Financing Private Education
A New Model for Emerging Countries

Many countries are struggling to meet the Millennium Development Goal of offering primary education to all by 2015. It is a problem that governments alone cannot solve, and today there is a growing recognition of the private sector’s important role in this critical area. IFC responds in several ways, providing school financing facilities, structuring models of effective student loan programs, and bringing private investors, financial institutions, and educational institutions together. As of June 30, 2008, IFC has invested more than $295 million in 52 private education projects in 25 countries, reaching 700,000 students annually.

IFC’s Approach
By introducing innovative ways of financing and delivering education services, IFC helps expand access to quality education at all levels—often in frontier market countries, where the needs are greatest.

- **Primary and Secondary Schools**—In Africa, IFC risk-sharing facilities partially guarantee local partner banks’ initial portfolios of long-term, local currency loans to schools, thus building their confidence in financing private educational institutions. Related IFC advice in management, strategic planning, and other areas improve the schools’ credit risk profiles, while helping banks learn new ways to process and monitor their school loans. The goal: helping local banks build profitable, high-impact operations in school finance that can eventually be managed without IFC’s help.

- **Universities**—To help more people in developing countries afford higher education, IFC provides risk-sharing facilities that encourage local financial institutions to build student loan portfolios, spreading the risk among several parties. A local university often assumes the initial financial risk of default. Then IFC and the commercial bank involved will each cover an agreed amount of risk should there be a greater rate of student defaults. Interest rates are designed to be financially sustainable for all parties over the long term.

Track Record

- **Kenya**: One participant in IFC’s $50 million school financing facility, respected microfinance institution K-Rep Bank, has now made $660,000 in local currency loans to 33 schools. A related substantial advisory component has enabled approximately 130 schools in Kenya to gain new management skills, with IFC-supported training covering issues in corporate governance, HR policies, financial management, etc. IFC expects many of these schools to become borrowers from K-Rep or other banks that sign up with the program.

- **Chile**: In a country where only 20 percent of the people can afford higher education, IFC has introduced the first private student loan program designed for post-secondary technical and vocational studies. IFC is partnering with local university DuocUC and Banco de Crédito e Inversiones in a program that will enable more than 15,000 students to finance their studies with long-term competitive loans.

Development Impact

- As of June 30, 2008, IFC provided $295 million in financing to 52 private education projects (with a total value of $1.05 billion) in 25 countries; 23 projects (44 percent) were in IDA countries.
- IFC projects educate about 700,000 students in 23 developing countries annually.
- IFC-supported education facilities employ about 18,000 people in developing countries. Beyond providing financial help, IFC introduces its clients to an unrivaled network of international contacts in the field of education.
Ghana: Meeting the Demand for Private Schools

Ghana’s uneven quality of public education has created enormous demand for private schools. Known for their superior quality, the private schools have been growing by 22 percent a year in the Accra metropolitan area since 2003—more than twice the public schools’ rate.

IFC’s assistance with business plans, teacher training, evaluation of educational programs, and human resource management help private schools enhance the quality of education they offer and reach more students. Helping the private schools gain new access to finance enables them to:

- Operate more effectively
- Construct new facilities
- Attract and retain more qualified staff

In Ghana, The Trust Bank (TTB) has approved $4.9 million in IFC-supported loans to 25 schools with combined enrollments of about 30,000 students. There have been no defaults. Demand for additional financing is high. Another six schools are in the pipeline for further loans.

The objective is to build a lasting market for commercial financing for Ghana’s private schools and increase access to higher quality education to students at all income levels.

Mexico: Financing Higher Education

In Mexico, those with university degrees usually earn at least twice as much as those without. But with only 2 percent of potential university students having access to student loans (as opposed to 71 percent in the United States), few can afford higher education.

In 2004, however, Financiera Educativa de Mexico (FINEM), a privately owned student loan institution opened. FINEM’s early financing came from IFC, through a long-term local currency loan for the equivalent of $15 million. FINEM has been able to finance the education of more than 1,400 students, through a series of fixed-rate loans that they can use to finance each school term. The financing enables more students to attend one of the country’s top private universities, Universidad Tecnológica de México S.A. (UNITEC). With 38,000 students in Mexico City, Guadalajara, and Monterrey, it offers respected degree programs in architecture, engineering, medicine, and other fields that give middle-class and low-income youths a pathway to solid careers—and better lives.

For further information, visit ifc.org.

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