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Investing in private education for poverty alleviation: The case of the World Bank's International Finance Corporation

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ABSTRACT

The International Finance Corporation (IFC), the private sector financing arm of the World Bank Group, is currently the largest multilateral investor in private education in developing countries. Drawing from staff interviews and programmatic data, this paper provides a brief overview of the IFC and its mandate; examines the stated purposes of the IFC's work in education; reviews the IFC's portfolio of investments in education; and looks at the linkages between the IFC and the World Bank's lending arms. The paper concludes by questioning the IFC's contribution to the World Bank Group's poverty alleviation mandate.

1. Introduction

Over the past decade, the International Finance Corporation (IFC), the private sector financing arm of the World Bank Group, has gradually expanded the scope of its work in education. Although still quite modest, IFC education sector activities have grown substantially from a few small initial projects in the mid-1990s to the adoption of education as one of the organization's five "strategic pillars" in 2004. Today the IFC describes itself as the world's "largest multilateral investor in private health care and education in developing countries" (IFC, 2010c, p. 23). Furthermore, according to the World Bank's recent education strategy papers, the IFC is central to the Bank's plans for supporting educational development (World Bank, 1999, 2005, 2011a). Thus the most recent World Bank *Education Sector Strategy 2020* announces:

> Within the Bank Group, the World Bank and IFC will work together to improve knowledge about the private sector's role in education and to help countries create policy environments and regulatory structures that align the private sector's efforts with national education goals. (World Bank, 2011a, p. 9)
>
> The main focus of the IFC's education strategy is to: finance larger network providers, who have the ability to invest across borders and go down-market to reach poorer populations... [and to] provide financing for education to small and medium enterprises, which typically target poor populations... (World Bank, 2011a, p. 50)

This paper presents one of the first published analyses of the IFC's work in education. It provides a brief overview of the IFC and its mandate; examines the stated purposes of the IFC's work in education; reviews the IFC's portfolio of investments in education; and looks at the linkages between the IFC and the World Bank's IBRD and IDA education sector activities. The paper concludes by questioning the IFC's contribution to the World Bank Group's poverty alleviation mandate.

The findings presented in this paper are based on interviews and programmatic data collected in the spring of 2011 from staff in the World Bank's education sector and inside the IFC. In total, 25 interviews were conducted for this research between April and June 2011, including 19 interviews with current World Bank staff, two with retired World Bank staff (one a former consultant for the IFC), three current IFC staff, and one retired IFC/World Bank staff. An analysis was conducted of the IFC's complete education portfolio, based on data provided by IFC staff to authors in May 2011, and available documents and websites of the organizations which have received IFC investments.

2. Introducing the IFC and its poverty alleviation mandate

Formed in 1956, the IFC is the private sector financing arm of the World Bank Group. Its overarching mandate is the same as the World Bank's: to support a world without poverty (IFC, 2011d). However, the IFC has the task, distinct from the World Bank's other

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four branches, of supporting the private sector in emerging markets.[2]

The IFC was founded as a separate arm of the Bank, when member governments became concerned that private entrepreneurs were not being effectively supported by multilateral lending agencies (Bell, 1981). As with the rest of the World Bank Group, the IFC is governed by a Board, which is elected by the IFC's 182 member countries and has essentially the same composition as the Board of Governors and Directors for the World Bank's IDA and IBRD facilities. Because voting is weighted based on paid in shares to the IFC, the United States is the largest IFC shareholder (23.6% of voting power in 2010); followed by Japan at 5.9%. Overall, rich countries hold two-thirds of the organization's voting power (Moody's, 2010; Bretton Woods Project, 2010).

The IFC's business model is very much like that of any investment bank. It uses paid in capital of approximately $2.4 billion from its member governments to generate loans and debt or equity financing for private sector clients in developing countries. Profits are reinvested into the IFC (with a small share going to fund IDA/IBRD activities). An increasing share of the IFC's portfolio involves provision of financial guarantees to banks in developing countries (Bretton Woods Project, 2011a,b). The IFC also offers advisory services to private sector clients and to governments interested in regulatory issues in specific industry sectors,[3] a part of its work that has grown more than 10-fold since 2001. Advisory services are increasingly funded through special "trust funds" provided as grants to the IFC by rich member governments (IEG, 2011, p. xvii; Interview #4, IFC).[4] Three core principals guide all IFC activities: a *business principle*, of taking on the full commercial risks of its investments, accepting no government guarantees and earning a profit from its operations; the principle of being an *honest broker*, using its unique abilities as a corporation owned by governments to "bring together investment opportunities, domestic and private capital, and experienced management"; and the goal of playing a *catalytic role*, investing only in projects for which "sufficient private capital is not available on reasonable terms" (IFC, 1993).

