



INTERNATIONAL FINANCE CORPORATION  
WORLD BANK GROUP

# Competition, Collaboration or Co-existence:

## What Role for the Private Sector in Higher Education?

IAU 13<sup>th</sup> General Conference ~ July, 2008

# Today's Presentation

1. Drivers for Private Sector Involvement
2. Modes of Public-Private Partnerships
3. Issues Arising - Competition, Collaboration or Co-existence?
4. An overview of IFC's Health and Education Department portfolio and activities

# Market Trends Driving Private Sector Involvement

- Growing demand, favorable demographics and willingness to pay for quality education
- Constrained public sector financing (particularly for post-basic ed.) and, often weak public provision
- Increasing capital requirements
- Technological developments
- Need for student financing

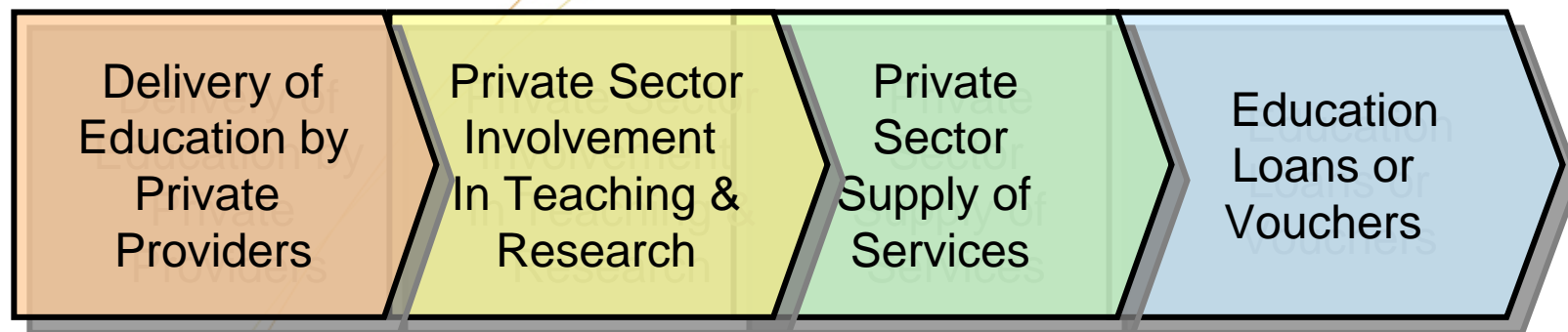
***IFC's challenge as investor is to find the next generation of market leaders***

# Recognition of Limitations

- Acknowledgement by most governments, multilaterals, donors and the private sector that . . .**
- ▶ Parallel systems (exclusively public or private) do not make best use of scarce resources in any country
  - ▶ MDGs and economic targets will not be achieved by the public sector working alone
  - ▶ New project structures for the private provision of public services, including PPPs, can benefit all parties
  - ▶ These projects can efficiently increase public access to basic services such as health and education and improve quality of these services

# PPPs in Higher Education

PPPs are championed by governments to make best use of scarce resources for a wide range of education services



- Private HEIs 'sharing' academic staff
- Public HEIs going abroad
- Private tuition (e.g. language courses)

- Commissioning & funding research
- Providing placements
- Additional curricula (e.g. Cisco)

- Software vendors (e.g. Blackboard)
- Residence build and management
- Accreditation
- International student recruitment

- Increasing access through funding to students from government, foundations or banks

# Potential Partners

- ▶ Government
- ▶ Funding bodies and financial agencies
- ▶ International partner institutions
- ▶ Philanthropic and donor organisations
- ▶ Education service providers
- ▶ Professional bodies
- ▶ Local industry and corporate sector
- ▶ Civil societies and local communities

