PRIVATE EDUCATION IN EMERGING MARKETS
An Investor’s Perspective

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Welcome to the first issue of IFC’s education sector newsletter—our platform for sharing the knowledge and experiences of IFC and its clients and partners. We are launching this publication just a few weeks before the IFC 8th Global Private Education Conference in Cape Town on April 10-11, 2018.

This is a time when educators, policymakers, investors, learners, and society at large are increasingly feeling overwhelmed by this 21st century post-industrialization era of rapid technological change, artificial intelligence, and the internet of things. Everyone has this question on top of their minds: what learning for what future?

IFC’s strategy in education is centered around developing skills and talent for the new economy—talent equipped with 21st century skills, talent that is entrepreneurial, and talent that is ready for a lifelong learning journey. Yet, acquiring the 21st century skills and developing talent and entrepreneurial mindsets start very early in life. Hence, our interventions cut across all levels of education. The private sector can play a critical role in supporting public systems in pre-primary, primary, and secondary education to improve learning outcomes and be more efficient.

At the tertiary level, we believe that private educators should play a central role in reflecting employers’ skills needs and helping students transition to the job market. TVET and higher education represent about 75 percent of IFC business in education today and will continue to be our focus.

Today’s learners—both traditional and non-traditional—have new expectations about education and what their learning experience should be. Therefore, we see education technology (edtech) as a positive disruptive force that education systems and teachers around the globe need to embrace when reimagining education to serve the needs of 21st century learners.

Over the past 18 years since we made our first investment in education, we at IFC have been focusing on one goal: achieving access to quality, affordable, and relevant education for all. Our approach has evolved, our instruments have expanded, our priorities have crystalized, and our interventions have become sharper and sharper but the goal remains the same and our passion has never been greater.

IFC is one actor. However, we are very excited about the possibilities of partnering with you, learning from your successes (and failures) and sharing all these experiences through this platform. This is an open invitation for you to reach out to us to bounce ideas, discuss sector specific issues, and contribute to the spreading of knowledge through this newsletter.

"We at IFC have been focusing on one goal: achieving access to quality, affordable, and relevant education for all.”

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**IFC’s CUMULATIVE INVESTMENTS IN EDUCATION**
IFC has financed over $1.8 billion to over 120 projects by FY17

- **76%** TVET & Higher Education
- **16%** Basic Education
- **8%** Other Education

- **7%** World
- **13%** East Asia and the Pacific
- **12%** Europe and Central Asia
- **48%** Latin America & the Caribbean
- **7%** Sub-Saharan Africa
- **5%** South Asia
- **8%** Middle East and North Africa

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On April 10-11, IFC hosts its 8th Global Private Education Conference in Cape Town. The event will bring together C-Suite executives, all leading voices in private education, international finance, policy, and development, to explore investment opportunities and growth strategies. Our clients, prospective clients, and partners from across the world will be in attendance.

Since IFC held its first education conference, the event has evolved into the largest global exchange platform for education practitioners in emerging markets. Our most recent conference in Hong Kong in 2016 attracted more than 400 participants from over 200 companies from 45 countries. Participants gave us a 99 percent approval rating. Many told us in person that this was the best global event for private education leaders and a must-attend.

The theme of this year’s conference is Learning for the Jobs of Tomorrow. Participants will explore how recent technological changes such as the advent of artificial intelligence, machine learning, and the internet of things will significantly change the way we think about employment and skills. A Fourth Industrial Revolution is dawning, disrupting business models and the very nature of how we work. New jobs will be created, existing jobs displaced, new pressures on worker productivity will arise, and existing skills gaps will widen. Self-employment will become more pervasive.

Sixty five percent of children who enter primary school today will end up in jobs that don’t exist yet. While it is unclear how the global economy will cope with this transformation, we know that these changes will have a significant impact on today’s generation of schoolchildren. It will also affect how educational institutions promote skills acquisition.

The conference will be a unique platform to discuss these impending changes and define the future agenda of private education institutions.

Discussion panels will include such topics as:
- The New Employability Agenda: Promoting Flexibility in a Changing World
- Investing in Foundational Skills: Why This Is Critical in the Fourth Industrial Revolution
- Addressing the Learning Crisis Through Renewed Focus on Quality
- Adults in the New Economy: The Challenge of Lifelong Learning and Growth of Alternative Credentials

We have a world-class lineup of speakers. It includes innovators like Jeremy Johnson, CEO of Andela, the Lagos-based ed tech company that scouts out and intensively trains top IT talent from Sub-Saharan Africa and places them with tech giants like Google and Microsoft. Fred Swaniker, Founder and Executive Chairman of the African Leadership Academy, and Roy Douglas, Chief Executive Officer at Advtech, will also join us as speakers.