Over time the IFC has increasingly laid claim to reaching the "base of the pyramid" through its investments (IFC, 2010e). The IFC clearly positions itself as a significant contributor to the overall poverty reduction mandate of the World Bank (IEG, 2011; IFC, 2010c). Thus according to its website (IFC, 2011d):

> IFC, as the private sector arm of the World Bank Group, shares its mission: To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

Over time, there have been two ways in which the IFC's poverty alleviation mandate has been addressed: first by broadening IFC investments in low income (IDA-eligible countries), which it describes as "frontier markets" (OEG/IFC, 2005); and second, by expanding its work in sectors that it identifies as directly addressing the needs of the poor: financial markets, infrastructure, health and education, and agribusiness (IFC, 2010g,h; IFC/World Bank, 2011). In 2004 the IFC adopted five strategic pillars, which include:

> **Pillar 1**: strengthening the focus on frontier markets (IDA countries, fragile situations, and frontier regions in middle income countries); and
> **Pillar 4**: addressing constraints to private sector growth in infrastructure, health, education and food supply chain (IFC, 2010c, p. 15).

Among the most significant shifts in IFC work since 2000 has been the expansion of its work in health and education, which grew from less than 1% of its total investments, to 3% of the IFC's portfolio in 2010 (IFC, 2010h). Education and health are central to the IFC's efforts to reach the bottom billion. Thus, according to IFC's then Director of Health and Education, Guy Ellena: "By increasing access to services to 'Base of the Pyramid' populations through our health and education investments, we are helping to address the unmet needs of these populations and delivering on our development mandate" (IFC, 2010e). The IFC's 2011–13 Roadmap maintains this focus, noting that the "IFC's health and education sector are expected to show the strongest relative program growth between FY09 and FY13" (IFC, 2010c, p. 34). The overall goal of its work in these sectors is to "continue to fill the gap left by the public sector in health and education..." and "address the needs of those at the base of the pyramid..." (p. 15).

3. Enter education

The IFC's work in education began in the 1990s with a few small investments. A decision to create a new mechanism to fund to small enterprises opened the way for additional investment in education[5] and led a former education specialist from the Bank to take on a pioneering role within the IFC. A number of small investments were provided to elite private schools in least developed countries, while larger investments began to emerge in higher education, particularly in Latin America (Maas, 2001; Interview #3, IFC). The IFC held its first regional conference on private education in 1999 in Cote D'Ivoire and conducted reviews of the business environment for private education in Kenya, Cameroon, India, Ghana and China in that same year (IFC, 1999a; Karamokolias and Maas, 1997).[6] In 2001, the IFC established a Health and Education Department.[7]

Initially, IFC engagement in education met with considerable push back. Internally, it took some time for the IFC itself to be convinced that education was a good sector for investment. At the IBRD/IDA facility of the World Bank, there were questions about the role of the private sector in education and concerns that the IFC was intruding on Bank territory (Interview #1, World Bank;

[2] The World Bank Group consists of five branches. Its lending arms are the International Bank for Reconstruction and Development (IBRD) – which lends to middle-income nations and creditworthy less-developed countries – and the International Development Association (IDA) – which focuses on the poorest nations, providing them with essentially interest-free loans. The IBRD, IDA and IFC have educational programs. The other two branches are the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID), neither of which deals directly in education.

[3] Financial products from the IFC include market-rate loans; buying and holding equity in various companies and financial institutions; syndicated loans; and trade finance, where advisory support is given to emerging markets to help 'increase their share of global trade' (IFC, 2007a, p. 8). The IFC offers financial advisory services in a wide range of areas from environment and social sustainability, privatization, establishing public-private partnerships, and access to finance including support to microfinance institutions (IFC, 2007a, p. 9).

[4] The IFC technical assistance trust fund (with grants primarily from OECD governments) is the 5th largest trust fund managed by the World Bank Group, accounting for 5% of total trust funds (IEG, 2011, p. 101).

[5] In 1989, the IFC set up the Africa Enterprise Fund, and in 1996, the Small Enterprise Fund, both intended to support small projects below the $5 million minimum typical for IFC investments.

[6] The other country cases were described in interviews as companion pieces to the Tooley book, but were not available on the World Bank and IFC websites. Additionally, Michael Latham from CfBT was reported to have completed four country cases on IFC investments in West Africa in 1999.

[7] Health and Education investment activities are now housed in the Manufacturing, Agribusiness and Services Department (MAS); educational advisory work is housed in the IFC's advisory services unit.