# The Case of RMIT

## Objective

- To build a new university in Vietnam

## The Partners

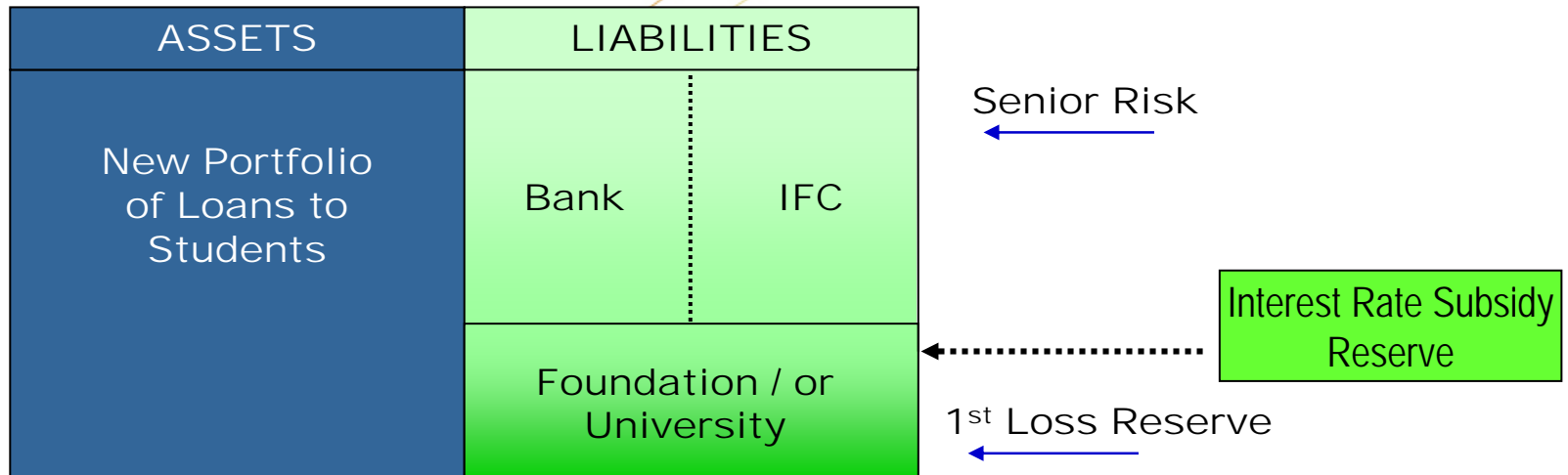
- RMIT Australia
- The Government of Vietnam
- IFC
- Asia Development Bank
- Atlantic Philanthropies
- Dai – ichi Life (partnership in establishing an 'education life policy')
- ANZ Bank (student loan securitization)

## Current Status

- In phase 2 expansion and seeking funding for phase 3
- Awarded the 'Golden Dragon' award for excellence in education in last 4 years
- Over 3000 students enrolled and continued growth projected



# Partnerships to Expand Access



- First loss is taken by the partner university(s) or third party donors.
- A contribution from third parties and universities to subsidize the interest rate on the loan can also be retained in a reserve
- IFC shares 50/50 the Risk with the Bank covering 50% of all losses after the First Loss Reserve has been exhausted

# Role

# Relationship

	<u>Competition</u>	<u>Collaboration</u>	<u>Co-existence</u>
Delivery of Education by Private Providers	University of Phoenix	Laureate Education	University of Phoenix
Private Sector Involvement In Teaching & Research	Laureate Education	Pharmaceutical Companies	Cisco
Private Sector Supply of Services		Blackboard	McGraw Hill
Education Loans or Vouchers		IFC Loans Facility	

# Elements for Success

- Sound regulatory framework from which to begin
- Clear objectives for the relationship
- Sound economic and financial structures
- Transparent processes
- Quality and service standards for measurement

# Concerns ~ Public Sector

- Being exploited ("ripped off") by private sector
- Opposition from local stakeholders – eg existing providers, trade unions, general public.
- Being locked in to long term, inflexible contracts.
- Negative perceptions of profiting from public provision.