“Since IFC held its first education conference, the event has evolved into the largest global exchange platform for educating practitioners in emerging markets.”
Another great speaker is Leo Schlesinger, CEO of Aliat, the leading Mexican higher education operator focused on so-called Bottom-of-the-Pyramid, which is distinguishing itself from its peers by effective leveraging of technology. And we have Lisa Wardell, CEO of Adtalem Global Education (formerly DeVry), the leading U.S. player in for-profit higher education, which has very successfully expanded into Brazil and India.

Our sponsors are flagship players such as Luminus, Laureate Education, LEK Consulting, Holtzbrinck, Macmillan, Springer, Learn Capital; Pearson and Sabis. We still have some remaining sponsorship slots, so please reach out to conference organizers if you are interested.

**Spotlight on Africa**

Cape Town marks the first time that we will host the conference in Sub-Saharan Africa. We made this choice mindful of how for the past 20 years many Sub-Saharan African countries have been growing rapidly, reducing poverty, and boosting access to education for their citizens—and yet the region lags behind other emerging markets on many development indicators. To accelerate its social and economic transformation, the region needs to develop a skills agenda that advances their highly informal economies. As the world’s youngest region, leveraging its demographic dividend will also be critical if Sub-Saharan Africa is to reach its development potential.

It is very timely to be holding the conference in Africa: the World Development Report 2018, *Learning to Realize Education’s Promise*, revealed how the developing world is suffering from a Learning Crisis and this is having a disproportionate effect on Sub-Saharan Africa. More children are enrolling in school but they are not necessarily acquiring the basic foundational skills in numeracy and literacy. Learning outcomes remain disturbingly poor. Supporting youth and adults who have missed out on acquiring those foundational skills must become a critical area of attention.

While most jobs in the region are likely to remain in informal sectors for decades to come, the nature of work is set to change significantly, mirroring trends in other regions. For example, a recent study by the World Economic Forum predicts that 41 percent of all work activities in South Africa are susceptible to automation, as are 44 percent in Ethiopia, 46 percent in Nigeria, and 52 percent in Kenya. However, the potential for automation-related job losses may be moderated by the region’s comparatively low labor costs and may be offset by new job creation.

Surveys also show that employers in Africa see inadequately skilled workforces as a major constraint on their businesses, including 41 percent of all firms in Tanzania, 30 percent in Kenya, 9 percent in South Africa, and 6 percent in Nigeria. In South Africa alone, it is estimated that 39 percent of the core skills required across occupations will be wholly different by 2020. The conference will discuss this set of challenges as it applies to Africa and other regions.

We look forward to seeing many of you in Cape Town and interacting face-to-face with this fantastic group of high-caliber global education leaders!
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As Colombia emerges from a prolonged civil conflict, how is Javeriana supporting this process?

Padre Jorge Humberto Peláez Piedrahita (Rector):
The university’s post-conflict contribution focuses on research, teaching, and community services. We deliver postgraduate programs on themes including peace and reconciliation, social responsibility, conflict resolution and rural development—programs that engage students in field work and practical experiences.

Luis David Prieto Martínez (Academic Vice rector):
Javeriana University considers its participation in the post-conflict process as a moral imperative and has focused its contribution on three main issues: reconciliation, peace building and social transformation. Our university has defined a regional and conflict-sensitive approach, with specific contributions from its teaching, research, and community outreach activities. This means, for example, that when Javeriana develops a project with a community in a region, we are not only interested in developing a research project to write a paper about the conflict, publish it, and walk away; we show commitment and solidarity with the communities, we engage with support for solutions to their main problems. For example, some of our food supplies are sourced from vulnerable communities and from foundations that employ mothers who are family heads.

In terms of teaching activities, we have 16 postgraduate programs that tackle post-conflict issues. Four faculties’ research work is concretely on peace building. There are 12 continuing education programs that seek to build capacities on these issues across the country. At our graduation ceremony for our new master’s degree in conflict resolution, a well-known journalist underscored how important it was for the media to increase knowledge on post-conflict issues.

Javeriana is also supporting the transformation of the Colombian army. The military is rethinking its role in an era of peace, too. Soldiers want to engage on peace building and human rights. We partner with both the Army and Air Force to tackle such sensitive issues as how to document the ‘historic memory’ of the conflict. Javeriana is helping to write this history by recognizing the different types of pain created during this conflict.

INTERVIEW

Universidad Javerina Interviewees:
Padre Jorge Humberto Paláez Piedrahita, Rector
Luis David Prieto Martínez, Academic Vice Rector
Catalina Martínez de Rozo, Administrative Vice Rector

Photo: Catalina Martínez de Rozo (Javeriana), Roberto Abisetti (IFC), Elena Sterlin (IFC), and Padre Jorge Humberto Paláez Piedrahita (Javeriana). [Source: LinkedIn]

Q: How is Javeriana educating students to acquire skills that today’s economy wants?

