through keyword searches in Google Scholar and the Florida State University Library database, using terms such as income share agreements, impact investing, and social impact bonds.
- Inclusion criteria: articles had to be peer-reviewed, published in English, and directly relevant to the research question; policy reports were also included.
- Around 650 studies published between 2010 and 2025 from countries such as India, Brazil, Argentina, and the United States were reviewed.
- A thematic analysis was used to group findings, and selected articles were placed into a database to compare results.

Findings

This table provides a comparative overview of selected peer-reviewed studies examining Social Impact Bonds, Pay-for-Success initiatives, and performance-based financing across diverse geographic contexts. For each study, the table identifies the region of focus, categorizes the overall direction of findings, summarizes the principal conclusion, and includes the corresponding APA citation to support transparency and scholarly reference.

Geographic Context	Direction of Results	Principal Finding	APA Citation
United States	Mixed	Benefit-cost analysis can support scaling early childhood programs through Pay-for-Success financing, though long-term measurement challenges remain.	Temple, J. A., & Reynolds, A. J. (2015).
United States	Negative	Social Impact Bonds in early childhood services risk prioritizing financial returns and measurable outcomes over equity and holistic child development.	Tse, A. E., & Warner, M. E. (2020).
Oklahoma, United States	Negative	Inequitable capital improvement funding exacerbates disparities in operational spending, reinforcing structural	Hime, S., & Maiden, J. (2019).
United States	Negative	Outcomes-based funding models pose ethical and practical challenges in special education, potentially disadvantaging students with greater needs.	Needham, C. (2023).
United States	Mixed	While Pay-for-Success programs can increase accountability and attract private capital, implementation is hindered by high transaction costs and scalability challenges.	Saltman, K. J. (2017).
United States	Negative	Despite strong policy interest, many Pay-for-Success initiatives fail to expand beyond pilot stages due to legal, administrative, and data barriers.	Heinrich, C. J., & Kabourek, S. E. (2019).
United States	Mixed	Income Share Agreements may reduce student debt risk and align institutional incentives, but they raise regulatory and equity concerns.	Salmon, J. (2020).
Turkey	Mixed	Performance-based financing in Turkish higher education shows potential benefits but requires significant structural and governance reforms for successful implementation.	Güngör Göksu, G., & Altundemir, M. E. (2019).
São Paulo, Brazil	Negative	Although designed to improve educational outcomes, the Social Impact Bond faced political resistance over privatization and accountability concerns, ultimately limiting implementation	Fernando L. Cássio, Débora Cristina Goulart, & Salomão Barros Ximenes. (2018).
Buenos Aires, Argentina	Mixed	The adaptation of an international Social Impact Bond model produced uneven outcomes, as effectiveness depended heavily on local political structures and institutional capacity.	Esper, T., & Acosta, F. (2023).
Africa	Mixed	Outcomes-based funding boosts accountability and learning but must not overlook equity and inclusion.	Education Outcomes Fund (EOF) Announces Hosting By UNICEF, (2010)
Kenya	Mixed	Strong donor fund management improves education quality and access while supporting transparency and equity.	Mohammed, N.-D. (2018)
South Africa	Mixed	Increasing education budgets alone is not enough; equitable and timely fund management is essential to reduce dropout rates and ensure resources reach the most vulnerable students	Boateng, N. A. (2014)