# Concerns ~ Private Sector

- Corruption/lack of transparency in selecting PPP partner.
- Non-payment for services provided.
- Strength of legal contract and legal environment
- Recourse to arbitration
- Legal authority of contracting agency to enter into PPP contract
- Payment terms for part-completion of contract
- Change of government/government policy

# Contact Details

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*IFC is a member of the World Bank Group*

# An Overview of IFC's Health and Education Department And Portfolio

# IFC: Part of the World Bank Group

*IFC is owned by its 179 member countries, which collectively determine policies.*



**International Bank for Reconstruction and Development, 1945**



**International Finance Corporation, 1956**



**International Development Association, 1960**



**International Centre for Settlement of Investment Disputes, 1966**



**Multilateral Investment Guarantee Agency, 1988**

# A Snapshot of IFC

## Vision

IFC's vision, values, and purpose is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

## What we do

IFC provides loans, equity, structured finance and risk management products, and advisory services to build the private sector in developing countries.

## Ownership & Governance

IFC's corporate powers are vested in a Board of Governors, to which each country appoints a governor, generally the minister of finance or an equivalent.

## History

The creation of IFC in 1956 represented the first step by the global community to foster private sector investment in developing nations.

## Member countries

IFC has 179 member countries, which collectively determine its policies and approve investments.

## Locations

IFC has over 3,100 staff, of whom 51% work in field offices in over 70 developing countries around the world and 49% at headquarters in Washington, D.C.

# IFC's Strategic 'Road Map' ~ Approved March 2008

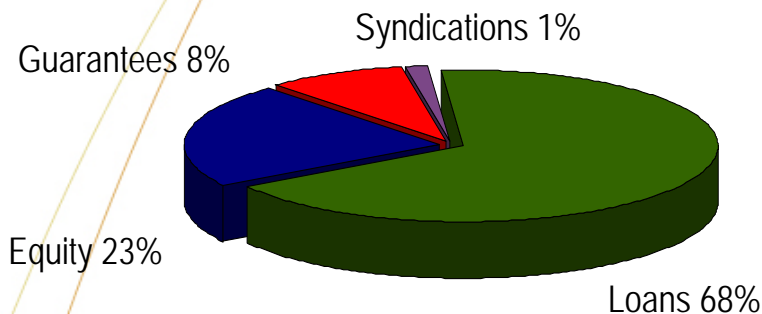
- Strengthening the focus on frontier markets
- Building long-term partnerships with emerging players
- Addressing climate change and environmental and social sustainability activities
- Addressing constraints to private sector growth in infrastructure, **health and education**
- Developing local financial markets

# Health and Education: at a Glance

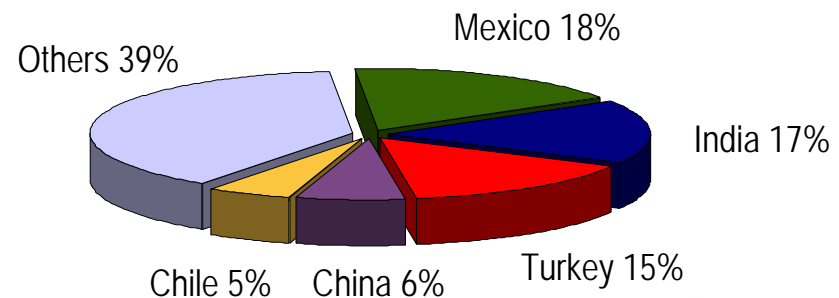
- Health and Education Department (CHE) was established in FY02
- Health and Education Sectors are Pillars of IFC's Strategy
- 54% annual commitment growth and 45% annual project growth since FY03
- 53% of CHE's commitments in FY07 are in IDA countries
- CHE has 11 investment officers, 2 healthcare specialists and 1 education specialist on staff

Health Sector:	Education Sector:
57 private health projects in 24 countries	49 private education projects in 23 countries
US\$ 1,763 mln of total project value	US\$ 970 mln of total project value
US\$ 458 mln of CHE total investments	US\$ 228 mln of CHE total investments