Prieto Martínez: We established a “Committee for New Institutional Programs Evaluation” that includes external perspectives of the private sector (banking, industry, entrepreneurs), public sector, social foundations, German Academic Exchange Service, The British Council, among others, to ensure that our new programs are relevant to today’s society and economy. Javeriana aims to graduate professionals with an international and multidisciplinary outlook. We look for concrete ways to engage on innovation and entrepreneurship.

Paláez Piedrahita: Pope Francis’s 2015 encyclical, Laudato si, on environmental and social challenges has had an impact on Javeriana. We are applying a development model that facilitates the interconnection of all disciplines, which demands a new approach to awareness and responsibility. For example, health practitioners’ engagement on social transformations. In the faculty of economic and administrative sciences, we foster an awareness among economists of the implications of their work on the environment.
**Q:** Through the years, you’ve earned a reputation for prudent use of resources. How has IFC’s support helped you to further strengthen financial management?

**Martínez de Rozo:** Two key aspects of IFC’s financing are very relevant for the university. First, the tenure of the loan shows that IFC has a long-term view of the relationship with Javeriana and is invested in its development. Secondly, the cost of IFC’s loan is competitive in the market. These two factors make Javeriana projects viable. Also, IFC’s due diligence requirements have enhanced our knowledge of innovative practices in this field, resulting in stronger quality control processes and increased efficiency. Finally, IFC’s demands for economic and financial covenants help to guarantee our development plan’s viability and financial discipline.

**Paláez Piedrahita:** IFC’s involvement gives peace of mind because we have metrics that indicate if we are managing the university to the highest standards and are using resources responsibly. This is a precious tool for good governance and accountability.

**Q:** Beyond financing aspects, what benefits does Javeriana gain from its relationship with IFC?

**Martínez de Rozo:** Being able to count on an internationally renowned, strategic ally like IFC generates trust among stakeholders. IFC’s stamp of approval is visible proof that we are a transparent organization. IFC has contributed with advisory projects in financial management and environmental good practices.

**Prieto Martínez:** IFC has provided access to studies on academic dynamics in different parts of the world, which have helped Javeriana to remain relevant. Roberto Albisetti of IFC has been on our Committee for New Programs Evaluation, providing us with insights into other relevant experiences in Latin America and globally. We have also participated in the piloting of IFC’s employability tool and based on the results, our university is implementing a “career center” for our senior students and alumnae.

**Q:** Technology is transforming higher education globally. How has IFC helped in promoting innovation and technology at Javeriana?

**Prieto Martínez:** Our participation in IFC’s education conference in Hong Kong in 2016 was an eye-opener in terms of how technology and innovation are transforming education around the world. We were exposed to how digital tools are helping to develop new models for teaching and learning. Based on that, we are developing a Virtual Education Model. This coming March, we will present two new completely online programs for approval by the university board. IFC’s loan resources have been partly invested in technology infrastructure, building new laboratories equipped with state-of-the-art learning tools. This has helped Javeriana to obtain ABET accreditation, the gold standard for teaching engineering at undergraduate level.

“IFC’s involvement gives peace of mind because we have metrics that indicate if we are managing the university to the highest standards and are using resources responsibly.”
At IFC’s conference, we also learned about new interesting higher education models in other parts of the world. It is valuable to learn how to cater to different learning needs. For example, we learned about the challenges of managing extremely large universities, up to one million students, and the implications for quality assurance. This experience gave us a greater appreciation of the strengths of the Colombian system.

**Paláez Piedrahita:** The conference opened our minds to the great variety of higher education models. We approached the event not so much in a spirit of copying and pasting good practices, but rather to learn from them, understand their visions, and incorporate relevant elements into Javeriana’s vision. I came to appreciate from the conference how the growth of learning technologies and global players is unstoppable. Universities can’t stay in a comfort zone, calmly thinking that competition from global players will not come their way. Javeriana needs to be aware of these trends and stay at the frontier of knowledge.

**Q:** Employability is core to Javeriana’s educational mission. How has IFC helped you fulfill this mission?

**Prieto Martínez:** Our piloting of IFC’s employability tool has helped us to strengthen services that support students in finding a job after graduation. One month ago, we presented a ‘career center’ project, based on IFC’s recommendation, through which we have consolidated a range of existing and new services. With IFC’s support, we have developed a web-based platform for students in Bogota and Cali that enables employers, businesses and graduates to communicate about job and collaboration opportunities.