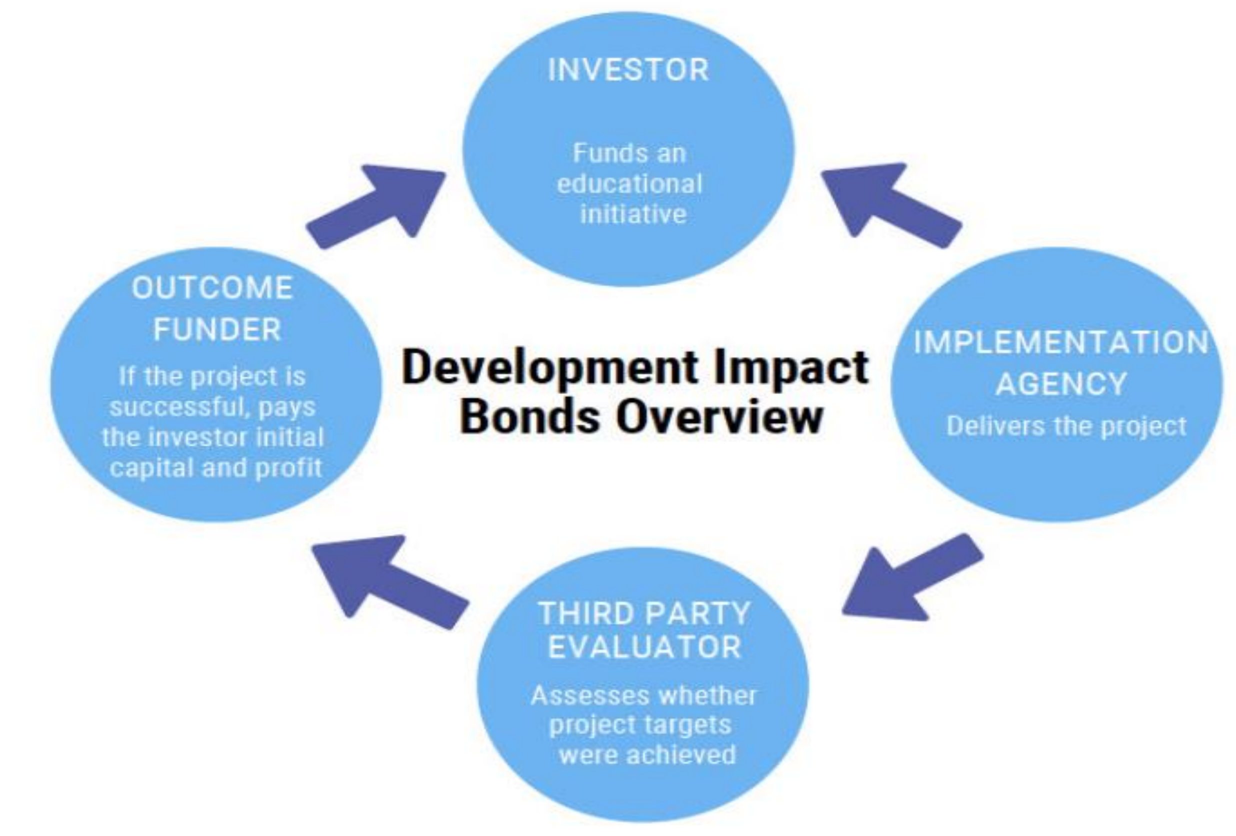
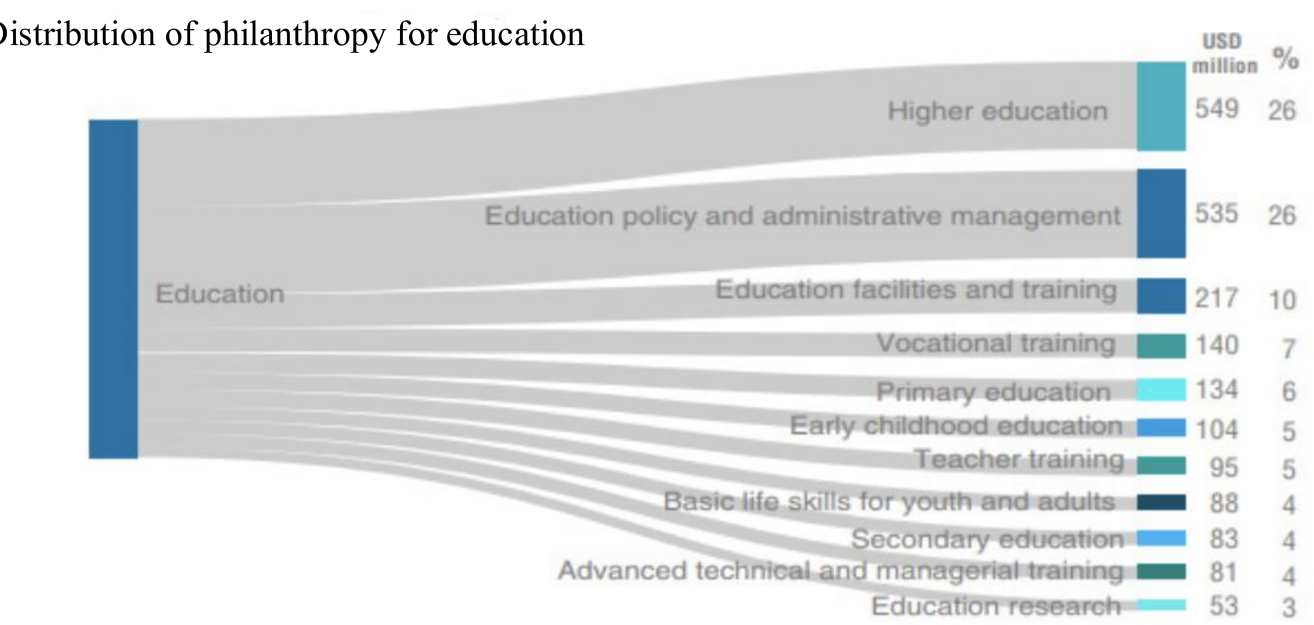


Figure 1: Development Impact Bonds - Overview
Source - Educate Girls (n.d.); Mulgan, Reeder, Mhairi & Bo'sher, 2011

Conclusion

•Social Impact Bonds in education often have implementation problems and mixed results, especially for equity.
•A few studies show benefits like attracting private money and improving accountability (Temple and Reynolds, 2015; Saltman, 2017).
•Most studies find governance and administrative problems (Goksu and Altundemir, 2019; Salmon, 2020; Heinrich and Kabourek, 2019). Success depends on strong local institutions (Esper and Acosta, 2023).
•Equity results are mostly negative and vary by region (Esper and Acosta, 2023).
•These programs can increase funding gaps and disadvantage high-need students (Hime and Maiden, 2019; Needham, 2023).
•Overall, they require strong government systems and reliable data to work well.

Figure 2: Distribution of philanthropy for education 2013-15



Source: OECD (2018)

References