CHE Portfolio by Product



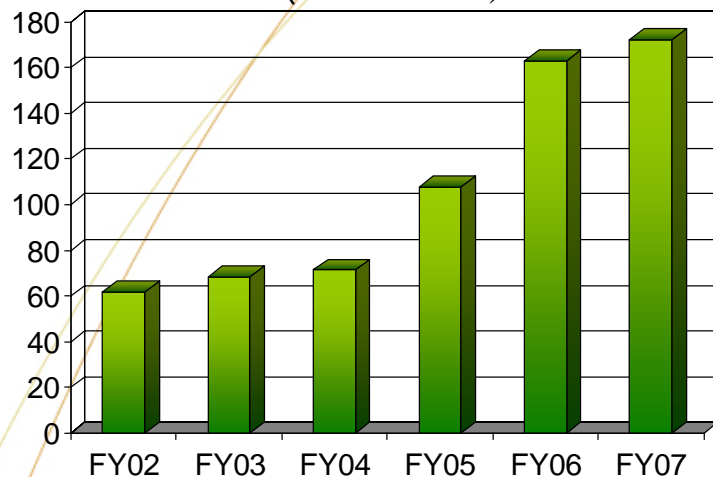
CHE Portfolio by Country



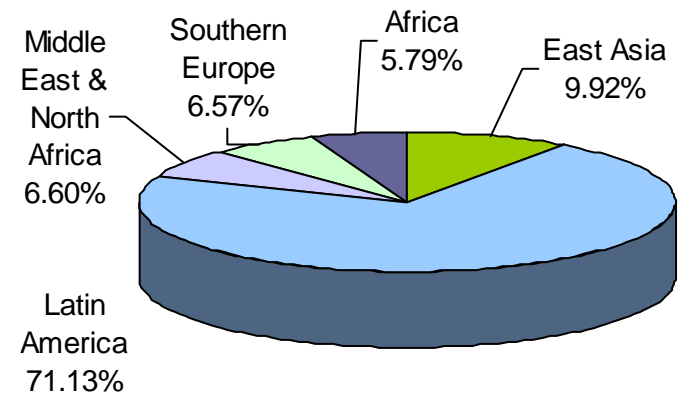
# IFC's Education Portfolio

- US\$175 million portfolio as of 2007
- 26 active private education projects in 17 countries