**Q:** What has been Javeriana’s experience in leveraging IFC’s EDGE software for designing buildings in a cost, energy, and eco-friendly way?

**Martínez de Rozo:** Javeriana is applying the EDGE certification criteria when constructing new buildings. We are designing with IFC a training module on how to build in accordance with the highest environmental standards. Our directors of physical resources and architecture programs are participating in these efforts.

“Javeriana is not resting on its laurels, it has a big vision and wants to engage in transformational processes.”

**Q:** Javeriana’s motto means “to be more, to serve better.” How does this align with IFC’s core mission?

**Paláez Piedrahita:** The danger of living in the Andes is that the world can seem far away and you can close your eyes to important global trends. IFC has helped Javeriana to take a global view. IFC’s ‘creating markets’ campaign fits very well with Javeriana’s ‘magis’ motto, which means ‘more’ and ‘better’. Javeriana is not resting on its laurels, it has a big vision and wants to engage in transformational processes. These synergies allow Javeriana and IFC to work together to take mutual advantage of the development potential of our core activities.
Mohammed Ali Khan  
Senior Education Specialist, IFC

Iceans Urrego is a young, Colombian woman who escaped the ravages of terrorism to carve out a new life for herself. After fleeing from the rebel group FARC, she first found refuge in the village of Quitasol where she lived as a squatter. She then moved to Medellin, Colombia’s second largest city, where she rebuilt her life at Uniminuto, a national university that prepares young people for careers and entrepreneurship. As she was completing her education there, she received help and advice from the university’s career office and a faculty mentor that enabled her to set up a small retail business and start giving back to the community. Urrego joined thousands of other women at Uniminuto’s campuses all over Colombia who have benefited from their on-campus career services. Fifty-seven percent of Uniminuto’s students are women.

When 21-year old Yassin Al Khatib first arrived at Al Quds College (Luminus) in Amman, Jordan, he knew it would be a good place to study. The facilities were spacious and modern and the career services office engaged with him early on to help him identify a career path in hotel and restaurant management. As the youngest of five children with unemployed parents, Yassin knew he had to find a job. Two years into his program and a few months prior to graduation, the careers office coached Yassin in interviewing skills, taught him to be self-aware and connected him to potential employers. After a rigorous selection process, Yassin landed a job with the Four Seasons Hotel as a food server. The blend of academic and practical skills he learnt at Al-Quds and the strong linkages with employers fast-tracked him to a career. This is another example of how an institution’s employment services helped a young man to achieve his potential.

Of the 200 million unemployed globally, 40 percent are youth. There are hundreds of thousands of young people who are trying to use their education credentials to find gainful employment, but are struggling because their university or college does not have adequate systems in place to help them. At IFC, our education strategy of investing in innovative and scalable enterprises is anchored in the goal of promoting employment for young people by providing them with relevant, quality, affordable education. IFC has worked closely with higher education institutions over the years and has often observed a disconnect between educational institutions and industry in terms of student employability. Although many higher education institutions have career development systems and processes in place, they may be misaligned with employer needs. IFC is mobilizing its resources and knowledge base to look for creative solutions to supporting its client network and the tertiary education sector in general in this area.
IFC has developed an Employability Assessment Tool to help tertiary education providers self-evaluate the effectiveness of their career and employability services for students. Then, if necessary, they can use an Employability Toolkit to follow a structured approach to self-improvement in this area and thus qualitatively improve and enhance the job and career prospects of their graduates. The employability tool takes a holistic approach by evaluating institutional processes as well as outcomes. For example, while the tool measures how well strategy is aligned with employability, it also assesses the quality and relevance of learning. It drills down into such indicators as graduation and placement rates and the quality of corporate linkages with employers.

We have piloted the tool in Asia, Africa, the Middle East, Latin America and the Caribbean. Initial feedback has been positive; our clients have commented on its efficacy, while providing substantive feedback on we can make it even better. Some clients at an earlier stage of developing their career services function have been impressed by the systematic approach this tool follows to assess the quality of employability services. Other clients who have a more sophisticated student services function still found value in the tool’s recommendations and scoring system. All clients provided valuable insights on improving the tool whether in basic design, sequencing of questions, or weights assigned to metrics— and made suggestions for customizing it for different institutional types.

IFC plans to roll out the tool in more regions and develop an enhanced toolkit that clients and non-clients will be able to use as a guide to further upgrade their employability services. The next phase envisages a system of appointing external quality auditors who could certify tertiary education providers for having achieved acceptable quality levels in employability services provision. If successful, it will be an excellent value-added service beyond our traditional financial investment instruments, helping the client base and beyond to provide relevant, quality, affordable education with robust links to employability.