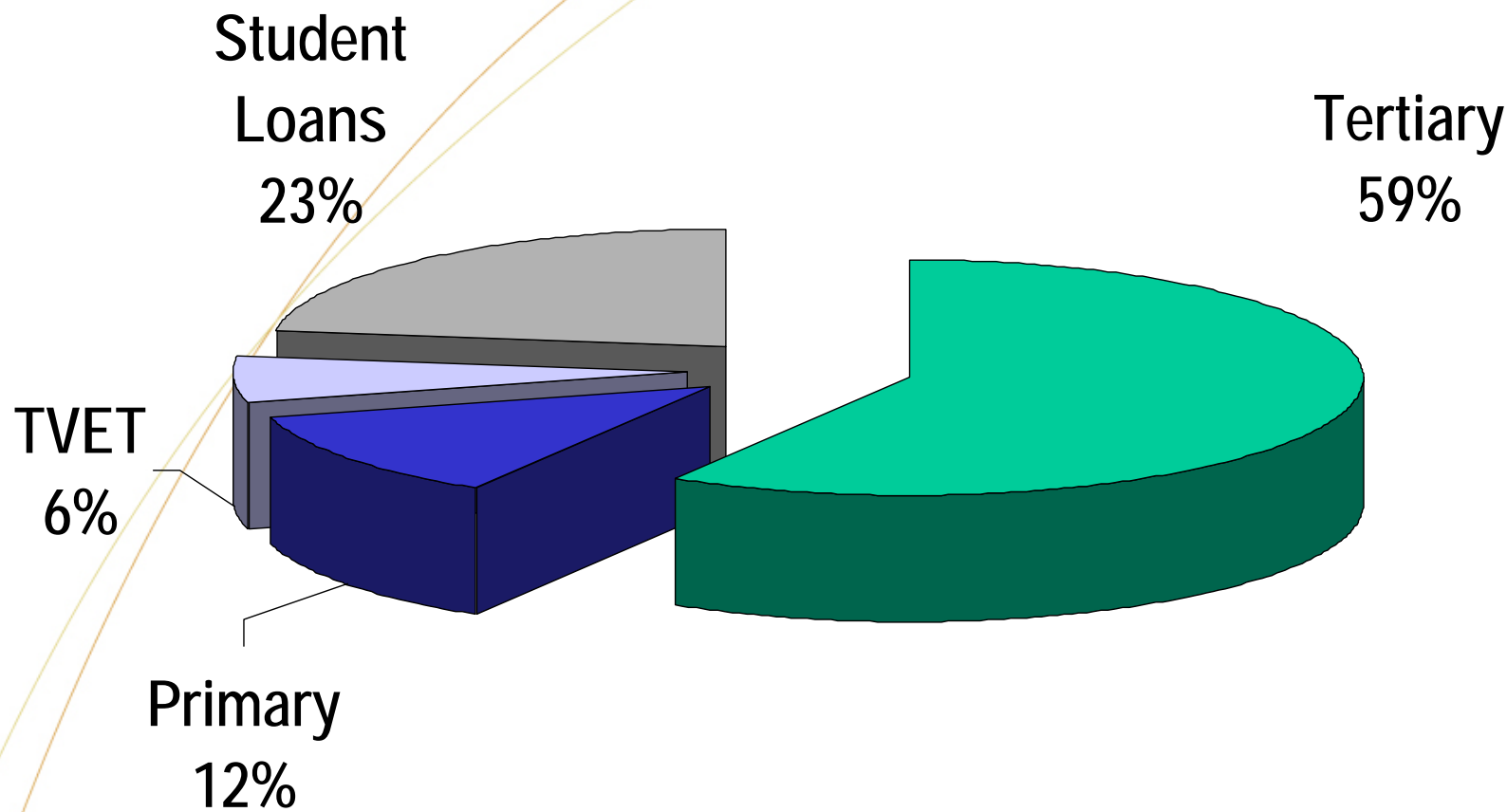
Total IFC Education Portfolio, FY 2002-2007  
(US\$ millions)



IFC Education Portfolio by Region, FY2007  
(US\$175 million total)



# Total Investments by Sector



# Objectives ~ Education Sector

## *Business Objectives*

- ▶ Invest in financially viable projects
- ▶ Mobilize private resource flows
- ▶ Promote efficiency and innovation

## *Developmental Objectives*

- ▶ Demonstrate best practices across the sector
- ▶ Build institutional and systemic capacities
- ▶ Enhance social mobility
- ▶ Expand educational opportunities
- ▶ Relieve government resources

# Range of Financing Capabilities

## Senior Loan

- Up to 10 years final maturity and 2 to 3 years grace period for principal
- Security package typical: physical assets, pledge of shares, leases, etc.
- Market based pricing
- Available in fixed / floating and, depending on market conditions, local or USD currency

## B Loan / Syndication

- IFC syndicates portions of loans in order to mobilize additional financing partners
- Commercial banks take comfort in IFC due diligence and structuring experience
- Over 150 commercial banks and other institutions currently participate in IFC's B loan program

## Mezzanine

- Hybrid featuring characteristics of both debt and equity
  - Subordinated, convertible, income participation and others

## Equity

- Typically in the form of common or preferred stock
- Denominated in local currency

## Structured Products

- **Securitizations:** asset-backed securities, including future revenues, receivables, etc.
- **Guarantees:** partial credit guarantees enhancing credit worthiness of client's financing
- **Risk-sharing facilities:** allowing for alternative risk allocation

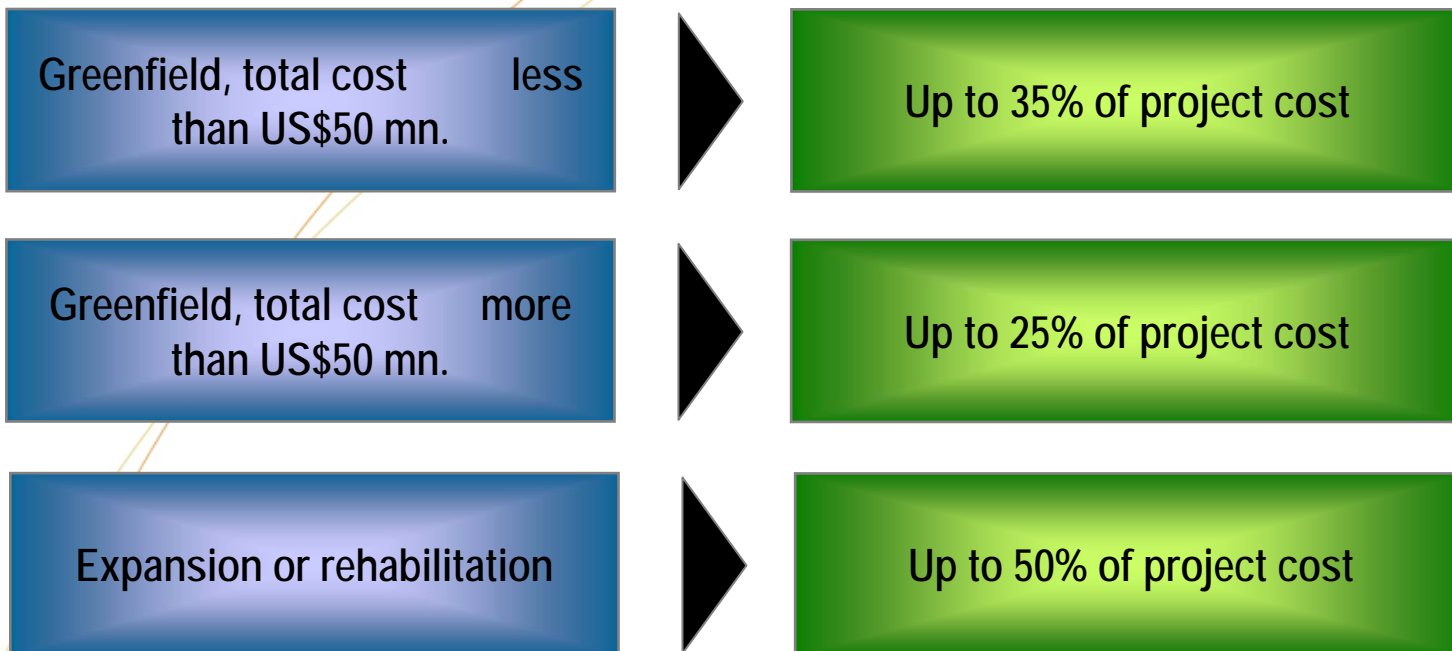
## Technical Assistance

- IFC provides technical assistance / advisory services in support of its clients
- Country and sector specific
- Funded by donor governments and other multilateral institutions