“...The tool measures how well strategy is aligned with employability, it also assesses the quality and relevance of learning.”
IFC’s first foray into Morocco’s education sector was an equity investment in acclaimed business school HEM. The investment supported, among others, establishment of a new vocational training institute with the goal of extending the reach of the high quality, jobs-oriented training HEM provides to students from lower-income families. HEM Managing Director Dr. Yasmine Benamour discusses the school’s founding vision under her father, how it has evolved under her co-leadership, and the purpose of the partnership with IFC.

Q: Your father, Abdelali Benamour, founded HEM business school in 1988. What was his vision?

My father’s dream was to found a school that trains its students to participate in building tomorrow’s Morocco, to foster graduates who are open-minded, socially responsible and are change leaders. An economist, university professor, first director of a flagship public business school, and former member of parliament, my father embarked on this adventure at the age of 46, with just a few pennies in his pocket.

Q: How have things developed since you stepped into his shoes?

In 2008, after being appointed by His Majesty King Mohammed VI as President of the Moroccan Antitrust Agency, my father designated two people to co-manage HEM: my colleague Hassan Sayarh, Deputy General Manager of HEM at the time, and myself. I was new, we did not know each other at all, and we had to take all decisions together! Fortunately, we have been getting along well because both of us have a ‘normal ego size’ and share the same values. My father’s founding vision remains embedded in the school’s DNA. At the same time, we work hard to remain at the forefront of key pedagogical methods, to implement our new management style and to make processes more formalized. We have expanded from three campuses to six, created a new vocational institute and of course we have welcomed IFC as a shareholder.
Tell us how the HEM-IFC relationship came about?

One day in 2012, IFC’s team came to us because they wanted to invest in private education in Morocco. IFC’s overture was part of its Education for Employment Initiative to support the private sector’s role in providing post-secondary education and training that meets the demands of the labor market and improves youth employability. It was also in line with IFC’s strategy in Morocco to focus on job creation, access to finance for small businesses, and improved access to quality education. [IFC made an equity investment of $7 million in HEM in 2013]

How has the IFC investment helped your group to grow?

Increasing access to higher education for young people is the focus of the partnership. As such, HEM’s expansion plans included constructing new HEM Business School campuses in the cities of Fes and Oujda. Additionally, the partnership aims to facilitate affordable tuition fees by establishing a new vocational institute to reach more students and to develop professional skills that are relevant to the fastest-growing parts of the Moroccan economy.

How does this new vocational school fit into your overall strategy?

HEM Business School is a high-end business school with a five-year Master’s degree program focused on educating senior executives and future leaders. Fees are about 6,500 euros per year. We opened the new vocational institute, Med Métiers – L’Institut Supérieur des Métiers Industriels, in the city of Tangier in 2016. The institute runs a three-year program focused on training middle managers and combining technical skills, methodical thinking and communication skills. Fees are 3,000 euros per year. Through this, we aim to democratize access to quality higher education in Morocco by reaching more students from low and middle-income backgrounds.

More than half of HEM’s students are women. Is this typical in Moroccan higher education?

This is quite typical for Morocco. For example, in the 2016-2017 academic year, women made up 48.2 percent of the total number of Moroccan higher education students. Even in engineering and technical programs, we see such a share. Moreover, they usually have very good academic results. For women who have completed high school, the problem is not actually access to higher education but more one of balancing their personal and professional lives after graduation, of career evolution, and the so-called glass ceiling.

With the higher education market in Morocco dominated by public universities, how do private players like yours compete?

The higher education market is indeed very competitive. The first layer of competition comes from public universities, which are totally open and free but face some overcrowding and quality problems. The second layer comes from other private schools or universities. These have grown more numerous over the past decade as Morocco has attracted a lot of investment being one of North Africa’s most stable countries. The third layer comes from fees-based public-private universities, institutions that receive assistance, grants and subsidies from big public Moroccan companies. We see the third kind as unfair competition that hurts the private higher education sector and does not actually ease congestion in the public universities as their fees are very high.
**Q:** Tertiary education enrolment is lower in Morocco than in some neighboring countries? Why so? Does this hamper economic development?

Only about 40 percent of children who commence primary education will finish high school and get their baccalaureate. This is a result of many factors: high dropout rates due to disaffection toward the school, having to travel long distances to school, families’ financial situation, exam failures, etc.

Dropout rates are much higher in rural areas. Morocco has made efforts over the past decade to improve the situation but these rates naturally have negative consequences on children and on the economy’s development in general.