# Working in Partnership

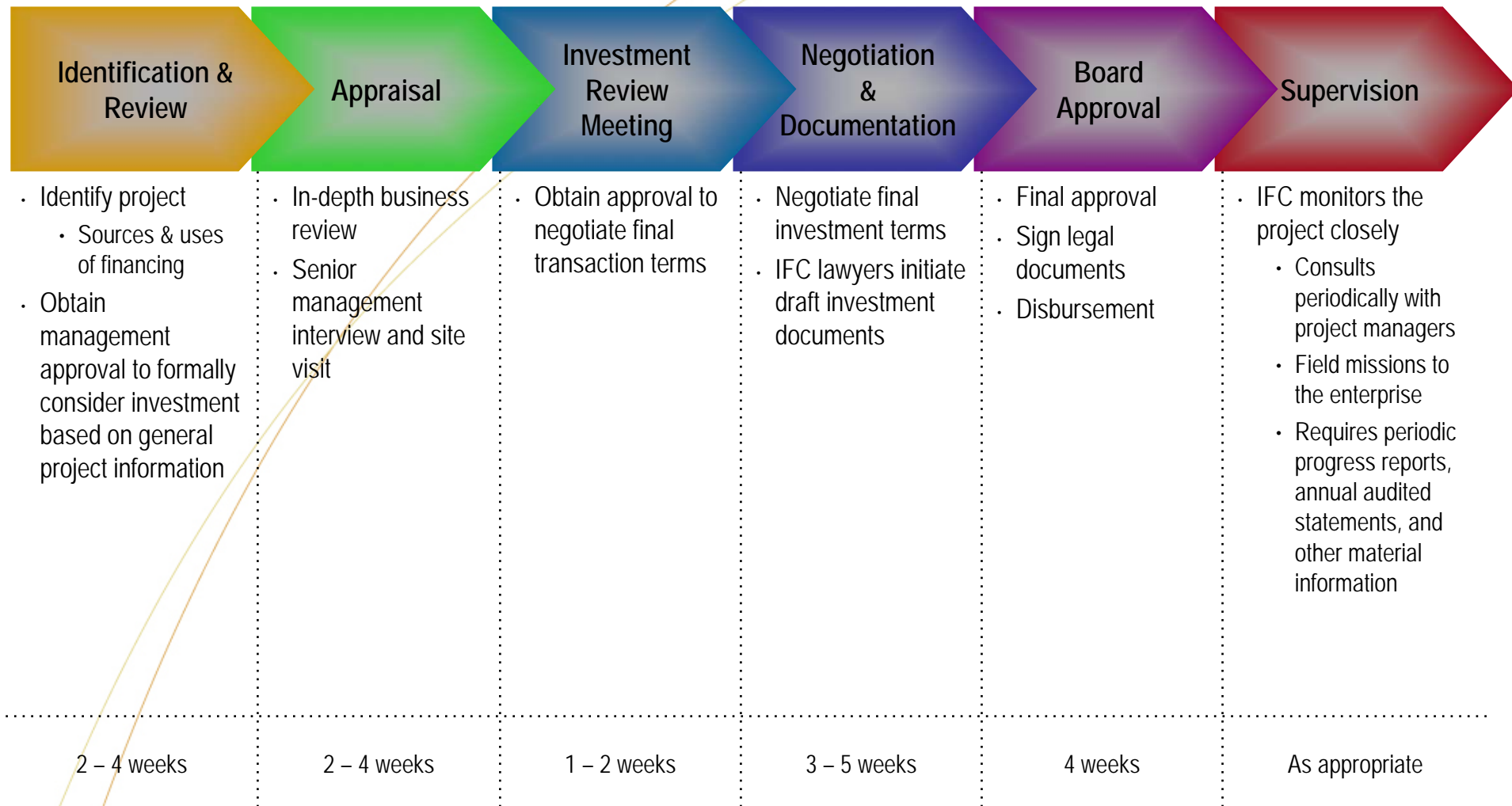
## Project Type:

## IFC's investment for its own account



- IFC's share of total capitalization of a company must be less than 25%, and IFC will not be the major shareholder
- Further debt can be mobilized under IFC's umbrella

# IFC's Investment Process



# Focus on Strategic Clients

- ▶ Predominantly large, for-profit providers that:
  - Operate in several markets with great potential to increase access in underserved areas
  - Can move down-market to reach lower-income households
  - Have the capacity to spread best practices, raise standards in the sector
  - Lead in introducing innovative means of delivery and finance
  - Create centers of excellence in emerging markets
  - Provide employment opportunities for skilled professionals
- ▶ IFC additionality:
  - Facilitate cross-border, including South-South, investments
  - Mobilize financing
  - Support the development of new products
  - Help clients move down-market
  - Support PPPs

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