**Q:** Faced with chronically high youth unemployment, how does HEM help its graduates?

The ultimate goal of any higher education institution is obviously employability. The employability rate of HEM graduates is excellent. Our surveys show that more than 85 percent find a job less than six months after graduating and nearly 20 percent enter the labor market even before graduating thanks to the end-of-studies internship. To achieve this, we engage in various pedagogical and para-pedagogical activities, which aim not only to develop students’ technical skills but also to enable their personal blossoming. We are also changing the way we teach to make it less about transmitting information and more about teaching students to select the right information, analyze it, structure it and use it in the right way. It is not a question of accumulating the knowledge as an end in itself, but of using it, reinvesting it through activities that develop observable skills. Last but not least, we remain very close to the business world and its needs as well.

**Q:** How should higher education in Morocco evolve, considering the high unemployment rate?

I should point out firstly that the high unemployment rate is mainly among graduates from public universities. There are several factors in play, including a mismatch between the programs offered and the labor market’s needs. There is a language problem too in that many of the public university graduates are more or less fluent in Arabic but less so in French and English, the dominant languages of the business world in Morocco and elsewhere.

Then there is the problem of over-enrolment in some universities, which does not facilitate the teachers’ work and does not allow a correct assimilation of knowledge and even less interactivity. We also need to promote an educational model that empowers people to adapt to the labor market’s changing needs. Finally, there is sometimes the tendency among graduates to gravitate toward easy solutions and the desire to become, at any cost, state officials. These are the main issues that I believe the public education system needs to address.
At the age of 18, Andreza de Oliveira had completed high school but was still unsure about her career path, so she did what many Brazilian students do; she got a job. For 12 years, she worked in an accounting support function but was still yearning for more. Having found her passion, she decided it was time to improve her career prospects and increase her earnings by pursuing a Bachelor’s degree, but her father was a retired civil servant and her mother was a housewife. Her salary was committed to other priorities so it was important to find an affordable institution.

She enrolled in the Accounting Sciences program at the University of Guarulhos (UNG), an institution that is part of the Ser Educacional, S.A. (Ser) network. Andreza chose UNG because her program had achieved good-quality metrics in the evaluations carried out by the Ministry of Education and Culture (MEC). Although she was a little nervous about going back to school after such a long break, by the end of the first semester she realized that she was in the right institution and in the right program.

Soon after starting her studies, she began to see a return on her educational investment. She was hired by one of the largest accounting firms in Guarulhos. Now that she has graduated at the age of 33, she is happy working as an accounting analyst in a multinational chemical company in Guarulhos. After graduation, Andreza’s earnings increased by 40 percent and she earns extra income by providing independent tax return services. The degree positioned Andreza for new employment opportunities and provided improved social mobility that would not have been possible without the degree.

Janguiê Diniz, Ser’s founder can relate to the desire to escape the traps of inequality. As a boy, he was a shoe shiner on the local streets. He explained in his book, Transforming Dreams into Reality, “Because of my own experience, I was sure that education was the only way out of poverty to achieve success in life. Even as a child, I knew that education was the only way to break free from poverty. I studied to change my life, to win in life; otherwise my fate would have been to become a farm worker like my father.”

At the age of 14, his parents moved to a remote village of Brazil where there was no school for him to attend. He loved studying and seeing that his life was at a crossroads, he decided to leave his family and search for an uncle he had never met so that he could continue studying in Recife. The experience transformed him. Years later, Janguiê went on to study at a prestigious public university and became a lawyer and a judge.

As a professional, he recognized that there was pent-up demand for higher education in the Northeast region of Brazil that was largely underserved. He explained, “The demand remained very large and the supply of institutions was insufficient. Further, there was a need to qualify the workforce in a market-oriented way.” In 2003, he decided to found a small college in Recife, “Faculdade Mauricio de Nassau” (FMN). Today, Ser, the holding company, has grown to become the sixth largest private education provider, by number of enrolled students, in Brazil.

Ser is a private, for-profit, network of post-secondary education institutions in Brazil focused on offering relevant education at a cost that price-sensitive students can afford. It is a leader in the North and Northeast regions, a traditionally under-served market in the least developed region of the country. It has an educational platform that encompasses 10 post-secondary institutional brands that offer vocational, undergraduate and graduate degrees. Its affordable tuition structure, combined with federal government student loans and grants, enables students at the base and middle of the pyramid to access degrees that can transform their lifetime earning potential and break the cycle of poverty.

As of June 2017, the company had about 158,000 students, taught by 4,500 faculty, across 64 campuses in 20 states. Most of Ser’s students are working young adults from lower-and middle-income families that are between the ages of 18 and 35 and in 2016, 55 percent of the students were female. Many are the first in their families to obtain university degrees. Between December 2013 and March 2017, Ser awarded more than 67,300 undergraduate and graduate degrees and nearly 20,000 vocational certificates. About 10,000 students graduate annually.
Ser has experienced very rapid growth and its market share, currently 2.6 percent nationally and nearly 10 percent regionally, is expected to continue to increase. By December 2016, the company had net revenues of R$1.1 billion ($315 million). Over the last three years, its EBITDA margins averaged 32 percent and outperformed most of its peers. In July 2017, Fitch Ratings raised Grupo Ser Educacional’s long-term national rating from A+(bra) to AA-(bra), one of the highest credit ratings in Brazil.

Since 2010, IFC has played a catalytic role in the company’s expansion with three investments, two debt and one equity, totaling a disbursed amount of $55 million. The financing was used to open and acquire new campuses, modernize existing campuses, and develop its distance-learning platform. IFC also supported Ser as an anchor investor with its Initial Public Offering (IPO) and in executing its long-term vision. Since going public, Ser strategically weathered a major economic crisis in Brazil and has since consistently exceeded market expectations, even as others in the sector are still struggling.

Ser targets markets with pent-up demand and high-growth potential through organic growth and acquisitions. Through market studies, it understands the nature of both employer and student priorities and then opens relevant campuses, academic programs, and courses. It is prioritizing areas, such as health, that are important to the economy and where students are less susceptible to drop out. Distance learning is helping it reach new students in frontier regions at a lower-cost point while diversifying revenues. By entering a market at an early stage and delivering good quality at an affordable price, it has earned a strong brand reputation that has yielded benefits.

A large percentage of Ser’s students are students who are price sensitive. As such, Ser assesses the local community’s purchasing power and then prices its programs below the competition. Its value proposition is to offer students good location and quality at an attractive price. Its average tuition of R$732 ($236) a month is the most affordable among the top listed companies. To appeal to a broader audience, it segments the market with several brands that are differentiated by price points. As of March 2017, about 37 percent of Ser’s undergraduate students received student loans through FIES, a federal government student loan program that helps students finance their education. This has helped attract more students who could not otherwise afford higher education and has helped the company grow.

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Ser is a company focused on long-term financial sustainability. It is financially disciplined and always ensures it can cover its costs with a margin. It focuses expenses on the essential elements that students need inside the classroom, avoids frills, and carefully controls its biggest costs. With labor, it blends full and part time faculty, while still meeting Ministry of Education (MEC) requirements. Rather than tying up its capital in long-term mortgages, it rents campuses in locations that are convenient for students and faculty and are close to work and transportation hubs. It has introduced several operational efficiencies across its network such as the “unified curriculum,” and headquarter-administered exams, which harmonize and ensure consistency of teaching and exams. Standardization has made its business model rapidly scalable. Ser dilutes operating expenses across a large volume of students, creating economies of scale that allow the company to compete on a cost and quality basis while growing the student base.

Read the full case study at www.ifc.org/education

Key Success Factors

To grow, Ser seeks a good return on investment for students and shareholders. The keys to success are (1) responding to pent-up demand, (2) affordability, and (3) long-term financial sustainability.

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A new law which took effect in September 2017 is generating a wave of investor interest in China’s higher education sector.

The law, enacted by China’s Standing Committee of the National People’s Congress last November, lets universities and high-schools establish themselves as for-profits for the first time. All providers operating in the K-9 space must continue to remain non-profit. This is the last major sector of China’s economy to be commercialised, following close on the heels of the health sector overhaul.

Like every other country in the world, China is struggling to close skills gaps in the labour market and to equip its youth with the knowledge they need to thrive in a global economy. Demand for higher education outstrips supply.

China’s public universities are already heavily subsidised and the government has limited room to increase public spending. The new law is aimed at attracting private investment needed to expand access to relevant skills and training. With their close links to industry, many private universities are more responsive to labour market evolutions and have skills-based curriculums.

The opportunity for growth is vast. Today, China’s private tertiary education industry is small, underinvested, and fragmented. Overall, higher education spending is about $149bn, about $135bn of which is financed by the public purse, and the remainder from the private sector.

Some 29m Chinese are enrolled in some form of higher education, of which only about 6.3m are enrolled in private universities, a number expected to hit 8m by 2021, according to a Frost and Sullivan report.

Although small, private higher education is growing fast—8.2 percent a year—compared with 6.5 per cent annual growth in the public sector, according to government statistics. With 40 percent of China’s high-school graduates going on to university (either public or private), its tertiary enrolment ratio exceeds the global average of 37 percent, Unesco figures show.

It outperforms India, at 27 percent, but lags behind many middle-income countries in other world regions, such as in Latin America (Colombia stands at 47 per cent).

Allowing private universities to operate as for-profit institutions will make it easier for them to raise finance from capital markets and expand, including through M&A activities. Historically these institutions had to be registered as non-profits, limiting avenues for both debt and equity funding. There have already been several successful initial public offerings over the past six months.

In March, Minsheng Education, one of the top 10 private universities for enrolments, with more than 30,000 students, listed on the Hong Kong Stock Exchange. IFC became a cornerstone investor in Minsheng, taking a $25m equity stake. Minsheng is based in Chongqing, a city of 30m people. Because of this supportive policy change, the highly fragmented private education sector has begun to consolidate, facilitated by mergers and acquisitions among the large education groups.

“Allowing private universities to operate as for-profit institutions will make it easier for them to raise finance.”
The new law gives for-profit higher education providers full autonomy in setting tuition fees. Currently, the government has a say over fees. It also strengthens the ownership rights of for-profit providers by granting them full freedom to dispose of their assets should their schools cease operating, a freedom they do not presently enjoy. Further, it will allow the for-profit institutions to declare dividends legally.

Most of the investors availing themselves of the opportunities provided by the new law are Chinese. Their focus tends to be on developing bachelor degree programmes. Foreign investors operating in this space are fewer and they tend to partner with the leading public universities in China, such as US-based Duke University setting up a campus in Shanghai in partnership with Wuhan University.

Expanding private education will help the millions of young Chinese who find it hard to get into the public universities. While the public universities generally provide high quality and relatively affordable education, they tend to admit only top-performing students.

Private universities, by contrast, largely focus on enhancing job skills of students with lower entrance exam scores, many of whom come from lower to middle income families. Thus, for students who are not quite at the top of their class, private universities are great avenues for pursuing their ambitions for a degree and putting them in a stronger position to compete for higher-paying jobs.

The new law aims to help alleviate youth unemployment in China as graduates from private universities tend to get jobs quickly. A few top-ranking private universities, such as Xi’an EurAsia University, Minsheng Education and Shandong Yingcai University, have seen more than 90 percent of their students find jobs within a couple of months of graduating.

Top-tier private universities’ employability rate is high, because they focus on skills such as nursing and geriatric care, early childhood education, software engineers, construction technicians and high-end manufacturing jobs, as well as some specialised programmes, such as railway operations.

Employability is an important consideration for us at IFC, as we decide where to invest for the greatest development impact. Strong regulatory oversight and quality standards are equally important as the for-profit education industry develops further in China.

While the law is already transforming China’s university market, a wholesale flip from non-profit to for-profit status is unlikely. Non-profits have plenty of incentives to keep their status. For example, they will continue to receive more favourable tax treatment and have access to cheaper land than for-profits. They may also continue to enjoy certain types of government subsidies.

It will be fascinating to watch how China’s higher education market evolves. Will the public universities continue to attract the top-notch students or will they face stiffer competition? Will the new for-profit entities use their capital infusions to boost enrolment levels? Perhaps most important: will China’s higher education system become better equipped to respond to the labour market’s ever-changing needs? I am confident that it will.
China Education Group (China)

China Education Group (CEG) is a leading private tertiary education company in China. IFC has had a long-term relationship with the company and its cornerstone equity investment will help CEG to expand, consolidate and replicate its education model through acquisitions and upgrades of tertiary and vocational education institutions.

Javeriana (Colombia)

Pontificia Universidad Javeriana is a leading university in Colombia. It was founded by the Catholic Jesuit community, established as a non-profit institution, and ranked as the fourth best quality university in the country. IFC’s funding will help with the construction and equipping of several buildings of Javeriana in its main campus in the city of Bogota, which will hold engineering, health and life sciences, and medical studies faculties, as well as adult continuing education shorter courses.

SIS School (Indonesia)

SIS Group of Schools is a leading network of K-12 schools with eight campuses located in several cities in Indonesia. IFC is supporting SIS to refurbish some of its existing campus buildings, to build up its corporate capabilities, and to further expand its operations to other cities in Indonesia and other ASEAN countries should such opportunities arise.

Ashesi University (Ghana)

A private, secular, and not-for-profit liberal arts college in Accra, Ghana, with a current student body of 800 students, Ashesi University, an existing IFC client, has gained a reputation for offering high-quality undergraduate education to African students. IFC is providing funding to Ashesi to support the addition of a new educational infrastructure to help grow its capacity and expand its enrollment.

AdvTech (South Africa)

The largest private education group in Sub Saharan Africa, AdvTech has about 54,000 students and is organized in three business lines, namely, schools, tertiary, and resourcing. IFC’s equity investment is to help expand AdvTech’s business both in South Africa and the rest of Africa through both organic growth and acquisitions.
PRIVATE EDUCATION IN EMERGING MARKETS
An Investor’s Perspective

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